



Since 1956

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)

INTERIM REPORT 2008 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, 2008 with comparative figures for the corresponding period in 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

		Six months ended	
		30th June,	
		2008	2007
		(unaudited)	(unaudited)
	Note	US\$'000	US\$'000
Revenue		78,952	78,066
Cost of sales		(65,897)	(65,436)
Gross profit		13,055	12,630
Other income		315	381
Selling and distribution expenses		(4,641)	(4,406)
Administrative expenses		(6,268)	(5,634)
Share of loss of associates		(79)	(3)
Share of (loss) profit of jointly controlled entities		(52)	38
Interest on bank borrowings wholly repayable within five years		(500)	(703)
Profit before taxation		1,830	2,303
Taxation	5	(291)	(236)
Profit for the period		1,539	2,067
Dividends paid	6	935	1,414
Earnings per share	7		
Basic		0.21 US cent	0.28 US cent

CONDENSED CONSOLIDATED BALANCE SHEET*At 30th June, 2008*

	NOTES	At 30th June, 2008 (unaudited) US\$'000	At 31st December, 2007 (audited) US\$'000
Non-current assets			
Property, plant and equipment	8	66,172	66,691
Prepaid lease payments		6,149	5,980
Interests in associates		685	764
Interests in jointly controlled entities		2,327	2,347
		75,333	75,782
Current assets			
Inventories		49,771	52,305
Trade and other receivables	9	13,268	13,506
Prepaid lease payments		161	155
Amount due from an associate		29	24
Derivative financial instrument		–	183
Bank balances and cash		13,346	11,395
		76,575	77,568
Current liabilities			
Trade and other payables	10	12,174	13,283
Tax liabilities		981	938
Unsecured bank borrowings – due within one year		12,385	11,780
		25,540	26,001
Net current assets		51,035	51,567
		126,368	127,349
Capital and reserves			
Share capital	11	9,428	9,428
Share premium and reserves		106,766	102,726
Total equity		116,194	112,154
Non-current liabilities			
Unsecured bank borrowings – due after one year		7,685	12,705
Deferred tax liabilities		2,489	2,490
		10,174	15,195
		126,368	127,349

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2008

	Share capital US\$'000	Share premium US\$'000	Assets revaluation reserve US\$'000	Merger reserve US\$'000	Translation reserve US\$'000	Dividend reserve US\$'000	Accumulated profits US\$'000	Total US\$'000
At 1st January, 2007	9,428	21,644	4,564	(4,512)	-	1,414	71,652	104,190
Profit for the period	-	-	-	-	-	-	2,067	2,067
Final dividend paid for 2006	-	-	-	-	-	(1,414)	-	(1,414)
Interim dividend declared for 2007	-	-	-	-	-	935	(935)	-
At 30th June, 2007	9,428	21,644	4,564	(4,512)	-	935	72,784	104,843
Revaluation increase on buildings	-	-	1,062	-	-	-	-	1,062
Deferred tax liability arising on revaluation of buildings	-	-	(266)	-	-	-	-	(266)
Exchange differences arising on translation of foreign operations	-	-	-	-	7,142	-	-	7,142
Share of reserve of jointly controlled entities	-	-	-	-	51	-	-	51
Effect of change in tax rate	-	-	229	-	-	-	-	229
Net income recognised directly in equity	-	-	1,025	-	7,193	-	-	8,218
Profit for the period	-	-	-	-	-	-	28	28
Total recognised income for the period	-	-	1,025	-	7,193	-	28	8,246
Interim dividend paid for 2007	-	-	-	-	-	(935)	-	(935)
Final dividend proposed for 2007	-	-	-	-	-	935	(935)	-
At 31st December, 2007	9,428	21,644	5,589	(4,512)	7,193	935	71,877	112,154
Exchange differences arising on translation of foreign operations	-	-	-	-	3,404	-	-	3,404
Share of reserve of jointly controlled entities	-	-	-	-	32	-	-	32
Net income recognised directly in equity	-	-	-	-	3,436	-	-	3,436
Profit for the period	-	-	-	-	-	-	1,539	1,539
Total recognised income for the period	-	-	-	-	3,436	-	1,539	4,975
Final dividend paid for 2007	-	-	-	-	-	(935)	-	(935)
Interim dividend proposed for 2008	-	-	-	-	-	467	(467)	-
As 30th June, 2008	9,428	21,644	5,589	(4,512)	10,629	467	72,949	116,194

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th June, 2008*

	Six months ended	
	30th June	
	2008	2007
	(unaudited)	(unaudited)
	US\$'000	US\$'000
OPERATING ACTIVITIES		
Cash generated from operations	8,597	13,349
Taxation in other jurisdictions paid	(248)	(384)
NET CASH FROM OPERATING ACTIVITIES	8,349	12,965
INVESTING ACTIVITIES		
Interest received	96	173
Purchase of property, plant and equipment	(558)	(1,257)
Increase in held for trading investment	–	8
NET CASH USED IN INVESTING ACTIVITIES	(462)	(1,076)
FINANCING ACTIVITIES		
Dividends paid	(935)	(1,414)
Interest paid	(500)	(703)
Bank loans raised	–	3,000
Repayment of bank loans	(4,950)	(7,995)
Net increase (decrease) in trust receipts loans	535	(971)
NET CASH USED IN FINANCING ACTIVITIES	(5,850)	(8,083)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,037	3,806
CASH AND CASH EQUIVALENTS AT 1ST JANUARY, 2008	11,395	7,129
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(86)	–
CASH AND CASH EQUIVALENTS AT 30TH JUNE 2008, REPRESENTED BY BANK BALANCES AND CASH	13,346	10,935

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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 of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34, Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instructions, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time, new interpretations ("New Interpretations") issued by the Hong Kong Institutes of Certified Public Accountants, which are effective for the Group's financial year beginning on 1st January, 2008.

The adoption for these New Interpretations had no material effect on the results or financial position of the Group for the current or prior periods. Accordingly, no prior period adjustment has been recognized.

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 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:

Six months ended 30th June, 2008

	North America US\$'000	Asia US\$'000	Europe US\$'000	Others US\$'000	Consolidated US\$'000
REVENUE					
External sales	36,871	18,064	21,840	2,177	78,952
RESULTS					
Segment results	5,301	1,893	3,140	314	10,648
Other income					315
Unallocated corporate expenses					(8,502)
Share of loss of associates					(79)
Share of loss of jointly controlled entities					(52)
Interest on bank borrowings wholly repayable within five years					(500)
Profit before taxation					1,830
Taxation					(291)
Profit for the period					1,539

3. SEGMENT INFORMATION *(Continued)***Geographical segments** *(Continued)**Six months ended 30th June, 2007*

	North America US\$'000	Asia US\$'000	Europe US\$'000	Others US\$'000	Consolidated US\$'000
REVENUE					
External sales	39,824	15,624	20,384	2,234	78,066
RESULTS					
Segment results	5,554	1,569	2,843	312	10,278
Other income					381
Unallocated corporate expenses					(7,688)
Share of loss of associates					(3)
Share of profit of jointly controlled entities					38
Interest on bank borrowings wholly repayable within five years					(703)
Profit before taxation					2,303
Taxation					(236)
Profit for the period					2,067

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 sales of footwear products.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30th June,	
	2008	2007
	US\$'000	US\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	481	535
Other staff costs	21,363	19,805
Retirement benefits scheme contributions (excluding contributions in respect of directors)	1,255	982
Total staff costs	23,099	21,322
Auditors' remuneration	72	45
Depreciation and amortisation of property, plant and equipment	3,365	3,590
and after crediting:		
Interest income	96	173

5. TAXATION

	Six months ended	
	30th June,	
	2008	2007
	US\$'000	US\$'000
Current taxation:		
Hong Kong	1	1
PRC	289	234
Taiwan	1	1
Taxation attributable to the Company and its subsidiaries	291	236

5. TAXATION (Continued)

Hong Kong Profits Tax is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The estimated average annual tax rate used is 16.5% (2007:17.5%) for the six month ended 30th June, 2008.

On 16th March, 2007, the People's Republic of China (the "PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1st January, 2008.

Certain subsidiaries are eligible for certain tax concession and are exempted from income tax.

6. DIVIDENDS

On 12th June, 2008, a dividend of HK1 cent per share (2007: HK1.5 cents) was paid to shareholders as the final dividend for 2007.

The directors have determined that an interim dividend of HK0.5 cent per share (2007: HK 1 cent) should be paid to the shareholders of the Company whose name appear on the Register of Member on 17th October, 2008.

7. EARNINGS PER SHARE

For the six months ended 30th June, 2008, the calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of US\$1,539,000 (six months ended 30th June, 2007: US\$2,067,000) and on the weighted average number of 730,700,000 (2007: 730,700,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30th June, 2008 and 2007 have been presented because there are no potential dilutive ordinary shares outstanding.

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately US\$558,000 (six months ended 30th June, 2007: US\$1,257,000) on additions to property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

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

	30th June, 2008	31st December, 2007
	US\$'000	US\$'000
0-30 days	9,706	9,891
31-60 days	644	694
over 60 days	165	149
Total trade receivables	10,515	10,734
Other receivables	2,753	2,772
	13,268	13,506

10. TRADE AND OTHER PAYABLES

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

	30th June, 2008	31st December, 2007
	US\$'000	US\$'000
0-30 days	4,824	4,312
31-60 days	503	1,138
over 60 days	973	1,214
Total trade payables	6,300	6,664
Other payables	5,874	6,619
	12,174	13,283

11. SHARE CAPITAL

	Number of shares	Amount US\$'000
<i>Authorised</i>		
<i>Ordinary shares of HK\$0.10 each</i>		
At 1st January, 2007, 31st December, 2007 and 30th June, 2008	1,500,000,000	19,355
<i>Convertible non-voting preference shares of US\$100,000 each</i>		
At 1st January, 2007, 31st December, 2007 and 30th June, 2008	150	15,000
		34,355
<i>Issued and fully paid</i>		
<i>Ordinary shares of HK\$0.10 each</i>		
At 1st January, 2007, 31st December, 2007 and 30th June, 2008	730,700,000	9,428

12. COMMITMENTS

	30th June, 2008 US\$'000	31st December, 2007 US\$'000
Contracted for but not provided in the financial statements:		
– use of copyright licence (note)	435	1,233

Note: The Group entered into agreements with licensors to obtain licenses to use certain materials and trademarks in a number of merchandising activities for several years. Pursuant to the agreements, the Group agreed to pay royalties to the licensors which are based on certain fixed percentages of the selling prices for items sold.

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of 0.5 Hong Kong cent per ordinary share for the six months ended 30th June, 2008 to shareholders whose names appear on the register of members on 17th October, 2008. The dividend warrants will be sent to shareholders on or before 24th October, 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 14th October, 2008 to Friday, 17th October, 2008, 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, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 13th October, 2008.

FINANCIAL REVIEW

During the six months ended 30th June, 2008, the Group continued to concentrate on the manufacture and sales of footwear products. For the six months ended 30th June, 2008, the Group achieved a turnover of US\$78,952,000 (2007: US\$78,066,000) despite the continuously changing operating environment.

Profit of the Group for the six months ended 30th June, 2008 was US\$1,539,000 (2007: US\$2,067,000). Basic earnings per share for the six months ended 30th June, 2008 was 0.21 US cents (2007: 0.28 US cents). The group maintained its gross profit margin at approximately 16% for both periods.

BUSINESS REVIEW AND FUTURE PROSPECTS

Manufacturing Industry

The serious challenges continuously being faced by the shoemaking industry nowadays are the substantial increase in labour costs, continuous appreciation of Renminbi and ongoing surge in prices of raw materials. These challenges place even more pressure on export-oriented enterprises. Faced with such an operating environment, the Group enjoys the advantage of financing with its own resources. The Group insists in consolidating and improving its management. Outstanding talents are acquired to establish a highly efficient and collaborative team. In order to create added value for our customers, the Group never interrupts its course of innovations. High value, high quality and premium services have been delivered, which are instrumental to building the confidence among customers for long-term cooperation. The Group also establishes itself as the benchmark of shoemaking industry and allows itself to fulfill the mission of operating a sustainable business.

Domestic Sales Market

The Company established wholly-owned sales counters at more than 100 first class shopping centres at Beijing, Shanghai, Chengdu, Chongqing, Wuhan, Guangzhou, Shenzhen as well as more than ten second tier cities in China. Sales were conducted domestically through channels such as franchising and distribution. Currently, sales outlets increase from 1,100 to 1,300. Average results from a single sale outlet also increased significantly.

The domestic sales market is mainly comprised of the manufacturing and sales of footwear and clothing products with exclusive agency rights for sales and distribution in China. These products come from a number of internationally well-known brands, including kid's footwear like Nike, Adidas, Disney (including Mickey, Minnie collection, Princess collection, Winnie the Pooh collection, Toy Stories), Ecco, Crocs, etc. and adult's brand-names like Speedwell, Slazenger, IF and Projekt4, which are sold in different market channels respectively.

BUSINESS REVIEW AND FUTURE PROSPECTS *(Continued)*

Brand	Channels	Positioning	Age Group	Product portfolio
Speedwell	Exclusive counters, shop-in-shop, Specialty store	City-chic, uptown, leisure	22-28	Each of men's and women's footwear accounted for 50%
Magic House	Exclusive counters, shop-in-shop, Specialty store	Kid's shoes megastores with different brands	0-12	Character brands (Magic House, Winnie the Pooh, Mickey, Minnie, Princess, Toy Stories, Doraemon) accounted for 70% and other international brands accounted for 30%
Slazenger	Exclusive counters, shop-in-shop, Specialty store	Professional sports	18-35	Each of men's and women's clothing, footwear and sports equipment accounted for 50%
IF/Projekt4	Exclusive counters, shop-in-shop, Specialty store	Men's formal and leisure wear	28-40	Men's formal and leisure leather footwear
Kid's E-look	Exclusive counters	Kid's shoes megastores with international brands	3-12	Kid's footwear from international brands such as Nike, Adidas, Ecco, New Balance and Crocs

The Group will continue to invest and expand the domestic sales market. In the meantime, the market will be further segmented. The Group has successively established several subsidiaries and branches according to different brands, different target consumer groups and different sales channels. The operation of offices located at Guangzhou, Shenzhen, Beijing, Shanghai, Chengdu, Chongqing and Wuhan had become relatively mature, which were significant to the management of wholly-owned sales counters, establishment of brand image and promotion of franchising operation.

BUSINESS REVIEW AND FUTURE PROSPECTS *(Continued)*

Future Prospects

Our export businesses still faced serious challenges. The Group will continue to enhance the efficiency of internal management, improve the qualities of products and services, and secure the confidence of its cooperation partners for long-term cooperation on the basis of fidelity and assertiveness. Operation strategies will be formulated for effective operation and resources integration. Competitiveness of the Group will thus be enhanced, which will then fulfill its long-term development goals.

With the rapid development of urban construction projects in China, disposable income of the people will increase. There will be enormous potential in the domestic sales market with the privileges offered by the government to domestic sales enterprises. This, together with the promotion of sports and fitness training for people through the Olympics, sports and fitness will become more popular. The Group will develop footwear that are more environmentally friendly, with health related functions and of high quality, which can satisfy the market demand at large. The Group will also conduct in-depth integration of resources in the market, brands, products and channels for further exploration of the domestic sales market in China.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2008, the Group's total net assets was US\$116,194,000, comprising mainly current assets of US\$76,575,000, non-current assets of US\$75,333,000, current liabilities of US\$25,540,000 and non-current liabilities of US\$10,174,000. The current ratio was approximately 3.0 times and the ratio of net bank borrowings to shareholders' fund was approximately 5.8%. 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' INTERESTS IN SHARES

As at 30th June, 2008, the interests of the directors and their associates in the share, underlying share or debentures 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 Listed Companies, 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%
		9,000,000	1.23%

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

Pegasus Footgear Management Limited (note 1)

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 2)	3,235	16%
Wu Jenn Chang, Michael	Corporate (note 3)	6,470	32%
Wu Jenn Tzong, Jackson	Corporate (note 4)	6,470	32%
		16,175	80%

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Long positions *(Continued)*

Notes:

1. Pegasus Footgear Management Limited is the holding company of the Company.
2. The shares are jointly held by Mr. Wu Chen San, Thomas and Mrs. Peggy Wu, the spouse of Mr. Wu Chen San, Thomas.
3. The shares are entirely held by M.W. Investment Limited, a company owned by Mr. Wu Jenn Chang, Michael.
4. The shares are entirely held by J.W. Investment Limited, a company owned by Mr. Wu Jenn Tzong, Jackson.

Save as disclosed above, at 30th June, 2008, 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, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' Interests in Shares", the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Long position

Ordinary shares of HK\$0.10 each 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 (note)	Beneficial owner	468,743,940	64

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long position *(Continued)*

Note: Details of the directors' interests in Pegasus Footgear Management Limited are disclosed under the section headed "Directors' Interests in Shares".

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30th June, 2008.

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

During the six months ended 30th June, 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30th June, 2008 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 exact 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, 22nd September, 2008

