PEGASUS INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 676)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2006

RESULTS

The Board of Directors (the "Directors") of Pegasus International Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2006 with comparative figures for the corresponding period in 2005.

CONSOLIDATED INCOME STATEMENT

	Notes	**2006** US$'000	2005 US$'000
Revenue	3	**141,465**	141,242
Cost of sales		**(118,331)**	(117,946)
Gross profit		**23,134**	23,296
Other income		**1,162**	859
Selling and distribution costs		**(7,971)**	(8,506)
Administrative expenses		**(11,554)**	(11,798)
Share of results of associates		**52**	181
Share of results of jointly controlled entities		**127**	(76)
Interest on bank borrowings wholly repayable within five years		**(1,400)**	(1,199)
Profit before taxation	4	**3,550**	2,757
Taxation	5	**(430)**	(290)
Profit for the year		**3,120**	2,467
Dividends paid	6	**1,886**	–
Earnings per share	7		
Basic		**0.43 US cent**	0.34 US cent

CONSOLIDATED BALANCE SHEET

	Notes	**2006** *US$'000*	2005 *US$'000*
Non-current assets			
Property, plant and equipment		**62,208**	65,136
Prepaid lease payments		**5,256**	5,396
Interests in associates		**944**	1,012
Interests in jointly controlled entities		**2,550**	2,423
		70,958	73,967
Current assets			
Inventories		**50,296**	45,819
Trade and other receivables	*8*	**14,584**	13,634
Prepaid lease payments		**137**	136
Amount due from an associate		**12**	8
Held for trading investment		**361**	–
Bank balances and cash		**7,129**	12,525
		72,519	72,122
Current liabilities			
Trade and other payables	*9*	**10,468**	11,664
Tax payable		**666**	446
Unsecured bank borrowings – due within one year		**14,701**	15,858
		25,835	27,968
Net current assets		**46,684**	44,154
		117,642	118,121
Capital and reserves			
Share capital		**9,428**	9,428
Reserves		**94,762**	92,658
Total equity		**104,190**	102,086
Non-current liabilities			
Unsecured bank borrowings – due after one year		**11,050**	13,955
Deferred tax liabilities		**2,402**	2,080
		13,452	16,035
		117,642	118,121

Notes:

1. **Basis of preparation**
   The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out in note 3 to the annual report.

   The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2. **Application of new and revised Hong Kong Financial Reporting Standards**
   In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

3. **Segment information**
   Geographical segments
   For management purposes, the Group is currently organised into three major geographical segments based on the location of its customers. These segments are the bases on which the Group reports its primary segment information.

   The following is an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

2006

	North America	**Asia**	**Europe**	**Others**	**Unallocated**	**Consolidated**
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***
REVENUE						
External sales of goods	**75,065**	**21,702**	**38,013**	**6,685**	**–**	**141,465**
RESULTS						
Segment results	**10,512**	**2,370**	**5,324**	**936**	**–**	**19,142**
Other income						**1,162**
Unallocated corporate expenses						**(15,533)**
Share of results of associates	**–**	**52**	**–**	**–**	**–**	**52**
Share of results of jointly controlled entities	**–**	**127**	**–**	**–**	**–**	**127**
Interest on bank borrowings wholly repayable within five years						**(1,400)**
Profit before taxation						**3,550**
Taxation						**(430)**
Profit for the year						**3,120**

	North America	**Asia**	**Europe**	**Others**	**Unallocated**	**Consolidated**
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***
BALANCE SHEET						
ASSETS						
Interests in associates	**–**	**944**	**–**	**–**	**–**	**944**
Interests in jointly controlled entities	**–**	**2,550**	**–**	**–**	**–**	**2,550**
Unallocated corporate assets					**–**	**139,983**
Consolidated total assets						**143,477**
LIABILITIES						
Unallocated corporate liabilities and consolidated total liabilities						**39,287**

OTHER INFORMATION

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Unallocated *US$'000*	Consolidated *US$'000*
Impairment loss on trade receivables	**284**	**–**	**–**	**–**	**–**	**284**
Capital additions	**–**	**–**	**–**	**–**	**4,471**	**4,471**
Depreciation	**–**	**–**	**–**	**–**	**8,583**	**8,583**

2005

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Unallocated *US$'000*	Consolidated *US$'000*
REVENUE						
External sales of goods	87,313	20,550	24,464	8,915	–	141,242
RESULTS						
Segment results	12,626	2,619	3,538	1,289	–	20,072
Other income						859
Unallocated corporate expenses						(17,080)
Share of results of associates	–	181	–	–	–	181
Share of results of jointly controlled entities	–	(76)	–	–	–	(76)
Interest on bank borrowings wholly repayable within five years						(1,199)
Profit before taxation						2,757
Taxation						(290)
Profit for the year						2,467

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Unallocated *US$'000*	Consolidated *US$'000*
BALANCE SHEET						
ASSETS						
Interests in associates	–	1,012	–	–	–	1,012
Interests in jointly controlled entities	–	2,423	–	–	–	2,423
Unallocated corporate assets						142,654
Consolidated total assets						146,089
LIABILITIES						
Unallocated corporate liabilities and consolidated total liabilities						44,003

OTHER INFORMATION

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Unallocated *US$'000*	Consolidated *US$'000*
Impairment loss on trade receivables	364	–	–	–	–	364
Capital additions	–	–	–	–	4,346	4,346
Depreciation	–	–	–	–	8,162	8,162

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, as analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006	2005	**2006**	2005
	US$'000	*US$'000*	***US$'000***	*US$'000*
PRC	**107,037**	105,204	**4,464**	4,341
Hong Kong	**24,274**	24,652	**7**	5
Taiwan	**1,170**	265	**–**	–
	132,481	130,121	**4,471**	4,346

Business segments

No analysis of financial information by business segment is presented as all the Group's turnover and trading results are generated from the manufacture and sale of footwear products.

4. Profit before taxation

	2006	2005
	US$'000	*US$'000*
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**722**	802
Other staff costs	**34,523**	32,985
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**1,882**	1,462
Total staff costs	**37,127**	35,249
Auditors' remuneration	**101**	137
Cost of inventories recognised as an expense	**118,331**	117,946
Depreciation of property, plant and equipment	**8,583**	8,162
Impairment loss on trade receivables	**284**	364
Loss on disposal of property, plant and equipment	**8**	101
Net foreign exchange losses	**404**	29
Release of prepaid lease payments	**139**	136
and after crediting:		
Gain on fair value changes of held for trading investment	**98**	–
Interest income	**235**	107

5. Taxation

	2006	2005
	US$'000	*US$'000*
Current taxation:		
– Hong Kong	**8**	9
– PRC	**393**	256
– Taiwan	**30**	27
	431	292
Overprovision in prior years:		
– Hong Kong	**(1)**	(2)
Taxation attributable to the Company and its subsidiaries	**430**	290

6. Dividends

Dividends recognised as distribution during the year:

	2006	**2005**
	US$'000	*US$'000*
Final, paid – HK1 cent for 2005 (2004: Nil) per share	**943**	–
Interim, paid – HK1 cent for 2006 (2005: Nil) per share	**943**	–
	1,886	–

For the year ended 31st December, 2006, the final dividend of HK1.5 cent per share had been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

7. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company of US$3,120,000 (2005: US$2,467,000) and on the weighted average number of 730,700,000 (2005: 730,700,000) ordinary shares in issue during the year.

No diluted earnings per share for the years ended 31st December, 2006 and 2005 have been presented because there are no potential dilutive ordinary shares outstanding.

8. Trade and other receivables

The Group allows an average credit period of 30 to 60 days to its trade customers. The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	2006	2005
	US$'000	*US$'000*
0-30 days	**9,853**	10,529
31-60 days	**1,466**	1,316
Over 60 days	**1,093**	516
Total trade receivables	**12,412**	12,361
Other receivables	**2,172**	1,273
	14,584	13,634

9. Trade and other payables

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	2006	2005
	US$'000	*US$'000*
0-30 days	**3,380**	3,991
31-60 days	**911**	361
Over 60 days	**509**	574
Total trade payables	**4,800**	4,926
Other payables	**5,668**	6,738
	10,468	11,664

FINAL DIVIDEND

The Directors proposed a final dividend of Hong Kong 1.5 cent per ordinary share for the year ended 31st December, 2006 to shareholders whose name appear on the register of members of the Company on 17th May, 2007. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or before 25th May, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15th May, 2007 to Thursday 17th May, 2007, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday 14th May, 2007.

BUSINESS REVIEW AND PROSPECTS

RESULTS

The Group's performance for 2006 is highlighted as follows:

- Turnover was US$141,465,000 (2005: US$141,242,000)

- Profit for the year was US$3,120,000 (2005: US$2,467,000)

During the year, the Group continued its lean management system and readjusted its business focus. As a result, turnover for 2006 has slightly improved as compared with that of 2005, however, profit for the year increased by 27%.

BUSINESS REVIEW

Product Mix

In 2006, the Group's product mix comprised sports scandals (12%), casual shoes (26%), athletic shoes (56%) and others (6%).

Geographical Market Segments

North America remained the largest export market of the Group, accounting for 53% of its turnover for 2006. Turnover contribution from the European and Asian markets were 27% and 15% respectively.

Domestic Sales Market in the PRC

Domestic sales of shoes are vast and important. Therefore, the Group has been seeking golden opportunities to tap the domestic market of the PRC since it relocated its production base to the Mainland in 1991. Starting from 1998, the Group initiated its domestic sales business, which recorded steady growth year by year through integration of resources, segmentation of markets, and the establishment of multi-brands, product diversification and multi-channel operation model, as well as a market-oriented management system. In early 2006, the merchandizing group was initially set up. By the end of 2006, the Group has established the following structure in respect of sales channels, brand-name and product range:

Channels	Brand-name	Product Range
Speedwell Counter/Shop-in-shop/ Specialty Store	Speedwell	Fashionable Leisure Shoes, accessories, hand-bags
魔術屋(Magic House) Counter/ Shop-in-shop/Specialty Store	Disney,	Shoes for Children
	多啦A夢(Doreamon)	Shoes and school-bags for Children
	魔術屋(Magic House)	Shoes and school-bags for Children

By then there are 51 agents, 30 franchisees and 728 points of sales.

BUSINESS DEVELOPMENT FOCUSES

A. Manufacturing Business

We specialize in strengthening process management, applying new technology and new management concepts to improve production efficiency and product quality, reduce wastage and achieve timely delivery for the purpose of further enhancement of corporate competitiveness. Meanwhile, we also make closer cooperation with customers, maintain and expand our business relationship with our major customers to increase revenue. Our continued effort has won high recognition from our customers, as reflected in our high ranking on the integrated grading table of Nike in terms of product quality, lead-time, human resources and social responsibility. Encouragingly, we were the only factory to be granted the Special Recognition Award by Nike for our outstanding performance product quality and manufacturing excellence.

B. Domestic Sales Market

Considering the high potential for our business growth, the construction of the domestic sales market has become another operation focus of the Group. The Group intensifies its input to the building-up of brand-name, marketing and sales channels construction by means of all-round integration of resources and, directed against features of brand-name and products, the establishment of effective sales market channels and creative practicing lean management system. While refreshing results of our self-owned points of sales, we also take the initiative to expand regional agency and franchising business, resulting in rapid increase in the number of agents and franchisees.

LEAN PRODUCTION MANAGEMENT SYSTEM

To further promote the concept of lean management for enhancement of overall operation efficiency, the Group has, from 2003 to the end of 2006, invested US$6 million to transform all 40 traditional production lines to lean production lines, and have witnessed a leaner management and a leap in efficiency and quality. For the latest three years, the total number of staff has decreased from 21,000 to16,000, with the turnover remained at a similar level. Meanwhile, the enhancement in productivity has offset the increase in labor costs recent years. As a result of the implementation of lean production management, the Group's productivity has increase by 25%, which, has provided room for improvement of our revenue without addition of production equipment.

SOCIAL RESPONSIBILITY

The Group regards the performance of corporate social responsibility as its unshirkable task, and is committed to be an outstanding corporate citizen since its inception.

The Group continues to push forward and reinforce corporate governance. We have established a transparent management system for the shareholders and the staff, fortified construction of corporate culture, and created a harmonic work environment. The Group takes the lead in the shoe-making industry to implement 5-working day/week system, and boosts unit working time income by continuous upgrading of management efficacy. We are also devoted to talent cultivation, retaining and recruiting talents through comprehensive examination, training and promotion mechanism. As for contribution to the community, the Group has not only offered employment opportunities for the disabled, but also made donations to those in flooded areas, primary schools in poverty-stricken areas and to charity hospitals.

Starting from November 2006, the Group has been embarking on the preparation work for ISO14001 and OHSAS18001 certification, with an aim to set up a more effective environment, and a better vocational health and safety management system.

FUTURE PROSPECTS

A. Manufacturing Business

The Group expects that turnover from export sales to North American market will grow steadily. However, the shoe-making industry is still confronting the challenges of rising labor costs, lack of labor force and price fluctuation of raw materials. The Group will carry through the business focus of growing with its customers; continue implementation of lean management system; strengthen internal governance; exploring new sources and economize on consumption; and maintain reasonable growth of profits.

B. Domestic Sales Market

In light of the huge potential of the domestic sales market, the merchandizing group is, after proper marketing preparation, expecting a real leap and bounce in 2007.

a. At the end of 2006, the Group entered into a contract with Slazenger in respect of the exclusive agency right for production and sales in the PRC. In fourth quarter 2007, a number of sales counters, shop-in-shops and specialty stores specialized in selling shoes, accessories and sports equipment under the brand-name of Slazenger will commence trial operation, and the operation will be offically launched from 2008.

b. At the beginning of 2007, the Group entered into children's shoes distribution agreements with internationally renowned brand-names like Nike, Adidas, New Balance and Ecco, pursuant to which, exclusive counters "Kids E-Look" will be launched in high-class department stores in China from fourth quarter in 2007. Sales will be commenced in 2008.

c. Starting from fourth quarter of 2007, sales counters, shop-in-shops and specialty stores selling "IF" men's formal leather shoes and Projekt4 men's leisure leather shoes will be launched.

The above mentioned three sales targets will enrich the Group's brand-name series and product lines, and will facilitate establishment of sales channel, expansion of market share and increase of revenue.

The Group will sure to establish its leading position in wholesale and retail of shoes and accessories with leaner integration of resources, more accurate segmentation of market, as well as a merchandizing strategy emphasizing multi-brands, product diversification and multi-channel.

CONCLUSION

The Group will continue to gain confidence from our business partners in long-term cooperation with its faith and pioneering spirit, and will strive to enhance the Group's competitiveness with its lean operation and resources integration, with a view to realizing its objective of long-term development.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. The Group maintained a stable finance position. As at 31st December, 2006, the Group had cash and cash equivalent of US$7,129,000 (2005: US$12,525,000) and total borrowings of US$25,751,000 (2005: US$29,813,000). The ratio of net bank borrowing to total equity remained at a healthy level of approximately 17.9% (2005: 16.9%). As at 31st December, 2006, the Group had a strong financial liquidity position as revealed by a current ratio of 2.8 (2005: 2.6) times.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2006 as set out in the Preliminary Announcement have been agreed to the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31st December, 2006, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

During the financial year ended 31st December, 2006, the Company complied with all requirements set out in the Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with deviation from Code provision A.4.1, A.4.2 and B.1.1 in respect of the independent non-executive directors should be appointed under a specific terms, the rotation of directors and setting up of a Remuneration Committee with specific terms, respectively. Relevant amendment to the Bye-Laws of the Company to comply with Code provision A.4.2 was approved by shareholders of the Company at the annual general meeting of the Company held in May 2006. A service contract was signed with each of the independent non-executive directors with specific terms in April 2006. Remuneration Committee was set up in April 2006 with specific written terms of reference.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. Having made specify enquiry of all directors, the directors had complied with the required standard set out in the Model Code throughout the year ended 31st December, 2006.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31st December, 2006.

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 17th April, 2007

List of all Directors of the Company as of the date of this announcement:–

Executive Directors:
Wu Chen San, Thomas *(Chairman)*
Wu Jenn Chang, Michael *(Deputy Chairman)*
Wu Jenn Tzong, Jackson
Ho Chin Fa, Steven

Independent Non-executive Directors:
Fang Yen Ling
Lai Jenn Yang, Jeffrey
Liu Chung Kang, Helios

A results announcement containing all the details required to be disclosed under paragraph 45(1) to 45(3) of Appendix 16 of the "Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited" will appear later on the website of the Stock Exchange (http://www.hkex.com.hk).

Please also refer to the published version of this announcement in South China Morning Post.