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)

ANNUAL REPORT 2007 年報

CONTENTS

CORPORATE INFORMATION

DIRECTORS 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	Huang Hung Ching Liu Chung Kang, Helios Lai Jenn Yang, Jeffrey
COMPANY SECRETARY	Lee Yiu Ming
AUDIT COMMITTEE	Huang Hung Ching, *Chairman* Liu Chung Kang, Helios Lai Jenn Yang, Jeffrey
REMUNERATION COMMITTEE	Lai Jenn Yang, Jeffrey, *Chairman* Huang Hung Ching Liu Chung Kang, Helios
NOMINATION COMMITTEE	Liu Chung Kang, Helios, *Chairman* Lai Jenn Yang, Jeffrey Huang Hung Ching
REGISTERED OFFICE	Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS	Room 1517, Tower 3, China Hong Kong City, 33 Canton Road Tsimshatsui, Kowloon, Hong Kong
AUDITORS	Deloitte Touche Tohmatsu, *Certified Public Accountants* 35th Floor, One Pacific Place, 88 Queensway, Hong Kong
PRINCIPAL SHARE REGISTRARS	Butterfield Corporate Services Limited Rosebank Centre, 11 Bermudiana Road, Pembroke HM08 Bermuda
HONG KONG BRANCH SHARE REGISTRARS	Tricor Secretaries Limited 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong
STOCK CODE	676
PRINCIPAL BANKERS	Bank of Tokyo-Mitsubishi UFJ BNP Paribas China Construction Bank Chinatrust Commercial Bank, Ltd DBS Bank (Hong Kong) Limited Hang Seng Bank Limited Rabobank International Standard Chartered Bank (Hong Kong) Limited The Bank of East Asia, Limited The Hong Kong and Shanghai Banking Corporation Limited
WEBSITE	http://www.pegasusinternationalholdings.com

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Imperial Room III, Towers Wing, Mezzanine Floor, The Royal Pacific Hotel & Towers, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 26th May, 2008 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the directors' report and auditors' report for the year ended 31st December, 2007.
2. To approve and declare a final dividend for the year ended 31st December, 2007.
3. To re-elect retiring Directors and authorise the Remuneration Committee to fix their remuneration.
4. To re-appoint the Auditors and authorise the Board of Directors to fix their remuneration.

As special business

5. To consider and, if thought fit, to pass, with or without modifications, the following Resolutions as ordinary resolutions:

(A) "**THAT**:

(a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares in the capital of the Company, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution,

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

(B) "**THAT**:

(a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (1) a Rights Issue (as hereinafter defined); (2) an issue of shares as scrip dividends pursuant to the Bye-laws of the Company; (3) an issue of shares by the exercise of options granted under the share option scheme of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution,

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong applicable to the Company)."

(C) "**THAT** conditional upon the Resolutions numbered 5A and 5B set out in the notice convening this meeting being passed, the aggregate nominal amount of shares in the capital of the Company which is purchased by the Company under the authority granted to the Directors of the Company by Resolution numbered 5A (up to a maximum of 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of such Resolution) shall be added to the aggregate nominal amount of shares in the capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to Resolution numbered 5B set out in the notice convening this meeting."

By Order of the Board
Lee Yiu Ming
Company Secretary

Hong Kong, 30th April, 2008

Notes:

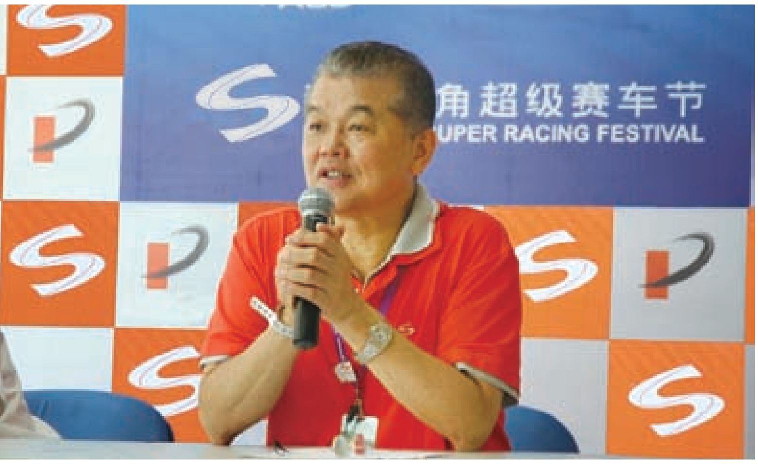
(1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

(2) In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the head office and principal place of business of the Company at Room 1517, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(3) The register of members of the Company will be closed from Tuesday, 20th May, 2008 to Friday 23rd May, 2008, 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, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday 19th May, 2008.

(4) An explanatory statement containing further details regarding the Resolutions set out in item 5 will be sent to the shareholders of the Company together with the annual report of the Company for the year ended 31st December, 2007.



RESULTS REVIEW:

Results

For the year ended 31st December, 2007, the turnover for the year amounted to US$149,875,000, representing a 5.9% growth comparing to the corresponding period in 2006. Profit for the year amounted to US$2,095,000, representing a decrease of US$1,025,000 comparing to the corresponding period in 2006.

Geographical Market Segments

- Overseas Sales Market

  North America remained the largest export market of the Group, accounting for 50.8% of its turnover for 2007. Turnover contribution from the European and Asian markets and other regions were 25.6%, 20.2% and 3.4% respectively.

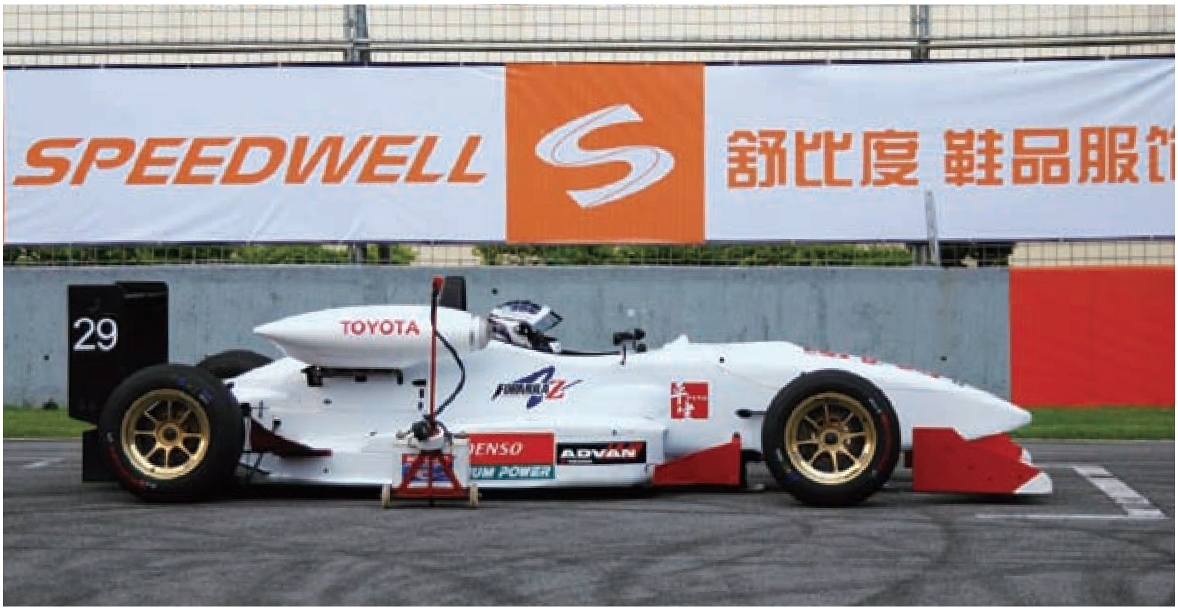
- Domestic Sales Market

  The Company had established offices in cities such as Beijing, Shanghai, Chengdu, Chongqing, Dalian, Wuhan, Guangzhou and Shenzhen, etc. and opened sales counters in more than 100 first class department stores in more than 10 major cities nationwide and owned more than 1,100 points of sales through agents and franchisees.

BUSINESS DEVELOPMENT FOCUSES

Manufacturing Industry

The manufacturing industry nowadays is facing the biggest challenge brought about by factors such as the increasing labor costs, prices for raw materials and fuel, and the appreciation of Renminbi. Moreover, the State's efforts in continued perfection of labor policy had knocked out some non-regulated small and medium-sized enterprises. However, we survive the change of policy because we have early followed the labor policy set out by the State and made self-improvement a few years ago. One of the important duties of the Group is to strengthen lean management and enhance team spirit construction. The Group will continue to learn and utilize new technologies to enhance productivity, establish efficient team to enhance corporate efficiency, and to grow with our customers.



Domestic Sales Market

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. With product development and preparation by various markets for more than one year, Slazenger officially launched its first specialty store in Guangdong in April 2008. We entered into contracts with a number of agents at the trade fair for autumn new arrivals held in April 2008.

The Children's shoes business of the brand Magic House recorded stable growth, with an increase of 17% in turnover as compared with that of last year.

"Kid's E-look", which owns famous brand names of Children's shoes such as Nike, Adidas, New Balance, Ecco, Crocs, Slazenger, opened its specialty stores in October 2007. Up to now, it had opened sales counter in 13 high class department stores.

The wholesale business for children's shoes increased by 41% as compared with that of last year.

SOCIAL RESPONSIBILITY

The Group makes perpetual operation as its objective for corporate development, aims to repay the society and bear its corporate social responsibility. We create an all-time safe working environment, a comfortable living environment and establish a team culture of cheer and harmony. Under an environment of keen competition, the Group insists to implement 5-working day/week system and set up large scale training centre to provide training of culture knowledge and career techniques, in order to enhance the cultural standard and career discipline of the staff.

The Group has been remarkable for its supports to employment for the disabled. We has been rated as Advanced Unit of Pro Rata Employment Arrangement for the Disabled (按比例安排殘疾人就業先進單位) by the local government for several consecutive years and granted the certificate of Caring Enterprise Supporting Sports Events of the Disabled (支持殘疾人體育事業愛心企業) issued by the Federation for the Disabled of Panyu District in 2007.

FUTURE PROSPECTS

The mounting domestic demand in the PRC poses a great potential in its domestic sales market. The Group will continue to further its investment in the domestic sales market. We aim to exploit the PRC market through accurate market segmentation analysis, optimal brand, product mix as well as diverse distribution channels.

CONCLUSION

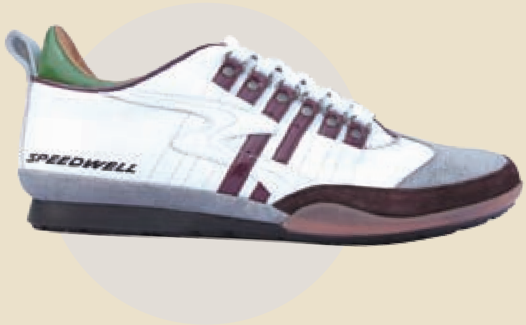
The Group will continue to gain confidence from our business partners in long-term cooperation with its faith and pioneering spirit, and will strive to enhance the Group's competitiveness with its lean operation and resources integration, with a view to realise its objective of long-term development.

On behalf of the Board, I would like to express my deepest gratitude to the staff for their dedication and diligence, and our business partners for their continued support!

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 23rd April, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

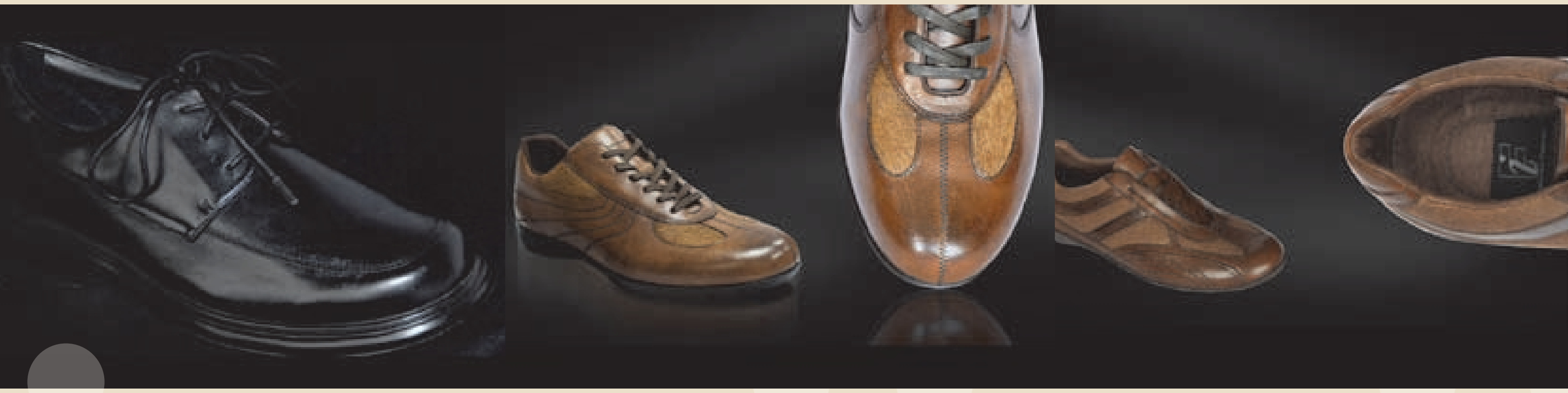


FINANCIAL REVIEW

During the year ended 31st December, 2007, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31st December, 2007, the Group achieved a turnover of US$149,875,000 (2006: US$141,465,000) despite the tough operating environment.

Profit of the Group for the year ended 31st December, 2007 dropped by 33% to US$2,095,000 (2006: US$3,120,000). Basic earnings per share for the year ended 31st December, 2007 was 0.29 US cents (2006: 0.43 US cents). Due to the continued surge of labor cost which is reflected by the slight decrease in gross profit margin from 16.4% in 2006 to 15.2% in 2007. Despite the fact, the Group had exercised very tight cost control over the selling and distribution costs and administrative expenses.

The global economic outlook was generally favourable to China's development. However, there were also growing uncertainties and potential risks, notably in the financial markets in the wake of the U.S. sub-prime crisis and its rippling effect on the world economy. Economies again resort to trade protectionism in greater magnitude. A cut back in China's export activities was noted as the government moves to cancel certain export tax rebates in a significant revamp of its import and export trade policies underpinned by the end of export incentives.



MANAGEMENT DISCUSSION AND ANALYSIS

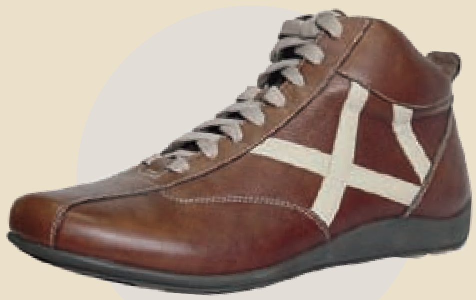
On cost side, oil prices remain at a high level and there is a constant inflation pressure on wages. An appreciation in Renminbi would exert pressure on manufacturers too. The Group recognised these challenges and took steps to mitigate their impacts.

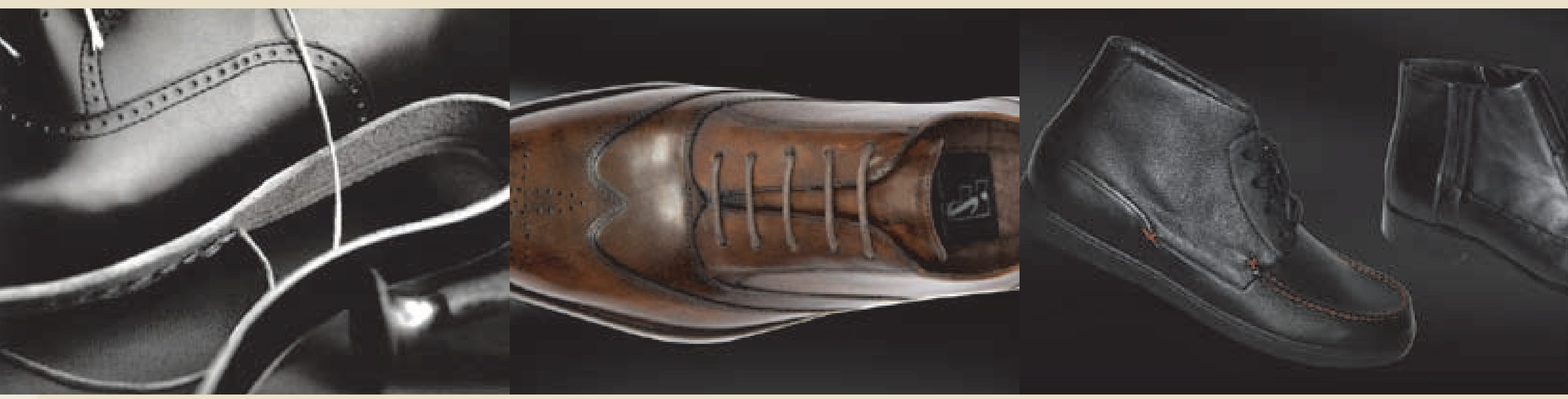
LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. The Group maintained a stable finance position. As at 31st December, 2007, the Group had cash and cash equivalent of US$11,395,000 (2006: US$7,129,000) and total borrowings of US$24,485,000 (2006: US$25,751,000). The ratio of net bank borrowing to total equity remained at a healthy level of approximately 11.7% (2006: 17.9%). As at 31st December, 2007, the Group had a strong financial liquidity position as revealed by a current ratio of 3.0 (2006: 2.8) times.

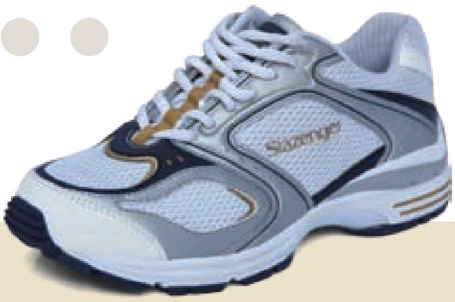
CAPITAL EXPENDITURE

For the year ended 31st December, 2007, the Group incurred US$2,481,000 in capital expenditure, of which approximately 60% was used in acquisition and replacement of plant and machinery.





MANAGEMENT DISCUSSION AND ANALYSIS



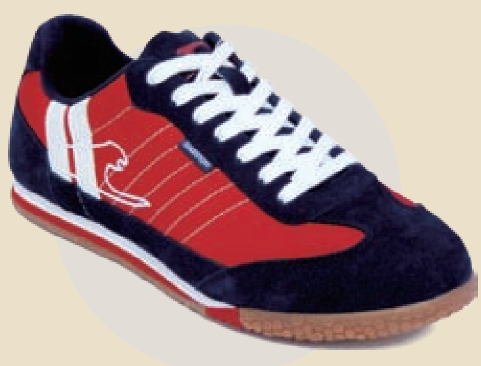
DIVIDEND

A final dividend of Hong Kong 1 cent (2006: HK1.5 cent) per ordinary share has been recommended, making the full-year dividend of Hong Kong 2 cents per ordinary share.

Slazenger
英国百年网球品牌

EMPLOYEES AND REMUNERATION POLICIES

The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on performance related basis. There are incentives in the form of discretionary performance bonus and offer equal opportunities to all staff.



The Company is committed to adopting the high standards of corporate governance. The board of directors of the Company (the "Board") believes that good governance is essential to achieving the Group's objectives of maximizing shareholders' value and safeguarding the interests of the shareholders.

The Code on Corporate Governance Practices (the "Code") provides the code provisions and recommended best practices for corporate governance.

During the financial year ended 31st December, 2007, 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").

A. DIRECTORS

A.1 The Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. The Board sets strategies for the Company and monitors the performance of the management.

During the financial year ended 31st December, 2007, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:–

Name of Director	Number of attendance
Mr. Wu Chen San, Thomas	4/4
Mr. Wu Jenn Chang, Michael	4/4
Mr. Wu Jenn Tzong, Jackson	4/4
Mr. Ho Chin Fa, Steven	4/4
Mr. Huang Hung Ching (appointed on 27th September, 2007)	1/2
Mr. Lai Jenn Yang, Jeffrey	2/4
Mr. Liu Chung Kang, Helios	2/4
Ms. Fang Yen Ling (resigned on 27th September, 2007)	1/2

A.2 Chairman and Managing Director

The Company segregates the role of Chairman from the Managing Director. Mr. Wu Chen San, Thomas is the Chairman of the Company and Mr. Wu Jenn Chang, Michael is the Managing Director of the Company. They are brothers. The Chairman provides leadership to the Board and is responsible for the overall strategic planning and corporate development, whereas the Managing Director is responsible for policy making and corporate management in order to implement the strategies approved by the Board.

A.3 Board composition

The Board consists of four executive directors and three independent non-executive directors:–

Executive directors

Mr. Wu Chen San, Thomas
Mr. Wu Jenn Chang, Michael
Mr. Wu Jenn Tzong, Jackson
Mr. Ho Chin Fa, Steven

Independent non-executive directors

Mr. Huang Hung Ching
Mr. Lai Jenn Yang, Jeffrey
Mr. Liu Chung Kang, Helios

The Board has met the recommended best practice under the Code that the number of independent non-executive directors is at least three. One independent non-executive director posses recognized professional qualifications in accounting. The independent non-executive directors bring independent judgement, knowledge and experience to the Board.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee and the Company considered all of the independent non-executive directors are independent within the definition of the Listing Rules.

A.4 Appointment, re-election and removal

All non-executive directors are appointed for a specific terms, subject to re-election. Each of the non-executive directors has entered into a service contract with the Company for a term of one year and continuing thereafter until terminated by either party giving to the other party a period of advance notice in writing one month.

A.5 Responsibilities of directors

The directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive directors participate actively in the board meetings. They bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. They will lead where potential conflicts of interests arise in connected transaction. They are also members of Audit Committee.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

A.6 Supply of and access to information

In respect of regular board meetings, an agenda and accompanying board papers of the meeting are sent in full to all directors at least 3 days before the intended date of a meeting.

The management has the obligation to supply the Board and the various Committees with adequate information in a timely manner to enable the members to make informed decisions. Each director has separate and independent access to the Group's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

A.7 Nomination Committee

The Company set up a Nomination Committee in 2006. The Nomination Committee comprises the three independent non-executive directors. Mr. Liu Chung Kang, Helios is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

The chairman of the Nomination Committee will report the findings and recommendations of the Nomination Committee to the Board after each meeting. The minutes of all meetings of Nomination Committee will be circulated to the Board for information.

For the financial year ended 31st December, 2007, the Nomination Committee considered its structure, size and composition (including the skills, knowledge and experience) possesses of a diversity of skills, expertise, experience and qualifications and believed that Board would perform its duties competently.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

The code provision B.1.1 provides that the Company should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Company set up a remuneration committee in 2006. The Remuneration Committee comprises the three independent non-executive directors. Mr. Lai Jenn Yang, Jeffrey is the chairman of the Remuneration Committee.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management.

The chairman of the Remuneration Committee will report the findings and recommendations of the Remuneration Committee to the Board after each meeting. The minutes of all meetings of Remuneration Committee are circulated to the Board for information.

For the financial year ended 31st December, 2007, the Remuneration Committee has considered and approved the Group's policy for the remuneration of directors and senior management. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 9 to the consolidated financial statements.

The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the accounts on a going concern basis.

The Company has announced its annual and interim results in a timely manner within approximately four months and three months, respectively, after the end of the relevant periods in order to enhance high level of corporate transparency.

C.2 Internal controls

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. The review should cover all moderial controls, including financial, operational and compliance controls and risk management functions. Through the Audit Committee, the Board has reviewed the effectiveness of the system. No material deficiencies have been identified so far. The Audit Committee and the Board considered the Group's internal control system effective and that there were no significant areas of concern, which might affect the shareholders of the Company. However, there is room for improvement.

The Group shall use its best endeavor to implement changes in order to further improve Company's internal control system.

C.3 Audit Committee

An Audit Committee was established by the Company in 1999. The Audit Committee comprises the three independent non-executive directors, one of them possess recognized professional qualifications in accounting and has wide experience in audit and accounting. Mr. Huang Hung Ching is the chairman of the Audit Committee.

The primary function of the Audit Committee is to review and supervise the Group's financial reporting process and internal controls and compliance procedures, and to make recommendations to the Board on the re-appointment of the external auditors.

Two Audit Committee meetings were held during the financial year ended 31st December, 2007. The attendance of each member is set out as follows:–

Name of Member	Number of attendance
Mr. Huang Hung Ching (appointed on 27th September, 2007)	1/2
Mr. Lai Jenn Yang, Jeffrey	2/2
Mr. Liu Chung Kang, Helios	2/2
Ms. Fang Yen Ling (resigned on 27th September, 2007)	1/2

The chairman of the Audit Committee will report the findings and recommendations of the Audit Committee to the Board after each meeting. The minutes of all meetings of Audit Committee are circulated to the Board for information.

A summary of the work performed by the Audit Committee for the financial year ended 31st December, 2007 is set out in "Audit Committee Report" on page 18.

C.4 Fee paid/payable to Group's auditors

For the financial year ended 31st December, 2007, the fee paid/payable to the Group's auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:–

Services rendered	**Fee paid/payable** HK$'000
Audit services	900
Non-audit services	331
Taxation services	30

D. DELEGATION BY THE BOARD

D.1 Management functions

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions.

The Board delegates the day-to-day operations to general managers and department heads who are responsible for different aspects of the operations of the Group.

D.2 Board committees

The Company has maintained the Audit Committee throughout the year to oversee particular aspects of the Group's affairs. The Audit Committee, Remuneration Committee and Nomination Committee have specific written terms of reference which deal clearly with their authority and duties. The chairman of the Committees will report the findings and recommendations to the Board after each meeting. The minutes of all meetings of the committee are circulated to the Board for information.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The annual general meeting enables the shareholders of the Company to exchange views with the Board. The chairman of the Board and the Managing Director have attended at the annual general meeting to be available to answer the questions of the shareholders of the Company.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director.

E.2 Voting by poll

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with the annual report of the Company for the year ended 31st December, 2007.

AUDIT COMMITTEE REPORT

The Audit Committee (the “Committee”) comprises three members of independent non-executive directors. The chairman of the Committee is Mr. Huang Hung Ching, who is practising certified public accountant.

The Committee oversees the financial reporting process. In this process, management is responsible for the preparation of the Group financial statements including the selection of suitable accounting policies. External auditors are responsible for auditing and attesting to Group financial statements and evaluating Group system of Internal controls. The Committee oversees the respective work of management and external auditors to endorse the processes and safeguards employed by them. The Committee presents a report to the Board on its findings after each Committee meeting.

The Committee reviewed and discussed with management and external auditors the consolidated financial statements for the year ended 31st December 2007 included in 2007 Annual Report. In the regard, the Committee had discussions with management with regard to new or changes in accounting policies as applied, and significant judgments affecting the Group financial statements. The Committee also received reports and met with the external auditors to discuss the general scope of their audit work (including the impact of new or changes in accounting policies as applied), their assessment of Group internal controls.

Based of these review and discussion, and the report of the external auditors, the Committee recommended to the Board approval of the consolidated financial statements for the year ended 31st December, 2007, with the Independent Auditors’ Report thereon.

The Committee also reviewed and recommended to the Board approval of the unaudited financial statements for the six months ended 30th June, 2007, prior to public announcement and filing.

The Committee recommended to the Board that the shareholders be asked to re-appointed Deloitte Touche Tohmatsu as the Group’s external auditors for 2008.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Huang Hung Ching

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

Hong Kong, 23rd April, 2008

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Chen San, Thomas , aged 57, is the Chairman of the Group and is responsible for the Group's sales, marketing and strategic planning. Mr. Wu joined the footwear business founded by his father, Mr. Wu Suei, in the early 1970's and has 38 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Chang, Michael, aged 50, is the Deputy Chairman of the Group and is responsible for the Group's finance, production and purchasing. Mr. Wu is the honor Chairman of Taiwanese-invested Enterprises Association of Guangzhou and honor citizen of Guangzhou city. Mr. Wu joined the footwear business founded by his father, Mr. Wu Suei, in 1983 and has 25 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Tzong, Jackson, aged 52, is responsible for the Group's sourcing functions conducted in Taiwan through the Group's subsidiary, Tospstair International (Taiwan) Ltd. Mr. Wu joined the footwear business founded by his father, Mr. Wu Suei, in 1977 and has 31 years' experience in the footwear manufacturing business.

Mr. Ho Chin Fa, Steven, aged 55, is a Deputy General Manager of the Group. He is responsible for production management and staff training. Mr. Ho joined the Group in 1990 and has 25 years' experience in the footwear manufacturing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Hung Ching aged 44, is currently a partner of Ever Brilliant Accounting Firm, Taipei, Taiwan. He graduated from Fu Jen Catholic University and holds a Master's degree in accounting from Shanghai University of Finance and Economic. He is a member of the Taiwan Provincial CPA Association. Prior to joining the Company, he had over 20 years of experience in accounting and auditing.

Mr. Lai Jenn Yang, Jeffrey, aged 50, is currently an Executive Director of Nicematch International Co., Ltd, which is incorporated in Taiwan. Mr. Lai graduated from Tamkang University in Taiwan and obtained a bachelor degree in Civil Engineering. He also obtained a master degree in Engineering from Ohio State University, USA. Prior to joining to the Company, he had more than 20 years of experience in operation and engineering management.

Mr. Liu Chung Kang, Helios, aged 57, is currently a director of Emo Technology Inc. and Shanghai Netup Management Software Co., Ltd. He graduated from Chiao Tung University in Taiwan. He obtained a bachelor degree in Electricity Engineering and a master degree in Management Science. Prior to joining the Company, he had more than 20 years of experience in managing software development.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lee Yiu Ming, aged 43, graduated from Hong Kong Polytechnic University and holds a Master's degree in business administration from the Queen's University of Belfast, Northern Ireland. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lee is a Deputy General Manager of the Group and the company secretary of the Company. He is responsible for the financial, accounting and company secretarial functions of the Group. Prior to joining the Group in May 1996, he worked for an international accounting firm for over seven years.

Ms. Lin Hui Fan, aged 57, is a senior quality assurance inspector of Guangzhou Pqnyu Pegasus Footwear Co., Ltd ("Pqnyu Pegasus") and oversees the quality of uppers. Ms. Lin joined the Group in 1991 and has over 30 years' experience in footwear manufacturing. Ms. Lin is responsible for quality control of the Group's footwear products and has extensive experience in training quality control staff.

Mr. Hsieh Hsin Lee, aged 47, is a manager of Panyu Pegasus. Mr. Hsieh joined the Group in 1991 and has over 28 years' experience in footwear manufacturing. He is responsible for the Group's production management and quality control process. He is also responsible for staff training.

Mr. Chang Ho Hsi, aged 53, is a senior manager of administration in Panyu Pegasus. He studied Japanese in Tamkang University, and obtained a bachelor degree in literature. Mr. Chang is also a member of Taiwan Footwear Manufacturers Association in the Republic of China.

Mr. Sun Jong Wook, aged 57, graduated from Busan National University. He is a Deputy General Manager of Chemical Division of Panyu Pegasus. Mr. Sun joined the Group in November 2003. He has 30 years' experience in sole development and manufacture.

Mr. Lee Kuo Hwa, aged 51, is a Deputy General Manager of Panyu Pegasus. Mr. Lee graduated from East Texas State University, Texas, the US and holds a Master's degree in computer science. He is responsible for production management of the Group. Mr. Lee has 14 years' experience in footwear manufacturing business.

Mr. Jimmy Deng, aged 36, is a senior production manager of Panyu Pegasus. Mr. Deng graduated from the Guangdong Zhong Shan University. Mr. Deng joined the Group in 1994 and has 14 years' experience in footwear manufacturing.

Mr. White Yi, aged 36, is a senior manager of Panyu Pegasus in product development. Mr. Yi joined the Group in 1995 and has 13 years' experience in footwear manufacturing and product development.

Mr. Wilson Deng, aged 36, is a senior manager of Panyu Pegasus in product development. Mr. Deng graduated from the Guangdong Zhong Shan University. Mr. Deng joined the Group in 1995 and has 13 years' experience in footwear manufacturing and product development.

Mr. Yang Chih Chieh, Arthur, aged 43, is a general manager of the Group's domestic sales division. He holds a master's degree in international finance from Northrop University, California, the United States of America. He is responsible for the overall strategy making, sales and marketing, and general management of the domestic sales division. Mr. Yang has over 14 years' experience in footwear industry.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

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 associates, jointly controlled entities and principal subsidiaries are set out in notes 16, 17 and 33, respectively, to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 28.

An interim dividend of HK 1 cent per ordinary share, amounting to US$935,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK 1cent per ordinary share to the shareholders on the register of members on 23rd May, 2008, amounting to US$935,000.

PROPERTY, PLANT AND EQUIPMENT

The buildings of the Group were revalued at 31st December, 2007. The revaluation resulted in a surplus over book values amounting to US$1,062,000, which has been credited directly to the revaluation reserve.

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the consolidated financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st December, 2007, the Company's reserves available for distribution to shareholders consisted of accumulated profits, dividend reserve and contributed surplus, totalling US$20,706,000 (2006: US$20,912,000).

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wu Chen San, Thomas *(Chairman)*
Mr. Wu Jenn Chang, Michael *(Deputy Chairman)*
Mr. Wu Jenn Tzong, Jackson
Mr. Ho Chin Fa, Steven

Independent non-executive directors:

Mr. Huang Hung Ching	(appointed on 27th September, 2007)
Mr. Lai Jenn Yang, Jeffrey	
Mr. Liu Chung Kang, Helios	
Ms. Fang Yen Ling	(resigned on 27th September, 2007)

In accordance with Clause 87(1) of the Company's Bye-laws, Messrs. Huang Hung Ching and Liu Chung Kang, Helios, retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of independent non-executive directors are subject to retirement by rotation in accordance with the provisions of the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors are independent.

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.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2007, the interests of the directors and their associates in the shares, underlying shares or debentures of the Company and its associated corporation, 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 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%

(b) Ordinary shares of the associated corporation 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%

(b) Ordinary shares of the associated corporation of the Company *(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 31st December, 2007, 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 year was the Company, its holding company or any of its 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 OF SIGNIFICANCE

Other than as disclosed in note 31 to the consolidated financial statements, 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

At 31st December, 2007, 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' Interest 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

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 31st December, 2007.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2007, the largest customer of the Group accounted for approximately 75% of the Group's turnover. The five largest customers accounted for approximately 93% of the Group's turnover. For the year ended 31st December, 2007, 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 of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in any of the Group's five largest customers or suppliers.

EMOLUMENTS POLICY

The emoluments policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, as authorised by shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wu Chen San, Thomas

CHAIRMAN

Hong Kong, 23rd April, 2008

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF PEGASUS INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pegasus International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 67, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility For The Consolidated Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23rd April, 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	NOTES	2007 US$'000	2006 US$'000
Revenue	7	**149,875**	141,465
Cost of sales		**(127,070)**	(118,331)
Gross profit		**22,805**	23,134
Other income		**1,667**	1,162
Selling and distribution costs		**(8,920)**	(7,971)
Administrative expenses		**(11,323)**	(11,554)
Share of (loss) profit of associates		**(180)**	52
Share of (loss) profit of jointly controlled entities		**(164)**	127
Interest on bank borrowings wholly repayable within five years		**(1,427)**	(1,400)
Profit before taxation	8	**2,458**	3,550
Taxation	11	**(363)**	(430)
Profit for the year		**2,095**	3,120
Dividends paid	12	**2,349**	1,886
Earnings per share	13		
Basic		**0.29 US cents**	0.43 US cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTES	2007 US$'000	2006 US$'000
Non-current assets			
Property, plant and equipment	14	**66,691**	62,208
Prepaid lease payments	15	**5,980**	5,256
Interests in associates	16	**764**	944
Interests in jointly controlled entities	17	**2,347**	2,550
		75,782	70,958
Current assets			
Inventories	18	**52,305**	50,296
Trade and other receivables	19	**13,506**	14,584
Prepaid lease payments	15	**155**	137
Amount due from an associate	16	**24**	12
Derivative financial instruments	20	**183**	–
Held for trading investments	21	**–**	361
Bank balances and cash	22	**11,395**	7,129
		77,568	72,519
Current liabilities			
Trade and other payables	23	**13,283**	10,468
Tax payable		**938**	666
Unsecured bank borrowings - due within one year	24	**11,780**	14,701
		26,001	25,835
Net current assets		**51,567**	46,684
		127,349	117,642
Capital and reserves			
Share capital	25	**9,428**	9,428
Share premium and reserves		**102,726**	94,762
Total equity		**112,154**	104,190
Non-current liabilities			
Unsecured bank borrowings - due after one year	24	**12,705**	11,050
Deferred tax liabilities	27	**2,490**	2,402
		15,195	13,452
		127,349	117,642

The consolidated financial statements on pages 28 to 67 were approved and authorised for issue by the Board of Directors on 23rd April, 2008 and are signed on its behalf by:

Wu Chen San, Thomas	**Wu Jenn Chang, Michael**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007

	Attributable to equity holders of the Company							
	Share capital	Share premium	Revaluation reserve	Translation reserve	Merger reserve	Dividend reserve	Retained profits	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1st January, 2006	9,428	21,644	3,694	–	(4,512)	943	70,889	102,086
Revaluation increase on buildings	–	–	1,192	–	–	–	–	1,192
Deferred tax liability arising on revaluation of buildings (note 27)	–	–	(322)	–	–	–	–	(322)
Net income recognised directly in equity	–	–	870	–	–	–	–	870
Profit for the year	–	–	–	–	–	–	3,120	3,120
Total recognised income for the year	–	–	870	–	–	–	3,120	3,990
Final dividends paid for 2005	–	–	–	–	–	(943)	–	(943)
Interim dividends paid for 2006	–	–	–	–	–	–	(943)	(943)
Final dividends proposed for 2006	–	–	–	–	–	1,414	(1,414)	–
At 31st December, 2006	9,428	21,644	4,564	–	(4,512)	1,414	71,652	104,190
Revaluation increase on buildings	–	–	1,062	–	–	–	–	1,062
Deferred tax liability arising on revaluation of buildings (note 27)	–	–	(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 year	–	–	–	–	–	–	2,095	2,095
Total recognised income for the year	–	–	1,025	7,193	–	–	2,095	10,313
Final dividends paid for 2006	–	–	–	–	–	(1,414)	–	(1,414)
Interim dividends paid for 2007	–	–	–	–	–	–	(935)	(935)
Final dividends proposed for 2007	–	–	–	–	–	935	(935)	–
At 31st December, 2007	9,428	21,644	5,589	7,193	(4,512)	935	71,877	112,154

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the share capital of the acquiring companies issued in exchange pursuant to a corporate reorganisation prior to the listing of the Company's shares in 1996.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	2007 US$'000	2006 US$'000
OPERATING ACTIVITIES		
Profit before taxation	**2,458**	3,550
Adjustments for:		
Depreciation of property, plant and equipment	**7,026**	8,583
Gain on fair value changes of derivative financial instruments	**(183)**	–
Gain on fair value changes of held for trading investments	**(188)**	(98)
Impairment loss on trade receivables	**162**	284
Interest income	**(376)**	(235)
Interest expenses	**1,427**	1,400
Loss on disposal of property, plant and equipment	**–**	8
Release of prepaid lease payments	**153**	139
Share of loss (profit) of associates	**180**	(52)
Share of loss (profit) of jointly controlled entities	**164**	(127)
Operating cash flows before movements in working capital	**10,823**	13,452
Increase in inventories	**(2,009)**	(4,477)
Decrease (increase) in trade and other receivables	**916**	(1,234)
Increase in amount due from an associate	**(12)**	(4)
Decrease (increase) in held for trading investments	**549**	(263)
Increase (decrease) in trade and other payables	**1,165**	(1,196)
Cash generated from operations	**11,432**	6,278
Hong Kong Profits Tax (paid) refunded	**(5)**	8
Taxation in other jurisdictions paid	**(35)**	(218)
NET CASH FROM OPERATING ACTIVITIES	**11,392**	6,068
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,481)**	(4,471)
Prepaid lease payments made	**(169)**	–
Interest received	**376**	235
Dividend received from jointly controlled entities	**90**	–
Dividend received from associates	**–**	120
NET CASH USED IN INVESTING ACTIVITIES	**(2,184)**	(4,116)
FINANCING ACTIVITIES		
Repayment of bank loans	**(12,905)**	(15,522)
Repayment of trust receipt loans	**(2,714)**	(2,764)
Dividends paid	**(2,349)**	(1,886)
Interest paid	**(1,427)**	(1,400)
Bank loans raised	**13,000**	11,000
Trust receipt loans raised	**1,353**	3,224
NET CASH USED IN FINANCING ACTIVITIES	**(5,042)**	(7,348)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,166**	(5,396)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**7,129**	12,525
Effect of foreign exchange rate changes	**100**	–
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash	**11,395**	7,129

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider Pegasus Footgear Management Limited, a company incorporated in the British Virgin Islands, to be the ultimate and immediate holding company of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information.

The consolidated financial statements are presented in United States dollars ("US dollar"), which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are manufacture and sale of footwear products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirement of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) - Int 12	Service Concession Arrangements[4]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1st January, 2009
2 Effective for annual periods beginning on or after 1st July, 2009
3 Effective for annual periods beginning on or after 1st March, 2007
4 Effective for annual periods beginning on or after 1st January, 2008
5 Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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 below.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes, other than construction in progress, are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or for administrative purposes, are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Impairment losses on assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Cost comprises direct materials and, when applicable, direct labour costs and those overhead that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less any estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, expect for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits schemes

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method *(Continued)*

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL are derivative financial instruments and held for trading investments.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and cash and amount due from an associate) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amount due from an associate, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an amount due from an associate is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method *(Continued)*

Financial liabilities

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derivative not designated into an effective hedge relationship are deemed as held for trading and are classified as a current asset or a current liability.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Income taxes

At 31st December, 2007, a deferred tax asset of US$640,000 in relation to deductible temporary differences has been recognised in the Group's balance sheet. No deferred tax asset has been recognised on the tax losses and deductible temporary difference of US$6,968,000 and US$14,575,000, respectively, due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal or a recognition takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 24, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the repayments of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007	2006
	US$'000	US$'000
Financial assets		
Fair value through profit or loss		
– derivative financial instruments	**183**	–
– held for trading investments	**–**	361
Loans and receivables (including cash and cash equivalents)	**22,759**	19,946
Financial liabilities		
Amortised cost	**37,089**	35,735

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from an associate, derivative financial instruments, held for trading investments, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) *Currency risk*

Several subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Most of the Group's sales are denominated in the functional currency of the group entity making the sale, whilst almost 93% of costs are denominated in the Group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2007	2006
	US$'000	US$'000
Assets		
Hong Kong dollar ("HK dollar")	**874**	646
Liabilities		
HK dollar	**1,063**	92

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will enter into foreign exchange forward contracts to mitigate the foreign currency risk, if necessary. As the HK dollar is pegged to the US dollar, the Group does not have material risk on such currency.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 24 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") arising from the Group's borrowings.

Sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank deposits and bank borrowings, the analysis is prepared assuming the amount of the asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 30 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 30 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would decrease/increase by approximately US$60,000 (2006: decrease/increase by US$75,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and bank borrowings.

Credit risk

At 31st December, 2007 and 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in North America, Europe and Asia, which accounted for approximately 96% (2006: 96%) of the total trade receivables as at 31st December, 2007.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group has concentration of credit risk by customer as 78% (2006: 63%) and 98% (2006: 98%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At 31st December, 2007, the Group has available unutilised overdraft and short-term bank loan facilities of approximately US$3,025,000 (2006: US$2,961,000) and US$12,641,000 (2006: US$27,146,000), respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month US$'000	1-3 months US$'000	3 months to 1 year US$'000	1-5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2007 US$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	–	7,154	5,450	–	–	12,604	12,604
Bank borrowings							
– variable rate	5.68	435	2,744	9,957	13,465	26,601	24,485
		7,589	8,194	9,957	13,465	39,205	37,089

	Weighted average effective interest rate %	Less than 1 month US$'000	1-3 months US$'000	3 months to 1 year US$'000	1-5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2006 US$'000
2006							
Non-derivative financial liabilities							
Trade and other payables	–	5,693	4,291	–	–	9,984	9,984
Bank borrowings							
– variable rate	6.02	2,924	3,721	9,398	11,732	27,775	25,751
		8,617	8,012	9,398	11,732	37,759	35,735

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. 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:

2007

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	76,174	30,292	38,436	4,973	149,875
RESULTS					
Segment results	9,714	2,857	4,902	633	18,106
Other income					1,667
Unallocated corporate expenses					(15,544)
Share of loss of associates	–	(180)	–	–	(180)
Share of loss of jointly controlled entities	–	(164)	–	–	(164)
Interest on bank borrowings wholly repayable within five years					(1,427)
Profit before taxation					2,458
Taxation					(363)
Profit for the year					2,095

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
BALANCE SHEET					
ASSETS					
Interests in associates	–	764	–	–	764
Interests in jointly controlled entities	–	2,347	–	–	2,347
Unallocated corporate assets					150,239
Consolidated total assets					153,350
LIABILITIES					
Unallocated corporate liabilities and consolidated total liabilities					41,196

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Unallocated US$'000	Consolidated US$'000
OTHER INFORMATION						
Impairment loss on trade receivables	162	–	–	–	–	162
Capital additions	–	–	–	–	2,481	2,481
Depreciation of property, plant and equipment	–	–	–	–	7,026	7,026

7. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

2006

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated 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 profit of associates	–	52	–	–	52
Share of profit 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 US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated 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

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Unallocated US$'000	Consolidated US$'000
OTHER INFORMATION						
Impairment loss on trade receivables	284	–	–	–	–	284
Capital additions	–	–	–	–	4,471	4,471
Depreciation of property, plant and equipment	–	–	–	–	8,583	8,583

The Group's operations are located in the People's Republic of China ("PRC"), Hong Kong and Taiwan.

7. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

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**	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
PRC	**127,549**	107,037	**2,481**	4,464
Hong Kong	**10,963**	24,274	**–**	7
Taiwan	**125**	1,170	**–**	–
	138,637	132,481	**2,481**	4,471

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.

8. PROFIT BEFORE TAXATION

	2007	2006
	US$'000	US$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 9)	**950**	722
Other staff costs	**41,636**	36,020
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**2,132**	1,882
Total staff costs	**44,718**	38,624
Auditor's remuneration	**118**	101
Cost of inventories recognised as an expense	**127,070**	118,331
Depreciation of property, plant and equipment	**7,026**	8,583
Impairment loss on trade receivables	**162**	284
Loss on disposal of property, plant and equipment	**–**	8
Net foreign exchange losses	**179**	404
Release of prepaid lease payments	**153**	139
and after crediting:		
Gain on fair value changes of derivative financial instruments	**183**	–
Gain on fair value changes of held for trading investments	**188**	98
Interest income	**376**	235

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 8 (2006: 8) directors were as follows:

2007

	Wu Chen San, Thomas	**Wu Jenn Chang, Michael**	**Wu Jenn Tzong, Jackson**	**Ho Chin Fa, Steven**	**Huang Hung Ching**	**Fang Yen Ling**	**Lai Jenn Yang, Jeffrey**	**Liu Chung Kang, Helios**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Fees	**23**	**12**	**12**	**12**	**2**	**6**	**8**	**8**	**83**
Other emoluments									
Salaries and other benefits	**197**	**166**	**70**	**95**	**–**	**–**	**–**		**528**
Bonus	**33**	**182**	**72**	**52**	**–**	**–**	**–**	**–**	**339**
	253	**360**	**154**	**159**	**2**	**6**	**8**	**8**	**950**

2006

	Wu Chen San, Thomas	Wu Jenn Chang, Michael	Wu Jenn Tzong, Jackson	Ho Chin Fa, Steven	Yang Chih Chieh, Arthur	Fang Yen Ling	Lai Jenn Yang, Jeffrey	Liu Chung Kang, Helios	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Fees	24	12	12	12	9	8	8	8	93
Other emoluments									
Salaries and other benefits	198	167	71	96	–	–	–	–	532
Bonus	33	28	–	36	–	–	–	–	97
	255	207	83	144	9	8	8	8	722

The performance related incentive payment is determined with reference to the Group's operating results, individual performance and the comparable market statistics.

No directors waived any emoluments in the years ended 31st December, 2007 and 2006.

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included 4 executive directors (2006: 3 executive directors) of the Company, whose emoluments are included in the disclosure in note 9 above. The emoluments of the remaining one (2006: two) highest paid individual was as follows:

	2007 US$'000	2006 US$'000
Basic salaries and allowances	**134**	271
Retirement benefits scheme contributions	**2**	2
	136	273

The emolument of the highest paid employee was within the following bands:

	Number of employees	
	2007	2006
Nil to HK$1,000,000 (equivalent to Nil to US$128,041)	**–**	1
HK$1,000,000 to HK$1,500,000 (equivalent to US$128,041 to US$192,061)	**1**	1

11. TAXATION

	2007 US$'000	2006 US$'000
Current taxation:		
Hong Kong	**32**	8
PRC	**407**	393
Taiwan	**29**	30
	468	431
Overprovision in prior years:		
Hong Kong	**(1)**	(1)
PRC	**(155)**	–
	(156)	(1)
Deferred tax (note 27):		
Attributable to a change in tax rate	**51**	–
Taxation attributable to the Group	**363**	430

11. TAXATION *(Continued)*

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

PRC income tax is charged at 27% or 33% on the assessable profits of the PRC subsidiaries. Pursuant to the relevant laws and regulations in the PRC, operations of the Group in Panyu in the PRC have qualified for tax concessions in the form of reduced tax rate to 12%.

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

Save as disclosed above, in the opinion of the directors, the Group is not subject to taxation in any other jurisdictions.

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 27% or 33% to 25% for all PRC subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Details of the deferred taxation are set out in note 27.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007 **US$'000**	2006 US$'000
Profit before taxation	**2,458**	3,550
Tax at the domestic income tax rate of 33%	**811**	1,172
Tax effect of share of profits (losses) of associates/ jointly controlled entities	**113**	(59)
Tax effect of expenses not deductible for tax purposes	**681**	757
Tax effect of income not taxable for tax purposes	**(1,657)**	(2,517)
Overprovision in prior years	**(156)**	(1)
Tax effect of tax losses/deferred tax assets not recognised	**394**	1,225
Effect of tax concessions granted to PRC subsidiaries	**(123)**	(137)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**249**	(10)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**51**	–
Tax charge for the year	**363**	430

Note: The domestic tax rate in the jurisdiction where the operations of the Group is substantially based is used.

12. DIVIDENDS PAID

	2007 US$'000	2006 US$'000
Dividends recognised as a distribution during the year:		
Final, paid - HK1.5 cents for 2006 (2005: HK1 cent) per share	**1,414**	943
Interim, paid - HK1 cent for 2007 (2006: HK1 cent) per share	**935**	943
	2,349	1,886

For the year ended 31st December, 2007, the final dividend of HK 1cent per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company of US$2,095,000 (2006: US$3,120,000) and on 730,700,000 (2006: 730,700,000) ordinary shares in issue during the year.

No diluted earnings per share for the years ended 31st December, 2007 and 2006 have been presented because there are no potential dilutive ordinary shares outstanding.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST OR VALUATION							
At 1st January, 2006	35,820	50	2,417	88,987	15,980	980	144,234
Additions	–	1,361	–	2,979	125	6	4,471
Transfers	–	(1,050)	(950)	–	2,000	–	–
Disposals	–	–	–	–	(156)	–	(156)
Revaluation	300	–	–	–	–	–	300
At 31st December, 2006	36,120	361	1,467	91,966	17,949	986	148,849
Exchange adjustments	2,493	6	98	8,859	2,041	111	13,608
Additions	39	708	–	1,232	501	1	2,481
Transfers	–	(1,012)	–	88	924	–	–
Disposals	–	–	–	(24)	–	(95)	(119)
Revaluation	307	–	–	–	–	–	307
At 31st December, 2007	38,959	63	1,565	102,121	21,415	1,003	165,126
Comprising:							
At cost	–	63	1,565	102,121	21,415	1,003	126,167
At valuation - 2007	38,959	–	–	–	–	–	38,959
	38,959	63	1,565	102,121	21,415	1,003	165,126
DEPRECIATION							
At 1st January, 2006	–	–	1,541	64,436	12,287	834	79,098
Provided for the year	892	–	128	6,383	1,133	47	8,583
Transfer	–	–	(206)	–	206	–	–
Eliminated on disposals	–	–	–	–	(148)	–	(148)
Eliminated on revaluation	(892)	–	–	–	–	–	(892)
At 31st December, 2006	–	–	1,463	70,819	13,478	881	86,641
Exchange adjustments	96	–	98	4,024	1,320	104	5,642
Provided for the year	659	–	2	5,446	902	17	7,026
Eliminated on disposals	–	–	–	(24)	–	(95)	(119)
Eliminated on revaluation	(755)	–	–	–	–	–	(755)
At 31st December, 2007	–	–	1,563	80,265	15,700	907	98,435
CARRYING VALUES							
At 31st December, 2007	38,959	63	2	21,856	5,715	96	66,691
At 31st December, 2006	36,120	361	4	21,147	4,471	105	62,208

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Property, plant and equipment are depreciated at the following rates per annum:

Buildings	2%
Leasehold improvements	20%
Plant and machinery	10%-20%
Furniture, fixtures and equipment	20%-33$^{1}/_{3}$%
Motor vehicles	20%

The buildings were revalued at 31st December, 2007 by Messrs. RHL Appraisal Limited on a depreciated replacement cost basis. Messrs. RHL Appraisal Limited are not connected with the Group. Messrs. RHL Appraisal Limited are members of the Institute of Valuers and have appropriate qualifications and recent experience in valuation of similar properties. The valuation, which conforms to International Valuation Standards, was arrived at by reference to current construction costs of similar buildings less allowance of accrued depreciation.

If the buildings in the PRC had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation as follows:

	2007	2006
	US$'000	US$'000
Cost at the end of the year	**36,127**	36,127
Accumulated depreciation	**(7,501)**	(6,751)
Net book value at the end of the year	**28,626**	29,376

15. PREPAID LEASE PAYMENTS

	2007	2006
	US$'000	US$'000
The Group's prepaid lease payments comprise land use rights in the PRC under medium-term leases	**6,135**	5,393
Analysed for reporting purpose as:		
Current assets	**155**	137
Non-current assets	**5,980**	5,256
	6,135	5,393

16. INTERESTS IN ASSOCIATES

	2007 US$'000	2006 US$'000
Cost of unlisted investments in associates	**400**	400
Share of post-acquisition profits	**364**	544
	764	944
Amount due from an associate	**24**	12

The amount due from an associate is unsecured, interest-free, and repayable on demand.

Particulars of the Group's associates at 31st December, 2007 and 2006 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company	Principal activities
Hi-Tech Pacific Limited	Private limited company	British Virgin Islands	Hong Kong	Ordinary US$1,000,000	40%	Trading in footwear and investment holding
廣州和仁化學塑料有限公司	Wholly foreign-owned enterprise	PRC	PRC	Registered capital US$500,000	40%	Manufacturing of footwear materials

16. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group' associates is set out below:

	2007 US$'000	2006 US$'000
Total assets	2,326	2,999
Total liabilities	(416)	(638)
Net assets	1,910	2,361
Group's share of net assets of associates	764	944
Turnover	3,681	4,495
(Loss) profit for the year	(451)	131
Group's share of (loss) profit of associates for the year	(180)	52

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007 US$'000	2006 US$'000
Cost of unlisted investments in jointly controlled entities	2,400	2,400
Share of post-acquisition (loss) profit and reserves, net of dividends received	(53)	150
	2,347	2,550

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Particulars of the Group's jointly controlled entities at 31st December, 2007 and 2006 are as follows:

Name of jointly controlled entities	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company	Principal activities
C.P.L. International Company Limited	Private limited company	British Virgin Islands	Hong Kong	Ordinary US$8,000,000	30%	Investment holding
C.P.L. International (H.K.) Company Limited	Private limited company	Hong Kong	Hong Kong	Ordinary HK$10,000	30%	Investment holding
C.P.L. Marketing Companies Limited	Private limited company	British Virgin Islands	Hong Kong	Ordinary US$1	30%	Provision of administrative services
Sunshine Leather Industrial Limited	Wholly-owned foreign enterprise	PRC	PRC	Registered capital US$1,000,000	30%	Manufacture of leather materials
Rich Pine Investments Limited	Private limited company	British Virgin Islands	Hong Kong	Ordinary US$50,000	30%	Marketing of leather materials

The summarised financial information in respect of the Group' jointly controlled entities which are accounted for using the equity method is set out below:

	2007 US$'000	2006 US$'000
Total assets	**5,987**	5,653
Total liabilities	**(3,640)**	(3,103)
Net assets	**2,347**	2,550
Income	**7,832**	7,430
Expenses	**7,996**	(7,303)

18. INVENTORIES

	2007 US$'000	2006 US$'000
Raw materials	**31,236**	32,732
Work in progress	**8,468**	8,243
Finished goods	**12,601**	9,321
	52,305	50,296

19. TRADE AND OTHER RECEIVABLES

	2007 US$'000	2006 US$'000
Trade receivables	**10,734**	12,412
Other receivables	**2,772**	2,172
Total trade and other receivables	**13,506**	14,584

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 at the balance sheet date:

	2007 US$'000	2006 US$'000
0-30 days	**9,891**	9,853
31-60 days	**694**	1,466
Over 60 days	**149**	1,093
Total trade receivables	**10,734**	12,412

Before accepting any new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. 98% of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$52,000 (2006: US$440,000) which are past due at the reporting date for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2007	2006
	US$'000	US$'000
61-90 days	**–**	60
91-120 days	**52**	380
Total	**52**	440

The Group has provided fully for all receivables over 1 year because historical experience is such that receivables that are past due beyond 1 year may generally not be recovered.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets	
	2007	2006
	US$'000	US$'000
Foreign exchange forward contracts	**183**	–

Major terms of foreign exchange forward contracts as at 31st December, 2007 are as follows:

Aggregate notional amount	**Maturity**	**Exchange rates**
Sell US$10,000,000	From January 2008 to May 2008	Sell US$/Buy RMB at a range of 7.4263 to 7.48564

The above derivatives are measured at fair value at each balance sheet date and will be settled on a net basis. Their fair values are determined based on the difference between the market forward rates at the balance sheet date for remaining duration of the outstanding contracts and their contracted forward rates.

21. HELD FOR TRADING INVESTMENTS

	2007 US$'000	2006 US$'000
Equity securities listed in Hong Kong	–	361

22. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at market interest rates, ranging from 1.2% to 3.88% (2006: 1.93% to 3.87%) per annum, and have original maturities of three months or less.

23. TRADE AND OTHER PAYABLES

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

	2007 US$'000	2006 US$'000
0-30 days	4,312	3,380
31-60 days	1,138	911
Over 60 days	1,214	509
Total trade payables	6,664	4,800
Other payables	6,619	5,668
	13,283	10,468

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

24. UNSECURED BANK BORROWINGS

	2007 US$'000	2006 US$'000
Bank loans	24,050	23,955
Trust receipt loans	435	1,796
	24,485	25,751
Carrying amount repayable:		
On demand or within one year	11,780	14,701
More than one year, but not exceeding two years	9,015	7,975
More than two years, but not exceeding three years	3,690	3,075
	24,485	25,751
Less: Amounts due within one year shown under current liabilities	(11,780)	(14,701)
	12,705	11,050

24. UNSECURED BANK BORROWINGS *(Continued)*

All of the Group's bank borrowings are variable-rate borrowings which carry interest at LIBOR plus a fixed percentage. Interest is repriced every three months.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007	2006
Effective interest rate:		
Variable-rate borrowings	**4.75% to 6.61%**	4.75% to 6.69%

25. SHARE CAPITAL

	Number of shares	**Amount** US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each (note)		
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	150	15,000
		34,355

	Number of shares		**Amount**	
	2007 '000	2006 '000	**2007** US$'000	2006 US$'000
Issued and fully paid				
Ordinary shares of HK$0.10 each	**730,700**	730,700	**9,428**	9,428

Note: Convertible non-voting preference shares, when issued and outstanding, carry fixed cumulative dividend. Under certain circumstances, they are entitled to additional dividend and are convertible into ordinary shares of the Company.

26. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25th September, 1996 for the primary purpose of providing incentives to directors and eligible employees. It expired on 24th September, 2006.

Under the Scheme, the board of directors of the Company were able to offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company. Without prior approval from the Company's shareholders, the total number of shares in respect of which options might be granted under the Scheme was not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options might be granted to any individual in any one year was not permitted to exceed 1% of the shares of the Company in issue at any point in time.

No consideration was payable on the grant of an option. Options might be exercised at any time for a period of three years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of the offer to grant an option.

Upon the expiry of the Scheme, no new share option scheme has been launched.

During the year ended 31st December, 2007 and 2006, no share options were granted or exercised.

At 31st December, 2007 and 2006, no share options were outstanding under the Scheme.

27. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Revaluation of buildings in the PRC	**Accelerated accounting depreciation**	**Total**
	US$'000	US$'000	US$'000
At 1st January, 2006	2,771	(691)	2,080
Charge to equity	322	–	322
At 31st December, 2006	3,093	(691)	2,402
Charge to equity	266	–	266
Effect of change in tax rate	(229)	51	(178)
At 31st December, 2007	3,130	(640)	2,490

27. DEFERRED TAXATION *(Continued)*

For the purpose of balance sheet presentation, the above deferred assets and liabilities have been offset.

At 31st December, 2007, the Group had unutilised tax losses of US$6,968,000 (2006: US$5,778,000) available for offset against future profits and deductible temporary difference of US$17,135,000 (2006: US$17,133,000) in respect of accelerated accounting depreciation. No deferred tax assets have been recognised in respect of unutilised tax losses and deductible temporary difference of US$14,575,000 (2006: US$14,573,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$4,171,000 (2006: US$2,911,000) that will expire in 2008 to 2013 (2006: 2007 to 2012). Other losses may be carried forward indefinitely.

28. OPERATING LEASE COMMITMENTS

The Group as lessee

	2007	2006
	US$'000	US$'000
Minimum lease payment paid by the Group under operating leases during the year	**539**	507

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007	2006
	US$'000	US$'000
Within one year	**291**	417
In the second to fifth year inclusive	**322**	215
Over five years	**984**	934
	1,597	1,566

Operating lease payments represent rentals payable by the Group for its factories and office premises. Leases are negotiated and rental are fixed for two to six years.

29. COMMITMENTS

During the year ended 31st December, 2006, the Group entered into agreements with licensors to obtain licenses to use certain materials and trademarks in a number of merchandising activities for two to three years. Pursuant to the agreements, the Group agreed to pay royalties to the licensors which were based on certain fixed percentages of the selling prices for items sold.

At 31st December, 2007, the Group guaranteed to pay minimum royalties of US$1,233,000 (2006: US$2,292,000) to the licensors throughout the contract period.

30. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the government of the PRC. These subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

31. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group had entered into the following transactions with its related parties:

Nature of transactions	2007 US$'000	2006 US$'000
Purchases by the Group from an associate	–	63
Purchases by the Group from a jointly controlled entity	1,924	2,987

(ii) Remuneration of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007 US$'000	2006 US$'000
Short term benefits	1,456	1,385
Post-employment benefits	2	2
	1,458	1,387

The remuneration of directors and key executives is determined with reference to the Group's operating results, individual performance and comparable market statistics.

(iii) Related party balances

Details of the balances with the associate as at respective balance sheet dates are set out in the consolidated balance sheet and note 16.

32. BALANCE SHEET OF THE COMPANY

	2007 US$'000	2006 US$'000
Total assets	**52,784**	52,025
Total liabilities	**1,006**	41
	51,778	51,984
Capital and reserves		
Share capital	**9,428**	9,428
Reserves (note)	**42,350**	42,556
	51,778	51,984

Note:

Reserves

	Share premium US$'000	Contributed surplus US$'000	Dividend reserve US$'000	Accumulated profits US$'000	Total US$'000
At 1st January, 2006	21,644	19,486	943	2,254	44,327
Profit for the year	–	–	–	115	115
Final dividends paid for 2005	–	–	(943)	–	(943)
Interim dividends paid for 2006	–	–	–	(943)	(943)
Final dividends proposed for 2006	–	–	1,414	(1,414)	–
At 31st December, 2006	21,644	19,486	1,414	12	42,556
Profit for the year	–	–	–	2,143	2,143
Final dividends paid for 2006	–	–	(1,414)	–	(1,414)
Interim dividends paid for 2007	–	–	–	(935)	(935)
Final dividends proposed for 2007	–	–	935	(935)	–
At 31st December, 2007	21,644	19,486	935	285	42,350

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under a corporate reorganisation undertaken in 1996.

33. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2007 and 2006 are as follows:

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
W.P.T. Development Inc.	British Virgin Islands/Hong Kong	Ordinary US$8	100%	–	Investment holding
Pacific Footgear Corporation	British Virgin Islands/Hong Kong	Ordinary US$1	–	100%	Marketing and trading in footwear
Wuco Corporation	British Virgin Islands/Hong Kong	Ordinary US$8	–	100%	Trading in footwear and investment holding
Nagano Management Limited	British Virgin Islands/Hong Kong	Ordinary US$11	–	100%	Investment holding
Topstair International (H.K.) Company Limited	Hong Kong	Ordinary HK$10,000	–	100%	Provision of administrative services to group companies
Guangzhou Fang Chun Footwear Co., Ltd.* 廣州市豐群鞋業有限公司	PRC	Registered capital US$10,600,000	–	100%	Manufacture of footwear and footwear materials
Guangzhou Panyu Pegasus Footwear Co. Ltd. * 廣州市番禺創信鞋業有限公司	PRC	Registered capital US$38,000,000	–	100%	Manufacture of footwear and footwear materials
台灣松鄴國際有限公司	Taiwan	Registered capital NT$5,000,000	–	100%	Trading in raw materials of footwear
廣州創信鞋業品服飾有限公司 *	PRC	Registered capital RMB1,000,000	–	100%	Marketing and trading in footwear in the PRC

* These subsidiaries are established in the PRC as wholly foreign-owned enterprises.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

FINANCIAL SUMMARY

RESULTS

	Year ended 31st December,				
	2003	2004	2005	2006	**2007**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Turnover	129,552	143,704	141,242	141,465	**149,875**
Profit (loss) before taxation	4,389	(1,321)	2,757	3,550	**2,458**
Taxation	(172)	421	(290)	(430)	**(363)**
Profit (loss) for the year	4,217	(900)	2,467	3,120	**2,095**

ASSETS AND LIABILITIES

	At 31st December,				
	2003	2004	2005	2006	**2007**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Total assets	161,701	142,246	146,089	143,477	**153,350**
Total liabilities	55,358	43,817	44,003	39,287	**41,196**
	106,343	98,429	102,086	104,190	**112,154**
Minority interests	1	–	–	–	**–**
Total equity	106,344	98,429	102,086	104,190	**112,154**