



Since 1956

Pegasus International Holdings Limited
創信國際控股有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

(Stock Code 股份代號 : 676)

INTERIM REPORT 2007 中期報告

The Board of Directors (the “Directors”) of Pegasus International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2007 with comparative figures for the corresponding period in 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30th June, 2007

		Six months ended	
		30th June,	
		2007	2006
		(unaudited)	(unaudited)
	<i>NOTES</i>	US\$'000	<i>US\$'000</i>
Revenue		78,066	73,749
Cost of sales		(65,436)	(61,673)
Gross profit		12,630	12,076
Other income		381	204
Selling and distribution costs		(4,406)	(3,450)
Administrative expenses		(5,634)	(5,801)
Share of results of associates		(3)	85
Share of results of jointly controlled entities		38	58
Interest on bank borrowings wholly repayable within five years		(703)	(683)
Profit before taxation		2,303	2,489
Taxation	4	(236)	(331)
Profit for the period		2,067	2,158
Dividends paid	5	1,414	943
Earnings per share	6		
Basic		0.28 US cent	0.30 US cent

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2007

	NOTES	At 30th June, 2007 (unaudited) US\$'000	At 31st December, 2006 (audited) US\$'000
Non-current assets			
Property, plant and equipment	7	59,875	62,208
Prepaid lease payments		5,187	5,256
Interests in associates		941	944
Interests in jointly controlled entities		2,588	2,550
		68,591	70,958
Current assets			
Inventories		46,296	50,296
Trade and other receivables	8	13,225	14,584
Prepaid lease payments		135	137
Amount due from an associate		22	12
Held for trading investment		353	361
Bank balances and cash		10,935	7,129
		70,966	72,519
Current liabilities			
Trade and other payables	9	12,009	10,468
Tax payable		518	666
Unsecured bank borrowings – due within one year		9,410	14,701
		21,937	25,835
Net current assets			
		49,029	46,684
		117,620	117,642
Capital and reserves			
Share capital	10	9,428	9,428
Reserves		95,415	94,762
Total equity		104,843	104,190
Non-current liabilities			
Unsecured bank borrowings – due after one year		10,375	11,050
Deferred tax liabilities		2,402	2,402
		12,777	13,452
		117,620	117,642

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the Six Months Ended 30th June, 2007*

	Attributable to equity holders of the Company						
	Share capital US\$'000	Share premium US\$'000	Revaluation reserve US\$'000	Merger reserve US\$'000	Dividend reserve US\$'000	Accumulated profits US\$'000	Total US\$'000
At 1st January, 2006	9,428	21,644	3,694	(4,512)	943	70,889	102,086
Profit for the period	-	-	-	-	-	2,158	2,158
Final dividend paid for 2005	-	-	-	-	(943)	-	(943)
Interim dividend declared for 2006	-	-	-	-	943	(943)	-
At 30th June, 2006	9,428	21,644	3,694	(4,512)	943	72,104	103,301
Revaluation increase on buildings	-	-	1,192	-	-	-	1,192
Deferred tax liability arising on revaluation of buildings	-	-	(322)	-	-	-	(322)
Net income recognised directly in equity	-	-	870	-	-	-	870
Profit for the period	-	-	-	-	-	962	962
Total recognised income for the period	-	-	870	-	-	962	1,832
Interim dividend paid for 2006	-	-	-	-	(943)	-	(943)
Final dividend 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
Profit for the period	-	-	-	-	-	2,067	2,067
Final dividend paid for 2006	-	-	-	-	(1,414)	-	(1,414)
Interim dividend declared for 2007	-	-	-	-	935	(935)	-
At 30th June, 2007	9,428	21,644	4,564	(4,512)	935	72,784	104,843

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30th June, 2007

	Six months ended	
	30th June,	
	2007	2006
	(unaudited)	(unaudited)
	US\$'000	US\$'000
OPERATING ACTIVITIES		
Cash generated from operations	13,349	7,705
Taxation in other jurisdictions paid	(384)	(157)
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	12,965	7,548
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Interest received	173	137
Purchase of property, plant and equipment	(1,257)	(1,470)
Decrease (Increase) in held for trading investment	8	(263)
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(1,076)	(1,596)
	<hr/>	<hr/>
FINANCING ACTIVITIES		
Dividends paid	(1,414)	(943)
Interest paid	(703)	(683)
Bank loans raised	3,000	-
Repayment of bank loans	(7,995)	(7,720)
Net decrease in trust receipts loans	(971)	(2,045)
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(8,083)	(11,391)
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,806	(5,439)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	7,129	12,525
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	10,935	7,086
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 *Interim Financial Reporting*. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st December, 2006.

2. SEGMENT INFORMATION

Geographical segments

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

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

Six months ended 30th June, 2007

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

2. SEGMENT INFORMATION (Continued)**Geographical segments** (Continued)

At 30th June, 2007

	North America US\$'000	Asia US\$'000	Europe US\$'000	Others US\$'000	Consolidated US\$'000	
BALANCE SHEET						
ASSETS						
Interests in associates	-	941	-	-	941	
Interests in jointly controlled entities	-	2,588	-	-	2,588	
Unallocated corporate assets					<u>136,028</u>	
Consolidated total assets					<u>139,557</u>	
LIABILITIES						
Unallocated corporate liabilities and consolidated total liabilities					<u>34,714</u>	
	North America US\$'000	Asia US\$'000	Europe US\$'000	Others US\$'000	Unallocated US\$'000	Consolidated US\$'000
OTHER INFORMATION						
Capital additions	-	-	-	-	1,257	1,257
Depreciation	-	-	-	-	3,590	3,590

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

2. SEGMENT INFORMATION *(Continued)***Geographical segments** *(Continued)*

Six months ended 30th June, 2006

	North America <i>US\$'000</i>	Asia <i>US\$'000</i>	Europe <i>US\$'000</i>	Others <i>US\$'000</i>	Consolidated <i>US\$'000</i>
REVENUE					
External sales	<u>37,782</u>	<u>10,771</u>	<u>21,747</u>	<u>3,449</u>	<u>73,749</u>
RESULTS					
Segment results	<u>5,479</u>	<u>1,163</u>	<u>3,153</u>	<u>500</u>	10,295
Other income					204
Unallocated corporate expenses					(7,470)
Share of results of associates					85
Share of results of jointly controlled entities					58
Interest on bank borrowings wholly repayable within five years					<u>(683)</u>
Profit before taxation					2,489
Taxation					<u>(331)</u>
Profit for the period					<u>2,158</u>

2. SEGMENT INFORMATION (Continued)**Geographical segments** (Continued)

At 31st December, 2006

	North America US\$'000	Asia US\$'000	Europe US\$'000	Others US\$'000	Consolidated US\$'000
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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

LIABILITIESUnallocated 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
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OTHER INFORMATION

Capital additions	-	-	-	-	1,470	1,470
Depreciation	-	-	-	-	4,337	4,337

2. 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	
	30th June, 2007 US\$'000	31st December, 2006 US\$'000	Six months ended 30th June, 2007 US\$'000	2006 US\$'000
PRC	101,127	107,037	1,257	1,470
Hong Kong	23,354	24,274	–	–
Taiwan	237	1,170	–	–
	<u>124,718</u>	<u>132,481</u>	<u>1,257</u>	<u>1,470</u>

Business segments

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

3. PROFIT BEFORE TAXATION

	Six months ended 30th June,	
	2007 US\$'000	2006 US\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	535	326
Other staff costs	18,985	16,657
Retirement benefits scheme contributions (excluding contributions in respect of directors)	982	809
Total staff costs	20,502	17,792
Auditors' remuneration	45	45
Depreciation and amortisation of property, plant and equipment	3,590	4,337
and after crediting:		
Interest income	173	137

4. TAXATION

	Six months ended 30th June,	
	2007 <i>US\$'000</i>	2006 <i>US\$'000</i>
Current taxation:		
Hong Kong	1	4
PRC	234	324
Taiwan	1	3
	<hr/>	<hr/>
Taxation attributable to the Company and its subsidiaries	236	331
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% (2006: 17.5%) for the six months ended 30th June, 2007.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the annual income tax rates expected for the full financial year. The estimated annual tax rates used are 27% or 33% (2006: 27% or 33%) for the six months ended 30th June, 2007.

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

5. DIVIDENDS

On 25th May, 2007, a dividend of HK1.5 cents per share (2006: HK1 cent) was paid to shareholders as the final dividend for 2006.

The directors have determined that an interim dividend of HK1 cent per share (2006: HK 1 cent) should be paid to the shareholders of the Company whose name appear of the Register of Member on 22nd October, 2007.

6. EARNINGS PER SHARE

For the six months ended 30th June, 2007, the calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company of US\$2,067,000 (six months ended 30th June, 2006: US\$2,158,000) and on the weighted average number of 730,700,000 (2006: 730,700,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30th June, 2007 and 2006 have been presented because there are no potential dilutive ordinary shares outstanding.

7. PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately US\$1,257,000 (six months ended 30th June, 2006: US\$1,470,000) on additions to property, plant and equipment.

8. TRADE AND OTHER RECEIVABLES

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

	30th June, 2007 US\$'000	31st December, 2006 US\$'000
0-30 days	9,846	9,853
31-60 days	1,517	1,466
>60 days	425	1,093
	<hr/>	<hr/>
Total trade receivables	11,788	12,412
Other receivables	1,437	2,172
	<hr/>	<hr/>
	13,225	14,584
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE AND OTHER PAYABLES

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

	30th June, 2007 US\$'000	31st December, 2006 US\$'000
0-30 days	5,116	3,380
31-60 days	468	911
>60 days	635	509
Total trade payables	6,219	4,800
Other payables	5,790	5,668
	12,009	10,468

10. SHARE CAPITAL

	Number of shares	Amount US\$'000
Authorised		
<i>Ordinary shares of HK\$0.10 each</i>		
At 1st January, 2006, 31st December, 2006 and 30th June, 2007	1,500,000,000	19,355
<i>Convertible non-voting preference shares of US\$100,000 each</i>		
At 1st January, 2006, 31st December, 2006 and 30th June, 2007	150	15,000
		34,355
Issued and fully paid		
<i>Ordinary shares of HK\$0.10 each</i>		
At 1st January, 2006, 31st December, 2006 and 30th June, 2007	730,700,000	9,428

11. COMMITMENTS

	30th June, 2007 US\$'000	31st December, 2006 US\$'000
Contracted for but not provided in the financial statements:		
– use of copyright licence (<i>note</i>)	1,290	2,292

Note: 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 are based on certain fixed percentages of the selling prices for items sold. In addition, the Group has guaranteed to pay minimum royalties to the licensors throughout the contract period as stated above.

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of 1 Hong Kong cent per ordinary share for the six months ended 30th June, 2007 to shareholders whose names appear on the register of members on 22nd October, 2007. The dividend warrants will be sent to shareholders on or before 26th October, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15th October, 2007 to Thursday, 18th October, 2007, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 12th October, 2007.

FINANCIAL REVIEW

During the six months ended 30th June, 2007, the Group continued to concentrate on the manufacture and sales of footwear products. For the six months ended 30th June, 2007, the Group achieved a turnover of US\$78,066,000 (2006: US\$73,749,000) despite the continuously changing operating environment. Compared with the six months ended 30th June, 2006, the turnover increased by 5.9%.

Profit of the Group for the six months ended 30th June, 2007 was US\$2,067,000 (2006: US\$2,158,000). Basic earnings per share for the six months ended 30th June, 2007 was 0.28 US cents (2006: 0.30 US cents). Although the continued surge of labor cost, the group managed to maintain its gross profit margin at approximately 16% for both periods.

BUSINESS REVIEW AND FUTURE PROSPECTS

Despite the continuous pressure faced by the manufacturing industry over the first half of the year dealing with the short supply of labor force, increase in wage and appreciation of RMB to US dollars, the turnover of the Group have experienced growth through the joint efforts of our staff in streamlining the management system, maximizing the efficiency and reducing the waste.

BUSINESS REVIEW AND FUTURE PROSPECTS *(Continued)*

Regarding the business strategy, the Group strives to optimize the customers mix, aiming for a long term cooperation and mutual growth, so as to strengthen the business relationship with the customers who have established a reliable and long-term relationship with us. In order to cater our customers needs, the Group continuously enhance the delivery terms, and quality and service management through the lean production management model. In addition, the Group proactively assists our customers' business strategy development by employing professional talents and deploying resources in high-tech equipments.

Shortage of labor force and increase in labour cost are the biggest challenges of the manufacturing business. To cope with this challenge, the Group continuously strengthens the cohesion of our corporate through various activities to attract and retain excellent talents. The Group intended to optimize the living and working conditions through a theme called "Happy Land", in order to advocate interpersonal relationship through various team work activities, improve professionalism through training and practice, encourage our staff to participate in management and initiate innovation through project management and innovative activities, and to equip the staff's personal development through a transparent promotion path and career planning. The theme of "Happy Land" inspires the staff to take their own initiative and to perform their duties delightedly, thus stabilizing our quality, reducing the waste and improving the overall management efficiency of the Group. As a result, the proportion of labor cost to turnover is able to maintain at a rational level, it also provides a stable source of human capital for the continuous growth of the Group.

The Chinese economy keeps growing, while the domestic market keeps expanding. The Group puts endless efforts in launching new retail and wholesale business in China under the business strategy of optimized integration. It is the Group's mission to become a market leader in retailing and wholesaling of shoes, clothing and accessories in China. In the first half of 2007, the Company has established various retail agreements with famous brands like Nike, Adidas, New Balance and Ecco, which further broadened our sales channels. With over two years experience in brand development, products integration and sales channels construction, the Group has established its own domestic sales structure, the number of sales channels keeps climbing.

Labor cost is increasing while RMB is appreciating. Our overseas sales are facing a serious challenge. The Group will continue to strengthen its management efficiency and improves its quality of products and service, so to enhance our customers' confidence towards a long term cooperation. The Group will actively explore the domestic markets in China, seize opportunities, expand its market share and enhance profit margin so as to create promising retruns for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2007, the Group's total net assets was US\$104,843,000, comprising mainly current assets of US\$70,966,000, non-current assets of US\$68,591,000, current liabilities of US\$21,937,000 and non-current liabilities of US\$12,777,000. The current ratio was approximately 3.23 times and the ratio of net bank borrowings to shareholders' fund was approximately 8.4%. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2007, the interests of the directors and their associates in the share, underlying share or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinances (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wu Jenn Chang, Michael	Beneficial owner	8,000,000	1.09%
Wu Jenn Tzong, Jackson	Beneficial owner	1,000,000	0.14%
		<u>9,000,000</u>	<u>1.23%</u>

DIRECTORS' INTERESTS IN SHARES *(Continued)***Long positions** *(Continued)**(b) Ordinary shares of the associated corporations of the Company*Pegasus Footgear Management Limited *(note 1)*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the associated corporation
Wu Chen San, Thomas	Beneficial owner <i>(note 2)</i>	3,235	16%
Wu Jenn Chang, Michael	Corporate <i>(note 3)</i>	6,470	32%
Wu Jenn Tzong, Jackson	Corporate <i>(note 4)</i>	6,470	32%
		16,175	80%

Notes:

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

Save as disclosed above, at 30th June, 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 period was the Company, its holding company, or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 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' Interests in Shares", the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Long position

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company %
Pegasus Footgear Management Limited (note)	Beneficial owner	468,743,940	64

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30th June, 2007.

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

During the six months ended 30th June, 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30th June, 2007 with the code provisions set out in the Code on Governance Report contained in Appendix 14 to the Listing Rules.

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 15th September, 2007

