

DIRECTORS' REPORT

The directors present the annual report and audited financial statements for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged principally in the manufacture and sale of footwear products. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 11, 12 and 13, respectively, to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 22.

An interim dividend of Hong Kong 1 cent per ordinary share amounting to US\$943,000 was paid during the year. The directors now recommend the payment of a final dividend of Hong Kong 1.5 cent per ordinary share to the shareholders on the register of members on 27th May, 2004 amounting to US\$1,414,000 for the year ended 31st December, 2003 and the retention of the remaining profit for the year of US\$1,848,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 10 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 19 to the financial statements.

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

In accordance with Clause 87(1) of the Company's Bye-laws, Mr. Arthur Yang Chih Chieh and Mr. Steven Ho Chin Fa 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.

Long positions

(a) Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Michael Wu Jenn Chang	Beneficial owner	8,000,000	1.09%
Jackson Wu Jenn Tzong	Beneficial owner	1,000,000	0.14%
Arthur Yang Chih Chieh	Family (note 1)	7,193,970	0.98%
		<u>16,193,970</u>	<u>2.21%</u>

(b) Ordinary shares of the associated corporations of the Company

(i) Pegasus Footgear Management Limited (note 2)

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the associated corporation
Thomas Wu Chen San	Beneficial owner (note 3)	3,235	16%
Michael Wu Jenn Chang	Corporate (note 4)	6,470	32%
Jackson Wu Jenn Tzong	Corporate (note 5)	6,470	32%
Arthur Yang Chih Chieh	Corporate (note 6)	474	2%
		<u>16,649</u>	<u>82%</u>

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2003, the interests of the directors and their associates in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors, were as follows:

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(ii) Topstair International (Taiwan) Ltd. (note 7)

Name of director	Capacity	Number of issued shares held	Percentage of the issued share capital of the associated corporation
Michael Wu Jenn Chang	Beneficial owner	1,000	0.02%
	Family (note 7)	1,000	0.02%
Jackson Wu Jenn Tzong	Beneficial owner	1,000	0.02%
	Family (note 7)	1,000	0.02%
		4,000	0.08%

Notes:

1. Mr. Arthur Yang Chih Chieh is deemed under the SFO to be interested in the said shares held by his wife.
2. Pegasus Footgear Management Limited is the holding company of the Company.
3. The shares are jointly held by Mr. Thomas Wu Chen San and Mrs. Peggy Wu, a married couple.
4. The shares are entirely held by M. W. Investment Limited, a company owned by Mr. Michael Wu Jenn Chang.
5. The shares are entirely held by J.W. Investment Limited, a company owned by Mr. Jackson Wu Jenn Tzong.
6. The shares are entirely held by A&M Management Limited, a company jointly owned by Mr. Arthur Yang Chih Chieh and his wife.
7. Each of Mr. Michael Wu Jenn Chang and Mr. Jackson Wu Jenn Tzong is deemed under the SFO to be interested in the said issued capital of Topstair International (Taiwan) Ltd., a subsidiary of the Company, the shares of which are held by their respective wives.

Save as disclosed above, at 31st December, 2003, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation.

SHARE OPTIONS

Details of the Company's share option scheme are set out in note 21 to the financial statements.

The following table discloses the movements of the Company's share options during the year:

Directors	Date of grant	Exercisable period	Exercise price per share <i>HK\$</i>	Number of share options			
				Outstanding at 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
Thomas Wu Chen San	23.4.1999	23.4.2000 to 22.4.2003	0.60	8,000,000	3,000,000	5,000,000	–
Michael Wu Jenn Chang	23.4.1999	23.4.2000 to 22.4.2003	0.60	5,000,000	5,000,000	–	–
Jackson Wu Jenn Tzong	23.4.1999	23.4.2000 to 22.4.2003	0.60	1,000,000	1,000,000	–	–
Arthur Yang Chih Chieh	23.4.1999	23.4.2000 to 22.4.2003	0.60	100,000	–	100,000	–
Steven Ho Chin Fa	23.4.1999	23.4.2000 to 22.4.2003	0.60	200,000	200,000	–	–
				14,300,000	9,200,000	5,100,000	–
Employees	23.4.1999	23.4.2000 to 22.4.2003	0.60	300,000	200,000	100,000	–
Total				14,600,000	9,400,000	5,200,000	–

No share options were granted during the year.

The closing price of the Company's shares immediately before 22nd April, 2003, on which the options were exercised, was HK\$0.86.

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 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.

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, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

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Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Pegasus Footgear Management Limited	Beneficial owner	468,743,940	64%

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 or short position in the issued share capital of the Company as at 31st December, 2003.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer of the Group accounted for approximately 48% of the Group's turnover. The five largest customers accounted for approximately 92% 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 of the Group.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2003 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, 1st April, 2004