PEGASUS INTERNATIONAL HOLDINGS LIMITED

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2005

RESULTS

The Board of Directors (the "Directors") of Pegasus International Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2005 with comparative figures for the corresponding period in 2004.

CONSOLIDATED INCOME STATEMENT

	Notes	**2005** ***US$'000***	2004 *US$'000* (restated)
Turnover	*4*	**141,242**	143,704
Cost of sales		**(117,946)**	(118,724)
Gross profit		**23,296**	24,980
Other operating income		**859**	1,156
Selling and distribution costs		**(8,506)**	(11,901)
Administrative expenses		**(11,798)**	(12,956)
Share of results of associates		**181**	313
Share of results of jointly controlled entities		**(76)**	64
Interest on bank borrowings wholly repayable within five years		**(1,199)**	(649)
Impairment loss and write-off in respect of an investment security		**–**	(2,328)
Profit (Loss) before taxation	5	**2,757**	(1,321)
Taxation	*6*	**(290)**	421
Profit (loss) for the year		**2,467**	(900)
Dividends	*7*	**943**	943
Earnings (loss) per share	*8*		
– Basic		**0.34 US cent**	(0.12) US cent
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	2005 *US$'000*	2004 *US$'000* (restated)
Non-current assets		
Property, plant and equipment	**65,136**	67,423
Prepaid lease payments	**5,396**	5,532
Interest in associates	**1,012**	831
Interests in jointly controlled entities	**2,423**	2,499
	73,967	76,285
Current assets		
Inventories	**45,819**	45,045
Trade and other receivables	**13,634**	15,074
Prepaid lease payments	**136**	136
Amount due from an associate	**8**	14
Bank balances and cash	**12,525**	5,692
	72,122	65,961
Current liabilities		
Trade and other payables	**11,664**	11,705
Taxation	**446**	29
Unsecured bank borrowings – due within one year	**15,858**	17,073
	27,968	28,807
Net current assets	**44,154**	37,154
	118,121	113,439
Capital and reserves		
Share capital	**9,428**	9,428
Reserves	**92,658**	89,001
Total equity	**102,086**	98,429
Non-current liabilities		
Unsecured bank borrowings – due after one year	**13,955**	13,370
Deferred tax liabilities	**2,080**	1,640
	16,035	15,010
	118,121	113,439

Notes:

1. **Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at revalued amounts or fair values, as explained in the accounting policies set out in note 4 to the annual report.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 of Hong Kong Limited and by the Companies Ordinance.

2. **Changes in accounting policies**

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods commencing on or after 1st January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in the financial statements is detailed in notes 2 and 3 to the annual report. The effect of adopting these new policies are summarised below.

3. **Summary of the Effects of the application of Hong Kong Financial Reporting Standards**

The effects of the application of new HKFRSs described in note 2 above, on administrative expenses for the current and prior years, are as follows:

	2005 ***US$'000***	2004 *US$'000*
Decrease in amortisation expenses	**137**	182

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) *US$'000*	**Effect of HKAS 17** *US$'000*	**As at 31st December, 2004 (restated)** *US$'000*	**Effect of HKAS 39** *US$'000*	**As at 1st January, 2005 (restated)** *US$'000*
Balance sheet items					
Property, plant and equipment	79,679	(12,256)	67,423	–	67,423
Trade and other receivables	15,074	–	15,074	107	15,181
Prepaid lease payments	–	5,668	5,668	–	5,668
Deferred tax liabilities	(3,460)	1,820	(1,640)	–	(1,640)
Bank borrowings	(30,443)	–	(30,443)	(107)	(30,550)
Other assets and liabilities	42,347	–	42,347	–	42,347
Total effects on assets and liabilities	103,197	(4,768)	98,429	–	98,429
Share capital and other reserves	26,560	–	26,560	–	26,560
Accumulated profits	68,263	1,102	69,365	–	69,365
Revaluation reserve	8,374	(5,870)	2,504	–	2,504
Total effect on equity	103,197	(4,768)	98,429	–	98,429

The financial effects of the application of the new HKFRS to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated *US$'000*	Effect of HKAS17 *US$'000*	As restated *US$'000*
Share capital and other reserves	27,974	–	27,974
Accumulated profits	70,288	920	71,208
Assets revaluation reserve	8,081	(5,571)	2,510
Total effects on equity	106,343	(4,651)	101,692

4. Segment information

Turnover represents the amounts received and receivable for goods sold by the Group to customers, less returns and allowances, during the year.

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:

2005

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Consolidated *US$'000*
TURNOVER					
External sales	87,313	20,550	24,464	8,915	141,242
RESULTS					
Segment results	9,724	2,289	2,724	991	15,728
Other income					859
Unallocated corporate expenses					(12,736)
Share of results of associates	–	181	–	–	181
Share of results of jointly controlled entities	–	(76)	–	–	(76)
Interest on bank borrowings wholly repayable within five years					(1,199)
Profit before taxation					2,757
Taxation					(290)
Profit for the year					2,467

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
BALANCE SHEET					
ASSETS					
Segment assets	7,642	1,799	2,141	779	12,361
Investments in associates	–	1,012	–	–	1,012
Investment in jointly controlled entities	–	2,423	–	–	2,423
Unallocated corporate assets					130,293
Consolidated total assets					146,089
LIABILITIES					
Unallocated corporate liabilities and consolidated total liabilities					44,003

2005

OTHER INFORMATION

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
Impairment loss on trade receivable	364	–	–	–	364
Capital additions	2,687	632	753	274	4,346

2004

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000 (restated)
TURNOVER					
External sales	104,615	23,392	10,200	5,497	143,704
RESULTS					
Segment results	10,443	2,335	1,019	548	14,345
Other income					1,156
Unallocated corporate expenses					(14,222)
Share of results of associates	–	313	–	–	313
Share of results of jointly controlled entities	–	64	–	–	64
Interest on bank borrowings wholly repayable within five years					(649)
Impairment loss and write-off in respect of an investment security					(2,328)
Loss before taxation					(1,321)
Taxation					421)
Loss for the year					(900)

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000 (restated)
BALANCE SHEET					
ASSETS					
Segment assets	8,626	1,929	841	453	11,849
Investments in associates	–	831	–	–	831
Investment in jointly controlled entities	–	2,499	–	–	2,499
Unallocated corporate assets					127,067
Consolidated total assets					142,246
LIABILITIES					
Unallocated corporate liabilities and consolidated total liabilities					43,817

2004

OTHER INFORMATION

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
Impairment loss on trade receivables	362	–	–	–	362
Capital additions	3,690	825	360	194	5,069

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

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	
	2005 US$'000	2004 US$'000 (restated)	**2005 US$'000**	2004 US$'000
PRC	**108,584**	103,128	**4,341**	4,134
Hong Kong	**35.788**	37,907	**5**	911
Taiwan	**1,717**	1,211	**–**	24
	146,089	142,246	**4,346**	5,069

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.

5. Profit (loss) before taxation

	2005 *US$'000*	2004 *US$'000* (restated)
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**802**	727
Other staff costs	**32,985**	31,458
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**1,462**	1,188
Total staff costs	**35,249**	33,373
Auditors' remuneration	**137**	96
Depreciation and amortisation of property, plant and equipment	**8,162**	8,421
Loss on disposal of property, plant and equipment	**101**	6
Impairment loss on trade receivable	**364**	362
Net foreign exchange losses	**29**	–
and after crediting:		
Interest income	**107**	76
Net foreign exchange gain	**–**	225

6. Taxation

	2005 *US$'000*	2004 *US$'000*
Current taxation:		
– Hong Kong	**9**	11
– People's Republic of China (the "PRC")	**256**	268
– Taiwan	**27**	(2)
	292	277
Over provision in prior years:		
– Hong Kong	**(2)**	–
– PRC	**–**	(7)
	(2)	(7)
Deferred taxation:		
– Current year	**–**	(691)
Taxation attributable to the company and its subsidiary	**290**	(421)

7. Dividends

	2005 *US$'000*	2004 *US$'000*
2004 Interim, paid – HK1 cent per ordinary share	**–**	943
Final, proposed – HK 1 cent (2004: Nil) per ordinary share	**943**	–
	943	943

For the year ended 31st December, 2005, the final dividend of HK1 cent per share had been proposed by the directors and was subject to approval by the shareholders in general meeting.

8. Earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the profit attributable to shareholders of the Company of approximately US$2,467,000 (2004: loss of approximately of US$900,000) and on the weighted average number of 730,700,000 (2004: 730,700,000) ordinary shares in issue during the year.

No diluted earnings per share for the years ended 31st December, 2005 and 2004 have been presented because there are no potential ordinary shares outstanding.

The following table summarises the impact on basic earnings (loss) per share as a result of:

	2005	2004
	US cents	*US cents*
Reported figures before adjustments	**0.34**	(0.15)
Adjustments arising from changes in accounting policies	**–**	0.03
	0.34	(0.12)

FINAL DIVIDEND

The Directors proposed a final dividend of Hong Kong 1 cent per ordinary share for the year ended 31st December, 2005 to shareholders whose name appear on the register of members of the Company on 17th May, 2006. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or before 24th May, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15th May, 2006 to Wednesday 17th May, 2006, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday 12th May, 2006.

BUSINESS REVIEW AND PROSPECTS

RESULTS

The Group's performance for 2005 is highlighted as follows:

– Turnover was US$141,242,000 (2004: US$143,704,000)

– Profit for the year US$2,467,000 (2004: loss for the year US$900,000)

During the year, the Group has rigidly controlled its quality and delivery of products, as well as cut down both administrative and sales costs, whilst gross profit still maintained at 16.5% amidst the rise of staff costs.

INDUSTRY REVIEW

Overall business was approximately the same as that of 2004, with neither obvious fall nor growth.

BUSINESS REVIEW

PRODUCT MIX

In 2005, the Group's product mix comprised sports scandals (13%), casual shoes (22%), athletic shoes (60%) and others (5%). The Group will strive to develop new products so as to further step forward for product diversification.

GEOGRAPHICAL MARKET SEGMENTS

North America remained the largest export market of the Group, accounting for 62% of its turnover for 2005. Turnover contribution from the European and Asian markets were 17% and 15% respectively.

DOMESTIC SALES IN THE PRC

The Group's domestic sales was approximately the same as that of 2004 and the number of sales outlets of Group in the PRC stood at around 120.

LEAN MANAGEMENT

To further strengthen its internal management, the Group implemented the concept of lean operation system with an emphasis on its production process and segmented management, with a view to enhance its administration and production efficacy. By the end of 2005, the Group increased the number of production lines based on the concept of lean operating system to 22. It is intended that the transformation of all traditional production lines will be completed by the end of October 2006. Through transformation of production lines and lean management of each production process, flow and segment, the overall efficacy has been greatly enhanced.

SOCIAL RESPONSIBILITY

The Group has emphasized the physical and psychological needs of its staff. The Group has not only provided a better living and working environment than its competitors for its staff, but also offered them with chances to learn and grow up through training and internal appraisal in order to attract and retain calibers and to actively manage the issue of the increasingly deficiency in workforce. In addition, the Group has particularly emphasized on the nurture of corporate culture, the establishment of learning-based organization as well as an efficient and harmonious team, thereby further strengthened the centripetal and cohesion within the Group.

OBJECTIVE AND RESULTS MANAGEMENT

During the year, the Group devoted to its objective and results management by setting objectives and defining responsibilities on group, departmental and individual basis and through assessment and incentives, aiming to enhance its overall operating results.

FUTURE PROSPECTS

According to the order placement in 2006, the Group expects the turnover from future exports to North American market will grow steadily. With the discrepancy in staff costs and the enhancement of the shoes production expertise in the PRC, European brands are increasingly tended to purchase shoes products from the PRC market. However, Europe's anti-dumping investigation has impeded the expansion of the Group's turnover from the European market. In light of the rapid and unpredictable market changes, continued rise in staff costs and unstable material prices, the shoes industry is still facing great challenges so that the Group has to maintain a prudent business operation by exploring more sources of income and adopting cost-saving measures. Moreover, the Group has to respond swiftly to the market in order to maintain a reasonable profit growth.

CONCLUSION

The Group is committed to enhance its competitiveness on product quality, efficiency, efficacy, delivery and speed and customer services, and to build up a higher standard within the industry by nurturing calibers, lean operating system and objective and results management, with a view to becoming the leading enterprise in the industry and realizing its objective of long-term development.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. Total assets as at 31st December, 2005 amounted to US$146,089,000, 2.7% or US$3,843,000 higher than 2004. The Group's shareholders' funds increased by 3.7% or US$3,657,000 to US$102,086,000. The ratio of net bank borrowings to shareholders' funds remained at a healthy level of approximately 16.9%. As at 31st December, 2005, the Group had a strong financial liquidity position as revealed by a current ratio of 2.6 times. There was no charge on the fixed assets of the Group.

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

During the year ended 31st December, 2005, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

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

In November, 2004, The Stock Exchange of Hong Kong Limited promulgated the Code on Corporate Governance Practices (the "Code"), which became effective on 1st January, 2005. The Code provides the code provisions and recommended best practices for corporate governance.

During the financial year ended 31st December, 2005, the Company complied with all requirements set out in the Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with deviation from Code provision A.4.1, A.4.2 and B.1.1 in respect of the independent non-executive directors should be appointed under a specific terms, the rotation of directors and setting up of a Remuneration Committee with specific terms, respectively. Relevant amendment to the Bye-Laws of the Company to comply with Code provision A.4.2 will be proposed and approved by shareholders of the Company at the forthcoming annual general meeting of the Company to be held in May 2006. A service contract was signed with each of the independent non-executive directors with specific terms in early 2006. Remuneration Committee was set up in early 2006 with specific written terms of reference.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. Having made specify enquiry of all directors, the directors had complied with the required standard set out in the Model Code throughout the year ended 31st December, 2005.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated results for the year ended 31st December, 2005.

By Order of the Board
Wu Chen San,
Thomas
Chairman

Hong Kong, 20th April, 2006

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

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

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

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

Please also refer to the published version of this announcement in SCMP-Classified.