PEGASUS INTERNATIONAL HOLDINGS LIMITED

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 31 December 2012 with comparative figures for the corresponding period in 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	**2012** *US$'000*	2011 *US$'000*
Revenue	*3*	**96,408**	101,987
Cost of sales		**(83,741)**	(84,950)
Gross profit		**12,667**	17,037
Other income		**4,137**	601
Selling and distribution costs		**(5,490)**	(7,737)
General and administrative expenses		**(8,490)**	(10,212)
Share of profit (loss) of an associate		**108**	(5)
Share of loss of a jointly controlled entity		**–**	(886)
Interest on bank borrowings wholly repayable within five years		**(40)**	(112)
Profit (loss) before taxation	*4*	**2,892**	(1,314)
Taxation	*5*	**(687)**	(2,822)
Profit (loss) for the year attributable to owners of the Company		**2,205**	(4,136)
Other comprehensive (expense) income			
Exchange differences arising on translation of foreign operations		**710**	6,504
Revaluation decrease on buildings		**(2,029)**	(626)
Deferred tax arising on revaluation of buildings		**507**	156
Reclassification of translation reserve to profit or loss upon disposal of a jointly controlled entity		**(103)**	–
Deferred tax liability reversed on disposal of buildings		**95**	–
Other comprehensive (expense) income for the year, net of tax		**(820)**	6,034
Total comprehensive income for the year attributable to owners of the Company		**1,385**	1,898
Earnings (loss) per share	*7*		
Basic		**0.30 US cents**	(0.57) US cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000
Non-current assets			
Property, plant and equipment		**57,139**	63,028
Prepaid lease payments		**5,778**	6,031
Interests in an associate		**681**	613
Interests in a jointly controlled entity		–	–
		63,598	69,672
Current assets			
Inventories		**36,677**	48,147
Trade and other receivables	8	**11,695**	14,889
Prepaid lease payments		**176**	178
Held for trading investments		**606**	426
Bank balances and cash		**21,902**	7,432
		71,056	71,072
Assets classified as held for sale		–	944
		71,056	72,016
Current liabilities			
Trade and other payables	9	**7,514**	10,648
Unsecured bank borrowings – due within one year		**428**	4,142
Tax payable		**260**	311
		8,202	15,101
Net current assets		**62,854**	56,915
		126,452	126,587
Capital and reserves			
Share capital		**9,428**	9,428
Share premium and reserves		**114,128**	113,685
Total equity		**123,556**	123,113
Non-current liability			
Deferred tax liabilities		**2,896**	3,474
		126,452	126,587

Notes:

1. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies set out in Note 3 to the annual report. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("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 Hong Kong Companies Ordinance.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised standards on consolidation, joint arrangements, associates and disclosures
In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC)-Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards may not have significant impact on amounts reported in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors anticipate that the application of the other new and revised HKFRSs upon their respective effective date will have no material impact on the Group's consolidated financial statements.

3. Segment information

For the purpose of resources allocation and performance assessment, the chief operating decision maker of the Group, being the Group's chief executive officer, regularly reviews the revenue and operating results analysis by geographical market based on destination of the goods shipped or delivered, irrespective of the origin of the goods. The Group's operating segments determined based on location of geographical markets are North America, Asia, Europe and other regions. However, the chief operating decision maker does not regularly review the assets and liabilities by operating segments and hence no analysis of segment assets and segment liabilities are presented.

Segment revenues and results
For the year ended 31 December 2012

	North America	Asia	Europe	Other regions	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
REVENUE					
External sales of goods	**58,599**	**25,995**	**6,921**	**4,893**	**96,408**
RESULTS					
Segment results	**6,884**	**1,821**	**709**	**731**	**10,145**
Unallocated income					**3,930**
Interest income					**207**
Unallocated expenses					**(11,458)**
Share of profit of an associate					**108**
Interest on bank borrowings wholly repayable within five years					**(40)**
Profit before taxation					**2,892**
Taxation					**(687)**
Profit for the year					**2,205**

For the year ended 31 December 2011

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Other regions *US$'000*	Total *US$'000*
REVENUE					
External sales of goods	65,387	21,934	11,124	3,542	101,987
RESULTS					
Segment results	9,136	1,866	1,207	510	12,719
Unallocated income					451
Interest income					150
Unallocated expenses					(13,631)
Share of loss of an associate					(5)
Share of loss of a jointly controlled entity					(886)
Interest on bank borrowings wholly repayable within five years					(112)
Loss before taxation					(1,314)
Taxation					(2,822)
Loss for the year					(4,136)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3 to the annual report. Segment profit represents the profit earned by each segment without allocation of corporate income and expenses, interest income, gain on disposal of a jointly controlled entity, gain on disposal of prepaid lease payments and buildings, gain (loss) on fair value changes of derivative financial instruments and held for trading investments, net exchange gain (loss), central administration costs, directors' emoluments, share of profit (loss) of an associate/a jointly controlled entity and interest on bank borrowings. This is the measure reported to the chief operating decision maker for the purpose of resources allocation and performance assessment.

Other segment information

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Other regions *US$'000*	Operating segment total *US$'000*	Re-conciliations *US$'000*	Total *US$'000*
Amounts included in the measure of segment profit or loss:							
For the year ended 31 December 2012							
Depreciation	1,382	613	163	115	2,273	671	2,944
For the year ended 31 December 2011							
Depreciation	1,570	527	267	85	2,449	681	3,130

The reconciling item is the depreciation of the corporate headquarters building and furniture fixtures and equipment, which is not included in segment profit or loss.

Revenue from major product

The Group's revenue for both years was generated from manufacturing and sales of footwear.

Geographical information

The Group's revenue from external customers based on the destination of the goods shipped or delivered is detailed below:

	2012 ***US$'000***	2011 *US$'000*
United States of America	**57,067**	63,427
People's Republic of China ("PRC")	**9,173**	10,646
Japan	**6,647**	4,420
Belgium	**4,959**	7,273
South Korea	**2,242**	1,530
Others	**16,320**	14,691
	96,408	101,987

The Group's operations are located in the PRC, Hong Kong and Taiwan. The information about its non-current assets by geographical location of the assets and place of operations of relevant associate are detailed below:

	2012	2011
	US$'000	*US$'000*
PRC	**63,591**	69,663
Hong Kong	**4**	5
Taiwan	**3**	4
	63,598	69,672

Information about major customers

Revenue from customers which contributed over 10% to the Group's total revenue for the corresponding years are as follows:

	2012	2011
	US$'000	*US$'000*
Customer A	**65,025**	63,356
Customer B	**16,684**	17,929

The revenue of the above customers sourced from their various locations in North America, Asia and Europe.

4. Profit (loss) before taxation

	2012	2011
	US$'000	*US$'000*
Profit (loss) before taxation has been arrived at after charging:		
Directors' emoluments	**430**	419
Other staff costs	**29,858**	33,415
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**2,056**	1,779
Total staff costs	**32,344**	35,613
Auditor's remuneration	**148**	156
Cost of inventories recognised as an expense	**83,741**	84,950
Depreciation for property, plant and equipment	**2,944**	3,130
Loss on disposal of plant and equipment*	**100**	4
Loss on fair value changes of held for trading investments*	**–**	173
Net foreign exchange losses*	**–**	992
Release of prepaid lease payments*	**178**	178
and after crediting to other income:		
Gain on disposal of a jointly controlled entity	**119**	–
Gain on disposal of prepaid lease payments and buildings	**3,500**	270
Gain on fair value changes of derivative financial instruments	**–**	61
Gain on fair value changes of held for trading investments	**160**	–
Interest income	**207**	150
Net foreign exchange gain	**57**	–

* Included in administrative expenses

5. Taxation

	2012	2011
	US$'000	*US$'000*
Current tax:		
Hong Kong Profits Tax	**11**	–
PRC Enterprise Income Tax	**239**	363
PRC Land Appreciation Tax	**282**	–
Taiwan Income Tax	**1**	1
	533	364
Underprovision in prior years:		
PRC Enterprise Income Tax	**154**	2,458
	687	2,822

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

During the year ended 31 December 2011, the Group reached a settlement agreement with a PRC tax authority regarding the Group's transfer pricing arrangements for previous years, resulting in payment of Enterprise Income Tax of approximately US$2,458,000 which was charged to the profit or loss in the year ended 31 December 2011.

The provision for Land Appreciation Tax is calculated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided and paid at ranges of progressive rates of the appreciation value on the disposal of prepaid lease payment and buildings, with certain allowable deductions.

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.

The tax charge for the year can be reconciled to the profit (loss) before taxation per the consolidated statement of comprehensive income as follows:

	2012	2011
	US$'000	*US$'000*
Profit (loss) before taxation	**2,892**	(1,314)
Tax at the domestic income tax rate of 25% (Note)	**723**	(329)
Tax effect of share of (profit) loss of an associate/ a jointly controlled entity	**(27)**	223
Tax effect of expenses not deductible for tax purposes	**338**	318
Tax effect of income not taxable for tax purposes	**(723)**	(644)
Underprovision in respect of prior year	**154**	2,458
Tax effect of tax losses/deductible temporary differences not recognised	**18**	796
Land Appreciation Tax	**282**	–
Effect on Land Appreciation Tax	**(71)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(7)**	–
Tax charge for the year	**687**	2,822

Note: This represents the tax rate in the jurisdiction where the operations of the Group is substantially based.

6. Dividends

	2012	2011
	US$'000	*US$'000*
Dividends recognised as a distribution during the year:		
2012 interim – 0.5 HK cents (2011: 0.5 HK cents) per share	**471**	472
2011 Final – 0.5 HK cents (2011: 2010 final dividend 0.5 HK cents) per share	**471**	471
	942	943

A final dividend of 2.0 HK cents per share in respect of the year ended 31 December 2012 (2011: 0.5 HK cents) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

7. Earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the profit for the year attributable to owners of the Company of US$2,205,000 (2011: loss of US$4,136,000) and on 730,700,000 (2011: 730,700,000) ordinary shares in issue during the year.

There are no potential ordinary shares outstanding for each of the two years ended 31 December 2012.

8. Trade and other receivables

	2012	2011
	US$'000	*US$'000*
Trade receivables	**9,295**	11,000
Consideration receivables from disposal of a jointly controlled entity	**960**	–
Prepayments, deposits and other receivables	**1,440**	3,889
Total trade and other receivables	**11,695**	14,889

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2012	2011
	US$'000	*US$'000*
0-30 days	**7,990**	9,589
31-60 days	**1,214**	1,289
Over 60 days	**91**	122
Total trade receivables	**9,295**	11,000

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits by customer. Limits attributed to customers are reviewed periodically. 99% (2011: 99%) 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 an aggregate carrying amount of US$91,000 (2011: US$122,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which were past due but not impaired

	2012	2011
	US$'000	*US$'000*
61-90 days	**6**	47
91-120 days	**1**	4
Over 121 days	**84**	71
Total	**91**	122

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 are generally not recoverable.

9. Trade and other payables

The following is an aged analysis of accounts payable presented based on invoice date at the end of the reporting period:

	2012	2011
	US$'000	*US$'000*
0-30 days	**1,775**	3,752
31-60 days	**116**	177
Over 60 days	**217**	210
Total trade payables	**2,108**	4,139
Other payables	**5,406**	6,509
	7,514	10,648

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 settled within the credit timeframe.

FINAL DIVIDEND

The Directors proposed a final dividend of 2.0 HK cents per ordinary share for the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company on 7 June 2013. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or before 14 June 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 May 2013 to Friday, 31 May 2013, both days inclusive, during which no transfer of shares will be registered. In order to qualify for attending and voting at the forth coming annual general meeting, all transfer documents accompanied by the relevant share certificate 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 that 4:30 p.m. on Tuesday, 28 May 2013.

In addition, the register of members of the Company will be closed from Thursday, 6 June 2013 to Friday, 7 June 2013, 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 certificate 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 that 4:30 p.m. on Wednesday, 5 June 2013.

RESULTS REVIEW

Results

I am pleased to present our annual results for the year ending 31 December 2012. The Group recorded the net profit after taxation of US$2,205,000 (2011: net loss after taxation of US$4,136,000), and the slight decrease of turnover from US$101,987,000 in 2011 to US$96,408,000 in this year. The gross profit margin dropped from 16.7% in 2011 to 13.1% in the year.

Geographical Market

North America remains the largest export market of the Group, accounting for 60.8% of the Group's turnover. Turnover contribution from the Asian and European market and other regions represented 27.0%, 7.2% and 5.1% respectively.

BUSINESS REVIEW

In 2012, the economy downturn still remains in the global major consumption markets with the consumer's consumption habits tending to be conservative. However, benefitting from the cooperation with major customers, improvements in all aspects and many perspectives and efforts committed to the operation, the Group recorded flat results.

Domestic Market

Currently, the domestic market in China faces growth slowdown, fierce competition and gradual saturation. In order to cope with the increasing operating costs, the Group maintains a prudent development strategy to slow down the pace of expansion.

SOCIAL RESPONSIBILITY

We commit ourselves to the needs of the staff and the local community all the time. We have improved the production safety continuously and will provide proper trainings to the employees at all levels so as to enhance their efficiencies.

The Group will as always continue to contribute the community by donating to the charity foundation under the spirit of "From Society and For Society".

FUTURE PROSPECTS

The year of 2013 will see the economic tendency of slow recovery in the major consumption markets. With continuous internal improvements, coupled with strict cost control and quality assurance, we believe that our performance should have an optimistic growth in the future.

APPRECIATION

I would like to give my most sincere recognitions to all the Board Members, executives and staffs of the Group for their dedications and contributions. I, on behalf of the Group, would also like to express our deepest gratitude to our business partners and shareholders for their trust and continual supports.

FINANCIAL REVIEW

During the year ended 31 December 2012, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31 December 2012, the Group recorded a turnover of US$96,408,000 (2011: US$101,987,000) representing 5.5% decrease comparing to 2011.

Profit before taxation of the Group for the year ended 31 December 2012 was US$2,892,000 (2011: loss before taxation: US$1,314,000), an improvement of US$4,206,000 as compared to the corresponding period in 2011. After accounting for income taxes of US$687,000, resulted a profit after taxation of US$2,205,000 (2011: loss after taxation: US$4,136,000). Basic earnings per share for the year ended 31 December 2012 was 0.30 US cents (basic loss per share for 2011: 0.57 US cents). Gross profit margin decreased to 13.1% in the year. In addition, the Group continued to exercise tight cost control and implemented policies to improve efficiency.

The Group will continue to observe this conservative approach, to stay in low gearing ratio, in formulating resources allocation. The Group had successfully reduced its bank borrowings by US$3,714,000 in 2012 as compared to 2011. This, helped to reduce the interest expenses by US$72,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. Under the global finance crisis, the Group put great effort to maintain a healthy and strong financial position, and the main focus was cash flow management. Trade receivables were reviewed regularly to ensure that were neither past due nor impaired, and trade payables were scheduled to match our cash flow pattern. Spending, capital expenditure, other than necessary, were greatly controlled. As at 31 December 2012, the Group had cash and cash equivalent of US$21,902,000 (2011: US$7,432,000) and total borrowings of US$428,000 (2011: US$4,142,000), and reached the net bank balances and cash of US$21,474,000 (US$3,290,000 in 2011). As at 31 December 2012 the Group's solid financial liquidity position was reflected by a healthy current ratio of 8.7 (2011: 4.8) times.

CAPITAL EXPENDITURE

For the year ended 31 December 2012, the Group incurred US$420,000 in capital expenditure, of which approximately 60% was used in acquisition and replacement of plant and machinery.

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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

During the year ended 31 December 2012, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

During the financial year ended 31 December 2012, the Company complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and such amendments and revisions under the Corporate Governance Code effective from 1 April 2012.

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 31 December 2012.

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 financial statements for the year ended 31 December 2012.

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 27 March 2013

As at the date of this announcement, the executive directors are Mr. Wu Chen San, Thomas, Mr. Wu Jenn Chang, Michael, Mr. Wu Jenn Tzong, Jackson and Mr. Ho Chin Fa, Steven. The independent non-executive directors are Mr. Huang Hung Ching, Mr. Lai Jenn Yang, Jeffrey and Mr. Liu Chung Kang, Helios.

The electronic version of this announcement will be published on the website of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the website of the Company (www.pegasusinternationalholdings.com).