

# Chairman's Statement

I am pleased to report another year of solid performance for Yue Yuen Industrial (Holdings) Limited. Over the past 12 months, we have worked to reinforce our position as the largest contract manufacturer for the leading footwear brands around the world, and to lay the platform for the road ahead as we enter the 21st Century.

## RESULTS

The audited consolidated profit of the Company and its subsidiaries (the "Group") for the year ended 30th September, 2000, amounted to US\$210 million, representing an increase of 7.65% over the previous year.

## FINAL DIVIDENDS

The Directors propose to pay a final dividend of 55 Hong Kong cents per share for the year ended 30th September, 2000, to members whose names appear on the Register of Members of the Company on 27th February, 2001. Subject to approval at the forthcoming annual general meeting, the dividend will be paid to shareholders on or before 7th March, 2001. Together with an interim dividend of 40 Hong Kong cents per share, the total dividend distributed by the Company for the year is 95 Hong Kong cents per share, an increase of 18.75% compared with the previous year.

## ENHANCING VALUE FOR CUSTOMERS AND SHAREHOLDERS

As the world entered the new millennium with jubilation and a sigh of relief, Yue Yuen began a year of hard work to deliver value to our customers and shareholders.

Over the past decade, we have built a very strong mass manufacturing model that has elevated us to the position of world's leader in outsource footwear manufacturing. As we move forward in the next step of the Company's development, the challenge has been — and continues to be — to ensure that this growth momentum continues to prevail and accelerate. With our manufacturing model as the foundation, our strategy has been meeting this challenge by expanding both vertically and horizontally.

2000 was a busy year in our effort to grow our business vertically. We initiated a number of projects to jointly establish facilities in China with leading material manufacturers from Taiwan. These included facilities to produce polyurethane resin in China, as well as cloth and synthetic fabric in Vietnam. We also made strides to move upstream through a joint venture with San Fang Development Corporation Limited, a subsidiary of San Fang Chemical Industry Co., Ltd. in Taiwan to establish a synthetic leather factory in China. These efforts will not only ensure that we continue to enjoy high quality materials for our products, but also allow us to lower costs while shortening the production cycle by producing on a just-in-time basis.

On horizontal expansion, we continued to expand our product categories, particularly in casual shoes. During the year, we entered into a joint venture with a vulcanised and children shoe factory in Indonesia to raise our presence in that market. Ongoing initiatives to expand horizontally will assist us in manufacturing an even broader mix of products in the coming years.

Our success in acquiring new customers during the year also meant that we were able to become more diversified in our customer base, product mix and geographical markets, giving us the enhanced ability to weather changes in external market conditions. We are working closely with our customers to develop new production bases to enhance speed-to-market and to become more responsive to their needs.

Yue Yuen's responsiveness to customers can be seen by our commitment to technology and R&D, partnering with our customers to develop the latest designs that lead market trends and provide the best performance and comfort for consumers. In 2000, our R&D expenditure reached US\$53 million, representing approximately 3.13% of sales and an increase of 10% in dollar amount compared to that of 1999.

Our efforts in these areas have in turn allowed us to maintain a strong business for the Company's shareholders. During 2000, Yue Yuen has been able to increase market share at a stable level in the athletic and casual footwear sectors of the industry, while achieving continuous growth in both turnover and profit. And we have accomplished these results while providing the best possible working conditions for our employees, supporting the community as a whole, and preserving the environment around us.

It is now time to take the next step to grow together with our business partners and produce even stronger results for our shareholders. We are ready to meet the challenges that lie ahead in 2001.

### ACKNOWLEDGEMENT

I would like to express my gratitude to each and every employee who is part of the Yue Yuen family. We recognise that our staff are one of our most important assets, and are grateful for the vital role they have played over the past decade in allowing us to reach and then maintain our status as the manufacturer of choice for the world's top footwear brands.

I also thank our customers for their ongoing support over the past year. We look forward to partnering with you to achieve even higher levels of collaboration and success in the years to come.

Tsai Chi Neng  
*Chairman*

Hong Kong, 16th January, 2001