# PEGASUS INTERNATIONAL HOLDINGS LIMITED

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

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 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 2014 with comparative figures for the corresponding period in 2013.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*FOR THE YEAR ENDED 31 DECEMBER 2014*

| | *NOTES* | **2014** **US$'000** | 2013 *US$'000* |
|---|---|---|---|
| Revenue | 3 | **77,579** | 75,121 |
| Cost of sales | | **(65,223)** | (61,573) |
| Gross profit | | **12,356** | 13,548 |
| Other income | | **1,039** | 741 |
| Selling and distribution costs | | **(3,513)** | (4,334) |
| General and administrative expenses | | **(8,295)** | (8,412) |
| Share of loss of an associate | | **(14)** | (14) |
| Interest on bank borrowings wholly repayable within five years | | **–** | (1) |
| Profit before tax | 4 | **1,573** | 1,528 |
| Tax expense | 5 | **(167)** | (160) |
| Profit for the year attributable to owners of the Company | | **1,406** | 1,368 |
| **Other comprehensive (expense) income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translating foreign operations | | **(1,353)** | 690 |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Revaluation increase on buildings | | **175** | 664 |
| Deferred tax recognised on revaluation of buildings | | **(44)** | (166) |
| | | **131** | 498 |
| Other comprehensive (expense) income for the year, net of tax | | **(1,222)** | 1,188 |
| Total comprehensive income for the year attributable to owners of the Company | | **184** | 2,556 |
| Earnings per share | 7 | | |
| Basic | | **0.19 US cents** | 0.19 US cents |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AT 31 DECEMBER 2014*

| | NOTES | **2014** **US$'000** | 2013 *US$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **55,993** | 58,265 |
| Prepaid lease payments | | **5,542** | 5,737 |
| Interest in an associate | | **573** | 587 |
| | | **62,108** | 64,589 |
| Current assets | | | |
| Inventories | | **27,705** | 33,611 |
| Trade and other receivables | *8* | **9,704** | 9,050 |
| Prepaid lease payments | | **184** | 184 |
| Held for trading investments | | **3,855** | 617 |
| Bank balances and cash | | **27,517** | 26,306 |
| | | **68,965** | 69,768 |
| Current liabilities | | | |
| Trade and other payables | *9* | **7,628** | 7,761 |
| Tax payable | | **574** | 174 |
| | | **8,202** | 7,935 |
| Net current assets | | **60,763** | 61,833 |
| | | **122,871** | 126,422 |
| Capital and reserves | | | |
| Share capital | | **9,428** | 9,428 |
| Share premium and reserves | | **110,264** | 113,857 |
| Total equity | | **119,692** | 123,285 |
| Non-current liability | | | |
| Deferred tax liabilities | | **3,179** | 3,137 |
| | | **122,871** | 126,422 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2014*

### 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 ("HKFRSs") 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 HKFRSs

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA for the first time in the current year.

**Amendments to HKFRSs and the new interpretation that are mandatorily effective for the current year**

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC)-Int 21 | Levies |

The application of the new and revised 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.

**New and revised HKFRSs in issue but not yet effective**

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[3] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[5] |
| Amendments to HKAS 1 | Disclosure Initiative[5] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[5] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[5] |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[5] |
| Amendments to HKFRS 10 and HKAS 28 | Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[5] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010-2012 Cycle[6] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011-2013 Cycle[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle[5] |

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
[3] Effective for annual periods beginning on or after 1 January 2017.
[4] Effective for annual periods beginning on or after 1 July 2014.
[5] Effective for annual periods beginning on or after 1 January 2016.
[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

**HKFRS 9 "Financial Instruments"**

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in Note 6 to the annual report.

The directors anticipate that the application of the 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 revenue and results**
**For the year ended 31 December 2014**

| | North America | Asia | Europe | Other regions | Total |
|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| REVENUE | | | | | |
| External sales of goods | **51,692** | **12,312** | **7,596** | **5,979** | **77,579** |
| RESULTS | | | | | |
| Segment results | **9,382** | **1,008** | **854** | **670** | **11,914** |
| Unallocated income | | | | | **546** |
| Interest income | | | | | **493** |
| Unallocated expenses | | | | | **(11,366)** |
| Share of loss of an associate | | | | | **(14)** |
| Profit before tax | | | | | **1,573** |
| Tax expense | | | | | **(167)** |
| Profit for the year | | | | | **1,406** |

For the year ended 31 December 2013

| | North America US$'000 | Asia US$'000 | Europe US$'000 | Other regions US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales of goods | 49,521 | 13,688 | 5,926 | 5,986 | 75,121 |
| RESULTS | | | | | |
| Segment results | 9,670 | 1,287 | 756 | 777 | 12,490 |
| Unallocated income | | | | | 371 |
| Interest income | | | | | 370 |
| Unallocated expenses | | | | | (11,688) |
| Share of loss of an associate | | | | | (14) |
| Interest on bank borrowings wholly repayable within five years | | | | | (1) |
| Profit before tax | | | | | 1,528 |
| Tax expense | | | | | (160) |
| Profit for the year | | | | | 1,368 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the profit earned by each segment without allocation of corporate income and expenses, interest income, loss/gain on fair value changes of held for trading investments, net exchange loss/gain, central administration costs, directors' emoluments, share of loss of an associate 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 2014** | | | | | | | |
| Depreciation | **1,775** | **423** | **261** | **205** | **2,664** | **488** | **3,152** |
| **For the year ended 31 December 2013** | | | | | | | |
| Depreciation | 1,590 | 440 | 190 | 192 | 2,412 | 495 | 2,907 |

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:

| | **2014** ***US$'000*** | 2013 *US$'000* |
|---|---|---|
| United States of America | **46,125** | 43,223 |
| People's Republic of China ("PRC") | **4,006** | 6,040 |
| Japan | **1,681** | 1,898 |
| Belgium | **5,456** | 4,650 |
| South Korea | **2,839** | 1,560 |
| Others | **17,472** | 17,750 |
| | **77,579** | 75,121 |

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

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| PRC | **62,058** | 64,587 |
| Hong Kong | **49** | 1 |
| Taiwan | **1** | 1 |
| | **62,108** | 64,589 |

**Information about major customers**

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

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Customer A | **61,484** | 57,161 |

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

## 4. Profit before tax

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Profit before tax has been arrived at after charging: | | |
| Directors' emoluments | **418** | 440 |
| Other staff costs | **27,531** | 27,839 |
| Retirement benefits scheme contributions (excluding contributions in respect of directors) | **1,973** | 2,286 |
| Total staff costs | **29,922** | 30,565 |
| Auditor's remuneration | **151** | 148 |
| Cost of inventories recognised as an expense | **65,223** | 61,573 |
| Depreciation of property, plant and equipment | **3,152** | 2,907 |
| Write-down of inventories | **748** | 668 |
| Loss on fair value changes of held for trading investments | **40** | – |
| Release of prepaid lease payments | **190** | 176 |
| Net foreign exchange loss | **–** | 392 |
| and after crediting to other income: | | |
| Gain on fair value changes of held for trading investments | **–** | 25 |
| Interest income | **493** | 370 |
| Net foreign exchange gain | **156** | – |

## 5. Tax expense

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current tax: | | |
| Hong Kong Profits Tax | **19** | 12 |
| PRC Enterprise Income Tax | **253** | 120 |
| | **272** | 132 |
| (Over) underprovision in prior years: | | |
| Hong Kong Profits Tax | **(5)** | – |
| PRC Enterprise Income Tax | **(100)** | 28 |
| | **167** | 160 |

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.

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 before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Profit before tax | **1,573** | 1,528 |
| Tax at the domestic income tax rate of 25% (note) | **393** | 382 |
| Tax effect of share of loss of an associate | **4** | 4 |
| Tax effect of expenses not deductible for tax purposes | **380** | 306 |
| Tax effect of income not taxable for tax purposes | **(862)** | (954) |
| (Over) underprovision in respect of prior year | **(105)** | 28 |
| Tax effect of tax losses not recognised | **343** | 399 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **14** | (5) |
| Tax charge for the year | **167** | 160 |

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

## 6. Dividends

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Dividends recognised as a distribution during the year: | | |
| 2014 interim – 2.0 HK cents (2013: 1.0 HK cents) per share | **1,885** | 942 |
| 2013 Final – 2.0 HK cents (2013: 2012 final dividend 2.0 HK cents) per share | **1,885** | 1,885 |
| | **3,770** | 2,827 |

A final dividend of 3.0 HK cents per share in respect of the year ended 31 December 2014 (2013: 2.0 HK cents) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 7. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of US$1,406,000 (2013: US$1,368,000) and on the weighted average number of ordinary shares of 730,697,000 (2013: 730,700,000) in issue during the year.

There are no potential ordinary shares outstanding for each of the two years ended 31 December 2014.

## 8. Trade and other receivables

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Trade receivables | **8,331** | 6,294 |
| Other receivables | **1,373** | 2,756 |
| Total trade and other receivables | **9,704** | 9,050 |

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:

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0-30 days | **7,940** | 5,592 |
| 31-60 days | **372** | 414 |
| Over 60 days | **19** | 288 |
| Total trade receivables | **8,331** | 6,294 |

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% (2013: 95%) 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$19,000 (2013: US$288,000) which are past due at the end of the reporting period 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

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 61-90 days | **3** | 252 |
| 91-120 days | **10** | – |
| Over 121 days | **6** | 36 |
| Total | **19** | 288 |

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 analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0-30 days | **3,660** | 2,465 |
| 31-60 days | **123** | 286 |
| Over 60 days | **126** | 186 |
| Total trade payables | **3,909** | 2,937 |
| Other payables | **3,719** | 4,824 |
| | **7,628** | 7,761 |

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.

The other payables mainly consist of receipt in advance, accrued payroll and other accrued expenses for both years.

## FINAL DIVIDEND

The Directors proposed a final dividend of 3.0 HK cents per ordinary share for the year ended 31 December 2014 to shareholders whose names appear on the register of members of the Company on 5 June 2015. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or before 12 June 2015.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 26 May 2015 to Thursday, 28 May 2015, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later that 4:30 p.m. on Friday, 22 May 2015.

In addition, the register of members of the Company will be closed from Thursday, 4 June 2015 to Friday, 5 June 2015, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later that 4:30 p.m. on Wednesday, 3 June 2015.

## RESULTS REVIEW

### Results

I am pleased to present our annual results for the year ending 31 December 2014. The Group recorded a net profit after taxation of US$1,406,000 (2013: US$1,368,000), and increase of turnover from US$75,121,000 in 2013 to US$77,579,000 in this year. Gross profit margin dropped from 18% in 2013 to 16% in the year.

### Geographical Market

North America remains the largest export market of the Group, accounting for 66.6% of the Group's turnover. Turnover contribution from the Asian and European market and other regions represented 15.9%, 9.8% and 7.7% respectively.

## BUSINESS REVIEW

Looking back at 2014, global economic recovery took significantly different paths, with smooth economic recovery witnessed in the United States and a less than optimistic outlook for the other economies, including Europe and China. Affected by sluggish overseas demand, overcapacity and economic restructuring, Chinese economy faced certain downward pressure. Against the unfavourable macroeconomic environment, the global consumer market has still achieved stable growth.

Whilst global economic development continues to slowdown, business growth has become increasingly challenging for our operation. Despite the difficult business climate, the Group recorded a respectable revenue growth of 3.3% in 2014. We shall carry on our effort to improve the existing products over our competitors both in terms of quality as well as performance.

## SOCIAL RESPONSIBILITY

The Group is dedicated in delivering the social responsibility, the working place safety and contribution to local community is always our top concern. Adequate training will be provided to staff in different level to advance their skills and personal morality.

## FUTURE PROSPECTS

It is anticipated that the year of 2015 will be full of challenges. The global macroeconomic environment will be more complex and volatile. The growth of the economy of the PRC will be slower which is anticipated to drop from rapidly to moderately. In addition, the growth of market in China will slow down leading to a fiercer competition in the industry.

Nevertheless, the Group will strive to diversify its products, strengthen the development of products, explore new customers, enhance the production processes, reinforce internal controls and implement tight control over the costs in order to provide profit for the Group.

## 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 2014, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31 December 2014, the Group recorded a turnover of US$77,579,000 (2013: US$75,121,000) representing 3.3% increase comparing to 2013.

Profit before taxation of the Group for the year ended 31 December 2014 was US$1,573,000 (2013: US$1,528,000), an increment of US$45,000 as compared to the corresponding period in 2013. After accounting for income taxes of US$167,000, resulted a profit after taxation of US$1,406,000 (2013: US$1,368,000). Basic earnings per share for the year ended 31 December 2014 was 0.19 US cents (2013: 0.19 US cents). Gross profit margin dropped to 16% in this 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.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. Since the global finance crisis couple of years ago, 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 2014, the Group had cash and cash equivalent of US$27,517,000 (2013: US$26,306,000). As at 31 December 2014, the Group's solid financial liquidity position was reflected by a healthy current ratio of 8.4 (2013: 8.8) times.

## CAPITAL EXPENDITURE

For the year ended 31 December 2014, the Group incurred US$741,000 in capital expenditure, of which approximately 53% 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 profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2014 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 2014, the Company repurchased a total of 50,000 shares through the Stock Exchange at an aggregate consideration (before expenses) of HK$57,500 (equivalent to US$7,418). All the repurchased shares were subsequently cancelled.

Details of the repurchase are as follow:

| Month of purchase | Number of shares repurchased | Price per share | | Aggregate consideration paid (before expenses) | |
|---|---|---|---|---|---|
| | | Highest | Lowest | | |
| | | *(HK$)* | *(HK$)* | *(HK$)* | *(US$)* |
| November 2014 | 50,000 | 1.15 | 1.15 | 57,500 | 7,418 |

The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2014.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

During the financial year ended 31 December 2014, 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 2014.

## 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 2014.

By Order of the Board
**Wu Chen San, Thomas**
*Chairman*

Hong Kong, 27 March 2015

*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).*