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中國稀土控股有限公司
China Rare Earth Holdings Limited
(incorporated in the Cayman Islands with limited liability)

**RESIGNATION OF AUDITORS
ANNOUNCEMENT OF UNAUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2002
POSTPONEMENT OF RELEASE OF THE
AUDITED FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2002 AND DESPATCH
OF 2002 ANNUAL REPORT AND FINANCIAL STATEMENTS**

On 24 March 2003, the board of Directors of the Company announced that KPMG have been appointed as the auditors of the Company and its Hong Kong subsidiaries with effect from 13 March 2003 to fill the casual vacancy arising from the resignation of Ernst & Young and to hold office until the conclusion of the next annual general meeting of the Company. The Company has not been informed by KPMG since their appointment as auditors of the Company and its Hong Kong subsidiaries that there were any adverse opinion with regard to the financial statements of the Group. The Company wishes to emphasise that KPMG are not rendering any opinion on the financial statements of the Group because they have not completed their audit. On 17 April 2003, KPMG tendered their resignation as auditors of the Company and its Hong Kong subsidiaries. No reasons were given by KPMG for their resignation in their resignation letters. The Company has inquired KPMG as to the reasons for their resignation upon receiving their resignation letters but no reasons have been provided. The Company reserves its rights in respect of KPMG's resignation.

The Directors will appoint another firm of auditors to fill the casual vacancy arising from the resignation of the existing auditors of the Company. In view of the change of auditors of the Company, the Directors expect that the announcement of the Audited Final Results for the year ended 31 December 2002 and the despatch of the 2002 annual report including the audited financial statements of the Company will be postponed to around the end of June 2003.

The delay in publication of the Audited Final Results and the despatch of the 2002 annual report including the audited financial statements constitute breaches of paragraphs 8(1), 8(2) and 11(1) of the Listing Agreement. The Stock Exchange reserves its right to take appropriate action against the Company and/or the Directors for such breaches.

The Company and the Directors reserve their rights against KPMG.

The Company advises its shareholders and potential investors to exercise caution when dealing in the shares of the Company.

At the request of the Company, trading in the Company's shares has been suspended from 9:30 a.m. on 22 April 2003. Application has been made by the Company to the Stock Exchange to resume the trading of the Company's shares with effect from 9:30 a.m. on 28 April 2003.

RESIGNATION OF AUDITORS AND POSTPONEMENT OF RELEASE OF THE AUDITED FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002 AND DESPATCH OF 2002 ANNUAL REPORT AND FINANCIAL STATEMENTS

On 24 March 2003, the board of directors (the "Directors") of China Rare Earth Holdings Limited (the "Company") announced that KPMG have been appointed as auditors of the Company and its Hong Kong subsidiaries with effect from 13 March 2003. The Company has not been informed by KPMG since their appointment as auditors of the Company and its Hong Kong subsidiaries that there were any adverse opinion with regard to the financial statements of the Company and its subsidiaries (the "Group"). The Company wishes to emphasise that KPMG are not rendering any opinion on the financial statements of the Group because they have not completed their audit.

On 17 April 2003, KPMG tendered their resignation as auditors of the Company and its Hong Kong subsidiaries. No reasons were given by KPMG for their resignation in their resignation letters. The Company has enquired KPMG as to the reasons for their resignation upon receiving their resignation letters but no reasons have been provided. The Company reserves its rights in respect of KPMG's resignation.

Apart from the resignation of KPMG as auditors of the Company and its Hong Kong subsidiaries, Wellfire (Shanghai) Co., Ltd., one of the PRC subsidiaries of the Company, changed their PRC auditors in 2002. The Company has not been informed by the former auditors of Wellfire (Shanghai) Co., Ltd. that there were any circumstances which they considered necessary to be brought to the attention of the shareholders or creditors of Wellfire (Shanghai) Co., Ltd.. Other than the change of auditors of the Company, the Hong Kong subsidiaries of the Company and Wellfire (Shanghai) Co., Ltd., the other members of the Group have not changed their auditors.

The Directors are in the process of considering various firms of auditors to fill the casual vacancy arising from KPMG's resignation, but no decision has yet been made on the firm to be proposed for appointment. A separate announcement will be made as soon as practicable upon the appointment of a new firm of auditors of the Company by the Directors.

Subject to the appointment of a new firm of auditors, the Directors expect that (i) the audited final results (the "Audited Final Results") of the Group for the year ended 31 December 2002 will be available for the Directors to consider and approve in or around mid of June 2003; (ii) an announcement of the Audited Final Results will be made at or around the end of June 2003;

(iii) the 2002 annual report including the audited financial statements of the Company will be despatched at or around the end of June 2003; and (iv) the annual general meeting of the Company will be held at or about the end of July 2003.

The delay in publication of the Audited Final Results and the despatch of the 2002 annual report including the audited financial statements constitute breaches of paragraphs 8(1), 8(2) and 11(1) of the Listing Agreement entered into between the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Stock Exchange reserves its right to take appropriate action against the Company and/or the Directors for the breaches.

The Company and the Directors reserve their rights against KPMG.

UNAUDITED CONSOLIDATED RESULTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2002

The Directors announce that the unaudited final results of the Group for the year ended 31 December 2002, which have been reviewed by the audit committee of the Directors, are as follows:

| | <i>Note</i> | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|--------------------------------|-------------|--------------------------------|--------------------------|
| Turnover | | 475,469 | 617,808 |
| Cost of sales | | (370,042) | (434,757) |
| Gross profit | | 105,427 | 183,051 |
| Other revenue | | 4,459 | 6,253 |
| Selling and distribution costs | | (11,248) | (11,207) |
| Administrative expenses | | (18,679) | (20,877) |
| Other expenses, net | | (7,929) | (7,892) |
| Profit from operations | | 72,030 | 149,328 |
| Finance costs | | (114) | (2,621) |
| Profit before taxation | | 71,916 | 146,707 |
| Taxation | 1 | (8,592) | – |
| Profit after taxation | | 63,324 | 146,707 |
| Minority interests | | (271) | (4,493) |
| Net profit for the year | | <u>63,053</u> | <u>142,214</u> |
| Earnings per share | 2 | | |
| – Basic | | <u>7.7 cents</u> | <u>19.1 cents</u> |
| – Diluted | | <u>N/A</u> | <u>18.9 cents</u> |

Notes:

1. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during both years.

The Group's subsidiaries in the PRC are subject to PRC enterprise income tax at a rate of 24% on assessable profits. Pursuant to the relevant tax laws in the PRC, there are two subsidiaries exempted from PRC enterprise income tax during the two years from 1 January 2000 to 31 December 2001 and they enjoy a 50% reduction for the three years from 1 January 2002 to 31 December 2004.

2. Earnings per share

(a) Basic earnings per share

Basic earnings per share was calculated based on the net profit for the year of approximately HK\$63,053,000 (2001: HK\$142,214,000) and the weighted average number of ordinary shares of approximately 814,453,000 (2001: 744,432,000) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in 2002 and no diluted earnings per share is presented in respect of 2002. Diluted earnings per share for 2001 was calculated based on the adjusted net profit for the year of approximately HK\$142,214,000, and the weighted average number of ordinary shares in issue of approximately 754,283,000 after taking into consideration the potential dilutive effect of conversion of convertible bonds and exercise of subscription right granted to the bond holder.

Shareholders of the Company and potential investors are reminded to exercise caution in relation to the unaudited final results above, as they are unaudited figures only and may be different from the Audited Final Results.

CIRCUMSTANCES RELATING TO THE RESIGNATION OF THE COMPANY'S FORMER AUDITORS

On 12 March 2003, the Company's former auditors, Ernst & Young, resigned their office. It was stated in their letter of resignation that there were certain matters pertaining to the background in connection with the resignation which they considered should be brought to the attention of the shareholders or creditors of the Company or its subsidiaries. A summary of these matters is set out in the Company's announcement of 24 March 2003.

In relation to the Group's bank balances, Ernst & Young noted that additional specific procedures were necessary for verification.

In relation to the Group's export sales, Ernst & Young noted that additional procedures were necessary for verification of the Group's export sales of rare earth through the import/export companies, including requesting for information on sales to ultimate overseas customers from the import/export companies.

In relation to the Group's sourcing and sales systems, Ernst & Young noted that additional procedural arrangements were necessary for ensuring the accurate monitoring of the Group's raw materials and finished goods. In relation to the Group's fixed assets, Ernst & Young encountered difficulties in identifying in full the fixed assets of the Group recorded in its books, and were unable to obtain some of the original documents they considered necessary to verify the original costs of some of the fixed assets. In relation to the Group's aging semi-finished goods or work in progress, Ernst & Young noted that the demands for the finished goods might be limited, and that they were stored in open areas which may result in damage.

The Company wishes to emphasise that Ernst & Young had not completed their audit of the Group's financial statements when they resigned. The Company is of the view that the above matters are areas on which Ernst & Young considered that they needed to carry out additional procedures as part of their audit and for which they required significant additional audit fee. The Company is unable to agree on the amount of the audit fee with Ernst & Young and they resigned their position.

GENERAL

The Directors confirm that if there are circumstances arising from the audit of the Group or financial statements which constitute price sensitive information, an announcement will be made in accordance with the applicable provisions of the Rules Governing the Listing of Securities of the Stock Exchange.

The Directors confirm that they have not been dealing in any shares of the Company since 22 March 2003 and have undertaken that they will not deal in any shares of the Company until the Audited Final Results are published.

At the request of the Company, trading in the Company's shares has been suspended from 9:30 a.m. on 22 April 2003. Application has been made by the Company to the Stock Exchange to resume the trading of the Company's shares with effect from 9:30 a.m. on 28 April 2003.

The Company advises its shareholders and potential investors to exercise caution when dealing in the Company's shares.

By Order of the board of Directors
JIANG Quanlong
Chairman

Hong Kong, 26 April 2003

Please also refer to the published version of this announcement in The Standard.