
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 other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Rare Earth Holdings Limited (the “Company”), you should at once hand this circular together with 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.

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

(incorporated in the Cayman Islands with limited liability)

(stock code: 769)

**PROPOSED ALTERATIONS TO THE ARTICLES OF ASSOCIATION,
PROPOSED TERMINATION OF THE EXISTING SHARE OPTION SCHEME,
PROPOSED ADOPTION OF A NEW SHARE OPTION SCHEME AND
PROPOSED GRANT OF GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES**

A notice convening the annual general meeting of the Company 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 Friday, 4 June 2004 is set out on pages 24 to 33 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 as soon as possible and in any event not later than 48 hours before the time of the meeting or any adjournment thereof 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. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

29 April 2004

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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.

DEFINITIONS

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

“Annual General Meeting”	the annual general meeting of the Company to be convened and held at Basement II, The Boardroom, The Wharney Hotel, Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong at 10:30 a.m. on 4 June 2004, the notice of which is set out on pages 24 to 33 of this circular, and any adjournment thereof
“Articles”	the articles of association of the Company adopted pursuant to a written resolution of the sole Shareholder passed on 29 September 1999
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Rare Earth Holdings Limited 中國稀土控股有限公司, a company incorporated in the Cayman Islands and the issued Shares of which are listed on the Stock Exchange
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Existing Scheme”	the existing share option scheme of the Company adopted pursuant to a written resolution of the sole Shareholder passed on 29 September 1999
“Extension Mandate”	a general and unconditional mandate to the Directors to the effect that any Shares repurchased under the Repurchase Mandate will be added to the total number of Shares which may be allotted and issued under the Issue Mandate
“Group”	the Company and its subsidiaries, and the expression “member(s) of the Group” shall be construed accordingly
“Issue Mandate”	a general and unconditional mandate to the Directors to exercise the power of the Company to allot, issue or otherwise deal with Shares up to a maximum of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution at the Annual General Meeting

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	21 April 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Scheme”	the new share option scheme proposed to be adopted by the Company at the Annual General Meeting for the benefit of the employees and directors of the Group and other eligible participants as prescribed thereunder
“Proposal”	the termination of the Existing Scheme, the adoption of the New Scheme and the grant of a general mandate to the Directors to grant options under the New Scheme of up to 10% of the Shares in issue as at the date of the Annual General Meeting
“Repurchase Mandate”	a general and unconditional mandate to the Directors to enable them to repurchase the Shares the aggregate nominal amount of which shall not exceed 10% of the aggregate nominal amount of the share capital in issue as at the date of passing the relevant resolution at the Annual General Meeting
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Independent non-executive Directors:

Liu Yujiu
Huang Chunhua, Charles

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

29 April 2004

To the Shareholders, and for information only, the holders of options of the Company

Dear Sir/Madam

**PROPOSED ALTERATIONS TO THE ARTICLES OF ASSOCIATION,
PROPOSED TERMINATION OF THE EXISTING SHARE OPTION SCHEME,
PROPOSED ADOPTION OF A NEW SHARE OPTION SCHEME AND
PROPOSED GRANT OF GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES**

INTRODUCTION

The primary purpose of this circular is to provide you with information regarding the resolutions to be proposed at the Annual General Meeting and to give you notice of the Annual General Meeting. Resolutions to be proposed at the Annual General Meeting include special/ordinary resolutions relating to the proposed alterations to the Articles, termination of the Existing Scheme, adoption of the New Scheme, grant of the Issue Mandate, the Repurchase Mandate and the Extension Mandate.

ALTERATIONS TO THE ARTICLES

As announced by the Stock Exchange in its press release dated 30 January 2004, the Stock Exchange has revised the Listing Rules based on the results of the Consultation Conclusions on Proposed

LETTER FROM THE BOARD

Amendments to the Listing Rules relating to Corporate Governance Issues issued in January 2003. Such revisions of the Listing Rules took effect on 31 March 2004 and include revisions to Appendix 3 to the Listing Rules which sets out the requirements that the articles of association or, as the case may be, bye-laws of listed issuers or listing applicants shall comply with.

To ensure compliance with the revised Appendix 3 to the Listing Rules, listed issuers must alter their articles of association or, as the case may be, bye-laws at the earliest opportunity and, in any event, no later than the conclusion of their next annual general meeting after 31 March 2004.

To align the Articles with the requirements of the revised Appendix 3 to the Listing Rules, the Board wishes to propose a special resolution at the Annual General Meeting to alter the Articles. In general, the proposed alterations to the Articles are to be made to conform to the following in relation to corporate governance:

- (a) the minimum seven-day period of lodgment by the Shareholders of notice to nominate a Director shall commence no earlier than the date after the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting;
- (b) a Director shall abstain from voting at the meeting of the Board on any matter in which he or any of his associates has a material interest and shall not be counted towards the quorum of the relevant meeting of the Board; and
- (c) where any Shareholder is, under the revised Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or against any particular resolution, any vote cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted.

A full text of the proposed alterations to the Articles is set out in resolution numbered 5 in the notice of the Annual General Meeting set out on pages 24 to 33 of this circular.

THE PROPOSAL

Termination of the Existing Scheme and adoption of the New Scheme

By a written resolution of the sole Shareholder passed on 29 September 1999, the Existing Scheme was adopted. Under the Existing Scheme, the Directors were authorised to grant to full-time employees of the Group, including executive directors of the Company and its subsidiaries, options to subscribe for Shares.

LETTER FROM THE BOARD

As at the Latest Practicable Date, there were 986,953,059 Shares in issue. The particulars of the options granted under the Existing Scheme are set out below:

	Originally granted	Exercised	Cancelled or lapsed	Outstanding as at the Latest Practicable Date
Number of Shares being subject of the options issuable under the Existing Scheme	13,000,000	Nil	6,500,000	6,500,000

Other than the Existing Scheme, the Company currently does not maintain any other share option scheme.

The Directors confirm that with effect from the Latest Practicable Date, they will not further exercise their authorities in granting options under the Existing Scheme and no further option will be granted under the Existing Scheme prior to its termination and the approval of the adoption of the New Scheme at the Annual General Meeting.

Upon the termination of the Existing Scheme, no further options would be offered pursuant to the Existing Scheme but the Existing Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options (the “Existing Options”) granted under it prior to its termination. The Existing Options will continue to be valid and exercisable in accordance with the provisions of the Existing Scheme.

Reasons for the Proposal

Major amendments have been introduced to Chapter 17 of the Listing Rules. These amendments came into effect on 1 September 2001.

Chapter 17 of the Listing Rules deals with the share option schemes of companies listed on the Stock Exchange. The amendments introduced, among others, expanded the classes of potential grantees of share options, relaxed certain requirements relating to the maximum number of shares comprised in share options that can be granted under the share option schemes of such listed companies and, at the same time, imposed new disclosure and approval requirements on such listed companies.

Options may no longer be granted under the Existing Scheme by the Company unless such grants have been made in compliance with the amended rules. In this connection, the Board intends to propose to the Shareholders at the Annual General Meeting that the Company should terminate its Existing Scheme and adopt the New Scheme, the terms of which will comply with the amended Chapter 17 of the Listing Rules. The Directors consider that the adoption of the New Scheme is in the interest of the Company and the Shareholders as a whole because it enables the Company to reward and provide incentives to, and strengthen the Group’s business relationship with, the prescribed classes of participants who may contribute to the growth and development of the Group.

LETTER FROM THE BOARD

The New Scheme

Set out in Appendix I to this circular are the principal terms of the New Scheme, under which the initial maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted under the New Scheme and any other share option schemes of the Company (including the Existing Scheme) may represent up to 10% of the Shares in issue on the date of approval of the New Scheme by the Shareholders at the Annual General Meeting, which maximum number may however be refreshed as detailed in paragraph (3) of Appendix I to this circular.

Conditions of the adoption of the New Scheme

The adoption of the New Scheme is conditional upon (i) the termination of the Existing Scheme by an ordinary resolution at the Annual General Meeting; (ii) the approval of the New Scheme at the Annual General Meeting and the allotment and issue of the Shares which may fall to be allotted and issued upon the exercise of the options granted under the New Scheme; and (iii) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares which may fall to be allotted and issued upon the exercise of the options granted up to 10% of the Shares in issue as at the date of the Annual General Meeting under the New Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, Shares representing 10% of the issued share capital of the Company as at the date of the Annual General Meeting which may fall to be allotted and issued upon the exercise of options granted under the New Scheme.

Values of all options that can be granted under the New Scheme

The Directors consider that it is not possible to state the value of all options that may be granted pursuant to the New Scheme as if they had been granted on the Latest Practicable Date, because the calculation of the value of the options is based on a number of variables such as the exercise price, exercise period, interest rate, expected volatility and other relevant variables. As options have not been granted under the New Scheme, certain variables are not available for calculating the value of the options. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful to the Shareholders.

ISSUE MANDATE

At the Annual General Meeting, an ordinary resolution will be proposed that the Directors be given the Issue Mandate, i.e. a general and unconditional mandate to allot, issue and deal with new Shares up to 20% of the aggregate nominal share capital of the Company in issue as at the date of passing of the relevant resolution. As at the Latest Practicable Date, a total of 986,953,059 Shares were in issue. Subject to the passing of the proposed resolution granting the Issue Mandate to the Directors and on the basis that no Shares will be issued or repurchased by the Company prior to the Annual General Meeting, the Company will be allowed under the Issue Mandate to issue a maximum of 197,390,611 Shares.

LETTER FROM THE BOARD

REPURCHASE MANDATE AND EXTENSION MANDATE

At the Annual General Meeting, an ordinary resolution will also be proposed to give the Directors the Repurchase Mandate, i.e. a general and unconditional mandate to exercise all powers of the Company to repurchase, on the Stock Exchange, or on any other stock exchange on which the Shares may be listed, Shares up to a maximum of 10% of the nominal share capital of the Company in issue as at the date of passing of the relevant resolution.

In addition, an ordinary resolution regarding the Extension Mandate will be proposed at the Annual General Meeting providing that any Shares repurchased under the Repurchase Mandate (up to a maximum of 10% of the issued Shares as at the date of the grant of the Repurchase Mandate) will be added to the total number of Shares which may be allotted and issued under the Issue Mandate.

The Issue Mandate and the Repurchase Mandate would expire at the earliest of: (a) the conclusion of the next annual general meeting of the Company; or (b) the end of the period within which the Company is required by the Companies Law or the Articles to hold its next annual general meeting; or (c) when revoked or varied by ordinary resolution(s) of the Shareholders in a general meeting prior to the next annual general meeting of the Company.

Under the Listing Rules, the Company is required to give to all Shareholders all information which is reasonably necessary to enable Shareholders to make an informed decision as to whether to vote for or against the resolution in respect of the Repurchase Mandate at the Annual General Meeting. An explanatory statement for such purpose is set out in Appendix II to this circular.

ACTIONS TO BE TAKEN

At the Annual General Meeting, special/ordinary resolutions will be proposed to approve, among other matters, the following:

- (a) the alterations to the Articles;
- (b) the termination of the Existing Scheme;
- (c) the adoption of the New Scheme; and
- (d) the grant of the Issue Mandate, the Repurchase Mandate and the Extension Mandate.

Whether or not you are able to attend the Annual General Meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event not later than 48 hours before the time appointed for the Annual General 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 Annual General Meeting or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors believe that the alterations to the Articles, the Proposal, the grant of the Issue Mandate, the Repurchase Mandate and the Extension Mandate are beneficial to the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

As regards the Proposal, the performance targets (if any) and the subscription price set in accordance with the New Scheme will act as an incentive to the eligible participants of the New Scheme to contribute more for the benefits of the Company.

The Directors believe that an exercise of the Issue Mandate will enable the Company to take advantage of market conditions to raise additional capital for the Company.

The Repurchase Mandate may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be exercised when the Directors believe that repurchases of Shares will benefit the Company and the Shareholders.

An exercise of the Repurchase Mandate in full may have a material adverse impact on the working capital and gearing position of the Company compared with that as at 31 December 2003, being the date of its latest audited consolidated financial statements. The Directors do not, however, intend to make any repurchase in circumstances that would have a material adverse impact on the working capital or gearing position of the Company.

Accordingly, the Directors recommend Shareholders to vote in favour of the special/ordinary resolutions approving the alterations to the Articles, the Proposal, the grant of the Issue Mandate, the Repurchase Mandate and the Extension Mandate at the Annual General Meeting.

RE-ELECTION OF DIRECTOR

In accordance with Article 108(A) of the Articles, Mr Huang Chunhua will retire as Director by rotation and, being eligible, offer himself for re-election as Director at the Annual General Meeting. Particulars of Mr Huang Chunhua are set out in Appendix IV to this circular.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong of the Company at Room 618, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours on any business day from the date hereof up to and including the date of the Annual General Meeting:

- (i) the memorandum of association of the Company and the Articles; and
- (ii) the draft rules of the New Scheme.

GENERAL INFORMATION

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

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

Set out below is a summary of the principal terms and conditions of the New Scheme to provide sufficient information to the Shareholders for their consideration of the New Scheme proposed to be adopted at the Annual General Meeting.

(1) PURPOSE OF THE NEW SCHEME

The purpose of the New Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider that the New Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine any performance target to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that in order to capitalise on the benefits of the options granted, grantees of an option will contribute further to the development of the Group so as to bring about an increased value of the Shares.

(2) WHO MAY JOIN

The Directors may at their absolute discretion, invite any person belonging to any of the following classes of participants (“Eligible Participants”) to take up options to subscribe for Shares:

- (a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of, or any individual for the time being seconded to work for the Company, any of its subsidiaries or any entity (“Invested Entity”) in which the Group holds an equity interest (the persons are collectively referred to as “Eligible Employees”);
- (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (g) any adviser (professional or otherwise) or consultant to the Group relating to business development of the Group or any member of the Group or any Invested Entity; and
- (h) any joint venture partner or business alliance of the Group who have contributed or may contribute to the development and growth of the Group,

and, for the purposes of the New Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the New Scheme.

The basis of eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of the Group.

(3) MAXIMUM NUMBER OF SHARES

- (a) The maximum number of Shares to be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.
- (b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the New Scheme and any other share option schemes of the Group) to be granted under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue as at the date of passing of the relevant resolution adopting the New Scheme ("General Scheme Limit"). On the basis that there were a total of 986,953,059 Shares in issue as at Latest Practicable Date and no further Shares will be issued or repurchased prior to the Annual General Meeting, the Directors will be allowed to grant options carrying rights to subscribe for a maximum of 98,695,305 Shares under the General Scheme Limit.
- (c) Subject to sub-paragraph (a) of this paragraph (3) above but without prejudice to sub-paragraph (d) of this paragraph (3) below, the Company may issue a circular to the Shareholders and seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the New Scheme and any other share option schemes of the Group) previously granted under the New Scheme and any other share option schemes of the Group will not be counted. The circular sent by the Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (d) Subject to sub-paragraph (a) of this paragraph (3) above and without prejudice to sub-paragraph (c) of this paragraph (3) above, the Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the limit referred to in (c) above to participants specifically identified by the

Company before such approval is sought. In such event, the Company must send a circular to the Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(4) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (“Individual Limit”). Any further grant of options, which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options), in any 12-month period up to and including the date of such further grant in excess of the Individual Limit shall be subject to the issue of the circular to the Shareholders and the Shareholders’ approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders’ approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(5) GRANT OF OPTIONS TO CERTAIN CONNECTED PERSONS

- (a) Any grant of options under the New Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors (excluding any independent non-executive Director who is also the grantee of the options).
- (b) Where any grant of options to a substantial Shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (aa) representing in aggregate over 0.1% of the Shares in issue; and
 - (bb) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(6) TIME OF ACCEPTANCE AND EXERCISE OF OPTION

An option may be accepted by a participant within 21 days from the date of the offer for grant of the option.

An option may be exercised in accordance with the terms of the New Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to grantees, there is no minimum period required under the New Scheme for the holding of an option before it can be exercised.

(7) PERFORMANCE TARGETS

Unless the Directors otherwise determine and state in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the New Scheme can be exercised.

(8) SUBSCRIPTION PRICE FOR SHARES AND CONSIDERATION FOR THE OPTION

The subscription price for Shares under the New Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheet for five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(9) RANKING OF SHARES

- (a) Shares allotted upon the exercise of an option will be subject to all the provisions of the Companies Law and the Articles and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members ("Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of the Company as the holder thereof.
- (b) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(10) RESTRICTIONS ON THE TIME OF GRANT OF OPTIONS

- (a) No offer for the grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Directors for the approval of the Company's interim or annual results, and (ii) the last date on which the Company must publish its interim or annual results announcement under the Listing Rules, and ending on the date of the announcement of the results, no option may be granted.
- (b) The Directors may not grant any option to a participant who is a Director during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(11) PERIOD OF THE NEW SCHEME

The New Scheme will remain in force for a period of 10 years commencing on the date on which the New Scheme is adopted.

(12) RIGHTS ON CEASING EMPLOYMENT

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (14) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

(13) RIGHTS ON DEATH, ILL-HEALTH OR RETIREMENT

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation, which date shall be the last day on which the grantee was at work with the Group or the Invested Entity, whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(14) RIGHTS ON DISMISSAL

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(15) RIGHTS ON BREACH OF CONTRACT

If the Directors shall at their absolute discretion determine that (a) (i) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part, or (ii) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (iii) the grantee could no longer make any contribution to the growth and development of the Group by reason of the cessation of its relations with the Group or by other reason whatsoever; and (b) the option granted to the grantee under the New Scheme shall lapse as a result of any event specified in sub-paragraph (a) (i), (ii) or (iii) of this paragraph (15) above, his option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(16) RIGHTS ON A GENERAL OFFER, A COMPROMISE OR ARRANGEMENT

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, the Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be.

(17) RIGHTS ON WINDING UP

In the event of a resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time not less than two (2) business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the New Scheme and the Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one (1) business day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted

and issued to him in the aforesaid manner, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the Shareholders on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up.

(18) GRANTEE BEING A COMPANY WHOLLY OWNED BY ELIGIBLE PARTICIPANTS

If the grantee is a company wholly owned by one or more Eligible Participants:

- (a) paragraphs (12), (13), (14) and (15) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (12), (13), (14) and (15) shall occur with respect to the relevant Eligible Participant; and
- (b) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(19) ADJUSTMENTS TO THE SUBSCRIPTION PRICE

In the event of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to (a) the number or nominal amount of Shares to which the New Scheme or any option(s) relate (so far as unexercised); and/or (b) the number of Shares comprised in an option; and/or (c) the option price of the option concerned, provided that (aa) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (bb) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (cc) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(20) CANCELLATION OF OPTIONS

Subject to paragraph (22) below, any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of the Directors. Where the Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by the Shareholders in general meeting pursuant to sub-paragraph (c) or (d) of paragraph (3) above.

(21) TERMINATION OF THE NEW SCHEME

The Company may by resolution in general meeting at any time terminate the New Scheme and in such event no further options shall be offered but in all other respects the provisions of the New Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the New Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the New Scheme.

(22) RIGHTS ARE PERSONAL TO THE GRANTEE

An option is personal to the grantee and shall not be transferable or assignable. The grantee shall not sell, transfer, mortgage, encumber or in any way create any interest in any option granted. Any breach of the foregoing will entitle the Company to cancel any outstanding option or any part thereof granted to the grantee in breach without incurring any liability on the part of the Company.

(23) LAPSE OF OPTION

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the period referred to in paragraph (6);
- (b) the expiry of the periods or dates referred to in paragraph (12), (13), (14), (15), (17) and (18); and
- (c) the date on which the Directors shall cancel the option by reason of the breach of paragraph (22) above.

(24) MISCELLANEOUS

- (a) The New Scheme is conditional on (i) the Shareholders approving its adoption at the Annual General Meeting; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares, representing the General Scheme Limit, which may fall to be allotted and issued by the Company pursuant to the exercise of the options which may be granted under the New Scheme.
- (b) The terms and conditions of the New Scheme relating to the matters set out in rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (c) Any alterations to the terms and conditions of the New Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the New Scheme.

- (d) The amended terms of the New Scheme or the options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (e) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the New Scheme shall be approved by the Shareholders in general meeting.

(25) PRESENT STATUS OF THE NEW SCHEME

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, such number of Shares, representing the General Scheme Limit, which may fall to be allotted and issued by the Company pursuant to the exercise of any options which may be granted under the New Scheme.

This Appendix serves as an explanatory statement, as required by the Listing Rules, to provide requisite information as to the proposed Repurchase Mandate.

1. LISTING RULES RELATING TO THE REPURCHASE OF SHARES

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their shares on the Stock Exchange and any other stock exchange on which the securities of the company are listed and such exchange is recognised by the Securities and Futures Commission of Hong Kong subject to certain restrictions. Among such restrictions, the Listing Rules provide that the shares of such company must be fully paid up and all repurchase of shares by such company must be approved in advance by an ordinary resolution of shareholders, either by way of a general repurchase mandate or by specific approval of a particular transaction.

2. SHARE CAPITAL

As at Latest Practicable Date, there were a total of 986,953,059 Shares in issue.

Subject to the passing of the proposed resolution granting the Repurchase Mandate and on the basis that no further Shares are issued or repurchased prior to the Annual General Meeting, the Company will be allowed under Repurchase Mandate to repurchase a maximum of 98,695,305 Shares.

3. REASONS FOR THE REPURCHASE

The Directors believe that it is in the best interests of the Company and the Shareholders as a whole to seek a general authority from the Shareholders to enable the Company to repurchase the Shares on the Stock Exchange or any other stock exchange on which the Shares are listed. Share repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when the Directors believe that such repurchase will benefit the Company and the Shareholders.

4. FUNDING OF REPURCHASES

Repurchase made pursuant to the Repurchase Mandate would be funded out of funds legally available for the purpose in accordance with the Company's memorandum of association, the Articles, the Companies Law and other applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Companies Law, repurchases by the Company may only be made out of profits of the Company or out of the proceeds of a fresh issue of Shares made for the purpose, or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

Taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position as at 31 December 2003, being the date of its latest audited consolidated financial statements. However, the Directors do not intend to make any repurchases to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing position of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

5. SHARE PRICES

The highest and lowest prices at which the Shares have been traded on the Stock Exchange in each of the 12 calendar months immediately preceding the Latest Practicable Date are as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
April 2003	0.97	0.42
May 2003	0.81	0.47
June 2003	0.75	0.62
July 2003	0.66	0.48
August 2003	0.92	0.60
September 2003	0.96	0.78
October 2003	1.15	0.80
November 2003	1.17	1.03
December 2003	1.29	1.10
January 2004	1.35	1.11
February 2004	1.79	1.26
March 2004	1.64	1.07
April 2004 (up to the Latest Practicable Date)	1.36	1.04

6. THE TAKEOVERS CODE AND MINIMUM PUBLIC HOLDING

If a Shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase Shares pursuant to the Repurchase Mandate, such increase will be treated as an acquisition for the purposes of Rule 32 of the Hong Kong Code on Takeovers and Mergers ("Takeovers Code"). As a result, a Shareholder or group of Shareholders acting in concert (as defined in the Takeovers Code) could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, according to the register of members kept by the Company pursuant to section 336 of the Securities and Futures Ordinance (“SFO”) (Chapter 571 of the Laws of Hong Kong) and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons were directly or indirectly interested in 5% or more of the issued capital of the Company:

Name	Number of Shares	Approximate percentage of shareholding
1. YY Holdings Limited	592,550,000 (<i>Note</i>)	60.04%
2. YYT Limited	592,550,000 (<i>Note</i>)	60.04%
3. Qian Yuanying	592,550,000 (<i>Note</i>)	60.04%
4. Jiang Quanlong	592,550,000 (<i>Note</i>)	60.04%

Note: These 592,550,000 Shares were held and beneficially owned by YY Holdings Limited, 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. Mr Jiang Quanlong is the spouse of Ms Qian Yuanying. Accordingly, Mr Jiang Quanlong is taken to be interested in these Shares by virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO.

Assuming that each of the aforesaid substantial Shareholders did not dispose of their respective Shares nor acquire additional Shares, if the Repurchase Mandate were exercised in full, the percentage shareholding of each of the aforesaid substantial Shareholders in the Company would be increased to approximately 66.71% of the issued share capital of the Company.

On the basis of the shareholding held by each of the substantial Shareholders set out above, none of them will be obligated to make a mandatory offer under Rule 26 of the Takeovers Code if the Repurchase Mandate were exercised in full. The Directors have no intention to exercise the Repurchase Mandate to such an extent that will result in the number of Shares in the hands of public falling below the prescribed minimum percentage of 25%.

7. SHARE REPURCHASE MADE BY THE COMPANY

The Company had not purchased any of the Shares (whether on the Stock Exchange or otherwise) in the six months immediately preceding the Latest Practicable Date.

8. GENERAL

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates have any present intention to sell any Shares to the Company if the Repurchase Mandate is approved by the Shareholders.

The Directors have undertaken to the Stock Exchange that they will only exercise the power of the Company to make repurchase pursuant to the Repurchase Mandate in accordance with the Listing Rules, the applicable laws of the Cayman Islands and the memorandum and articles of association of the Company.

No connected person of the Company has notified the Company that he has a present intention to sell any Shares to the Company nor has any such connected person undertaken not to sell any Shares held by him to the Company in the event that the Repurchase Mandate is granted.

Pursuant to Article 72 of the Articles, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

PARTICULARS OF DIRECTOR FOR RE-ELECTION

The biographical details of the Director eligible for re-election at the Annual General Meeting are set out below:

Mr Huang Chunhua, aged 38, independent non-executive Director*Length of service*

Mr Huang Chunhua joined the Group in 2001 as an independent non-executive Director. There is no fixed term of appointment of Mr. Huang Chunhua as an independent non-executive Director.

Qualification and Experience

Mr Huang Chunhua is an executive director and a financial controller of Compass Pacific Holdings Limited, a listed company in Hong Kong, during the last three years. He is a Ph.D of Marketing and MBA of University of Strathclyde. He was previously a senior investment analyst, China Research of CLSA Emerging Markets and China analyst of HSBC Securities Asia Ltd.

Interests in Shares

As at the Latest Practicable Date, Mr Huang Chunhua was taken as beneficially interested in 2,868,000 Shares pursuant to Part XV of the SFO. Mr. Huang Chunhua will abstain from voting in respect of the resolution for the re-election of him as a Director at the Annual General Meeting.

Others

Save that Mr Huang Chunhua is an independent non-executive Director, he is not otherwise related to any Director, senior management or substantial or controlling Shareholders of the Company. He has not entered into any service contract with the Company.

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

(incorporated in the Cayman Islands with limited liability)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of CHINA RARE EARTH HOLDINGS LIMITED (“Company”) will 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 4 June 2004 to consider and, if thought fit, transact the following ordinary business:

1. to receive and consider the audited financial statements and the reports of the directors of the Company and the Company’s auditors for the year ended 31 December 2003;
2. to approve the declaration of a final dividend for the year ended 31 December 2003;
3. to re-elect the retiring director and to authorise the board of directors to fix the remuneration of directors;
4. to re-appoint the Company’s auditors and to authorise the board of directors to fix their remuneration;

and, as special business, to consider and, if thought fit, pass the following resolutions as ordinary and/or special resolutions (with or without modifications):

SPECIAL RESOLUTION

5. **“THAT** the articles of association of the Company be and they are altered in the following manner:
 - (a) Paragraph (A) of Article 1 be amended by:
 - a. deletion of the definition of “associates” and insertion of the following in its place:

““associates”, in relation to any Director, shall have the meaning as ascribed to it in the Listing Rules;” and

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- b. insertion of the following definitions immediately before the definition of “month”:

““Hong Kong” shall mean the Hong Kong Special Administrative Region of the People’s Republic of China;” and

““Listing Rules” shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;”;

- (b) Article 13 be amended by:

- a. deletion of the word “and ” appearing at the end of paragraph (vii);

- b. deletion of paragraph (viii) in its entirety; and

- c. insertion of the following new paragraph immediately after paragraph (vii):

“The Company may apply the share premium account in any manner permitted by the Statutes. The Company shall at all times comply with the provisions of the Statutes in relation to its share premium account.”;

- (c) Article 84 be deleted in its entirety and replaced by the following in its place:

“84. (A) Subject to paragraph (B) of this Article 84, no objection shall be raised to the qualification of any person exercising or purporting to exercise a vote or the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman, whose decision shall be final and conclusive.

(B) At all times during the Relevant Period (but not otherwise), where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted.”;

- (d) Article 107 be amended by:

- a. insertion of the words “or the appointment of any of his associates” immediately after the word “appointment” on the second line in paragraph (D);

- b. insertion of the words “or any of the associate(s) of any such Director(s)” immediately after the word “Directors” on the third line in paragraph (E);

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- c. insertion of the words “or, as the case may be, the associate(s) of such Director” immediately after the words “in relation to each Director” on the sixth line in paragraph (E);
- d. insertion of the words “or the appointment of any of his associates” immediately after the words “except that concerning his own appointment” on the eighth line in paragraph (E);
- e. deletion of the words “together with any of” and insertion of the word “and” in their place on the twelfth line in paragraph (E);
- f. insertion of the words “in aggregate” immediately after the words “his associates” on the twelfth line in paragraph (E);
- g. deletion of paragraph (G) in its entirety and insertion of the following in its place:

“(G) If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he shall declare the nature of his or, as the case may be, his associate(s)’ interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associate(s) then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested. For the purposes of this Article, a general notice to the Directors by a Director to the effect that (a) he or his associate(s) is a shareholder of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm or (b) he or his associate(s) is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him or any of his associate(s), shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Directors or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Directors after it is given.”;

- h. deletion of paragraph (H) in its entirety and insertion of the following in its place:

“(H) A Director shall not vote (nor be counted in the quorum) on any resolution of the Directors approving any contract or arrangement or proposal in which he or any of his associate(s) is to his knowledge materially interested, and if he shall do so his vote shall not be counted (nor is he

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counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving by the Company of any security or indemnity to the Director or his associate(s) in respect of money lent or obligation undertaken by him or any of them at the request of or for the benefit of the Company or any company in which the Company has interest;
- (ii) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any company in which the Company has interest for which the Director or his associate(s) has himself/ themselves guaranteed or secured or otherwise assumed responsibility in whole or in part and whether alone or jointly under a guarantee or by the giving of security;
- (iii) any contract or arrangement by the Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the shareholders or debenture or securities holders of the Company or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other shareholders or debenture or securities holders of the Company or to the public;
- (iv) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/ are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their respective interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

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- (vi) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly or as an officer or an executive or a shareholder in which the Director or his associate(s) is/are beneficially interested in shares of that company provided that, such Director and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company (other than shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights);
 - (vii) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant taxing authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of the Company or of any of its subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the class of persons to whom such scheme or fund relates;
 - (viii) any proposal concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and
 - (ix) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to these Articles.”;
- i. deletion of paragraph (I) in its entirety and insertion of the following in its place:
- “(I) A company shall be deemed to be a company in which a Director and his associates in aggregate own five (5) per cent. or more of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company if and so long as (but only if and so long as) he and his associates are (either directly or indirectly) the holder of or beneficially interested in five (5) per cent. or more of any class of the issued voting equity share capital of such company (or of

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any third company, other than the Company or any of its subsidiaries, through which his interest is derived) or of the voting rights of any class of shares of the company. For the purpose of this paragraph there shall be disregarded any shares held by a Director or any of his associate(s) as bare or custodian trustee and in which he or such associate(s) has/ have no beneficial interest, any shares comprised in a trust in which the interest of the Director or any of his associates is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, any shares comprised in an authorised unit trust scheme in which the Director or any of his associates is interested only as a unit holder.”;

- j. deletion of the words “together with” and insertion of the word “and” in their place on the fifth line in paragraph (J);
 - k. insertion of the words “in aggregate” immediately after the words “his associates” on the fifth line in paragraph (J);
 - l. insertion of the words “or any of his associates” immediately after the words “interest of a Director” on the second line in paragraph (K);
 - m. insertion of the words “or his associates” immediately after the word “concerned” on the eighth line in paragraph (K) and the word “Chairman” on the fifteenth line in paragraph (K); and
 - n. insertion of the words “or any of his associates” immediately after the words “notwithstanding that he” on the fifth line in paragraph (L);
- (e) Article 113 be amended by deletion of the following sentence:

“The latest date for lodgement of such notices will be not more than seven clear days prior to the date of the meeting appointed for such election and the minimum length of the period during which such notices to the Company may be given must be at least seven days.”

and insertion of the following sentence in its place:

“The length of the period for lodgement of such notices must be at least seven days commencing no earlier than the day immediately after the despatch of the notice of the general meeting and ending no later than seven days before the date of such general meeting.”; and

- (f) Article 175 be amended by deletion of the word “Accounting” and insertion of the words “Financial Reporting” in its place on the eighth line in paragraph (A).”;

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ORDINARY RESOLUTIONS

6. **“THAT** with effect from the close of business of the day on which this resolution is passed, the existing share option scheme (“Existing Scheme”) adopted by the Company pursuant to a written resolution passed by the sole shareholder of the Company on 29 September 1999 (a copy of the Existing Scheme having been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) be and it is hereby terminated and cease to have with any further effect save and except that the Existing Scheme will remain in force to the extent necessary to give effect to the exercise of the options granted thereunder prior to termination thereof.”;
7. **“THAT** subject to the passing of resolution numbered 6 and subject also to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) granting the listing of, and permission to deal in, such number of shares of the Company which may fall to be allotted and issued pursuant to the exercise of the option which may be granted under the rules of the new share option scheme (“New Scheme”), a draft of which is produced to the meeting marked “B” and signed by the chairman of the meeting for the purposes of identification, representing an amount (“General Scheme Limit”) up to 10 per cent. of the issued shares of the Company as at the day on which this resolution is passed, with effect from the close of business of the day on which this resolution is passed, the rules of the New Scheme be approved and adopted and the directors of the Company be and they are hereby authorised: (a) to approve any amendments to the rules of the New Scheme as may be acceptable or not objected to by the Stock Exchange; (b) at their absolute discretion to grant options to subscribe for shares of the Company in accordance with the rules of the New Scheme; (c) to allot, issue and deal with shares of the Company pursuant to the exercise of options granted under the New Scheme provided that the aggregate nominal amount of shares which fall to be allotted and issued pursuant to this authority, together with any issue of shares of the Company upon the exercise of any options granted under any other share option scheme as may from time to time be adopted by the Company or its subsidiaries, shall not exceed the General Scheme Limit; and (d) to take all such steps as may be necessary, desirable or expedient to carry into effect the New Scheme.”;
8. **“THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and deal with the unissued shares (each, a “Share”) of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

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- (c) the aggregate nominal amount of share capital allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any options granted under all share option schemes of the Company adopted from time to time in accordance with the Listing Rules; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares shall not exceed the aggregate of:
 - (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and
 - (bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal amount of any share capital of the Company purchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (d) for the purposes of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution;

“Rights Issue” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares on the Company’s register of members on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary

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or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”;

9. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (c) below) of all powers of the Company to purchase shares (each, a “Share”) of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange, the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased or agreed to be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) for the purposes of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.”; and

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10. “**THAT** conditional on the passing of resolutions numbered 8 and 9 above, the general mandate granted to the directors of the Company pursuant to paragraph (a) of resolution numbered 8 above be and it is hereby extended by the addition to the aggregate nominal amount of the shares which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to or in accordance with such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company purchased or agreed to be purchased by the Company pursuant to or in accordance with the authority granted under paragraph (a) of resolution numbered 9 above.”

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

Hong Kong, 15 April 2004

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. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's Hong Kong branch share registrar (“Branch Registrar”), Computershare Hong Kong Investor Services Limited at Shops 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time of the above meeting or any adjourned meeting.
3. In relation to the proposed resolution numbered 2 above, the register of members of the Company will be closed from 1 June 2004 to 4 June 2004, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Branch Registrar by no later than 4:00 p.m. on 31 May 2004.
4. In relation to proposed resolutions numbered 8 and 10 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorise the allotment and issue of shares under the Listing Rules. The directors have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.
5. In relation to proposed resolution numbered 9 above, the directors wish to state that they will exercise the powers conferred thereby to purchase shares in circumstances which they deem appropriate for the benefit of the shareholders.
6. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto to if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.