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4th Proof / 11th January, 2006 (Client)

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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 your 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, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or 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.

R14.58(1)

R14.64(1)



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)

A1B(1)

DISCLOSEABLE TRANSACTION:

ACQUISITION OF A PRC DOMESTIC COMPANY

13 January 2006

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DEFINITIONS

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

“Acquisition”	the acquisition of the entire equity interest in Suhai Magnesium at a total consideration of RMB120 million (approximately HK\$115.4 million) by Leeshing Refractory and High Temperature Ceramics from Ms Jin and Mr Liu
“Company”	China Rare Earth Holdings Limited (中國稀土控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 23 December 2005 and entered into between Ms Jin and Mr Liu as vendors and Leeshing Refractory and High Temperature Ceramics as purchasers, in relation to the Acquisition
“Group”	the Company and its subsidiaries
“High Temperature Ceramics”	Wuxi Xinwei High Temperature Ceramics Co., Ltd. (無錫新威高溫陶瓷有限公司), a wholly foreign-owned enterprise established in the PRC and a wholly owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	11 January 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Leeshing Refractory”	Yixing Xinwei Leeshing Refractory Materials Co., Ltd. (宜興新威利成耐火材料有限公司), a wholly foreign-owned enterprise established in the PRC and a wholly owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr Liu”	Mr Liu Yonggang
“Ms Jin”	Ms Jin Yefang

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
“Purchase Price”	the total price payable of RMB120,000,000 (approximately HK\$115,385,000) by Leeshing Refractory and High Temperature Ceramics to Ms Jin and Mr Liu for the Acquisition
“RMB”	Renminbi yuan, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Suhai Magnesium”	Haicheng City Suhai Magnesium Ore Co., Ltd. (海城市蘇海鎂礦有限公司), a domestic limited liability enterprise established in the PRC

In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.04 to HK\$1.00. Such exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at these or any other rates or at all.

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)

A1B(1)

Executive Directors:

Mr JIANG Quanlong
Ms QIAN Yuanying
Ms XU Panfeng
Mr JIANG Cainan

Registered office:

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

R2.14
A1B(36)

Independent non-executive Directors:

Mr LIU Yujiu
Mr HUANG Chunhua
Mr JIN Zhong

*Head office and principal place of
business:*

Dapu, Yixing
Jiangsu Province, PRC

Place of business in Hong Kong:

15th Floor, Club Lusitano
16 Ice House Street
Central
Hong Kong

13 January 2006

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

Dear Sir or Madam

**DISCLOSEABLE TRANSACTION:
ACQUISITION OF A PRC DOMESTIC COMPANY**

INTRODUCTION

R14.63(1)

On 28 December 2005, it was announced that Leeshing Refractory and High Temperature Ceramics entered into the Equity Transfer Agreement with Ms Jin and Mr Liu to acquire the entire equity interest in Suhai Magnesium at a total consideration of RMB120 million (approximately HK\$115.4 million). The principal terms of the Equity Transfer Agreement are set out in the paragraph headed "Equity Transfer Agreement" below.

R14.60(1)
R14.60(2)

LETTER FROM THE BOARD

Both Leeshing Refractory and High Temperature Ceramics are wholly foreign-owned enterprises established in the PRC and wholly owned subsidiaries of the Company. Suhai Magnesium is a domestic limited liability enterprise established in the PRC.

The purpose of this circular is to provide you with further information regarding the Acquisition the Equity Transfer Agreement and other relevant information.

EQUITY TRANSFER AGREEMENT

Date

R14.58(3)

23 December 2005

Structure of the Acquisition and consideration payable

R14.60(2)

R14.64(4)

R14.58(4)

Vendor	Purchaser	Percentage equity interest in Suhai Magnesium acquired	Consideration payable by the purchaser to the vendor
Ms Jin	Leeshing Refractory	70%	RMB84,000,000 (approximately HK\$80,769,000)
Mr Liu	High Temperature Ceramics	30%	RMB36,000,000 (approximately HK\$34,616,000)
	Total:	100%	RMB120,000,000 (approximately HK\$115,385,000)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of Ms Jin and Mr Liu is a connected person (as defined in the Listing Rules) of the Company and is dependent of or connected with the Company or any of the directors, chief executive and substantial shareholders (as defined in the Listing Rules) of the Company or of any of its subsidiaries, or any of their respective associates (as defined in the Listing Rules).

R14.58(4)

R14.63(3)

Purchase Price

The Purchase Price was determined after arm's length negotiations between the parties and agreed with reference to the net profit for the year ended 31 December 2004 of Suhai Magnesium times a multiple.

R14.58(4)

R14.58(5)

The Purchase Price is to be paid in cash by Leeshing Refractory and High Temperature Ceramics to Ms Jin and Mr Liu in the manner set out in the table above within three months after the completion of the Equity Transfer Agreement. The Purchase Price will be funded by internal resources of the Group.

R14.58(4)

LETTER FROM THE BOARD

Condition

The completion of the Equity Transfer Agreement is not subject to any condition.

Completion

In accordance with the Equity Transfer Agreement, completion of the Acquisition took place on 23 December 2005, being the date of signing of the Equity Transfer Agreement.

INFORMATION OF THE GROUP AND OTHERS

The Company is an investment holding company. The activities of its principal operating subsidiaries include the manufacture and sale of rare earth products and refractory products. R14.58(2)

Suhai Magnesium is a domestic limited liability enterprise established in Haicheng, Liaoning Province, the PRC. It is principally engaged in the manufacture and sale of magnesium grains and related materials. R14.58(2)
R14.60(2)

Immediately before the Acquisition, Suhai Magnesium was owned as to 70% by Ms Jin and 30% by Mr Liu. Immediately upon completion of the Acquisition Suhai Magnesium became a wholly owned subsidiary of the Company, and is now held as to 70% by Leeshing Refractory and 30% by High Temperature Ceramics. Under the then prevailing PRC laws, Suhai Magnesium, being a limited liability company, must have at least two holders of equity capital. Accordingly, Suhai Magnesium's registered capital was acquired by two wholly-owned subsidiaries of the Company. R14.64(6)(a)

As at 31 December 2004, the values of the total assets and the net assets of Suhai Magnesium (computed under the PRC GAAP) amounted to approximately RMB73.6 million (approximately HK\$70.8 million) and approximately RMB29.9 million (approximately HK\$28.8 million) respectively. For the two years ended 31 December 2004, the net profit (before taxation and extraordinary items) of Suhai Magnesium (computed under the PRC GAAP) amounted to approximately RMB13.2 million (approximately HK\$12.7 million) and approximately RMB31 million (approximately HK\$29.8 million) respectively; whereas for the same periods, the net profit (after taxation and extraordinary items) of Suhai Magnesium (computed under the PRC GAAP) amounted to approximately RMB8.8 million (approximately HK\$8.5 million) and approximately RMB20.8 million (approximately HK\$20 million) respectively. R14.58(6)
R14.58(7)

REASONS FOR THE ACQUISITION

Suhai Magnesium is a supplier of the Group, supplying fused magnesium grains which is a major raw material for the production of refractory products of the Group. The market supply of fused magnesium grains has always been falling short of its demand, affecting the availability of such major raw material to the Group. The Directors believe that, through the Acquisition, the Group will be able to secure the supply of fused magnesium grains by Suhai Magnesium to the Group and to reduce the cost of sales of its refractory products by the consolidation of the production of the downstream and upstream products in the Group. R14.58(8)

LETTER FROM THE BOARD

The Directors, including the independent non-executive Directors, consider that terms of the Acquisition (including the Purchase Price) are fair and reasonable and the Acquisition is on normal commercial terms and in the interest of the Group and the shareholders of the Company as a whole.

R14.58(8)

FINANCIAL EFFECTS OF THE AQUISITION

Upon completion of the Acquisition, Suhai Magnesium became a wholly owned subsidiary of the Company. The financial results of Suhai Magnesium will be consolidated into the results of the Group. Therefore the earnings/losses attributable to the shareholders of the Company will increase/decrease accordingly.

R14.64(5)

Since the Purchase Price is higher than the value of the net assets of Suhai Magnesium, a goodwill is resulted from the Acquisition. The amount of goodwill will not be amortised but will be subject to the annual impairment review as stipulated under the Hong Kong Financial Reporting Standards. Such goodwill will not have any impact on the Group's earnings/losses unless impairment needs to be recognised. Further, as a result of the Acquisition all the assets and liabilities of Suhai Magnesium will be consolidated into the accounts of the Group.

DISCLOSEABLE TRANSACTION

The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

ADDITIONAL 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

APPENDIX

GENERAL INFORMATION

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. DISCLOSURE OF INTERESTS BY DIRECTORS

- (a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares, underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning 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 interests and short positions which he was taken or deemed 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 maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

1. Interest in shares of the Company

Director	Nature of interest/ Capacity	Number of shares	% in the issued share capital of the Company
Jiang Quanlong	Interest of spouse/ Interest of controlled corporation	593,400,000 (Note)	60.12%
Qian Yuanying	Founder of a trust	593,400,000 (Note)	60.12%
Huang Chunhua	Beneficial owner	2,868,000	0.29%

Note: These shares are held through 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, the spouse of Mr Jiang Quanlong, and her children. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director of YY Holdings Limited.

APPENDIX

GENERAL INFORMATION

2. Interests in shares, underlying shares or equity interests in associated corporations

(a) *Xinwei Rare Earth Group (Hong Kong) Limited*

Director	Nature of interest/ Capacity	Number and class of shares	% in the class of shares in the issued share capital of the Company
Jiang Quanlong	Beneficial owner	7,000,000 non-voting deferred shares	70%
Qian Yuanying	Beneficial owner	3,000,000 non-voting deferred shares	30%

(b) *Yixing Xinwei Leeshing Rare Earth Company Limited*

Director	Nature of interest/ Capacity	% equity interest
Jiang Quanlong	Interest of controlled corporation	5%

Note: The equity interest is held by Yixing Xinwei Group Co., Ltd., a PRC domestic enterprise 90% owned by Mr Jiang Quanlong, with the remaining 10% owned by his son. Mr Jiang is also the legal representative of the enterprise.

(c) *YY Holdings Limited*

Director	Nature of interest/ Capacity	Number and class of shares	% in the class of shares in the issued share capital of the Company
Qian Yuanying	Founder of a trust	1 ordinary share	100%
	Founder of a trust	25,000 preference shares	100%
Jiang Quanlong	Interest of controlled corporation	1 ordinary share	100%
	Interest of controlled corporation	25,000 preference shares	100%

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GENERAL INFORMATION

Note: These shares are held through 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, the spouse of Mr Jiang Quanlong, and her children. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director of YYT Limited.

- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning 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 interests and short positions which he was taken or deemed 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 maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

- (c) Directors' service contracts

R14.64(7)

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).

- (d) Competing interest

As at the Latest Practicable Date, none of the Directors was interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

R14.64(8)

3. DISCLOSABLE INTEREST UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

A1B(38)(2)

- (a) So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the shares and underlying shares in 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:
- YY Holdings Limited, the entire issued share capital of which is held by YYT Limited, was holding 593,400,000 shares of the Company, representing approximately 60.12% of the issued share capital of the Company as beneficial owner.
 - YYT Limited was deemed to be interested in 593,400,000 shares of the Company held by YY Holdings Limited the entire issued share capital of which is held by YYT Limited.

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GENERAL INFORMATION

3. Martin Currie China Hedge Fund Limited was interested in 56,778,000 shares of the Company, representing approximately 5.75% of the issued share capital of the Company as investment manager.
 4. Martin Currie Investment Management Limited was interested in 57,151,000 shares of the Company, representing approximately 5.79% of the issued share capital of the Company as investment manager.
- (b) Save as disclosed above, as at the Latest Practicable Date and so far as is known to the Directors, there was no other person (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares in the Company (including interest in options, if any) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was 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 or, as the case may be, the registered capital of any other members of the Group.

4. LITIGATION

A1B(33)

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

5. GENERAL

- (a) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, British West Indies. A1B(36)
- (b) The place of business of the Company in Hong Kong is 15th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong. A1B(36)
- (c) The secretary and the qualified accountant of the Company is Mr Law Lap Tak, FCCA, CPA. A1B(35)
- (d) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. A1B(36)
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.