

The directors present the annual report and audited financial statements for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged principally in the manufacture and sales of footwear products. The activities of its principal subsidiaries, an associate and a jointly controlled entity are set out in notes 30, 14 and 15, respectively, to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 23.

An interim dividend of 1 Hong Kong cent per ordinary share amounting to US\$930,710 and a total dividend of US\$301,927 for the convertible non-voting preference shares were paid during the year. The directors recommend a final dividend of 1 Hong Kong cent per ordinary share for the year ended 31st December, 2001.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 21 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

On 31st May, 2001, the Company repurchased all of its 150 convertible non-voting preference shares at their full face value in the aggregate principal amount of US\$15 million.

During the year, 100,000 share options were exercised at a subscription price of HK\$0.77 per share, resulting in the issue of 100,000 ordinary shares of HK\$0.10 each in the Company. The shares rank pari passu with the then existing shares in all respects.

SHARE CAPITAL *(Continued)*

Details of movements in the share capital of the Company are set out in note 20 to the financial statements.

Save as disclosed above, there were no purchase, sale or redemption of the listed shares of the Company by the Company or any of its subsidiaries during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Thomas Wu Chen San *(Chairman)*
Mr. Michael Wu Jenn Chang *(Deputy Chairman)*
Mr. Jackson Wu Jenn Tzong
Mr. Arthur Yang Chih Chieh
Mr. Steven Ho Chin Fa

Non-executive director:

Mr. Yang Hui Kuan

Independent non-executive directors:

Mr. Sanford Kent Dawson
Ms. Fang Yen Ling
Mr. John Hamilton McLean (resigned on 28th June, 2001)

In accordance with Clause 87(1) of the Company's Bye-laws, Mr. Yang Hui Kuan and Ms. Fang Yen Ling retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The terms of office of non-executive directors are subject to retirement by rotation in accordance with the provisions of the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing 25th September, 1996 and continuing thereafter until terminated by either party giving to the other party a period of advance notice in writing ranging from three to six months.

None of the directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Name of director	Nature of interest	Number of shares
Mr. Thomas Wu Chen San	Personal	(Note 1)
Mr. Michael Wu Jenn Chang	Corporate	(Note 1)
	Personal	1,000 ordinary shares of Topstair International (Taiwan) Ltd.
	Family (Note 2)	1,000 ordinary shares of Topstair International (Taiwan) Ltd.
Mr. Jackson Wu Jenn Tzong	Corporate	(Note 1)
	Personal	1,000 ordinary shares of Topstair International (Taiwan) Ltd.
	Family (Note 2)	1,000 ordinary shares of Topstair International (Taiwan) Ltd.
Mr. Arthur Yang Chih Chieh	Corporate	(Note 1)
	Family (Note 3)	7,193,970 ordinary shares of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Notes

1. Mr. Thomas Wu Chen San and his wife jointly hold 3,235 shares (16% of the issued share capital); each of Mr. Michael Wu Jenn Chang and Mr. Jackson Wu Jenn Tzong through a company (the entire issued share capital of which is owned by them respectively) holds 6,470 shares (32% of the issued share capital); and Mr. Arthur Yang Chih Chieh and his wife jointly through a company (the entire issued share capital of which is owned by them jointly) hold 474 shares (2% of the issued share capital), of Pegasus Footgear Management Limited which is a substantial shareholder of the Company.
2. Each of Mr. Michael Wu Jenn Chang and Mr. Jackson Wu Jenn Tzong is deemed under the SDI Ordinance to have an interest in the said issued capital of Topstair International (Taiwan) Ltd., a subsidiary of the Company, held by their respective wives.
3. Mr. Arthur Yang Chih Chieh is deemed under the SDI Ordinance to have an interest in the said shares held by his wife.

Save as disclosed above, at 31st December, 2001, none of the directors or their associates had any interests in any shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25th September, 1996 for the primary purpose of providing incentives to directors and eligible employees and will be expired on 24th September, 2006. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31 December 2001, the number of shares in respect of which options had been granted under the Scheme was 14.6 million, representing 2.02% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

No consideration is payable on the grant of an option. Options may be exercised at any time for a period of three years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the offer to grant an option.

No options were granted during the year.

SHARE OPTIONS (Continued)

The movements in the Company's share options during the year are as follows:

Directors	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options outstanding			
				Outstanding at 1.1.2001	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2001
Mr. Thomas Wu Chen San	4.1.1997	4.1.1998 to 3.1.2001	0.77	8,000,000	—	(8,000,000)	—
	23.4.1999	23.4.2000 to 22.4.2003	0.60	8,000,000	—	—	8,000,000
Mr. Michael Wu Jenn Chang	4.1.1997	4.1.1998 to 3.1.2001	0.77	6,000,000	—	(6,000,000)	—
	23.4.1999	23.4.2000 to 22.4.2003	0.60	5,000,000	—	—	5,000,000
Mr. Jackson Wu Jenn Tzong	23.4.1999	23.4.2000 to 22.4.2003	0.60	1,000,000	—	—	1,000,000
Mr. Arthur Yang Chih Chieh	4.1.1997	4.1.1998 to 3.1.2001	0.77	1,000,000	—	(1,000,000)	—
	23.4.1999	23.4.2000 to 22.4.2003	0.60	100,000	—	—	100,000
Mr. Steven Ho Chin Fa	4.1.1997	4.1.1998 to 3.1.2001	0.77	1,000,000	—	(1,000,000)	—
	23.4.1999	23.4.2000 to 22.4.2003	0.60	200,000	—	—	200,000
				<u>30,300,000</u>	<u>—</u>	<u>(16,000,000)</u>	<u>14,300,000</u>
Employees	4.1.1997	4.1.1998 to 3.1.2001	0.77	1,500,000	(100,000)	(1,400,000)	—
	23.4.1999	23.4.2000 to 22.4.2003	0.60	300,000	—	—	300,000
				<u>1,800,000</u>	<u>(100,000)</u>	<u>(1,400,000)</u>	<u>300,000</u>
Total				<u>32,100,000</u>	<u>(100,000)</u>	<u>(17,400,000)</u>	<u>14,600,000</u>

The closing price of the Company's share immediately before the date on which the options were exercised was HK\$0.85.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the shares in the Company or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder had an interest of 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares of the Company held	Percentage of issued ordinary share capital %
Pegasus Footgear Management Limited	468,743,940	65

The details of the directors' interests in Pegasus Footgear Management Limited are disclosed under the section headed "Directors' interests in shares" above. Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer of the Group accounted for approximately 49% of the Group's turnover. The five largest customers accounted for approximately 84% of the Group's turnover. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers or suppliers of the Group.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

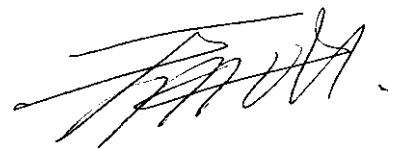
PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board



Chairman

Hong Kong, 10th April, 2002