

# Chairman's Statement



## RESULTS

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

- Turnover was US\$141,242,000 (2004: US\$143,704,000)
- Profit for the year US\$2,467,000 (2004: loss for the year US\$900,000)

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

## INDUSTRY REVIEW

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

## BUSINESS REVIEW

### PRODUCT MIX

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

### GEOGRAPHICAL MARKET SEGMENTS

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

### DOMESTIC SALES IN THE PRC

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

### LEAN MANAGEMENT

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

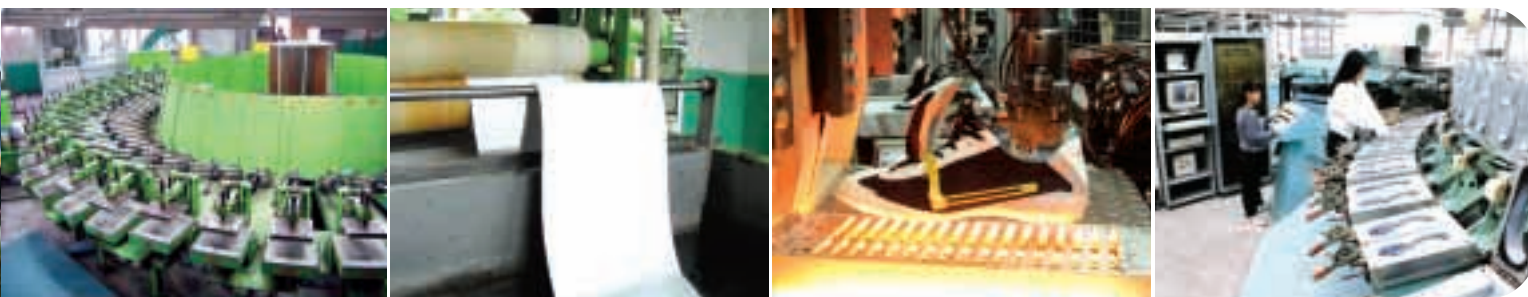
### SOCIAL RESPONSIBILITY

The Group has emphasized the physical and psychological needs of its staff. The Group has not only provided a better living and working environment than its competitors for its staff, but also

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offered them with chances to learn and grow up through training and internal appraisal in order to attract and retain calibers and to actively manage the issue of the increasingly deficiency in workforce. In addition, the Group has particularly emphasized on the nurture of corporate culture, the establishment of learning-based organization as well as an efficient and harmonious team, thereby further strengthened the centripetal and cohesion within the Group.

## OBJECTIVE AND RESULTS MANAGEMENT

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

## FUTURE PROSPECTS

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

## CONCLUSION

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

On behalf of the Board, I would like to express my deepest gratitude to the staff for their dedication and diligence, and our suppliers and customers for their continued support.

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

Hong Kong, 20th April, 2006

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