

Chairman's Statement

I am pleased to report that 2001 was another year of growth and improved performance for Yue Yuen Industrial (Holdings) Limited, despite a challenging global economic environment. During the past 12 months, we have strengthened our position as the world's largest contract manufacturer for the leading footwear brands and solidified our foundation for continued growth in the new century.

2001 RESULTS

The audited consolidated profit for the Company and its subsidiaries (the "Group") for the year ended 30th September, 2001, amounted to US\$212.8 million, representing an increase of 1.2% over the previous year.

Turnover in 2001 increased 5.2% to US\$1,779.7 million from US\$1,691.1 million in 2000.

EPS in 2001 increased 1.7% to US\$0.302 from US\$0.297 in 2000.

A final dividend of HK\$0.60 per share is proposed, as compared with HK\$0.55 in 2000. (Interim dividend of HK\$0.40 per share in both 2000 and 2001).

Total production volume in 2001 increased 10% to 113.5 million pairs from 103.1 million pairs in 2000.

2002 OUTLOOK

By implementing our vertical integration and horizontal expansion strategies and through business opportunities in China, we have been able to maintain continued growth and expand our business in solid pace. Looking forward, management is confident that our strategic decisions will benefit our results and contribute to our ongoing growth development.

ENHANCING VALUE FOR CUSTOMERS AND SHAREHOLDERS

Over the last decade, we have successfully built a strong mass-manufacturing model that has positioned us as one of the leading footwear manufacturers in the world. Now we are working even harder to ensure that our growth momentum continues and accelerates in the new century. During the past 12 months, we have continued to cultivate a long-term growth strategy in the following areas – vertical expansion, horizontal expansion and China opportunities.

Vertical and Horizontal Expansion

During the year, the Group continued to pursue a multi-faceted growth strategy through a combination of vertical and horizontal expansion. The Group is working on developing system and technology to provide fully integrated supply chain and logistics solutions to shorten lead time for inbound materials and products outbound, reduce inventory level and logistics costs.

China Opportunities

With China joining the World Trade Organization and bidding successfully for the 2008 Olympic Games, international trade bound to and from the country is set to take off in the next business upturn. We are well positioned to take advantage of this new economic paradigm based on our vast knowledge of manufacturing, and retail and wholesale networking. During the year, Yue Yuen has expanded retail chain store and wholesale networks in Guangzhou, Shanghai, Beijing and Shenzhen.

Research and Development

Yue Yuen's responsiveness to customers can be seen by our commitment to technology and research and development, partnering with our customers to develop the latest designs and mold technology that lead market trends and provide the best performance and comfort for consumers. In 2001 the Group has allocated significant resources dedicated to this area.

FINAL DIVIDENDS

The Directors propose to pay a final dividend of 60 Hong Kong cents per share for the year ended 30th September, 2001, to members whose names appear on the Register of Members of the Company on 21st February, 2002. Subject to approval at the forthcoming annual general meeting, the dividend will be paid to shareholders on or before 5th March, 2002. Together with an interim dividend of 40 Hong Kong cents per share, the total dividend distributed by the Company for the year is HK\$1.00 per share, an increase of 5.3% from HK\$0.95 in 2000. Dividend payout ratio increased to 42.4% in 2001 from 41.3% in 2000.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation for the support of our customers, suppliers and shareholders. Thanks also to my fellow directors for their valuable contribution and to the staff members of the Group for their commitment and dedicated services throughout the year.

Tsai Chi Neng

Chairman

Hong Kong, 18th January, 2002