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If you are in any 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 Yue Yuen Industrial (Holdings) Limited, you should at once hand this circular to the purchaser 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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YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
(裕 元 工 業 (集 團) 有 限 公 司) *

(Incorporated in Bermuda with limited liability)

FINAL DIVIDEND WITH SCRIP OPTION
AND
PROPOSAL FOR SUBDIVISION OF SHARES

Notice of the Annual General Meeting of the Company, to be held at Tang Room, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 24th February, 2003 at 10:00 a.m., was published in newspapers on 20th January, 2003 and was also despatched to you on 30th January, 2003. Whether or not you are able to attend the meeting, you are requested to complete the proxy form enclosed with the Annual Report in accordance with the instructions printed thereon and deliver it to the Company's principal office in Hong Kong at 7th Floor, Blocks A-D, Hop Hing Industrial Building, 702 Castle Peak Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Annual General Meeting.

The latest time for lodging your form of election entitled "Scrip Share Election Form" is 4:00 p.m., Friday, 21st February, 2003. Information concerning the form of election is set out in pages 8-9 of this Circular.

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EXPECTED TIMETABLE FOR SHARE SUBDIVISION

Year 2003

Register of members closed	from 4th February to 6th February
Latest time for lodging forms of election	4:00 p.m., Friday, 21st February
Latest time for lodging forms of proxy for the Annual General Meeting	10:00 a.m. on Saturday, 22nd February
Annual General Meeting	10:00 a.m. on Monday, 24th February
Effective date of Share Subdivision	Tuesday, 25th February
Dealings in Subdivided Shares commence	9:30 a.m. on Tuesday, 25th February
Existing counter for trading in Current Shares in board lots of 1,000 Current Shares temporarily closes	9:30 a.m. on Tuesday, 25th February
Temporary counter for trading in Subdivided Shares in board lots of 2,000 Subdivided Shares (in the form of existing share certificates) opens	9:30 a.m. on Tuesday, 25th February
First day of free exchange of certificates for Current Shares for new certificates for the Subdivided Shares	Tuesday, 25th February
Certificate(s) for the Scrip Shares and cheques in respect of the Final Dividend taken in cash posted at Shareholders risk on	Friday, 7th March
Existing counter for trading in Subdivided Shares in board lots of 500 Subdivided Shares (in the form of new certificates for Subdivided Shares) reopens	9:30 a.m. on Tuesday, 11th March
Parallel trading in Subdivided Shares (in the form of new certificates for Subdivided Shares and certificate for Current Shares) commences	9:30 a.m. on Tuesday, 11th March
Temporary counter for trading in Subdivided Shares in board lots of 2000 Subdivided Shares (in the form of certificates for Current Shares) closes	4:00 p.m. on Tuesday, 1st April
Parallel trading in Subdivided Shares (in the form of new certificates for Subdivided Shares and certificates for Current Shares) ends	4:00 p.m. on Tuesday, 1st April
Last day for free exchange of certificates for Current Shares for new certificates for Subdivided Shares	4:00 p.m. on Friday, 4th April

DEFINITIONS

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

“Annual General Meeting”	the annual general meeting of the Company convened on Monday, 24th February, 2003 at 10:00 a.m., to be held at Tang Room, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong, notice of which is set out in the Annual Report
“Annual Report”	the Company’s annual report for the year ended 30th September, 2002 and which was despatched to shareholders on 30th January, 2003
“Board”	the board of Directors
“Bye-Laws”	the bye-laws of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Yue Yuen Industrial (Holdings) Limited, a company incorporated in Bermuda, the securities of which are listed on the Stock Exchange
“Conditions”	the conditions to which the Share Subdivision is subject as set out in the section headed “Conditions of the Share Subdivision” in this circular
“Current Share(s)”	share(s) of HK\$0.50 each in the capital of the Company
“Directors”	the directors of the Company
“Final Dividend”	a final dividend of HK\$0.75 per Current Share for the financial year ended 30th September, 2002
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	29th January, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Record Date”	Thursday, 6th February, 2003

DEFINITIONS

“Scrip Dividend Proposal”	the proposal for the Final Dividend to be satisfied by way of cash with an option for those entitled thereto to elect to be issued and allotted Scrip Shares of HK\$0.25 each, payable to the shareholders in the register of members of the Company on the Record Date described herein
“Scrip Share(s)”	Subdivided Share(s) of HK\$0.25 each in the capital of the Company to be issued by the Company to those Shareholders who elect to take Subdivided Shares under the Scrip Dividend Proposal
“Shareholder(s)”	holder(s) of Current Shares or Subdivided Shares (as the context may indicate)
“Share Subdivision”	the proposal that each of the existing issued and unissued shares of HK\$0.50 in the share capital of the Company be subdivided into two shares of HK\$0.25 each described herein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subdivided Share(s)”	the share(s) of HK\$0.25 each in the capital of the Company which will result from the Share Subdivision
“HK\$” and “cents”	Hong Kong dollars and cents respectively

LETTER FROM THE CHAIRMAN



YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
(裕元工業(集團)有限公司)*

(Incorporated in Bermuda with limited liability)

Executive Directors

Tsai Chi Neng (*Chairman*)
David N. F. Tsai (*Managing Director*)
Edward Y. Ku
Kuo Tai Yu
Lu Chin Chu
Kung Sung Yen
Chan Lu Min
Li I Nan, Steve

Registered Office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal Office:

7th Floor, Blocks A-D
Hop Hing Industrial Building
702 Castle Peak Road
Kowloon, Hong Kong

Non-Executive Directors:

Choi Kwok Keung (*Vice Chairman*)
Shih Hung #
John J. D. Sy #

Independent Non-Executive Director

7th February, 2003

To the Shareholders

Dear Sir or Madam,

**FINAL DIVIDEND WITH SCRIP OPTION
AND
PROPOSAL FOR SUBDIVISION OF SHARES**

INTRODUCTION

The Board announced on 17th January, 2003 and on 21st January, 2003, among other things, the Share Subdivision and the Scrip Dividend Proposal.

The purpose of this circular is to provide further details regarding the Share Subdivision, the Scrip Dividend Proposal and the recommendations of the Board.

* *For identification purpose only*

LETTER FROM THE CHAIRMAN

SHARE SUBDIVISION

1. The Share Subdivision

The Board proposes that each of the existing issued and unissued shares of HK\$0.50 in the capital of the Company be subdivided into two Subdivided Shares of HK\$0.25 each. The Board is of the view that the Share Subdivision is in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$500,000,000.00, divided into 1,000,000,000 Current Shares, of which 779,647,619 Current Shares are in issue and fully paid. Immediately upon completion of the Share Subdivision, the authorised share capital of the Company will be HK\$500,000,000.00 comprising 2,000,000,000 Subdivided Shares, of which 1,559,295,238 Subdivided Shares will be in issue and fully paid (assuming that no Current Shares are issued or repurchased on or after the Latest Practicable Date and prior to the completion of the Share Subdivision). The Subdivided Shares will rank *pari passu* in all respects with the Current Shares in issue prior to the Share Subdivision (but their nominal value will be different) and the rights attaching to the Subdivided Shares will not be affected by the Share Subdivision. As at the Latest Practicable Date, the Company have issued outstanding share options, the exercise of which will entail the issue and allotment of 17,500,000 Current Shares. Upon the Share Subdivision becoming unconditional, the adjusted exercise price for these share options granted by the Company will be adjusted to HK\$5.11 per Subdivided Share.

At present, the Current Shares are traded in board lots of 1,000 Current Shares and upon fulfillment of the Conditions of the Share Subdivision, the board lot size will be reduced and will be 500 Subdivided Shares.

2. Reason

Upon completion of the Share Subdivision, the monetary value of each board lot of the Subdivided Shares will be less than the value of each existing board lot of the Current Shares. The Board considers that the Share Subdivision may improve the liquidity of the Subdivided Shares, and enable the Company to attract more investors and widen its shareholder base.

3. Effects

Apart from the payment of costs for the Share Subdivision, implementation of the Share Subdivision will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportional interests of the Shareholders in the Company. The Board believes that the Share Subdivision will not have a material adverse effect on the financial position of the Group.

LETTER FROM THE CHAIRMAN

CONDITIONS OF THE SHARE SUBDIVISION

The Share Subdivision is conditional upon (a) the passing of an ordinary resolution by the Shareholders at the Annual General Meeting; (b) the Bermuda Monetary Authority granting its consent to the Share Subdivision; and (c) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Subdivided Shares and the Subdivided Shares to be issued pursuant to the exercise of share options under the Company's share option scheme. Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Subdivided Shares. Subject to the granting of listing of, and permission to deal in, the Subdivided Shares on the Stock Exchange, the Subdivided Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Subdivided Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transaction between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

TRADING ARRANGEMENTS FOR THE SUBDIVIDED SHARES

The Current Shares are listed and dealt in on the Stock Exchange. No part of the Current Shares are listed or dealt in on any other stock exchange, nor is listing of and permission to deal in the Current Shares or Subdivided Shares on any other stock exchange being or proposed to be sought. Dealings in the Subdivided Shares on the Company's branch share registrar in Hong Kong will be subject to Hong Kong stamp duty.

1. Dealings

Subject to the Share Subdivision becoming unconditional, the arrangements for dealings in the Subdivided Shares are expected to be as follows:

- (a) From Tuesday, 25th February, 2003, the existing counter for trading in the Current Shares in board lots of 1,000 Current Shares will be closed temporarily and a temporary counter for trading in the Subdivided Shares in board lots of 2,000 Subdivided Shares will be set up. Accordingly, one Current Share will be deemed to represent 2 Subdivided Shares. Certificates for Current Shares may only be traded at the temporary counter.
- (b) With effect from Tuesday, 11th March, 2003, the existing counter for trading in the Current Shares will be reopened for trading in Subdivided Shares in board lots of 500 Subdivided Shares. Only new certificates for the Subdivided Shares can be traded at this counter.
- (c) During the period from Tuesday, 11th March, 2003 to Tuesday, 1st April, 2003 (both days inclusive), there will be parallel trading at the above two counters.
- (d) With effect from 9:30 a.m. on Wednesday, 2nd April, 2003, trading will only be in the Subdivided Shares in board lots of 500 Subdivided Shares and the temporary counter for trading in the Subdivided Shares in board lots of 2,000 Subdivided Shares will be removed after the close of trading on Tuesday, 1st April, 2003. Dealings in the Subdivided Shares represented by certificates for the Current Shares will cease after the close of trading on Tuesday, 1st April, 2003.

LETTER FROM THE CHAIRMAN

- (e) All the existing certificates for Current Shares will be valid for delivery and settlement only in respect of dealings for the period up to Tuesday, 1st April, 2003 and thereafter will not be accepted for dealing purposes. However, the existing certificates for the Current Shares will continue to be good evidence of legal title to the Subdivided Shares on the basis of one Current Share for two Subdivided Shares and may be exchanged for new certificates for Subdivided Shares at any time on or after 25th February, 2003. Shareholders will be entitled to tender their existing certificates for the Current Shares in exchange for new certificates for the Subdivided Shares in board lots of 500 Subdivided Shares so that their shareholding may be accurately represented by the new certificates for the Subdivided Shares.

2. Free exchange of certificates

Shareholders are urged to exchange their pink certificates for the Current Shares for new blue certificates for Subdivided Shares as soon as possible on or after Tuesday, 25th February, 2003. This may be done free of charge by delivering the certificates for the Current Shares to the Company's Branch Share Registrars, Secretaries Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong before 4:00 p.m. on Friday, 4th April, 2003. Thereafter, certificates for the Current Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange). The fee is calculated according to either (a) the number of new certificate(s) to be issued for Subdivided Shares or (b) the number of certificate(s) for the Current Shares in exchange for the new certificates (whichever is the higher amount).

Unless instructed otherwise, new certificates for Subdivided Shares will be issued in board lots of 500 Subdivided Shares.

FINAL DIVIDEND WITH SCRIP OPTION

The Directors also announced on 17th January, 2003 and 21st January, 2003 that they had resolved to recommend the payment of a final dividend of HK\$0.75 per Current Share for the financial year ended 30th September, 2002, the entire amount of the Final Dividend to be satisfied by way of cash and payable to the Shareholders in the register of members of the Company on the Record Date. They have further resolved that those entitled thereto may instead elect to be issued and allotted Scrip Shares of HK\$0.25 each in respect of all or part of the Final Dividend to which they are entitled.

PARTICULARS OF THE SCRIP DIVIDEND PROPOSAL

Under the Scrip Dividend Proposal, each Shareholder has the choice of receiving:

- (a) for each Current Share held on the Record Date the entire Final Dividend to which that Shareholder is entitled, in cash; or
- (b) an allotment of Scrip Shares credited as fully paid at a price of HK\$13.74 per share, save for adjustment for fractions, equal to the entire amount of Final Dividend which such Shareholder could elect to receive in cash; or
- (c) a combination of (a) and (b) above.

LETTER FROM THE CHAIRMAN

For the purpose of calculating the number of Scrip Shares to be allotted, the price of Scrip Shares will be HK\$13.74, which was fixed by reference to the average of the closing price of the Current Shares (the “Average Closing Price”) for the last five consecutive trading days last preceding the date of the announcement of the final results of the Company on 17th January, 2003, which was HK\$27.48 per Current Share. Accordingly, the number of Scrip Shares which the Shareholders who elect to receive Scrip Shares in respect of all or part of the Final Dividend to which they are entitled will receive in respect of the Current Shares registered in their names as at the Record Date will be calculated as follows:

$$\begin{array}{rcl} \text{Number of Scrip Shares} & = & \text{the amount of Final Dividend payable to a} \\ \text{to be received} & & \text{Shareholder in respect of which the Shareholder has} \\ & & \text{elected to receive Scrip Shares} \\ & & \hline & & \text{HK\$13.74} \end{array}$$

Only integral multiples of Subdivided Shares will be issued and fractions will not be allotted. Any balance of the Final Dividend will be paid in cash. The Scrip Shares to be issued pursuant to the Scrip Dividend Proposal will rank pari passu in all respect with the Subdivided Shares of the Company except that they will not be entitled to the Final Dividend.

CONDITIONS OF THE ISSUE OF SCRIP SHARES

The issue of Scrip Shares pursuant to the Scrip Dividend Proposal is conditional upon (a) the passing of an ordinary resolution by the Shareholders at the Annual General Meeting approving the Final Dividend; and (b) the granting by the Listing Committee of the Stock Exchange of a listing of and permission to deal in the Scrip Shares to be allotted and issued pursuant to the Scrip Dividend Proposal.

ADVANTAGES OF THE SCRIP DIVIDEND PROPOSAL

The Scrip Dividend Proposal will give Shareholders the opportunity to increase their investment in the Company without incurring brokerage fees, stamp duty and related dealing costs. The Scrip Dividend Proposal will also be to the advantage of the Company because, to the extent that Shareholders have elected to receive the Scrip Shares in whole or in part in lieu of cash dividend, the cash which would otherwise have been paid to Shareholders will be retained for use by the Company.

FORM OF ELECTION

A Form of Election is enclosed with this circular.

If you elect to receive the Final Dividend wholly in cash, you do not need to take any action.

If you elect to receive an allotment of Scrip Shares, or partly cash and partly Scrip Shares, you must complete the enclosed Form of Election and return it to the Company's branch share registrars in Hong Kong, Secretaries Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong so as to be received by not later than 4:00 p.m. on Friday, 21st February, 2003. No acknowledgement of receipt of the Form of Election will be issued. If you have completed the Form of Election but do not specify the number

LETTER FROM THE CHAIRMAN

of shares in respect of which you elect to receive Scrip Shares under the Scrip Share Proposal, or if you elect to receive Scrip Shares in respect of a greater number of shares than your maximum entitlement, then in either case you will be deemed to have elected to receive the Final Dividend wholly in Scrip Shares in respect of all the Current Shares of which you were then registered as the holder(s).

Forms of Election must be completed in accordance with the instructions printed thereon and returned so that they are received by the Company's branch share registrar, Secretaries Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (telephone no. 2980 1766), not later than 4:00 p.m. on Friday, 21st February, 2003, failing which they will be rejected.

SHAREHOLDERS RESIDENT OUTSIDE HONG KONG

In order to avoid breach of any securities laws outside Hong Kong, Shareholders with registered addresses in any territory where in the absence of a registration statement or other special formalities the circulation of an offer of rights of election for Scrip Shares or the allotment of shares would or might be unlawful, are not permitted to participate in the Scrip Dividend Proposal and they will receive the Final Dividend wholly in cash and the Form of Election will not be sent to such Shareholders. Any election to receive the Scrip Shares will constitute a confirmation that the Shareholder so electing is not a resident or national of any such territory.

General

Whether or not it is to your advantage to elect to receive Scrip Shares in lieu of cash, in whole or in part, will depend upon your own individual circumstances, and the decision in this regard, and all effects resulting therefrom, are the responsibility of each Shareholder. Shareholders who are trustees are recommended to take professional advice as to whether the choice of Scrip Shares is within their powers and as to its effect having regard to the terms of the relevant trust instrument. All Shareholders who are resident outside Hong Kong should consult their professional advisers as to whether or not they are permitted to elect receive all or part of the Final Dividend in scrip form or whether any government or other consents are required or whether there are other formalities that need to be observed. If you are in any doubt as to what to do, you should consult your professional adviser.

LISTING AND DEALINGS

The issue of Scrip Shares pursuant to the Scrip Dividend Proposal is subject to the conditions set out in the paragraph headed "Conditions of the Issue of Scrip Shares" on page 8 of this Circular. Application will be made to the Stock Exchange for the listing of and permission to deal in the Scrip Shares.

It is expected that the share certificates for the Scrip Shares and cheques in respect of dividends taken in cash will be posted to Shareholders (at the risk of those entitled thereto) on or before Friday, 7th March, 2003.

Subject to the Scrip Dividend Proposal becoming unconditional, the Scrip Shares to be issued and allotted pursuant thereto will be accepted as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE CHAIRMAN

BYE-LAWS AMENDMENT

As the par value of the shares of the Company will be changed from HK\$0.50 per Current Share to HK\$0.25 per Subdivided Share of the Share Subdivision, the Directors also propose to amend bye-law No. 3(1) of its Bye-Laws to reflect the new par value of its shares. A special resolution will be proposed at the Annual General Meeting to approve the aforesaid bye-law amendment. The proposed amendment to bye-law No. 3(1) of the Bye-laws are detailed under resolutions numbered 5(D) and 5(E) in the notice of Annual General Meeting.

ANNUAL GENERAL MEETING

A notice of the Annual General Meeting containing details of, amongst other things, the resolutions to approve the Share Subdivision, the amendments to bye-law No. 3(1) of the Bye-Laws and the declaration of the Final Dividend was published on 20th January, 2003 and was also despatched to you on 30th January, 2003. A proxy form for use at the Annual General Meeting was sent with the Annual Report. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company as soon as possible to the Company and in any event not later than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjourned meeting, as the case may be.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Bye-Laws will be available for inspection at the office of Richards Butler at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours up to and including 21st February, 2003.

RECOMMENDATION

The Directors are of the opinion that the Share Subdivision (including the related amendment of the Bye-Laws) is in the interests of the Company and its Shareholders and recommend that Shareholders vote in favour of the ordinary and special resolutions to be proposed at the Annual General Meeting.

Yours faithfully,
Tsai Chi Neng
Chairman