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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)

(Stock Code: 551)

TRANSACTION TO MANAGE PRO ACTIVELY CONVERTIBLE BONDS DUE 2011 AND RESUMPTION OF TRADING

On 10th March, 2008 Yue Yuen Industrial (Holdings) Limited entered into two bilateral derivative contracts solely for the purpose of reducing potentially significant technical accounting adjustments which may otherwise be made in its income statement relating to its outstanding HK\$ Convertible Bonds due 2011 (the issue of which was announced on 20th October, 2006). This is intended to allow its reported earnings to reflect more accurately the earnings performance of its operations, and to remove most of the accounting impact on its reported earnings which may otherwise arise from the accounting treatment of those Convertible Bonds.

These bilateral derivatives contracts are separate from the Convertible Bonds and from each other, do not affect the terms and conditions of the existing Convertible Bonds. The counterparty for the Derivative Contracts is Merrill Lynch International.

Up to 78,504,672 Yue Yuen Shares may be issued and/or repurchased by Yue Yuen under the terms of the Derivative Contracts, pursuant to the general mandate granted to the directors of Yue Yuen at its annual general meeting held on 3rd March, 2008, in accordance with the restrictions in the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Code on Share Repurchases. 78,504,672 Conversion Shares is also the number of shares that may be issued on exercise of the Convertible Bonds.

* For identification only

It is intended that the net result of these potential issuances or repurchases will not result in a dilution of Shareholders interests in Yue Yuen beyond the level originally contemplated at the time of the Convertible Bonds issuance.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Yue Yuen Shares, if any, issued by Yue Yuen pursuant to these arrangements.

Trading in the shares of Yue Yuen was suspended at the request of the Company at 10:00 hours on Tuesday, 11th March, 2008. Application has been made to the Stock Exchange for a resumption of trading from 9:30 hours on Friday, 14th March, 2008.

Yue Yuen Industrial (Holdings) Limited (“Yue Yuen” or the “Company”) announces that on 10th March, 2008 it entered into two separate bilateral derivative contracts with Merrill Lynch International (the “Derivative Contracts”).

The first Derivative Contract (the “US\$ Call Option”) is a physically-settled call option under which Merrill Lynch International has the right from time to time to require Yue Yuen to issue up to 78,504,672 ordinary shares of HK\$0.25 in Yue Yuen (“Yue Yuen Shares”) at an agreed price of US\$3.43455 per share (approximately HK\$26.75 per share, based on an exchange rate of US\$1.00 = HK\$7.7885).

The second Derivative Contract (the “HK\$ Call Option”) is a cash-settled call option under which Yue Yuen has the right, but not the obligation, from time to time to settle in US\$ the net difference between the market value of one Yue Yuen Share and the agreed price of HK\$26.75 per Yue Yuen Share for each option exercised. The total number of HK\$ Call Options that can be exercised by Yue Yuen is equivalent to 78,504,672 Yue Yuen Shares.

78,504,672 Yue Yuen Shares represent approximately 4.72% of the existing issued share capital of Yue Yuen.

Yue Yuen may independently choose, or may be required by Merrill Lynch International in connection with the HK\$ Call Option, to re-purchase Yue Yuen Shares, subject to the restrictions in the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Code on Share Repurchases, and any such repurchases will be made pursuant to the mandate to repurchase up to 166,362,898 Yue Yuen Shares granted to the directors of Yue Yuen at its annual general meeting held on 3rd March, 2008. Yue Yuen may in its sole discretion choose to re-purchase Yue Yuen Shares whether or not the HK\$ Call Option is ever exercised or any Convertible Bond is ever converted but Merrill Lynch International has no right to require Yue Yuen to re-purchase Yue Yuen Shares except on an exercise of the HK\$ Call Option. Merrill Lynch International’s exercise of that right is in its sole discretion.

The number of Yue Yuen Shares to which each of the Derivative Contracts relates is 78,504,672 and is equal to the number of Yue Yuen Shares (“Conversion Shares”) which may at present be issued pursuant to the terms of Yue Yuen’s existing HK\$2.1 billion Senior Convertible Bonds due in 2011 (“Convertible Bonds”) the issue of which was announced on 20th October, 2006.

Merrill Lynch International is a third party independent of the Company, its Directors and substantial shareholders and their respective associates (as those terms are defined in the Rules Governing the Listing of Securities on the Stock Exchange).

CONVERTIBLE BONDS

The Convertible Bonds have a yield to maturity of 2.5% per annum and are convertible at any time prior to 7th November, 2011 into Conversion Shares at the Conversion Price of HK\$26.75 per Conversion Share (subject to adjustment). The Conversion Price is subject to adjustment for, among other things, subdivision or consolidation of the Yue Yuen Shares, bonus issues, rights issues and other dilutive events in relation to issue of new Yue Yuen Shares or equity-linked securities of a type commonly seen in securities of this nature.

Unless previously redeemed, converted or purchased and cancelled the Company will redeem the Convertible Bonds on 7th November, 2011 at 113.227% of the outstanding principal amount thereof. The Company may redeem the Convertible Bonds, in whole or in part, at any time subject to satisfaction of certain conditions.

On 17th November, 2009, the holder of each Convertible Bond will have the right at such holder's option, to require the Company to redeem all or some only of the Convertible Bonds of such holder at 107.738% of their principal amount.

INCOME STATEMENT EFFECTS OF CONVERTIBLE BONDS, US\$ CALL OPTION AND HK\$ CALL OPTION

Under current accounting standards in Hong Kong ("Hong Kong GAAP"), the Convertible Bonds may give rise to a technical accounting adjustment in Yue Yuen's income statement.

The Hong Kong Accounting Standard ("HKAS") 32 "Financial Instruments: Presentation" paragraph 16, sets out the condition to determine whether a financial instrument is an equity instrument rather than a financial liability. The instrument is equity instrument if, among other conditions, the following condition is met:

A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

In the case of Yue Yuen's Convertible Bonds, this is not the case. The nominal principal of the Convertible Bonds is HK\$ and the conversion price is also in HK\$. Although the number of conversion shares is fixed (as 78,504,672 shares), the HK\$ principal amount in exchange upon conversion (HK\$2,099,999,976) is not fixed in terms of the US\$ functional currency of Yue Yuen. The amount in US\$ thus may vary at the time of conversion subject to changes in HK\$/US\$ exchange rate. Therefore, the condition set out in HKAS32.16 cannot be satisfied.

Accordingly, the conversion right embedded in the Convertible Bonds is classified as derivative financial instrument in accordance with HKAS 32.

As a result, factors affecting the fair value of the equity conversion rights such as the market price of Yue Yuen Shares, interest rates level etc, will have an impact on the gain or loss to be recognized in the income statement. One way to offset this potential gain or loss in the Income Statement would be for Yue Yuen to buy back the outstanding Convertible Bonds and to issue a new convertible bond denominated in US\$ that does not require fair value accounting under the Hong Kong GAAP but this is not considered to be practicable or cost-effective. As mentioned below the HK\$ Call Option together with the US\$ Call Option are intended to have an effect in terms of accounting similar to such a purchase and issue.

The Convertible Bonds were issued in the fiscal year ended 30 September 2007. For the said fiscal year, Yue Yuen took into account a profit of US\$14,063,000 as a result of the application of HKAS32 to the Convertible Bonds in its audited consolidated financial statements.

The HK\$ Call Option is bought primarily to off-set the accounting effects arising from the conversion rights embedded in the Convertible Bonds. In particular, changes in the fair value of the HK\$ Call Option will be accounted for in the income statement, offsetting the changes in fair value of the equity conversion rights of the Convertible Bonds as mentioned above.

The US\$ Call Option qualifies for equity accounting treatment under Hong Kong GAAP so that changes in the fair value of the US\$ Call Option do not affect the Company's income statement. The US\$ Call Option, together with the HK\$ Call Option, is intended to create a similar position in terms of accounting as if the outstanding Convertible Bonds had been bought back and new US\$-denominated convertible bonds were issued. The premium received from the US\$ Call Option will also reduce substantially the net cost to Yue Yuen of the whole transactions, including the purchasing the HK\$ Call Option.

GENERAL MANDATE

Any Yue Yuen Shares to be issued by Yue Yuen as part of these arrangements will be issued under the general mandate to issue up to 332,725,797 new Yue Yuen Shares granted to the directors of Yue Yuen at its annual general meeting held on 3rd March, 2008. No other Yue Yuen Shares have been issued or agreed to be issued in reliance on that mandate.

Yue Yuen will make application to the Stock Exchange for the listing of, and permission to deal in, the Yue Yuen Shares, if any, to be issued pursuant to these arrangements.

EFFECT OF THE TWO DERIVATIVE CONTRACTS

US\$ Call Option

Yue Yuen sells the US\$ Call Option, being a US dollar denominated call option on 78,504,672 Yue Yuen Shares at a strike price of US\$3.43455 per share, and receives a premium in cash. There is no further consideration. This strike price is equivalent to Convertible Bonds' conversion price of HK\$26.75 per share converted at HK\$7.7885, which was the prevailing exchange rate at the time of Convertible Bonds issuance. If this option is exercised by Merrill Lynch International, Yue Yuen will settle the option transaction by issuing shares to Merrill Lynch International. Once a particular exercise of the option has been settled in this way Merrill Lynch International will have no further obligations to Yue Yuen in respect of the relevant exercise.

If fully exercised, Yue Yuen would receive gross proceeds of US\$269,628,221 for 78,504,672 Yue Yuen Shares.

HK\$ Call Option

Yue Yuen also simultaneously buys the HK\$ Call Option, being a cash-settled call option, i.e., without physical shares settlement for the notional amount of HK\$2,099,999,976, with a strike price of HK\$26.75 per share which is equal to the current Convertible Bond conversion price. HK\$2,099,999,976 is the product of that price (HK\$26.75) and 78,504,672 (being the number of Conversion Shares which may at present be issued pursuant to the terms of the Convertible Bonds). Yue Yuen will pay a cash

premium for this purchase but no other consideration is payable for it. Once a particular exercise of the option has been settled by cash settlement Merrill Lynch International will have no further obligations to Yue Yuen.

This option is not an option to acquire or dispose of Yue Yuen Shares but a financial arrangement only in which one party may be required to make a payment to the other as described above. This option has a “automatic exercise” feature, under which, if the Yue Yuen Share price rises and remains above certain agreed levels (“automatic exercise levels”) for 30 consecutive days, Yue Yuen will automatically settle in US\$ the net difference between the market value of one Yue Yuen Share and the agreed price of HK\$26.75 per Yue Yuen Share for all the entirety of outstanding notional of the HK\$ Call Option. The automatic exercise levels are approximately the same as the share price levels at which Yue Yuen can exercise its call option to redeem the Convertible Bonds are as follows here:

Date	Share price level
17th May, 2008	HK\$33.319
17th November, 2008	HK\$33.735
17th May, 2009	HK\$34.157
17th November, 2009	HK\$34.584
17th May, 2010	HK\$35.016
17th November, 2010	HK\$35.454
17th May, 2011	HK\$35.897
17th November, 2011	HK\$36.346

This option also has a “knock-out” feature that automatically reduces, on the Put Date of the Convertible Bond, the notional amount of the option in line with the notional amount of Convertible Bonds which is redeemed upon exercise of the put option by the holders of Convertible Bonds. Yue Yuen can exercise the HK\$ Call Option at any time, and, in particular, Yue Yuen is not required to exercise the HK\$ Call Option simultaneously upon conversion of the Convertible Bond although Yue Yuen is likely to do so.

The net cash settlement amount of this option is based on a formula with reference to the difference between the market price of Yue Yuen Shares and HK\$26.75.

The exercise of the HK\$ Call Option is not mandatory and is at the discretion of Yue Yuen and Yue Yuen has not formed any intention whether or not to exercise it on conversion of Convertible Bonds or otherwise.

This option is bought primarily to off-set the accounting effects arising from the conversion rights embedded in Convertible Bonds.

How the redemption features of Convertible Bonds affect the Derivative Contracts:

Redemption on Put Date of the Convertible Bonds: The HK\$ Call Option notional is reduced by the amount of Convertible Bond notional that has been redeemed. The US\$ Call Option is unaffected.

Redemption at Maturity of the Convertible Bonds: Both the HK\$ Call Option and the US\$ Call Option lapse on the maturity date of the Convertible Bonds.

Price

The conversion price under the Convertible Bonds and strike price under the Derivative Contracts of HK\$26.75 per share and US\$3.43455 translated into HK\$ at the exchange rate of US\$1 = HK\$7.7885 represents:

- (i) a premium of approximately 17% to the closing price of HK\$22.85 per Yue Yuen Share as quoted on the Stock Exchange on 7th March, 2008 being the trading day immediately prior to the date of the Derivative Contracts;
- (ii) a premium of approximately 17% to the average closing price of HK\$22.82 per Yue Yuen Share as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Derivative Contracts.

RE-PURCHASE OF YUE YUEN SHARES

The HK\$ Call Option is net cash-settled only but exercising the US\$ Call Option and/or any conversion of the Convertible Bonds into Yue Yuen Shares may result in an additional dilution of Yue Yuen Shares. In order to avoid this additional dilution, Yue Yuen may re-purchase Yue Yuen Shares from the market, subject to the restrictions in the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Code on Share Repurchases and any such repurchases will be made pursuant to the mandate to repurchase up to 166,362,898 Yue Yuen Shares granted to the directors of Yue Yuen at its annual general meeting held on 3rd March, 2008. No repurchases will be made after the expiry of the mandate to repurchase granted on 3rd March, 2008 unless there is in place at the relevant time another mandate granted to the directors of Yue Yuen sufficient to permit the relevant repurchase. The Directors intend to seek such a mandate as and when necessary.

As an illustrative example, assuming (a) full conversion of the Convertible Bonds at a conversion price of HK\$26.75, (b) issue of 78,504,672 Yue Yuen Shares on full exercise of the US\$ Call Option and (c) Yue Yuen exercises the HK\$ Call Option in full, but does not repurchase Yue Yuen Shares, Yue Yuen would effectively issue 78,504,672 Yue Yuen Shares at then-market price of Yue Yuen Shares, and an additional 78,504,672 Yue Yuen Shares at US\$3.43455. The scenario (iv) appearing at the end of this announcement illustrates this scenario further in detail.

The terms of HK\$ Call Option also provide that, following exercise of the HK\$ Call Option by Yue Yuen, Merrill Lynch International may require Yue Yuen to purchase Yue Yuen Shares in the market. If Yue Yuen cannot on any relevant day re-purchase Yue Yuen Shares from the market due to the restrictions in the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Code on Share Repurchases then the repurchase obligation will roll over to the first day on which Yue Yuen is not under any such restrictions. Any economic risk to Yue Yuen that may arise from Yue Yuen under this scenario will be mitigated by the automatic postponement of the scheduled Valuation Date.

The maximum total number of shares to be repurchased as described above may therefore amount to 78,504,672 Yue Yuen Shares, which is equal to the number of Conversion Shares which may at present be issued pursuant to the terms of Convertible Bonds. No other Yue Yuen Shares have been issued, or agreed to be issued in reliance on that mandate.

OPTION EXERCISE PERIOD

Both option transactions are exercisable immediately up to 7th November, 2011, matching the conversion period of Convertible Bonds.

It is the present intention of Yue Yuen that the Derivative Contracts will, if exercised, be exercised in a way so that interests of shareholders in Yue Yuen are not materially diluted.

EFFECTS

The Directors of Yue Yuen consider the net premium under the Derivative Contracts to be immaterial to Yue Yuen. Each of the USD Call Option and HKD Call Option represented different financial instruments in accordance with the Hong Kong Financial Reporting Standards and accordingly, the gross amount of the consideration paid for each of the option will be taken into account in Yue Yuen's financial statements but will not be aggregated with all other consideration paid for derivatives and will not be presented separately from that other consideration.

The Derivative Contracts do not affect the terms and conditions of Convertible Bonds.

It is intended that the net result of the potential issuances or repurchases under or in connection with the Derivative Contracts will not result in a dilution of shareholders' interests in Yue Yuen beyond the level originally contemplated at the time of the Convertible Bonds issuance.

The HKD Call Option is intended to have the effect of reducing substantially the income fluctuation arising from Convertible Bonds, thus allowing its reported earnings to be a closer reflection of Yue Yuen's operating performance.

The Derivative Contracts are contractually separate from Convertible Bonds and from each other.

The following table sets out details of the Yue Yuen Shares in issue in these circumstances, in each case without taking into account any other Yue Yuen Shares that may be issued or any other repurchase of Yue Yuen Shares:—

- (i) the date of this announcement;
- (ii) after the issue of the Conversion Shares assuming full conversion of the Convertible Bonds at a conversion price of HK\$26.75 but before any exercise of the US\$ Call Option;
- (iii) after the issue of the Conversion Shares assuming full conversion of the Convertible Bonds at a conversion price of HK\$26.75 and assuming full repurchase of 78,504,672 Yue Yuen Shares under the HK\$ Call Option and no exercise of the US\$ Call Option;
- (iv) after the issue of the Conversion Shares assuming full conversion of the Convertible Bonds at a conversion price of HK\$26.75, issue of 78,504,672 Yue Yuen Shares on full exercise of the US\$ Call Option and no repurchase of Yue Yuen Shares under the HK\$ Call Option; and
- (v) after the issue of the Conversion Shares assuming full conversion of all of the Convertible Bonds at a conversion price of HK\$26.75, issue of 78,504,672 Yue Yuen Shares on full exercise of the US\$ Call Option and repurchase of 78,504,672 Yue Yuen Shares under the HK\$ Call Option.

	(i)		(ii)		(iii)		(iv) (note (d))		(v)	
	Date of announcement		Assuming full conversion of the Convertible Bonds at a conversion price of HK\$26.75 but before any exercise of the US\$ Call Option		Assuming full conversion of the Convertible Bonds at a conversion price of HK\$26.75 and assuming repurchase of 78,504,672 Yue Yuen Shares under the HK\$ Call Option and no exercise of the US\$ Call Option		Assuming full conversion of the Convertible Bonds at a conversion price of HK\$26.75, issue of 78,504,672 Yue Yuen Shares on full exercise of the US\$ Call Option and no repurchase of Yue Yuen Shares under the HK\$ Call Option		Assuming full conversion of all of the Convertible Bonds at a conversion price of HK\$26.75, issue of 78,504,672 Yue Yuen Shares on full exercise of the US\$ Call Option and repurchase of 78,504,672 Yue Yuen Shares under the HK\$ Call Option	
	No. of Yue Yuen Shares	%	No. of Yue Yuen Shares	%	No. of Yue Yuen Shares	%	No. of Yue Yuen Shares	%	No. of Yue Yuen Shares	%
Pou Chen Corporation (note (a))	824,143,835	49.54	824,143,835	47.30	824,143,835	49.54	824,143,835	45.27	824,143,835	47.30
Max Creation Industrial Limited (note (b))	213,365,500	12.82	213,365,500	12.25	213,365,500	12.82	213,365,500	11.72	213,365,500	12.25
Merrill Lynch International	-	-	-	-	-	-	78,504,672	4.31	78,504,672	4.51
Holder(s) of Convertible Bonds (note (c))	-	-	78,504,672	4.51	78,504,672	4.72	78,504,672	4.31	78,504,672	4.51
Other Public Shareholders	626,119,651	37.64	626,119,651	35.94	547,614,979	32.92	626,119,651	34.39	547,614,979	31.43
Total	1,663,628,986	100	1,742,133,658	100	1,663,628,986	100	1,820,638,330	100	1,742,133,658	100

Notes:

- Pou Chen Corporation is a company incorporated and listed in Taiwan and holds these shares either directly or indirectly.
- The 213,365,500 Yue Yuen Shares beneficially owned by Max Creation Industrial Limited are held through its wholly-owned subsidiaries.
- Assumption only. The Convertible Bonds are listed and publicly traded and the Company cannot be certain that holders of Convertible Bonds are not also holders of Yue Yuen Shares.
- It is the present intention of Yue Yuen that the Derivative Contracts will, if exercised, be exercised in a way so that interests of shareholders in Yue Yuen are not materially diluted and that any dilution will not be as great as shown in this column.

TOTAL FUNDS TO BE RAISED AND PROPOSED USE OF PROCEEDS

It is not possible to state at the date of this announcement whether any funds will be raised in this exercise and its purpose is not capital raising. If all 78,504,672 Yue Yuen Shares that may be issued are issued the gross proceeds received by Yue Yuen would be US\$269,628,221. The arrangements are not for the purpose of fund raising but are for the purpose of reducing potentially significant technical accounting adjustments which may otherwise be made in its income statement relating to Convertible Bonds. If the transactions do result in positive net proceeds for the Company they will be used for working capital or other purposes that are appropriate at the relevant time.

There was no issue of equity securities by Yue Yuen in the 12 months immediately preceding this announcement.

RESUMPTION OF TRADING

Trading in the shares of Yue Yuen was suspended at the request of the Company at 10:00 hours on Tuesday, 11th March, 2008. Application has been made to the Stock Exchange for a resumption of trading from 9:30 hours on Friday, 14th March, 2008.

As at the date of this announcement, Mr. Tsai Chi Neng (Chairman), Mr. David N. F. Tsai (Managing Director), Mr. Edward Y. Ku, Mr. Kuo Tai Yu, Mr. Lu Chin Chu, Mr. Kung Sung Yen, Mr. Chan Lu Min, Mr. Li I Nan, Steve and Miss Tsai Pei Chun, Patty are the Executive Directors, Mr. John J. D. Sy is the Non-executive Director, and Mr. So Kwan Lok, Mr. Poon Yiu Kin, Samuel and Dr. Liu Len Yu are the Independent Non-executive Directors.

By order of the board
Tsai Chi Neng
Chairman

Hong Kong, 13th March, 2008