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YIXING XINWEI HOLDINGS LIMITED
(to be renamed China Rare Earth Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

ISSUE OF UP TO US\$10,000,000 3 PER CENT.
UNSECURED CONVERTIBLE BONDS DUE 2003

On 13th June 2000, Yixing Xinwei Holdings Limited (the “Company”) and Credit Suisse First Boston (Hong Kong) Limited (“CSFB” or the “Subscriber”) entered into a subscription agreement (the “Subscription Agreement”).

Under the Subscription Agreement (i) the Company issued and CSFB purchased an aggregate principal amount of US\$5,000,000 (equivalent to approximately HK\$38,750,000) 3 per cent. unsecured convertible bonds due 2003 (the “Tranche 1 Bonds”) and (ii) CSFB granted the Company an option during a limited period after the conversion of all of the Tranche 1 Bonds to issue and to require CSFB to subscribe and pay for a further tranche of bonds in the principal amount of up to US\$5,000,000 on substantially the same terms as in the Tranche 1 Bonds (the “Tranche 2 Bonds”).

The Tranche 1 Bonds are convertible into ordinary shares of HK\$0.10 each of the Company (the “Shares”) at a conversion price equal, at the option of the Subscriber, either (i) HK\$1.34 per Share (representing a premium of approximately 24 per cent. of the closing price of the Shares on the Stock Exchange on 13th June 2000), being 130 per cent. of the average closing price of the Shares for the 30 business days prior to the Tranche 1 Bonds Closing Date (the “Fixed Conversion Price”), subject to adjustment; or (ii) 90 per cent. of any five closing prices of one Share during the 30 business days immediately prior to conversion as selected by the Subscriber (the “Floating Conversion Price”).

Unless converted or redeemed earlier, all outstanding Bonds will be redeemed at their principal amount on maturity.

By an option agreement dated 13th June 2000, the Company has also granted an option to the Subscriber. Under the option agreement, the Subscriber is entitled to subscribe for up to 4 million Shares at a subscription price equal to 150% of the average closing price of the Shares for the 20 days up to the Tranche 1 Bonds Closing Date. The option is exercisable at any time from (and including) the Tranche 1 Bonds Closing Date (subject as provided in the option agreement) up to (and including) the date of maturity of the Tranche 1 Bonds.

The Subscription Agreement was negotiated on an arm’s length basis and the directors of the Company believe that its terms are fair and reasonable so far as the Company is concerned.

Trading in the Shares was suspended from 2:30 p.m. on Tuesday, 13th June 2000 at the request of the Company pending the release of this announcement. Application has been made for trading in the Shares to resume at 10:00 a.m. on Wednesday, 14th June 2000.

Subscription Agreement:

Date: 13th June 2000

Issuer: The Company

Form of Bonds/Option for the issue of the Tranche 2 Bonds: The unsecured convertible bonds shall be issued in up to 2 tranches with the Tranche 1 Bonds being issued on the Tranche 1 Bonds Closing Date.

Subscriber of the Tranche 1 Bonds: The Subscriber has granted an option to the Company under the Subscription Agreement to issue and require the Subscriber to subscribe and pay for the Tranche 2 Bonds, such option to be exercisable in the 75 day period following the conversion of the final Tranche 1 Bonds.

Principal amount of Tranche 1 Bonds: The Tranche 2 Bonds shall, if issued, be for a principal amount of up to US\$5,000,000 and be on the terms of the Tranche 1 Bonds set out below save that the Fixed and the Floating Conversion Prices for the Tranche 2 Bonds shall be determined in relation to the closing prices of the Shares on and before the closing date of the Tranche 2 Bonds.

Interest: The Company will issue a further announcement if the Tranche 2 Bonds are issued.

Tranche 1 Bonds Closing Date: CSFB, which is an independent third party not connected with the Company or any of the directors, chief executive and substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”)).

Transferability: US\$5,000,000 (equivalent to approximately HK\$38,750,000, calculated based on an exchange rate of US\$1 = HK\$7.75), payable in cash on the Closing Date.

Tranche 1 Bonds Conversion Period: 3 per cent. per annum, payable semi-annually in arrear on 30th June and 30th December in each year, with the first interest payment date to fall on 30th December 2000.

Tranche 1 Bonds Conversion Price: 13th June 2000.

Conversion Shares: The Subscriber will not assign or transfer any of the Tranche 1 Bonds to any third party other than its subsidiary or holding company or subsidiary of such holding company without the prior written consent of the Company (such consent not to be unreasonably withheld or delayed) and, if so requested, subject to the prior approval of the Stock Exchange.

Conversion Shares: The Company and its directors undertake to the Stock Exchange that they will disclose to the Stock Exchange any dealings by the substantial shareholders and directors of the Company or their respective associates (as defined in the Listing Rules) in the Tranche 1 Bonds (or the Tranche 2 Bonds, if issued) from time to time immediately upon the Company becoming aware of it.

Conversion Shares: At any time after 30 days from the Tranche 1 Bonds Closing Date up to the day falling one week prior to maturity.

Conversion Shares: At the option of the Subscriber, either (i) HK\$1.34 per Share, being 130 per cent. of the average closing price of the Shares of the 30 business days prior to the Tranche 1 Bonds Closing Date (the “Fixed Conversion Price”), subject to adjustment as set out in the Subscription Agreement; or (ii) 90 per cent. of any five closing prices of one Share during the 30 business days immediately prior to conversion as selected by the Subscriber (the “Floating Conversion Price”).

Conversion Shares: The Fixed Conversion Price for the Tranche 1 Bonds represents a premium of approximately 24 per cent. of the closing price of one Share on the Stock Exchange on 13th June 2000 and a premium of approximately 30 per cent. of the average of the closing prices of one Share on the Stock Exchange for 30 trading days immediately prior to the Tranche 1 Bonds Closing Date.

Conversion Shares: The Tranche 1 Bonds are convertible into new Shares of the Company at the option of the Subscriber either at (i) the Fixed Conversion Price, subject to adjustment or (ii) the Floating Conversion Price, in each case at any time during the Conversion Period, such Shares shall rank pari passu in all respects with the Shares (currently at HK\$0.10) in issue on the date of conversion.

Conversion Shares: Assuming full exercise of the conversion rights under the Tranche 1 Bonds at the current Fixed Conversion Price for the Tranche 1 Bonds Price of HK\$1.34 per Share, approximately 28,917,910 new Shares, representing approximately 4.82 per cent. of the existing issued share capital or approximately 4.60 per cent. of the enlarged share capital of the Company, will be issued pursuant to the terms of the Tranche 1 Bonds.

Conversion Shares: 13th June 2003. On maturity, unless previously redeemed, converted or purchased and cancelled, the Tranche 1 Bonds will be redeemed by the Company at their principal amount.

Anti-dilutive Provisions: The Company shall be free to issue any securities convertible into Shares of the Company (the “Equity-Linked Securities”) and, so long as there are Tranche 1 Bonds outstanding, holder of the Tranche 1 Bonds shall have the right to subscribe for any privately placed Equity-Linked Securities prior to them being offered to other persons (the “Right of First Refusal”).

Anti-dilutive Provisions: If the Right of First Refusal is not exercised, holder of the Tranche 1 Bonds shall have a subsequent right to participate in such a privately placed offering of Equity-Linked

Securities (the “Participation Right”), the proportion of such participation to be determined by the response of such holder under the Participation Right.

Mandatory Redemption: Furthermore, in the event that the terms of the Equity-Linked Securities are more favorable than the terms set out in the Tranche 1 Bonds, holders of the Tranche 1 Bonds are given the right to exchange the outstanding Tranche 1 Bonds for the new issue of the Equity-Linked Securities up to an aggregate amount of their outstanding Tranche 1 Bonds on the same terms of those Equity-Linked Securities, save as to the maturity date, which shall remain unchanged.

Downside Redemption Option: The Company is required to redeem the Tranche 1 Bonds at 110 per cent. of their principal amount plus accrued interest to date of redemption upon, inter alia, the Company not obtaining the Stock Exchange’s approval to the listing of the maximum number of Conversion Shares that could be issued under the General Mandate (as defined below) within 30 calendar days after the Tranche 1 Bonds Closing Date.

Option Agreement: If at any time during the Tranche 1 Bonds Conversion Period the closing price of the Shares is less than or equal to HK\$0.50, as adjusted, then the Company may redeem the Tranche 1 Bonds presented for conversion at a price to be determined under the Subscription Agreement.

General Mandate: Under the option agreement entered into between the Company and CSFB on 13th June 2000, an option (“Option”) with the following principal terms was granted to CSFB by the Company for CSFB’s subscription of up to 4 million Shares (“New Shares”):

(1) Exercise period: from (and including) the Tranche 1 Bonds Closing Date (provided that the delivery shall not be required earlier than the date of grant of approval by the Stock Exchange for the listing of the New Shares on the Stock Exchange (which date shall not in any event fall after 30 calendar days after the Tranche 1 Bonds Closing Date)) up to (and including) the Maturity Date; and

(2) Exercise price: 150 per cent. of the average closing price per Share during the 20 business days immediately preceding the Tranche 1 Bonds Closing Date.

The New Shares will be issued pursuant to the General Mandate.

The Shares under the Tranche 1 Bonds and the New Shares that fall to be issued will be up to the maximum of 20 per cent. of the issued share capital of the Company as at 19th May 2000, the date at which a general mandate (the “General Mandate”) was granted to the directors of the Company at the Company’s last annual general meeting.

At present, the aggregate number of Shares held by the family trust of the Jiang Family, being the controlling shareholder of the Company, is 450 million and the Company has issued a total of 600 million Shares.

Accordingly, the Jiang Family’s holding of the Shares represents 75 per cent. of the equity interest of the Company.

The total maximum number of Shares which may be issued upon exercise of the conversion rights attaching to the Tranche 1 Bonds and the exercise of the Option is 120 million. On such basis, and assuming that this is the total number of Shares issued upon the exercise of the conversion rights attaching to the Tranche 1 Bonds and the Option, the percentage holding of the Jiang Family in the issued share capital of the Company would be diluted to about 62.5 per cent. Accordingly, the Jiang Family will not cease to be the controlling shareholders (as defined in the Listing Rules) of the Company and will continue to comply with the undertaking given by them to the Stock Exchange at the time of the listing of the Company.

Use of proceeds:

The net proceeds derived from the issue of the Tranche 1 Bonds will be used for capital expenditure in relation to the expansion of certain production facilities of the Group and general working capital purposes, PROVIDED THAT proceeds from the sale of the Tranche 1 Bonds (or Tranche 2 Bonds if issued) shall not be used to pay dividends to its shareholders, for the purposes of or in relation to any repayment to or reduction of the debt of a related party as defined under Hong Kong Statement of Standard Accounting Practice 20 or to repurchase Shares.

Activities of the Group:

The Company and its subsidiaries (together “the Group”) are principally engaged in the manufacture and sale of rare earth products and refractory materials.

Listing:

No application will be made for the listing of, or permission to deal in, the Tranche 1 Bonds on the Stock Exchange or any other stock exchange. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon conversion of the Tranche 1 Bonds or upon exercise of the Option.

Trading of securities:

Trading in the Shares was suspended from 2:30 p.m. on Tuesday, 13th June 2000 at the request of the Company pending the release of this announcement. Application has been made for trading in the Shares to resume at 10:00 a.m. on Wednesday, 14th June 2000.

By Order of the Board
Jiang Quanlong
Chairman

Hong Kong, 13th June 2000