

CHAIRMAN'S STATEMENT

I am pleased to report that Pegasus International Holdings Limited has achieved another year of growth.

Results

The Group's performance for 2000 is highlighted as follows:

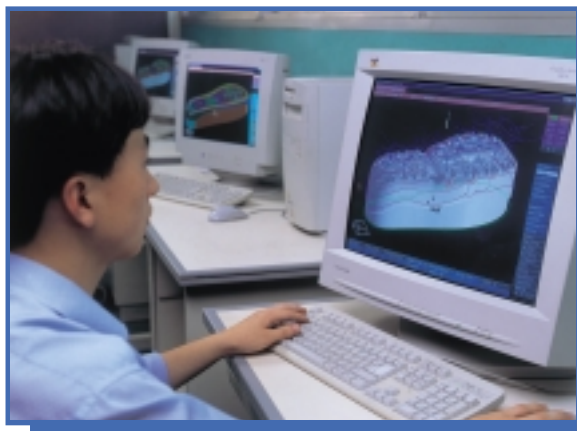
- Turnover increased by 8% to US\$172,678,000 (1999: US\$160,547,000)
- Profit attributable to shareholders increased by 2% to US\$16,371,000 (1999: US\$16,004,000)
- Operating profit (EBITDA) increased by 3% to US\$27,846,000 (1999: US\$27,075,000)



Production plant

Industry Overview

In 2000, there was improvement in the economic performance of Asian countries and their retail sectors managed to stay on the track of recovery. Apart from this, the US and European economic backdrop, which remained strong, also benefited the footwear industry. As footwear has become part of fashion, footwear manufacturers have to be innovative to satisfy the ever changing market demand. As an original equipment manufacturer, we provide every support to our customers in products and technology development as well as operation management in line with their marketing strategies and towards their ultimate satisfaction.



CAD/CAM system for mould design and manufacturing

Business Review

Product Mix

The Group's product mix for the year 2000 comprises sports sandals (35%), casual shoes (36%), athletic shoes (15%) and others (14%), similar to that in 1999. With its unrelenting efforts on product development during the past few years, Pegasus has been rewarded with growing sales. Still, in order to reduce the Group's dependence on any particular footwear category, Pegasus will continue its product innovation in order to further diversify the product mix.



Insole manufacturing line

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Finishing of a mould

Customer Base

We have a very extensive customer base. Owing to our aggressive efforts in the past few years, we have established relationship with a number of world famous footwear brands. Indeed, we are very proud of our good relationship with these customers over the years.

In 2000, we successfully secured orders from several OEM customers, including Danner, LaCrosse and Vans. We will continue to broaden our customer base in order to minimize the risks of reliance on any particular customer.



Desma direct attach injection machine for PU/Rubber, PU/TPU and PU/PU

Geographical Market Segments

North America remained the largest export market of the Group, accounting for 58% of its turnover in 2000, while the European and Asian markets accounted for 25% and 14% respectively. Upon the entry of the PRC into the World Trade Organization, the European Union is expected to gradually remove the quota system currently imposed against footwear imported from China. Accordingly, there will be a substantial increase in the exports of the Group to the European countries.



Desma direct attach injection machine for PU/Rubber, PU/TPU and PU/PU

Domestic Sales in the PRC

The Group has more than 80 distribution points in various major cities of the PRC. Footwear products under the brand names of Disney, Snoopy, Magic House and ELLE sustained considerable growth in sales.

Joint Venture Company

During the year, the company set up a joint venture company with a leading chemical manufacturer in Korea for the manufacture of ethylene vinyl acetate ("EVA") polymers in order to satisfy the Group's demand. With this joint venture company,

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the Group can effectively control the quality, cost and delivery of EVA polymers. The decrease in dependence on suppliers allows a greater room for vertical integration for the Group.



Laboratory

Production Facilities

During the year, the Group accomplished the construction of four additional production plants and warehouses, which have already come into operation. The Group's production lines have thus been expanded from 34 in 1999 to 40 in 2000.

Enterprise Resource Planning System

During 2000, the Group adopted the SAP Enterprise Resource Planning System, computerizing its order handling, inventory control and production management. Such system has improved the overall management efficiency.

Corporate Responsibility

While we have achieved another successful year, we are more aware of our responsibility towards the society, labour safety and environmental protection. A corporate responsibility department

has been established to take charge of this area. We have strong initiative in providing the best working and living environment for our employees. Besides, we are very supportive to the healthy development of the community and are very active in environmental protection.

Prospects

Amid the current slowdown in the US economy, the purchasing power of consumers in the country will probably become weaker. Export of Chinese footwear to the European market is neither likely to record any considerable growth given the quota system in place. As such, we are not very optimistic about our business environment in 2001, and our growth may not be as brilliant as before. Despite so, we will continue our efforts to improve the Group's production efficiency and cost control, so as to strengthen our competitive edge.



MCP moulding machine

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CNC moulding machine

Conclusion

2000 happens to be the fifth anniversary of Pegasus after it was listed. In the past, we managed to achieve satisfactory results year after year due to our unrelenting efforts in expanding customer base and product range, and scaling up the production facilities. Our investment in fixed assets has been considerable during the past few years and is starting to yield benefit. With this in view, we do not intend to make any substantial investment in fixed assets for the coming year. Instead we will concentrate our resources on

internal consolidation, emphasizing on the development of human resources. We will strengthen staff training and improve our capability in product development and quality assurance. Thereby we can keep improving the quality of our products and performance for the total satisfaction of our customers, and ultimately realize our goal to become a widely reputed footwear manufacturer.

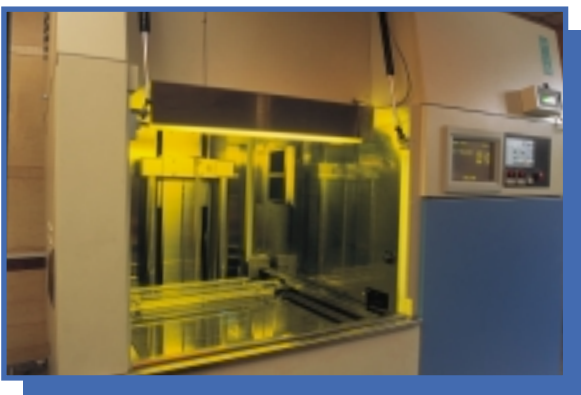
On behalf of the Board, I would like to express gratitude and appreciation towards the staff for their valuable contribution and to thank the customers and vendors for their continuous support.

Sincerely

Thomas Wu Chen San

Chairman

Hong Kong, 22nd March 2001



RP laser moulding machine