



PEGASUS INTERNATIONAL HOLDINGS LIMITED

創 信 國 際 控 股 有 限 公 司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

(Stock Code 股份代號 : 676)



2006

Interim Report

中 期 報 告

The Board of Directors (the "Directors") of Pegasus International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2006 with comparative figures for the corresponding period in 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For The Six Months Ended 30th June, 2006

		Six months ended 30th June,	
		2006 (unaudited) US\$'000	2005 (unaudited) US\$'000
	<i>NOTES</i>		
Turnover		73,749	70,711
Cost of sales		(61,673)	(59,225)
Gross profit		12,076	11,486
Other income		454	495
Selling and distribution costs		(3,700)	(3,949)
Administrative expenses		(5,801)	(6,115)
Profit from operations	3	3,029	1,917
Interest on bank borrowings wholly repayable within five years		(683)	(559)
Share of results of associates		85	46
Share of results of jointly controlled entities		58	5
Profit before taxation		2,489	1,409
Taxation	4	(331)	(197)
Profit for the year		2,158	1,212
Dividends	5	943	–
Earnings per share	6		
Basic		0.30 US cent	0.17 US cent
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

	NOTES	30th June, 2006 (unaudited) US\$'000	31st December, 2005 (audited) US\$'000
Non-current assets			
Property, plant and equipment	7	62,269	65,136
Prepaid lease payments		5,328	5,396
Interests in associates		977	1,012
Interests in jointly controlled entities		2,481	2,423
		<u>71,055</u>	<u>73,967</u>
Current assets			
Inventories		45,707	45,819
Investment in securities		263	–
Prepaid lease payments		134	136
Trade and other receivables	8	15,049	13,634
Amount due from an associate		25	8
Dividend receivable from an associate		120	–
Bank balances and cash		7,086	12,525
		<u>68,384</u>	<u>72,122</u>
Current liabilities			
Trade and other payables	9	13,390	11,664
Tax payable		620	446
Unsecured bank borrowings – due within one year		11,648	15,858
		<u>25,658</u>	<u>27,968</u>
Net current assets			
		<u>42,726</u>	<u>44,154</u>
		<u>113,781</u>	<u>118,121</u>
Capital and reserves			
Share capital	10	9,428	9,428
Reserves		93,873	92,658
		<u>103,301</u>	<u>102,086</u>
Non-current liabilities			
Unsecured bank borrowings – due after one year		8,400	13,955
Deferred tax liabilities		2,080	2,080
		<u>10,480</u>	<u>16,035</u>
		<u>113,781</u>	<u>118,121</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30th June, 2006

	Share capital US\$'000	Share premium US\$'000	Revaluation reserve US\$'000	Merger reserve US\$'000	Dividend reserve US\$'000	Accumulated profits US\$'000	Total US\$'000
At 1st January, 2005	9,428	21,644	2,504	(4,512)	–	69,365	98,429
Profit for the period	–	–	–	–	–	1,212	1,212
At 30th June, 2005	9,428	21,644	2,504	(4,512)	–	70,577	99,641
Revaluation increase on buildings	–	–	1,630	–	–	–	1,630
Deferred tax liability arising on revaluation of buildings	–	–	(440)	–	–	–	(440)
Profit for the period	–	–	–	–	–	1,255	1,255
Dividends declared for 2005	–	–	–	–	943	(943)	–
At 31st December, 2005	9,428	21,644	3,694	(4,512)	943	70,889	102,086
Profit for the period	–	–	–	–	–	2,158	2,158
Dividend paid for 2005	–	–	–	–	(943)	–	(943)
Dividends declared for 2006	–	–	–	–	943	(943)	–
At 30th June, 2006	<u>9,428</u>	<u>21,644</u>	<u>3,694</u>	<u>(4,512)</u>	<u>943</u>	<u>72,104</u>	<u>103,301</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30th June, 2006

	Six months ended 30th June,	
	2006 (unaudited) US\$'000	2005 (unaudited) US\$'000
OPERATING ACTIVITIES		
Cash generated from operations	7,705	5,805
Hong Kong Profits Tax paid	–	(3)
Taxation in other jurisdictions paid	(157)	(179)
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	7,548	5,623
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Interest received	137	42
Purchase of property, plant and equipment	(1,470)	(2,276)
Investment in securities	(263)	–
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(1,596)	(2,234)
	<hr/>	<hr/>
FINANCING ACTIVITIES		
Dividends paid	(943)	–
Interest paid	(683)	(528)
Bank loans raised	–	7,891
Repayment of bank loans	(7,720)	(7,260)
Net decrease in trust receipts loans	(2,045)	(151)
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(11,391)	(48)
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,439)	3,341
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	12,525	5,692
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	7,086	9,033
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed 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 value.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 *Interim Financial Reporting*. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st December 2005.

2. 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 basis 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 <i>US\$'000</i>	Asia <i>US\$'000</i>	Europe <i>US\$'000</i>	Others <i>US\$'000</i>	Consolidated <i>US\$'000</i>
Turnover					
External sales	<u>37,782</u>	<u>10,771</u>	<u>21,747</u>	<u>3,449</u>	<u>73,749</u>
Results					
Segment results	<u>4,634</u>	<u>1,321</u>	<u>2,667</u>	<u>423</u>	9,045
Other income					454
Unallocated corporate expenses					<u>(6,470)</u>
Profit from operations					3,029
Interest on bank borrowings wholly repayable within five years					(683)
Share of results of associates					85
Share of results of jointly controlled entities					<u>58</u>
Profit before taxation					2,489
Taxation					<u>(331)</u>
Profit for the year					<u>2,158</u>

2. SEGMENT INFORMATION (Continued)

2005

	North America <i>US\$'000</i>	Asia <i>US\$'000</i>	Europe <i>US\$'000</i>	Others <i>US\$'000</i>	Consolidated <i>US\$'000</i>
Turnover					
External sales	<u>47,328</u>	<u>12,351</u>	<u>7,983</u>	<u>3,049</u>	<u>70,711</u>
Results					
Segment results	<u>5,332</u>	<u>1,392</u>	<u>899</u>	<u>343</u>	7,966
Other income					495
Unallocated corporate expenses					<u>(6,544)</u>
Profit from operations					1,917
Interest on bank borrowings wholly repayable within five years					(559)
Share of results of associates					46
Share of results of jointly controlled entities					<u>5</u>
Profit before taxation					1,409
Taxation					<u>(197)</u>
Profit for the year					<u>1,212</u>

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.

3. PROFIT FROM OPERATIONS

	Six months ended 30th June,	
	2006	2005
	US\$'000	US\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments	326	363
Other staff costs	16,657	17,176
Retirement benefits scheme contributions (excluding contributions in respect of directors)	809	584
Total staff costs	17,792	18,123
Auditors' remuneration	45	48
Depreciation and amortisation of property, plant and equipment	4,337	4,094
and after crediting:		
Interest income	137	41

4. TAXATION

	Six months ended 30th June,	
	2006	2005
	US\$'000	US\$'000
The charge comprises:		
Hong Kong Profits Tax	4	4
Taxation in other jurisdictions		
– People's Republic of China (the "PRC")	324	190
– Republic of China ("Taiwan")	3	3
	331	197

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

5. DIVIDENDS

	Six months ended 30th June,	
	2006	2005
	US\$'000	US\$'000
Interim dividend of 1 Hong Kong cent per ordinary share (2005: Nil)	<u>943</u>	<u>–</u>

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30th June,	
	2006	2005
	US\$'000	US\$'000
Earnings		
Net profit attributable to shareholders for the purpose of basic earnings per share	<u>2,158</u>	<u>1,212</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>730,700,000</u>	<u>730,700,000</u>

No diluted earnings per share has been presented because there were no potential ordinary shares outstanding for both periods.

7. PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately US\$1,470,000 (six months ended 30th June, 2006: US\$2,276,000) on additions to property, plant and equipment.

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:

	30th June, 2006 US\$'000	31st December, 2005 US\$'000
0-30 days	10,102	10,529
31-60 days	1,394	1,316
>60 days	742	516
	<hr/>	<hr/>
Total trade receivables	12,238	12,361
Other receivables	2,811	1,273
	<hr/>	<hr/>
	15,049	13,634
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE AND OTHER PAYABLES

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

	30th June, 2006 US\$'000	31st December, 2005 US\$'000
0-30 days	5,543	3,991
31-60 days	1,666	361
>60 days	583	574
	<hr/>	<hr/>
Total trade payables	7,792	4,926
Other payables	5,598	6,738
	<hr/>	<hr/>
	13,390	11,664
	<hr/> <hr/>	<hr/> <hr/>

10. SHARE CAPITAL

	Number of shares	Amount US\$'000
Authorised		
<i>Ordinary shares of HK\$0.10 each</i>		
At 1st January, 2005, 31st December, 2005 and 30th June, 2006	<u>1,500,000,000</u>	19,355
 <i>Convertible non-voting preference shares of US\$100,000 each</i>		
At 1st January, 2005, 31st December, 2005 and 30th June, 2006	<u>150</u>	<u>15,000</u>
		<u>34,355</u>
 Issued and fully paid		
<i>Ordinary shares of HK\$0.10 each</i>		
At 1st January, 2005, 31st December, 2005 and 30th June, 2006	<u>730,700,000</u>	<u>9,428</u>

11. CAPITAL COMMITMENTS

	30th June, 2006 US\$'000	31st December, 2005 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>-</u>	<u>159</u>

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of 1 Hong Kong cent per ordinary share for the six months ended 30th June 2006 to shareholders whose names appear on the register of members on 20th October 2006. The dividend warrants will be sent to shareholders on or before 26th October 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17th October, 2006 to Friday, 20th October 2006, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 16th October 2006.

BUSINESS REVIEW AND PROSPECT

For the six months ended 30 June 2006, turnover of the Group reached US 73,749,000 while net profit attributable to the shareholders of the Group was US 2,158,000.

Turnover of the Group during the first half year has increased slightly as compared with that of the corresponding period last year. Through the unified effort of all staff and the implementation of new management module emphasizing on the enhancement of efficiency and return, gross profit margin has increased despite series of challenges including the rising payroll, increasing cost of raw materials and the appreciation of Renminbi against US dollar.

The Group has always put focus on and persistently pursued not only the fulfillment of customers demand regarding delivery, product quality and services but more. The resulting faith of our customers on long term cooperation with us leads to a relatively bigger increase in turnover as compared with the corresponding period last year. In terms of internal management, the Group has adopted a new management module which promotes the concept of lean operation system, with a view to enhance its efficacy and efficiency, striving for a bigger room for profit making amidst a low margin economic environment. Besides our emphasis on customer, we have also been concentrating on the immediate interest of our staff, for instance to cut down working time, improve the working and living environment and provide multi-layered free training in various aspects which enabled a hand in hand progress of our staff together with the corporation. As a result of all these the Group has never encountered any kind of shortage of labor. Our emphasis on the needs of staff ensures a steady and skilled team of workforce for the corporation, which in turn guarantees a consistent quality of product in the long run.

BUSINESS REVIEW AND PROSPECT *(Continued)*

Regarding business issues, the Group has further developed business relationship with customers having self-owned sales channel. Consequently, related orders have achieved a greater growth as compared with the corresponding period last year.

Spurred by the persistent economic growth and the increasing living standard in China, the Group saw great potential in China's domestic sales market, and as a result undergone a more dynamic exploration in China's retail and wholesale operations. For the first half of the year 2006, focus has been put on brand management and the construction of sales channel. Through full conglomeration of brand, product and sales channel, domestic sales is expected to leap forward.

Constant increase in labor cost, soaring cost of raw materials, anti-dumping investigation by European Union and the appreciation of Renminbi have remained severe challenges to the Group's further development. The Group will continue to strive for the betterment of the management module focusing on the enhancement of efficacy and to serve our existing customer with quality products and services, while actively identifying new customers and exploring China's domestic sales market so as to attain greater business growth and enhance our profit margin, and to serve our shareholders well.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2006, the Group's total net assets was US\$103,301,000, comprising mainly current assets of US\$68,384,000, non-current assets of US\$71,055,000, current liabilities of US\$25,658,000 and non-current liabilities of US\$10,480,000. The current ratio was approximately 2.67 times and the ratio of net bank borrowings to shareholders' fund was approximately 12.5%. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th June, 2006, the interests of the directors and chief executives 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 Ordinances (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 of the Company, were as follows:

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
Wu Jenn Chang, Michael	Beneficial owner	8,000,000	1.09%
Wu Jenn Tzong, Jackson	Beneficial owner	1,000,000	0.14%
Yang Chih Chieh, Arthur	Family (note 1)	7,193,970	0.98%
		16,193,970	2.21%

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

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
Wu Chen San, Thomas	Beneficial owner (note 3)	3,235	16%
Wu Jenn Chang, Michael	Corporate (note 4)	6,470	32%
Wu Jenn Tzong, Jackson	Corporate (note 5)	6,470	32%
Yang Chih Chieh, Arthur	Corporate (note 6)	474	2%
		16,649	82%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES *(Continued)*

Long positions *(Continued)*

Notes:

1. Mr. Yang Chih Chieh, Arthur 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. Wu Chen San, Thomas and Mrs. Peggy Wu, a married couple.
4. The shares are entirely held by M. W. Investment Limited, a company owned by Mr. Wu Jenn Chang, Michael.
5. The shares are entirely held by J.W. Investment Limited, a company owned by Mr. Wu Jenn Tzong, Jackson.
6. The shares are entirely held by A&M Management Limited, a company jointly owned by Mr. Yang Chih Chieh, Arthur and his wife.

Save as disclosed above, at 30th June, 2006, 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.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period 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.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed 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:

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' and Chief Executives' Interests in Securities" 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 30th June, 2006.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the six months ended 30th June, 2006 with the code provisions set out in the Code on Governance Report contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

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 unaudited interim financial statements.

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 14th September, 2006

