# Chairman's Statement

Vertical integration. Horizontal expansion. Business opportunities in China. Logistics capabilities. These are Yue Yuen's core business strategies.

Our commitment to these strategies during the past year enabled us to continue to forge ahead as the world's largest branded footwear manufacturer in 2002 – and to achieve record Company earnings and revenues for the 10th consecutive year.

It also allowed us to continue implementing a solid business plan emphasizing smart growth – both by acquisition and organically – and sound positioning for the future, even as we confronted challenging economic conditions for the second straight year.

Capitalizing on our strong balance sheet and our healthy cash flows, we strengthened Yue Yuen's market leadership abilities, expanded and diversified our customer base, and pointed the Company towards greater business activity and opportunity in the future.

Following the close of our fiscal year, we also acquired upstream footwear manufacturing interests from our parent company, Pou Chen Corporation, which will substantially enhance our earnings base. The acquisition of these interests in November 2002 followed the overwhelming approval of the independent shareholders of Yue Yuen at a Special General Meeting held on 29th October, 2002, when more than 99.9% of all the shares held by independent shareholders that were present and represented at the meeting voted in favor of the resolution.

**Performance**

The audited consolidated profit for the Company and its subsidiaries (the "Group") for the year ended 30th September, 2002, amounted to US$228.6 million, representing an increase of 7.4% over the previous year.

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Turnover in 2002 increased by 8.9% to US$1,938.6 million from US$1,779.7 million in 2001.

EPS in 2002 increased by 7.0% to US$0.323 from US$0.302 in 2001.

Total production volume in 2002 increased by 15% to 130.4 million pairs from 113.5 million pairs in 2001.

**Final Dividends**

In view of Yue Yuen's performance in 2002 and its strong financial condition, the Directors have proposed to pay a final dividend of HK$0.75 per share for the year ended 30th September, 2002, to members whose names appear on the Register of Members of the Company on 6th February, 2003.

The final dividend will be satisfied by way of cash payment, with an option for those entitled thereto to elect to be issued and allotted subdivided shares (the "Scrip Shares") of HK$0.25 each in lieu of cash payment or a combination of cash payment and Scrip Shares.

Subject to approval at the forthcoming Annual General Meeting, the dividend will be paid to shareholders on or before 7th March, 2003. Together with an interim dividend of HK$0.40 per share, the total dividend distributed by the Company for the year is HK$1.15 per share, an increase of 15% from HK$1.00 for the year 2001. Our dividend payout ratio of 48.5% in 2002 compares with a dividend payout ratio of 42.4% in 2001.

In the meantime, a press announcement and a circular with full details of the final dividend with scrip option and proposal for subdivision of shares to the shareholders will be issued as soon as practicable.

**2003 Outlook**

Looking forward, we are confident that our strategic decisions will benefit our results and contribute to our ongoing growth and development.

Economic activity is expected to remain subdued in early 2003, however, and there are challenges ahead regarding the pace of global economic growth in the coming year. In this environment, our focus will be on consolidating the gains and efficiencies associated with our vertical and horizontal expansion activities in 2002, in particular the latest acquisition in upstream businesses which will play a significant role in contributing to the Company's enlarged earnings base in 2003. We will also focus on any opportunities and endeavors that will improve our longer-term prospects in the China retail sector and the logistics services.

## ENHANCING VALUE FOR CUSTOMERS AND SHAREHOLDERS

Over the last decade, we have successfully built a proven business model that has positioned us as one of the leading footwear manufacturers in the world. Operating within this framework, our mission is to enhance value for our customers and our shareholders.

During this time, we have attracted leading footwear brand customers by leveraging on our established reputation, production infrastructure and supplier network. Our customer-first philosophy is rooted in dedicated R & D facilities that allow us to partner with clients in developing leading footwear products, expertise in cost-effective procurement of raw materials and production management combined with the flexibility to respond quickly to customer needs.

Reflecting our record of business success, Yue Yuen was rated one of the top five "value creators" in Hong Kong by the *Asian Wall Street Journal* in December 2001, based on such criteria as cash returns, sales and share price increase for three years as well as expected future returns.

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**Broadening Our Shareholder Base**

We are proud to be a leading industrial group based in Hong Kong, and we are proud to be a global business listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As we become one of the larger companies on the Stock Exchange in term of market capitalisation, we are aware of the importance of continuing to broaden our shareholder base, including local retail investors, in order to promote trading liquidity in Yue Yuen's shares and to enhance our corporate profile.

With that in mind, we have maintained a healthy balance sheet and healthy operating cash flows. We have also maintained a policy of steady dividend payments. Since 1998, our dividend payout ratio has risen to 48.5% from 30.3% and our dividend yield has ranged approximately from 4% to 6%, while the dividend per share has risen to HK$1.15 in 2002 from HK$0.60 in 1998.

In addition to this, the Directors are also proposing to subdivide each of the existing issued and unissued shares of HK$0.50 each in the capital of Yue Yuen into two shares of HK$0.25 each, and to reduce the board lot size for trading on the Stock Exchange from 1,000 shares of HK$0.50 each to 500 subdivided shares of HK$0.25 each.

This action is intended to reduce the amount of the board lot as well as to improve liquidity of trading in subdivided shares on the Stock Exchange. It is also intended to enable us to attract greater investor interest in Yue Yuen and to broaden our shareholder base. The share subdivision proposal will be put to shareholders for approval at the annual general meeting and will be conditional on that approval.

Given the current operating environment, however, we need to work just as hard going forward as we have done in the past to ensure that our growth momentum continues. We also need to

continue to cultivate a long-term growth strategy that focuses on our core business strategies – vertical integration, horizontal expansion, China opportunities, and logistics capabilities.

**Vertical Integration**

In November 2002, the Group orchestrated a major strategic effort to grow its business vertically by acquiring Pou Chen Corporation's interest in 67 companies engaged in upstream footwear material production, ranging from raw materials to production tools to shoe components. The acquisition of these significant upstream business will enable Yue Yuen to expand its core footwear business and to further consolidate its market leadership. It will also enhance the Group's earnings base, reflecting greater business activity and a more diversified customer base.

**Horizontal Expansion**

During the year, we continued to focus on measures to expand our customer base and to broaden our product categories. In addition, we initiated measures to increase our production capacity in China, Vietnam and Indonesia, raising the total number of our production lines to 254 from 227 in 2001.

We also acquired an indirect interest in Symphony Holdings Limited, a Hong Kong listed company engaged principally in the manufacturing and trading of footwear, in February 2002 through our investment in a jointly controlled entity. This transaction will enhance the Group's performance and our business opportunities in China.

**China Opportunities**

China's entry into the World Trade Organization and its successful bid for the 2008 Olympic Games are setting the stage for a substantial increase in international trade. Based on our vast knowledge of

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manufacturing and our experience in retail and wholesale networking, we are well positioned to take advantage of this potentially significant business opportunity. As at the end of 2002, the Group has established a wholesale network of 495 distributors, and a retail network of 98 retail stores in Guangzhou, Shanghai, Beijing, Tianjin, Shenzhen and Zhuhai selling branded athletic footwear and apparel products.

**Logistics Capabilities**

In April 2002, we formed a joint-venture company, SupplyLINE Limited, to act as a Lead Logistics Provider ("LLP") for the footwear, apparel and electronics industries. By doing so, we are developing systems and technology solutions that shorten lead time for inbound materials and outbound products and reduce inventory levels.

**Research and Development**

Based on our strong commitment to technology and research and development, we are able to partner with our customers to develop the latest designs and to mold technology that lead market trends and provide the best performance and comfort for consumers. In 2002, the Group allocated over US$60 million for R&D expenditure, which represents a 9% increase over 2001.

## ACKNOWLEDGEMENT

My fellow Board members and I would like to take this opportunity to express our sincere appreciation for the continuous support of our customers, suppliers and shareholders. Also, without the commitment and dedicated services from our employees, we would not be able to achieve the level of growth we have recorded in 2002, and to whom we extend our profound gratitude.

**Tsai Chi Neng**
*Chairman*

Hong Kong, 17th January, 2003