
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Rare Earth Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**CHINA RARE EARTH HOLDINGS LIMITED****中國稀土控股有限公司***(Incorporated in the Cayman Islands with limited liability)***DISCLOSEABLE AND CONNECTED TRANSACTION
AND
INCREASE IN AUTHORISED SHARE CAPITAL****Independent Financial Adviser to the Independent Board Committee****WATTERSON ASIA LIMITED**

A letter from the Independent Board Committee is set out on page 11 of this circular. A letter from Watterson Asia Limited containing its advice to the Independent Board Committee is set out on pages 12 to 17 of this circular.

A notice convening an extraordinary general meeting of China Rare Earth Holdings Limited to be held at Basement II, The Boardroom, The Wharney Hotel, Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong at 10:30 a.m. on 29 January 2004, Thursday is set out on pages 24 and 25 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with Computershare Hong Kong Investor Services Limited, the branch share registrar of China Rare Earth Holdings Limited in Hong Kong, at Shops 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

12 January 2004

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
– Introduction	4
– The Acquisition Agreement	5
– Information on the Dynamic Group	8
– Reasons for the Acquisition	9
– Listing Rules requirements	9
– Increase in authorised share capital	9
– EGM	10
– Recommendation	10
– Further information	10
Letter from the Independent Board Committee	11
Letter from the Independent Financial Adviser	12
Appendix – General Information	18
Notice of EGM	24

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“2003 Audited Report”	the audited financial statements of High Temperature Ceramics for the year ended 31 December 2003 prepared in accordance with the Hong Kong generally accepted accounting principles by a firm of auditors appointed by Lee Shing
“Acquisition”	the acquisition by Lee Shing of the Sale Shares from YY Holdings pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 19 December 2003 entered into between YY Holdings as the vendor and Lee Shing as the purchaser in relation to the Acquisition
“associate(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“Audited Net Profit”	the net profit after tax and before extraordinary items of High Temperature Ceramics for the year ended 31 December 2003 as shown in the 2003 Audited Report
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which banks in Hong Kong are generally open for business
“Company”	China Rare Earth Holdings Limited 中國稀土控股有限公司, a company incorporated in the Cayman Islands and whose Shares are listed on the Stock Exchange
“Completion”	completion of the Acquisition Agreement in accordance with its terms
“Consideration”	HK\$207,000,000, being the purchase price of the Sale Shares payable by Lee Shing to YY Holdings
“Consideration Shares”	an aggregate of 172,500,000 new Shares to be allotted and issued by the Company to YY Holdings as settlement of the Consideration payable by Lee Shing to YY Holdings
“Directors”	the directors of the Company
“Dynamic Goal”	Dynamic Goal Worldwide Inc., a company incorporated on 31 May 2000 in the British Virgin Islands with limited liability

DEFINITIONS

“Dynamic Group”	Dynamic Goal and High Temperature Ceramics
“Group”	the Company and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Acquisition Agreement, the transactions contemplated thereby and the increase in the authorised share capital of the Company
“Guaranteed Net Profit”	HK\$23,000,000
“High Temperature Ceramics”	無錫泛亞高溫陶瓷有限公司 (Wuxi Pan-Asia High Temperature Ceramics Co., Ltd.), a wholly foreign owned enterprise established in the PRC on 1 April 2002 with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the board committee comprising the two independent non-executive Directors, namely Messrs Liu Yujiu and Huang Chunhua, Charles, established by the board of Directors for the purpose of advising the Independent Shareholders in relation to the Acquisition
“Independent Financial Adviser” or “Watterson”	Watterson Asia Limited, a licensed corporation under the SFO and the independent financial adviser to the Independent Board Committee
“Independent Shareholders”	Shareholders other than YY Holdings and its associates
“Latest Practicable Date”	9 January 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Lee Shing”	Lee Shing Holdings Limited, a wholly owned subsidiary of the Company and a company incorporated in the British Virgin Islands with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	the 120th day after the date of the Acquisition Agreement or such other date as the parties may agree in writing

DEFINITIONS

“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Sale Shares”	two ordinary shares of US\$1.00 each in the share capital of Dynamic Goal, representing its entire issued share capital, to be acquired by Lee Shing from YY Holdings pursuant to the Acquisition Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the Shares
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“YY Holdings”	YY Holdings Limited, a controlling shareholder of the Company and a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms Qian Yuanying, an executive Director, and her children
“%”	per cent

For the purpose of this circular, conversion of Renminbi into Hong Kong dollars or vice versa has been calculated by using an exchange rate of HK\$1.00: RMB1.06.

LETTER FROM THE BOARD



CHINA RARE EARTH HOLDINGS LIMITED 中國稀土控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

Jiang Quanlong
Qian Yuanying
Fan Yajun

Registered office:

Century Yard, Cricket Square,
Hutchins Drive, George Town,
Grand Cayman,
British West Indies

Independent non-executive Directors:

Liu Yujiu
Huang Chunhua, Charles

Principal place

of business in Hong Kong:
Room 618, Hutchison House,
10 Harcourt Road, Central,
Hong Kong

To the Shareholders

12 January 2004

Dear Sirs

DISCLOSEABLE AND CONNECTED TRANSACTION AND INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 19 December 2003, Lee Shing, a wholly owned subsidiary of the Company, and YY Holdings entered into the Acquisition Agreement, pursuant to which Lee Shing has conditionally agreed to acquire the Sale Shares from YY Holdings at a Consideration of HK\$207,000,000, subject to adjustment. The Consideration will be satisfied by the allotment and issue of 172,500,000 Consideration Shares at an issue price of HK\$1.20 per Share to YY Holdings.

The Acquisition constitutes a discloseable transaction under Rule 14.12 of the Listing Rules. Given that the Consideration will be satisfied by the allotment and issue of the Consideration Shares and YY Holdings is a controlling shareholder of the Company, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules, and is subject to the approval of the Independent Shareholders at the EGM and the disclosure requirements under Rule 14.26 of the Listing Rules.

Resolutions will also be proposed, and if thought fit, passed at the EGM to approve the increase in the authorised share capital of the Company from HK\$100,000,000 to HK\$200,000,000 by the creation of 1,000,000,000 additional Shares.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with details of the Acquisition and the increase in the authorised share capital, to set out the opinion of the Independent Financial Adviser in respect of the Acquisition and the recommendation of the Independent Board Committee, and to give you notice of the EGM.

THE ACQUISITION AGREEMENT

Date

19 December 2003

Parties

Vendor: YY Holdings, a controlling shareholder of the Company having approximately 51.57% interest in the issued share capital of the Company as at the date of the Acquisition Agreement.

Purchaser: Lee Shing, a wholly owned subsidiary of the Company.

Interest to be acquired

Subject to the terms and conditions of the Acquisition Agreement, Lee Shing has conditionally agreed to acquire from YY Holdings, and YY Holdings has conditionally agreed to sell to Lee Shing, the Sale Shares, representing the entire issue share capital of Dynamic Goal. Dynamic Goal in turn owns the entire equity interest in High Temperature Ceramics.

Conditions

Completion of the Acquisition Agreement is subject to the fulfillment or waiver of, among others, the following conditions:

- (a) the passing of the necessary resolutions by the Independent Shareholders at the EGM approving the Acquisition Agreement and the transactions contemplated thereby (including but not limited to the allotment and issue of the Consideration Shares);
- (b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;
- (c) Lee Shing having obtained a legal opinion (in such form and substance satisfactory to Lee Shing) from its appointed PRC legal advisers covering the following matters:
 - (i) the due establishment and existence of High Temperature Ceramics;
 - (ii) the legality of the business carried on by High Temperature Ceramics;
 - (iii) the legal ownership of the land and properties held by High Temperature Ceramics;

LETTER FROM THE BOARD

- (iv) the legality of the terms of the Acquisition Agreement and the transfer of the Sale Shares; and
- (v) such other matters as Lee Shing may reasonably require;
- (d) Lee Shing having completed, and being satisfied with, its due diligence review on the Dynamic Group (including but not limited to legal, financial and business aspects); and
- (e) YY Holdings not having committed any material breach of the representations, warranties and undertakings given under the Acquisition Agreement on or before the date of Completion.

If any of the conditions above is not fulfilled or waived by Lee Shing (except for conditions (a) and (b)) by the Longstop Date, the Acquisition Agreement will lapse, and no party shall have any liability to the other arising out of the Acquisition Agreement, save for any antecedent breach thereof.

As at the Latest Practicable Date, Lee Shing had obtained a legal opinion (in such form and substance satisfactory to Lee Shing) from its PRC legal advisers and had also satisfactorily completed its due diligence review on the Dynamic Group. Accordingly, conditions (c) and (d) above have been fulfilled. In respect of condition (b) above, the Company will make an application to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

Consideration

The Consideration payable by Lee Shing to YY Holdings shall be HK\$207,000,000, subject to adjustment, which will be satisfied by the allotment and issue of 172,500,000 Consideration Shares at an issue price of HK\$1.20 per Share to YY Holdings.

The Consideration was negotiated between the parties on an arm's length basis and was determined by reference to the Guaranteed Net Profit at a price earnings multiple of nine times. If the Audited Net Profit shall be less than the Guaranteed Net Profit by more than HK\$500,000, the Consideration shall be adjusted in accordance with the following formula:

$$\text{Adjusted Consideration} = \text{Consideration} - (\text{Guaranteed Net Profit} - \text{Audited Net Profit}) \times 9$$

The difference between the Consideration and the Adjusted Consideration calculated in accordance with the formula above shall be paid by YY Holdings to Lee Shing in cash within 15 days after the date of issue of the 2003 Audited Report.

If the difference between the Audited Net Profit and the Guaranteed Net Profit shall be HK\$500,000 or less, or if the Audited Net Profit shall be equal to or greater than the Guaranteed Net Profit, no adjustment to the Consideration will be made.

Lee Shing will appoint a firm of auditors to prepare the 2003 Audited Report. Barring any unforeseen circumstances, the Directors expect that the 2003 Audited Report will be available in or around April 2004. As the 2003 Audited Report had not been ready as at the Latest Practicable Date, the Directors are unable to ascertain the exact amount of the Audited Net Profit at this stage. The Company will make

LETTER FROM THE BOARD

further announcement if the Audited Net Profit is less than the Guaranteed Net Profit. The Company will also disclose in its annual report for the year ended 31 December 2003 (i) details of whether the Guaranteed Net Profit has been met, (ii) details of the shortfall (if any), and (iii) whether YY Holdings has fulfilled its obligation in connection with the Guaranteed Net Profit under the Acquisition Agreement (including the opinion of the independent non-executive Directors).

The Consideration Shares represent approximately 21.18% of the issued share capital of the Company as at the Latest Practicable Date and approximately 17.48% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares based on the number of issued Shares as at the Latest Practicable Date. Immediately after the allotment and issue of the Consideration Shares, the percentage shareholding of YY Holdings in the Company will increase from approximately 51.57% to approximately 60.04%.

Set out in the table below are the changes in the approximate shareholdings of the Company immediately before and after Completion:

Shareholders	Immediately before Completion		Immediately after Completion	
	Number of Shares held	Approximate percentage	Number of Shares held	Approximate percentage
YY Holdings	420,050,000	51.57%	592,550,000	60.04%
Public	<u>394,403,059</u>	<u>48.43%</u>	<u>394,403,059</u>	<u>39.96%</u>
Total	<u><u>814,453,059</u></u>	<u><u>100%</u></u>	<u><u>986,953,059</u></u>	<u><u>100%</u></u>

The issue price per Consideration Share represents:

- (a) a premium of 2.56% over the closing price of HK\$1.17 per Share as quoted on the Stock Exchange as at the date of the Acquisition Agreement;
- (b) a premium of 2.39% over the average closing price of HK\$1.172 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the date of the Acquisition Agreement;
- (c) a discount of 5.51% to the closing price of HK\$1.27 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (d) a premium of 1.27% over the average closing price of HK\$1.185 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Latest Practicable Date.

LETTER FROM THE BOARD

The Directors consider that the Consideration (including the issue price of the Consideration Shares) is fair and reasonable. The independent non-executive Directors, having considered the recommendations of the Independent Financial Adviser, also opine that the terms and conditions of the Acquisition Agreement and the transactions contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned.

Completion

Completion shall take place on the 5th Business Day after the fulfillment, or waiver, of the conditions to the Acquisition Agreement (or such other date as the parties may agree in writing).

INFORMATION ON THE DYNAMIC GROUP

Dynamic Goal is a company incorporated in the British Virgin Islands. It is an investment holding company which holds the entire equity interest in High Temperature Ceramics. So far as the Directors are aware and as warranted by YY Holdings under the Acquisition Agreement, Dynamic Goal does not carry on any other business apart from its investment in High Temperature Ceramics.

High Temperature Ceramics is a wholly foreign owned enterprise established by a wholly owned subsidiary of YY Holdings (the "Initial Shareholder") in the PRC. The registered capital of High Temperature Ceramics amounts to HK\$30 million which has been fully contributed by the Initial Shareholder. In September 2003, the Initial Shareholder transferred the entire equity interest in High Temperature Ceramics to Dynamic Goal at a consideration equal to the registered capital of High Temperature Ceramics. As at the Latest Practicable Date, no shareholder's loan was due from High Temperature Ceramics to Dynamic Goal or YY Holdings, and no shareholder's loan was due from Dynamic Goal to YY Holdings.

High Temperature Ceramics is principally engaged in the manufacture and sale of high temperature ceramics for industrial use, mainly for the manufacture of circulating fluidized bed boiler in electricity power industry in the PRC. The principal raw materials of high temperature ceramics include corundum grain material, corundum powder material, metal silicon powder, silicon carbide, oxidized alumina ultrahigh powder, silicon powder, steel fibre and alum clay.

The audited net profit both before and after taxation of High Temperature Ceramics for the period from 1 April 2002 (being the date of its establishment) to 31 December 2002 was approximately RMB9,338,000 (equivalent to approximately HK\$8,809,000) based on the PRC generally accepted accounting principles. No extraordinary items were recorded during the period from 1 April 2002 to 31 December 2002. Based on the management accounts of High Temperature Ceramics as adjusted in accordance with the Hong Kong generally accepted accounting principles for the nine months ended 30 September 2003, the unaudited net profit both before and after taxation and the unaudited net asset value of High Temperature Ceramics amounted to approximately RMB15,908,000 (equivalent to approximately HK\$15,007,000) and RMB55,395,000 (equivalent to approximately HK\$52,259,000) respectively. No extraordinary items were recorded during the nine months ended 30 September 2003.

LETTER FROM THE BOARD

REASONS FOR THE ACQUISITION

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of rare earth products and refractory products in the PRC. The refractory products are mainly applied in the petrochemical industry, metallurgy industry and the manufacture of cement kilns and glass melting kilns. The Acquisition will allow the Group to expand its product range to high temperature ceramics. Through diversification of products, the Group could expand and strengthen its sales and revenue base. The Directors believe that the Acquisition will contribute positively to the future development and growth of the Group through the broadening of the income base and asset base of the Group.

Pursuant to the terms of the Acquisition Agreement, the Consideration will be satisfied in whole by the allotment and issue of the Consideration Shares. The Directors believe that such approach, on the one hand, will maintain the cash flow position and financial flexibility of the Group for the expansion of its existing business and the development of the high temperature ceramics business, and on the other hand, may well demonstrate the confidence of the controlling shareholder of the Company in the long term growth of the Group.

Having regard to the above factors, the Directors consider that the terms and conditions of the Acquisition Agreement are fair and reasonable and that the Acquisition is on normal commercial terms and is in the interest of the Group and the Independent Shareholders as a whole. The independent non-executive Directors, having considered the recommendations of the Independent Financial Adviser, also opine that the terms and conditions of the Acquisition Agreement and the transactions contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned.

LISTING RULES REQUIREMENTS

The Acquisition constitutes a discloseable transaction under Rule 14.12 of the Listing Rules. Given that the Consideration will be satisfied by the allotment and issue of the Consideration Shares and YY Holdings is a controlling shareholder of the Company, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules, and is subject to the approval of the Independent Shareholders at the EGM and the disclosure requirements under Rule 14.26 of the Listing Rules.

INCREASE IN AUTHORISED SHARE CAPITAL

Resolutions will be proposed, and if thought fit, passed at the EGM to approve the increase in the authorised share capital of the Company from HK\$100,000,000 to HK\$200,000,000 by the creation of 1,000,000,000 additional Shares. The Directors have no present intention to allot and issue any new Shares other than the Consideration Shares and the Shares which may fall to be issued upon the exercise of the outstanding options granted under the share option scheme of the Company adopted on 14 October 1999.

LETTER FROM THE BOARD

EGM

Set out on pages 24 and 25 to this circular is a notice convening the EGM to be held at 10:30 a.m. on 29 January 2004 at Basement II, The Boardroom, The Wharney Hotel, Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the resolutions set out therein. YY Holdings and its associates, who are connected persons to the Company (as defined in the Listing Rules) and are interested in the Acquisition, shall abstain from voting on the resolution regarding the Acquisition at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereby. The Independent Financial Adviser has been appointed to advise the Independent Board Committee in this respect.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the opinion that the terms of the Acquisition Agreement and the transactions contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders, to vote in favour of the ordinary resolution regarding the Acquisition set out in the notice of EGM at the end of this circular.

Your attention is drawn to the letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee set out on pages 12 to 17 of this circular, and the letter from the Independent Board Committee to the Independent Shareholders containing its recommendation set out on page 11 of this circular.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board of
China Rare Earth Holdings Limited
Jiang Quanlong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA RARE EARTH HOLDINGS LIMITED
中國稀土控股有限公司

(Incorporated in the Cayman Islands with limited liability)

*Principal place
of business in Hong Kong:*
Room 618, Hutchison House,
10 Harcourt Road, Central,
Hong Kong

To the Independent Shareholders

12 January 2004

Dear Sirs

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 12 January 2004 (the “Circular”) of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the section headed “Definitions” in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the terms and conditions of the Acquisition Agreement and the transaction contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned. Watterson Asia Limited has been appointed by the Company as the Independent Financial Adviser to advise us in this respect. Background and details of the Acquisition Agreement are set out on pages 4 to 10 of the Circular.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 12 to 17 of the Circular. We have considered the terms and the conditions of the Acquisition Agreement, the advice of the Independent Financial Adviser and the various factors contained in the letter from the Board set out on pages 4 to 10 of the Circular. In our opinion, the terms and conditions of the Acquisition Agreement and the transactions contemplated thereby (including the allotment and issue of the Consideration Shares) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution regarding the Acquisition set out in the notice convening the EGM on pages 24 and 25 of the Circular.

Yours faithfully,
For and on behalf of

the Independent Board Committee

Liu Yujiu

Independent

non-executive Director

Huang Chunhua, Charles

Independent

non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

12 January 2004

The Independent Board Committee

China Rare Earth Holdings Limited

Room 618, Hutchison House

10 Harcourt Road, Central

Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF DYNAMIC GOAL WORLDWIDE INC.

We refer to our appointment as independent financial adviser to the Independent Board Committee in relation to the proposed acquisition of Dynamic Group from YY Holdings, the controlling shareholder of the Company. Our role as independent financial adviser is to give our opinion as to whether the terms of the Acquisition Agreement are fair and reasonable to the Independent Shareholders. Details of the Acquisition Agreement are set out in the letter from the Board contained in the circular dated 12 January 2004 (the "Document") to Shareholders. Our letter forms part of the Document and capitalised terms used in this letter have the same meanings as defined in the Document.

In putting forth our advice and recommendation, we have relied on the Company to provide us with all relevant information relating to the Dynamic Group, including audited financial statements of High Temperature Ceramics for the period from 1 April 2002 (being the date of its establishment) to 31 December 2002 as well as unaudited financial statements for the period from the nine months to 30 September 2003. We have also been provided with financial projections of High Temperature Ceramics for the year ended 31 December 2003. We have assumed that representations by the Directors relating to such projections prepared by High Temperature Ceramics were accurate at the time they were made and continue to be so as at the date of the Document. We have discussed the bases and assumptions made by YY Holdings in relation to the above projections and are of the view that the projections so prepared have been made after due and careful consideration. Apart from information relating to High Temperature Ceramics, we have relied on the Company to provide us with financial information relating to the Group, primarily unaudited management accounts of the Group for the nine months to 30 September 2003.

We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our advice. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or are misleading. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation into the businesses or affairs of either the Group or the Dynamic Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the Acquisition, we have taken into consideration the following factors and reasons:

Reasons for the Acquisition

The Group is engaged in the manufacture and sale of rare earth products and refractory (or high temperature) products. Rare earth products are used in the production of fluorescent materials, magnetic materials, batteries and consumer electronic products. Refractory products are mainly used in industries including metallurgy, petrochemical, electrical and in the manufacture of cement kilns and glass melting kilns. Traditionally, Japan and United States are the main export countries for China's rare earth products that are used primarily in high-tech industries such as semiconductors and information technology. Recent economic downturns in Japan and United States as well as over extraction of rare earth materials in China have led to decline in rare earth products' prices. The above market developments have caused the Group's sales of rare earth products to decline from HK\$375 million, representing 61% of the Group's total turnover, in 2001 to HK\$206 million, representing 44% of the Group's turnover, in 2002. For the six months to 30 June 2003, sales of rare earth products and refractory products each accounted for approximately 50% of the Group's total turnover. In terms of net operating profit margin for the six months to 30 June 2003, rare earth products were 10.1% whereas refractory products were higher, at 19.6%.

High Temperature Ceramics is principally engaged in the manufacture and sale of high temperature ceramics for industrial use, mainly in the manufacture of boilers in the electric power industry. Based on management accounts for the nine months to 30 September 2003, the unaudited sales and after-tax profit of High Temperature Ceramics (adjusted for Hong Kong GAAP) were approximately HK\$51 million and HK\$15 million respectively, indicating a net profit margin of approximately 29%. Comparable audited figures (adjusted for Hong Kong GAAP) for the period from 1 April 2002 (the date of establishment) to 31 December 2002 were HK\$32 million and HK\$7.2 million respectively.

As the Group is engaged in refractory products business, the Acquisition will enable it to expand its product range to high temperature ceramics which will lead to an expansion of both revenue and asset base. In this regard, we are of the opinion that the Acquisition is beneficial to the Group.

Terms of the Acquisition

Under the Acquisition Agreement, the Consideration of HK\$207 million payable to YY Holdings for the acquisition of the entire issued share capital of Dynamic Goal is to be satisfied by the issue of 172.5 million Consideration Shares at HK\$1.20 per Share (the "Issue Price"). The above Consideration is arrived at based on price earnings multiple ("PE Multiple") of nine times the Guaranteed Net Profit of HK\$23 million for the year ended 31 December 2003.

Manufacturing companies such as the Company and High Temperature Ceramics are mainly valued based on earnings. Apart from the Company itself, there is no other company listed on the Hong Kong Stock Exchange engaged in the manufacture and sale of rare earth and refractory products. Based on the latest available independent broker's estimate, the Group's after-tax profit for the year ended 31 December

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2003 is approximately HK\$59 million, or approximately HK\$0.072 per Share (based on 814.453 million Shares outstanding). Consequently, based on the closing price of HK\$1.17 per Share as at the date of the Acquisition Agreement, the Company's 2003 price earnings multiple is approximately 16.3 times.

We note that Inner Mongolia Batou Steel Rare Earth High-Tech Company Limited (內蒙古包鋼稀土高科技股份有限公司) ("Inner Mongolia Rare Earth"), a listed company on the Shanghai Stock Exchange, is the other company engaged in the production and sale of rare earth and refractory products in the PRC. Current market capitalization of this company (based on total number of shares of 403.67 million) is RMB3,286 million (HK\$3,100 million). Based on latest published results, the company's unaudited sales and after-tax profits for the nine months to 30 September 2003 were approximately RMB329.9 million (HK\$311.2 million) and RMB27.1 million (HK\$25.6 million) respectively. Based on the above unaudited figures and on an annualized basis, this company after-tax profit for the year ended 31 December 2003 would be around RMB36.1 million (HK\$34.1 million), or approximately RMB0.089 (HK\$0.084) per share (based on 403.67 million shares currently outstanding). And based on the closing price of RMB9.6 (HK\$9.0) per Share as at the date of the Acquisition Agreement, Inner Mongolia Rare Earth's 2003 price earnings multiple was approximately 108 times.

The PE Multiple of 9 times under the Acquisition Agreement represents discounts of approximately 45% and 91% to the Company's and Inner Mongolia Rare Earth's respective 2003 price earnings multiples. As the Consideration, in terms of price-earnings, represents substantial discounts to those of the Company and Inner Mongolia Rare Earth, being the only two listed companies in Hong Kong and the PRC engaged in similar line of businesses as that of High Temperature Ceramics, we are of the view that the Consideration of the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned.

The Consideration will be payable by the issue of Consideration Shares at HK\$1.20 per Share, which represents a premium of 2.56% over the closing price of HK\$1.17 per Share as at the date of the Acquisition Agreement and a premium of 2.39% over the average closing price of HK\$1.172 per Share for the 10 trading days up to and including the date of the Acquisition Agreement. We also noted that the Issue Price represents a premium of 1.7% over the Group's latest published unaudited net assets of approximately HK\$1.18 per Share as at 30 June 2003. As the Issue Price represents a premium to both the trading price at the time of the Acquisition Agreement and the latest available unaudited net assets per Share, we are of the view that the Issue Price under the Acquisition Agreement is fair and reasonable so far as the Independent Shareholders are concerned. The issue of the Consideration Shares will be conditional upon the approval of the Acquisition by the Independent Shareholders at the EGM.

Effect on earnings

We understand from the Company that the Group's unaudited sales and after-tax profits for the nine months to 30 September 2003 were approximately HK\$280 million and HK\$37 million, or HK\$0.045 per Share (based on approximately 814.453 million Shares in issue). Had the Acquisition been completed

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

on 1 January 2003 and 172.5 million Consideration Shares had been issued, the Group's pro forma after-tax earnings would have been as follow:

	<i>HK\$m</i>
Group's unaudited after-tax profits for 9 months to 30 Sept 2003	37.0
	(HK\$0.045 per Share)
Add: Unaudited after-tax profits of High Temperature Ceramics (adjusted for Hong Kong GAAP) for 9 months to 30 Sept 2003	15.0
Less: Amortization of goodwill arising from the Acquisition (<i>note</i>)	6.4
	<hr/>
Pro forma after-tax profits of the Group for 9 months to 30 Sept 2003	45.6
	(HK\$0.046 per Share)

Note: Amortization of goodwill is calculated as follow:

	<i>HK\$m</i>
Consideration payable for the Acquisition	207.0
Less: Audited net assets (adjusted for Hong Kong GAAP) as at 1 Jan 2003	37.2
	<hr/>
Goodwill on consolidation arising from Acquisition	169.8
Annual amortization of goodwill*	8.5
Amortization of goodwill for 9 months to 30 Sept 2003	6.4

* Goodwill is amortized over a period of 20 years under the Company's accounting policy and in accordance with HK GAAP.

From the calculation above, the Acquisition would bring about a slight increase of 2.2% in terms of earnings per Share. Consequently, the Acquisition, from the perspective of earnings per Share, is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Effect on net assets

As at 30 June 2003, the Group's unaudited net assets were approximately HK\$960.2 million, or HK\$1.18 per Share (based on approximately 814.453 million Shares in issue). Upon completion of the Acquisition, the Group's pro forma net assets will be as follow:

	<i>HK\$m</i>
Unaudited Group's net assets as at 30 June 2003	960.25 (HK\$1.179 per Share)
Add: Issue of 172.5 million Consideration Shares at an issue price of HK\$1.20 per Share	207.00
Pro forma net assets upon completion of Acquisition	<u>1,167.25</u> (HK\$1.183 per Share)

The above calculation shows that the Group's net assets per Share will remain effectively the same following the Acquisition. However, if we consider the Group's net tangible assets following the Acquisition, the calculation is as follow:

	<i>HK\$m</i>
Unaudited Group's net tangible assets as at 30 June 2003	960.25 (HK\$1.179 per Share)
Add: Consideration payable under the Acquisition	207.00
Less: Goodwill arising from the Acquisition (<i>note</i>)	<u>(154.74)</u>
Pro forma net tangible assets upon completion of Acquisition	1,012.51 (HK\$1.026 per Share)

Note: Goodwill is calculated based on consideration of HK\$207 million less unaudited net assets of High Temperature Ceramics of HK\$52.26 million as at 30 September 2003.

Based on the above calculation, the Group's net tangible assets per Share will suffer a dilution of approximately 13% as a result of the Acquisition due to the issue of the Consideration Shares. However, since goodwill arising from the Acquisition can not be written off through reserves under Hong Kong GAAP, the goodwill generated will be listed as an intangible asset in the Group's accounts upon Completion and will be amortized over a period of 20 years under the Company's accounting policy.

Despite a dilution in terms of net tangible assets per Share, we are of the view that the Acquisition is still beneficial and fair and reasonable to the Independent Shareholders due to the fact that the Acquisition enables the Group to expand its product range to high temperature ceramics which will lead to an expansion of both its revenue and profits and that the Acquisition is financed by the issue of Consideration Shares and not in cash, thus conserving the Group's cash reserves.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Effect on the Group's cash position

As the consideration for the Acquisition will be satisfied by the issue of Consideration Shares and does not involve cash, there is no effect on the Group's cash position as a result of the Acquisition. As the issue of the Consideration Shares for the purpose of the Acquisition enables the Group to conserve its cash position, we are of the view that the issue of Consideration Shares for settlement purpose of the Acquisition is beneficial to the Group.

Effect on shareholding

The issue of 172.5 million Consideration Shares for the purpose of Acquisition will increase the Company's total issued shares from approximately 814.453 million to 986.953 million. So far as the Independent Shareholders are concerned, the above share issue will cause an approximately 17.5% dilution in terms of shareholding. Having regard to the broadening of the Group's future earnings base as a result of the Acquisition and that the issue of Consideration Shares would allow conservation of cash resources for the Group's future business expansion, we are of the view that the above shareholding dilution is fair and reasonable to Independent Shareholders.

Advice and recommendation

Having considered the above principal factors and reasons, we are of the view that the Acquisition is beneficial to Shareholders as a whole and that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Consequently, we would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favor of the ordinary resolution to approve the Acquisition to be proposed at the upcoming EGM.

Yours faithfully,
For and on behalf of
Watterson Asia Limited
David Tsang
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Interests in shares

Name of Name of Director	Company/associated corporation	Capacity	Number and class of securities/interest in registered capital	Approximate percentage of interest in the same class of securities
Qian Yuanying	The Company	Beneficiary of a trust	592,550,000 ordinary shares of HK\$0.10 each (Note 1)	72.75% (Note 1)
Qian Yuanying	Xinwei Rare Earth Group (Hong Kong) Limited	Beneficial owner	3,000,000 non-voting deferred shares of HK\$1.00 each	30%
Qian Yuanying	YY Holdings	Beneficiary of a trust	1 ordinary share of US\$1.00	100%
Qian Yuanying	YY Holdings	Beneficiary of a trust	25,000 preference shares of US\$1.00 each	100%
Jiang Quanlong	Xinwei Rare Earth Group (Hong Kong) Limited	Beneficial owner	7,000,000 non-voting deferred shares of HK\$1.00 each	70%
Jiang Quanlong	Yixing Xinwei Leeshing Rare Earth Company Limited	Interest of a controlled corporation (Note 2)	US\$783,000 in the registered capital	5%
Huang Chunhua, Charles	The Company	Beneficial owner	2,868,000 ordinary shares of HK\$0.10 each	0.35%

Notes:

1. These 592,550,000 shares have included the 172,500,000 shares to be allotted and issued pursuant to the terms of the Acquisition Agreement and the relevant percentage of interest is calculated by reference to the issued share capital of the Company as at the Latest Practicable Date. These 592,550,000 shares are held and beneficially owned by YY Holdings, the entire issued share capital of which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms Qian Yuanying and her children. Accordingly, Ms Qian Yuanying is taken to be interested in these shares by virtue of the SFO.
2. The equity interest of US\$783,000 in the registered capital of Yixing Xinwei Leeshing Rare Earth Company Limited is held and beneficially owned by Xinwei Group Limited, a PRC domestic enterprise which is 90% owned by Mr Jiang Quanlong, with the remaining 10% owned by his son. Accordingly, Mr Jiang Quanlong is taken to be interested in the equity interest of US\$783,000 owned by Xinwei Group Limited by virtue of the SFO.

Interests in share options granted under the share option scheme of the Company adopted on 14 October 1999

Name of Director	Company/ associated corporation	Maximum number and class of shares/other securities over which options are exercisable	Date of grant of options	Exercise price	Exercise period
Fan Yajun	The Company	5,000,000 ordinary shares of HK\$0.10 each	23 January 2003	HK\$1.10	From 27 January 2003 to 26 January 2013

- (b) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.
- (c) Since the financial year ended 31 December 2002 (being the date to which the latest published audited accounts of the Company were made up):
 - (i) the Group has leased two office premises located in Shanghai, the PRC from Mr Jiang Quanlong for use as its sales and marketing headquarters at an agreed monthly rental of approximately HK\$17,000;
 - (ii) the Group has leased a production plant located in Yixing, the PRC from High Temperature Ceramics, in which Ms Qian Yuanying has an indirect interest, for production of its fluorescent materials at an agreed annual rental of approximately HK\$941,000; and

- (iii) the Group has arranged for export sales of its products outside the PRC using the export quota of Xinwei Group Limited, a PRC domestic enterprise which is 90% owned by Mr Jiang Quanlong, at no consideration.

The above transactions had been carried out in the ordinary and usual course of business of the Group on normal commercial terms and had not exceeded the threshold as prescribed under Rule 14.24(5) of the Listing Rules. The Directors (including the independent non-executive Directors) have confirmed that the above transactions had been carried out by the Group in compliance with the applicable requirements of the Listing Rules.

- (d) Save as disclosed in paragraph 2(c) above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by and leased to any member of the Group since 31 December 2002 (being the date to which the latest published audited accounts of the Company were made up).
- (e) Save as disclosed in paragraph 2(c) above, none of the Directors and the chief executive of the Company is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

- (a) As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Company/ subsidiary	Number and class of securities	Nature of interest	Approximate percentage of interest
YY Holdings Limited	The Company	592,550,000 ordinary shares of HK\$0.10 each	Beneficial owner	72.75% (Note 1)
YYT Limited	The Company	592,550,000 ordinary shares of HK\$0.10 each	Trustee (Note 2)	72.75% (Note 1)
Qian Yuanying	The Company	592,550,000 ordinary shares of HK\$0.10 each	Beneficiary of a trust (Note 2)	72.75% (Note 1)
Jiang Quanlong	The Company	592,550,000 ordinary shares of HK\$0.10 each	Interest of spouse (Note 3)	72.75% (Note 1)
Martin Currie China Hedge Fund Limited	The Company	48,842,000 ordinary shares of HK\$0.10 each	Investment manager	6.00%

Notes:

1. This percentage of interest has taken into account the 172,500,000 shares to be allotted and issued pursuant to the terms of the Acquisition Agreement and is calculated by reference to the issued share capital of the Company as at the Latest Practicable Date.
 2. These 592,550,000 shares are held and beneficially owned by YY Holdings, the entire issued share capital of which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms Qian Yuanying and her children. Accordingly, Ms Qian Yuanying is taken to be interested in these shares by virtue of the SFO.
 3. Ms Qian Yuanying is the spouse of Mr Jiang Quanlong. Accordingly, Mr Jiang Quanlong is deemed to be interested in the 592,550,000 shares in which Ms Qian Yuanying is interested by virtue of the SFO.
- (b) Save as disclosed herein, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

4. SHARE CAPITAL

The authorised share capital of the Company as at the Latest Practicable Date and the issued share capital of the Company as at the Latest Practicable Date and upon Completion were as follows:

<i>Authorised:</i>	<i>HK\$</i>
1,000,000,000 Shares	100,000,000.00
 <i>Issued and fully paid or credited as fully paid upon Completion:</i>	
814,453,059 Shares in issue as at the Latest Practicable Date	81,445,305.90
<u>172,500,000</u> Consideration Shares to be issued upon Completion	<u>17,250,000.00</u>
<u><u>986,953,059</u></u>	<u><u>98,695,305.90</u></u>

5. MATERIAL CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2002 (being the date to which the last published audited financial statements of the Group were made up).

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter into a service contract with the Company or any other members of the Group which is not determinable by the Company and any of its subsidiary (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

8. EXPERT

- (a) The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualifications	Date of opinion	Nature of opinion or advice
Watterson Asia Limited	Licensed corporation under the SFO	12 January 2004	Letter of advice to the Independent Board Committee

- (b) Watterson does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Watterson has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.
- (d) The letter and recommendation given by Watterson are given as of the date of this circular for incorporation herein.
- (e) Watterson has, or has had, no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2002 (being the date to which the latest published audited financial statements of the Company were made up).

9. MISCELLANEOUS

- (a) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, British West Indies.
- (b) The principal place of business of the Company in Hong Kong is at Room 618, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (c) The company secretary of the Company is Mr Law Lap Tak, FCCA, AHKSA.

- (d) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours up to and including 26 January 2004 at Room 618, Hutchison House, 10 Harcourt Road, Central, Hong Kong and at the EGM:

- (a) the Acquisition Agreement;
- (b) the letter from the Independent Board Committee dated 12 January 2004, the text of which is set out on page 11 of this circular;
- (c) the letter from the Independent Financial Adviser dated 12 January 2004, the text of which is set out on pages 12 to 17 of this circular; and
- (d) the written consent referred to in the paragraph headed "Expert" in this appendix.

NOTICE OF EGM



CHINA RARE EARTH HOLDINGS LIMITED 中國稀土控股有限公司

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Rare Earth Holdings Limited (“Company”) will be held at 10:30 a.m. on 29 January 2004 at Basement II, The Boardroom, The Wharney Hotel, Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions.

ORDINARY RESOLUTIONS

1. **“THAT** the acquisition agreement (“Acquisition Agreement”) dated 19 December 2003 and entered into between YY Holdings Limited (“YY Holdings”) as vendor, and Lee Shing Holdings Limited (“Lee Shing”), a wholly owned subsidiary of the Company, as purchaser, in connection with the acquisition by Lee Shing of the entire issued share capital of Dynamic Goal Worldwide Inc. from YY Holdings (a copy of which has been produced to the meeting marked “A” and has been initialled by the chairman of the meeting for the propose of identification) be and it is hereby approved and that all the transactions contemplated thereby (including without limitation the allotment and issue of an aggregate of 172,500,000 shares of HK\$0.10 each in the Company, all of which to YY Holdings) be and the same are hereby approved and that any one director of the Company be and he is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents by hand and, where required, under the common seal of the Company together with such other director or person authorised by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry into effect or to give effect to the Acquisition Agreement and all the transactions contemplated thereby, including such changes and amendments thereto as any one director of the Company may consider necessary, desirable and expedient.”
2. **“THAT** the authorised share capital of the Company be and the same is hereby increased from HK\$100,000,000 to HK\$200,000,000 by the creation of 1,000,000,000 additional shares of HK\$0.10 each in the capital of the Company.”

Hong Kong, 12 January 2004

By order of the board of directors of
China Rare Earth Holdings Limited
Jiang Quanlong
Chairman

NOTICE OF EGM

Registered office:

Century Yard, Cricket Square
Hutchins Drive, George Town,
Grand Cayman,
British West Indies.

Principal place

of business in Hong Kong:
Room 618, Hutchison House,
10 Harcourt Road, Central,
Hong Kong.

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the extraordinary general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited at Shops 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the meeting should he so wish.
4. YY Holdings Limited and its associates (as such term is defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) will abstain from voting on resolution no.1 at the meeting.