

CHAIRMAN'S STATEMENT

RESULTS

The Group's performance for 2003 is highlighted as follows:

- Turnover increased by 12% to US\$129,552,000 (2002:US\$115,405,000)
- Net profit attributable to shareholders decreased by 23% to US\$4,217,000 (2002:US\$5,492,000)

The net profit attributable to shareholders of the Group for the year 2003 decreased mainly due to an impairment loss amounted to US\$2,493,000 recognised for a long-term investment of the Group in Secaicho Corporation ("Secaicho") in Japan, which has filed an application for reorganisation from the Osaka Court on 30th July, 2003 for the reason of shortage of short-term capital turnover. As per the application of reorganisation, the assets of the corporation will be under protection, and negotiations with creditor banks for debt-alleviation and interests reduction will take place. At this stage, Secaicho is under normal operation and keeps purchasing the footwear products from the Group, which keeps delivering the footwear products against receipt of L/C as usual. There is no issue of trade receivables between the Group and Secaicho. However, the Group has remained prudent towards the investment in Secaicho, thus, an impairment loss equal to approximately 50% of the cost of investment had been provided for.

INDUSTRY OVERVIEW

The largest export market of the Group, the US consumer market including the footwear market, sees gradual resurgence in 2003. The growth in sales of consumer products pressed the stocks to a low level, and the wholesale retailers increased their purchases to replenish the stock in order to meet the customer's demand. The Group recorded more orders from our clients. Therefore, the sales of the Group has showed a corresponding increase.

BUSINESS REVIEW

Product mix

The growth in turnover of the Group mainly came from the sales of athletic shoes in 2003, while other footwear products occupied similar shares. The Group's product mix comprises sports sandals (19%), casual shoes (25%), athletic shoes (51%) and others (5%). The Group strives for broadening footwear product mix.

Geographical market segments

North America remained the largest export market of the Group, accounting for 71% of its turnover in 2003. The turnover contribution from the European market fell from 10% last year to 8% this year. This was due to the quota system still in place in the European countries. Meanwhile, sales to Asian countries accounted for 17% of the total turnover, largely unchanged from last year.





Domestic sales in Hong Kong and the PRC

Our domestic sales continued to grow steadily. In addition to the Group's approximately 140 sales outlets already established in the mainland, the Group has established retail sales outlets in Hong Kong. Two children footwear stores and one adult footwear store have been open.

Jointly controlled entity

The leather tannery in joint venture established in the PRC by the Group and a leather manufacturer in Thailand commenced production since 2003. Its production capacity has reached 900,000 to 1,000,000 square feet per month, started to contribute profits to the Group.

Pegasus Lean operating system

The Lean operating system was originated from the concept of Just-In-Time ("JIT") manufacturing from the Toyota Motor. Its characteristics comprise JIT, total quality management, total productive maintenance and teamwork.

In October 2003, the concept of lean operating system was introduced into Pegasus, and relevant training was conducted to improve our staff's knowledge towards lean operating system.

Currently, the Group had set up several trial production lines based on the concept of lean operating system at the plant. We believe the result of trial production lines can reduce the inventory level and wastage, shorten the delivery period and strengthen the productivity.

The Group believes the lean operating system can eventually increase Pegasus's competitiveness and quicken the pace of development.



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PROSPECTS

The export quota system against China's footwear products will be lifted on 1st January next year, which will facilitate the Group's effort in market development and bring more orders of direct delivery to Europe. Besides, the EU Central Bank expects the European economy will gradually recover in 2004-05. With a better prospect, the Group expects a respectable growth in turnover for the coming two years.

CONCLUSION

The Group will maintain and enhance its product quality by improving the capability of human resources and production flow. While we are increasing the production efficiency, we hope to obtain more orders from new clients and broaden the client base under this competitive operating environment.

On behalf of the Board, I would like to express my gratitude towards the staff for their valuable contribution and hope that they can prepare themselves for the development opportunities in the future.

By Order of the Board

Thomas Wu Chen San

Chairman

Hong Kong, 1st April, 2004

