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)

ANNUAL REPORT 2008 年報

CONTENTS

CORPORATE INFORMATION

DIRECTORS	
Executive Directors	Wu Chen San, Thomas Wu Jenn Chang, Michael Wu Jenn Tzong, Jackson Ho Chin Fa, Steven
Independent Non-Executive Directors	Huang Hung Ching Liu Chung Kang, Helios Lai Jenn Yang, Jeffrey
COMPANY SECRETARY	Lee Yiu Ming
AUDIT COMMITTEE	Huang Hung Ching, Chairman Liu Chung Kang, Helios Lai Jenn Yang, Jeffrey
REMUNERATION COMMITTEE	Lai Jenn Yang, Jeffrey, Chairman Huang Hung Ching Liu Chung Kang, Helios
NOMINATION COMMITTEE	Liu Chung Kang, Helios, Chairman Lai Jenn Yang, Jeffrey Huang Hung Ching
REGISTERED OFFICE	Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS	Room 1517, Tower 3, China Hong Kong City, 33 Canton Road Tsimshatsui, Kowloon, Hong Kong
AUDITORS	Deloitte Touche Tohmatsu, Certified Public Accountants 35th Floor, One Pacific Place, 88 Queensway, Hong Kong
PRINCIPAL SHARE REGISTRARS	Butterfield Corporate Services Limited Rosebank Centre, 11 Bermudiana Road, Pembroke HM08 Bermuda
HONG KONG BRANCH SHARE REGISTRARS	Tricor Secretaries Limited 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong
STOCK CODE	676
PRINCIPAL BANKERS	Bank of Tokyo-Mitsubishi UFJ BNP Paribas China Construction Bank Chinatrust Commercial Bank, Ltd DBS Bank (Hong Kong) Limited Hang Seng Bank Limited Standard Chartered Bank (Hong Kong) Limited The Bank of East Asia, Limited The Hong Kong and Shanghai Banking Corporation Limited
WEBSITE	http://www.pegasusinternationalholdings.com

RESULTS REVIEW

Results

For the year ended 31st December, 2008, the turnover for the year amounted to US$148,114,000, representing a slight decrease of 1.2% comparing to US$149,875,000 over the corresponding period in 2007. Profit for the year amounted to US$1,566,000, representing a decrease of US$529,000 comparing to US$2,095,000 over the corresponding period in 2007.

Geographical Market Segments

North America remained the largest export market of the Group, accounting for 52.7% of its turnover for 2008. Turnover contribution from the European and Asian markets and other regions represented 22.7%, 21.6% and 3% respectively.

BUSINESS REVIEW

Manufacturing Industry

2008 was a challenging year for every sector and for all players all over the world. The overall economic environment was deteriorating during 2008 as a result of the US subprime mortgage crisis and the outbreak of the financial tsunami. Added to this global crisis were other challenges such as the rising domestic labor costs and the increase in other costs. All these factors posed tremendous challenges for the manufacturing industry.

Facing such external volatility and grim global economic and financial environment, the Group actively adopted a number of measures. On the basis of consolidating the business foundation and maintaining a sound product mix, the Group endeavor to refine management and continued to capitalize on its product strengths and product development. In enhancing production efficiency and reducing production cycle, the Group also strived to lower the labor costs and consumption of raw materials.

The economic recession is a period of consolidation. The Group believes that we are able to overcome these economic challenges and grow stronger afterwards. Meanwhile, the Group will pursue prudent financial management, maintain sufficient liquidity and lower bank borrowings. Besides, the Group will not engage in any high risk or speculation activities.

CHAIRMAN'S STATEMENT

Domestic Sales Market

Despite the global financial tsunami, the Group attained stable and healthy growth in terms of domestic sales. The Group believes that China will most probably achieve a faster pace of recovery from the financial meltdown than other countries. Currently, the Group has established offices in cities such as Beijing, Shanghai, Shenzhen, Guangzhou, Chongqing and Chengdu etc. and opened sales counters in more than 100 first class department stores covering more than 10 major cities nationwide and owned more than 1,000 points of sales through agents and franchisees. In addition, the Group entered into licensing contracts with a number of world's renowned brand owners. The Group acquired the licensing right for the production and sales of Disney footwear products and acted as the exclusive licensee for the production and sales of Slazenger branded footwear products, apparel and accessories.

Besides, as the specialty stores of "Kid's E-look", which owns internationally famous brands of kids' footwear products such as Nike, Adidias, New Balance, Ecco and Crocs commenced operations, it became another source of business growth for the Group. In 2008, the business of Kid's E-look and Slazenger both recorded over 100% growth as compared to that in 2007. On the other hand, the proprietary and wholesale business of the kids' footwear products also showed steady growth.

SOCIAL RESPONSIBILITY

The Group makes perpetual operation as its objective for corporate development, aims to repay the society and bear its corporate social responsibility. We continue to drive and reinforce our corporate governance, establish a transparent management system for our shareholders and staff members, and strengthen our corporate culture and development so as to create a safe working environment and a comfortable living environment. In addition, we set up a large scale training centre to provide training of culture knowledge and career techniques, in order to enhance the cultural standard and career discipline of the staff. In terms of our society contributions, we continue to provide employment opportunities for the disabled.

FUTURE PROSPECTS

The year of 2009 will definitely continue to take an uphill journey. Despite of the fact that the economies of the US and Europe are expected to recover after a considerable period of time, there remain growth opportunities in China. We strongly believe that our business will see room for growth. As the domestic demand continues to increase, the Group will continue to allocate more resources to develop the domestic sales market and accelerate the expansion of the extensive market in China targeting at the highly segregated markets and niche markets through various distribution channels.

With regards to the export sales business, the slowdown in USD/RMB appreciation also helps lower the costs. Moreover, under the assistance of the nation's policies, the upward adjustment of the export tax refund rate is expected to continue. Coupled with the favorable factors such as falling global oil prices and raw materials prices, the Group is able to reduce the overall costs of production. Accordingly, the Group is confident that we are able to maintain steady business growth and strengthen our capabilities leverage on our solid foundation so as to maintain competitiveness.

CONCLUSION

The Group will continue to gain confidence from our business partners in long-term cooperation with its faith and pioneering spirit, and will strive to enhance the Group's competitiveness with its lean operation and resources integration, with a view to realise 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 business partners and our shareholders for their continued support!

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 20th April, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31st December, 2008, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31st December, 2008, the Group achieved a turnover of US$148,114,000 (2007: US$149,875,000) representing 1.2% drop comparing to 2007.

Profit of the Group for the year ended 31st December, 2008 dropped by 25% to US$1,566,000 (2007: US$2,095,000). Basic earnings per share for the year ended 31st December, 2008 was 0.21 US cents (2007: 0.29 US cents). Due to the streamlining of the manufacturing process to enhance the operating efficiency, gross profit margin raised from 15.2% in 2007 to 16.2% in 2008. In addition, the Group had exercised very tight cost control over the selling and distribution costs and administrative expenses.

During the worldwide financial turmoil, the Group had concentrated its resources to reduce costs, and to strengthen its cash flow management. Trade receivables were reviewed regularly to ensure that were neither past due nor impaired. Spending and capital expenditure, other than necessary, were greatly controlled. With a result, the Group had successfully reduced its bank borrowings by US$9,525,000 in 2008 as compared to 2007. This, together with the decrease in bank borrowing interest rates during the year, helped to reduce the interest expenses by US$565,000.

The Group will continue to observe this conservative approach to lower its gearing level. In this way, we believe the Group's financial position will even be healthier, especially, during the time the credit crunch problem still exists in the banking industry.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. The Group maintained a stable finance position. As at 31st December, 2008, the Group had cash and cash equivalent of US$12,856,000 (2007: US$11,395,000) and total borrowings of US$14,960,000 (2007: US$24,485,000). The ratio of net bank borrowing to total equity remained at a healthy level of approximately 1.76% (2007: 11.7%). As at 31st December, 2008, the Group had a strong financial liquidity position as revealed by a current ratio of 3.3 (2007: 3.0) times.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURE

For the year ended 31st December, 2008, the Group incurred US$1,991,000 in capital expenditure, of which approximately 50% 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.

CORPORATE GOVERNANCE REPORT

The Group recognizes the value and importance to achieving high corporate governance standards to enhance corporate performance and accountability.

The Company has applied the principles and has fully complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules throughout the year ended 31st December, 2008.

The Company periodically reviews its corporate governance practices to ensure that the practices continue to meet the requirements of the Code.

A. DIRECTORS

A.1 The Board

Principle

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

The overall management of the Company's business is vested in the Board.

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The directors have to take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board is composed of four executive directors (including the Chairman and the Managing Director of the Company) and three independent non-executive directors, whose biographical details are set out in "Biographical Data of Directors and Senior Management" section on pages 29 to 30. Mr. Wu Chen San, Thomas, Mr. Wu Jenn Chang, Michael and Mr. Wu Jenn Tzong, Jackson are brothers. Save as disclosed herein, none of the members of the Board are related to one another.

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

In addition, the Company has received from each of the independent non-executive director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. These directors' independence have been verified.

A. DIRECTORS (CONTINUED)

A.1 The Board (continued)

Code Provisions	Compliance	Actions by the Company
A.1.1		
The board should meet regularly and board meetings should be held at least 4 times a year at approximately quarterly intervals.	Yes	The Board met four times during the year and all of them were regular board meetings.
A.1.2		
Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.	Yes	Directors were invited to include any matters which they thought appropriate in the agenda for regular board meetings.
A.1.3		
Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend.	Yes	14 days prior notice was normally given for regular board meetings.
A.1.4		
All directors should have access to the advice and services of the company secretary.	Yes	All directors have full, timely and direct access to the advice and services of the Company Secretary of the Company.
A.1.5		
Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and open for inspection.	Yes	Minutes are kept by the appointed secretary of the meetings and available for inspection at the Company's principal place of business.
A.1.6		
Draft and final versions of minutes of board meetings should be sent to all directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.	Yes	All draft minutes would be sent to directors for review and comment within one month after each meeting. Final version of minutes would be sent to directors for their record.

A. DIRECTORS (CONTINUED)

A.1 The Board (continued)

Code Provisions	Compliance	Actions by the Company
A.1.7		
There should be a procedure for directors to seek independent professional advice at the issuer's expense.	Yes	Directors are permitted to seek independent professional advice, if required, at the Company's expenses.
A.1.8		
If a substantial shareholder/ director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, a board meeting should be held. Independent non-executive directors should be present at such board meeting.	Yes	The Company will continue to ensure that such matters that require board meetings be held instead of by way of circulation.

Compliance with Recommended Best Practices

- There is in place a Directors' & Officers' Liabilities Insurance cover; and
- Board Committees have adopted broadly the same principles and procedures as stated in A.1.1 to A.1.8 of Appendix 14 to the Listing Rules.

A.2 Chairman and Chief Executive Officer

Principle

There should be a clear division between the management of the board and the day-to-day management at the board level of the issuer's business to ensure a balance of power and authority, so that power is not concentrated in any one individual.

The positions of the Chairman and the Managing Director are held by Mr. Wu Chen San, Thomas and Mr. Wu Jenn Chang, Michael, respectively.

In order to reinforce their respective independence, accountability and responsibility, the role of the Chairman is separate from that of the Managing Director. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice and ensure the effectiveness of the Board. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

A. DIRECTORS (CONTINUED)

A.2 Chairman and Chief Executive Officer (continued)

The Managing Director focuses on managing the Company and its subsidiaries, developing and implementing objectives, policies and strategies approved and delegated by the Board. The Managing Director is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Code Provisions	Compliance	Actions by the Company
A.2.1		
The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	Yes	Division of responsibilities between the Chairman and the Managing Director is clearly defined and set out in writing. Chairman and Managing Director are served by different persons.
A.2.2 & A.2.3		
The chairman should ensure that all directors are properly briefed on issues arising at board meetings and they receive adequate information in a timely manner.	Yes	The Chairman has a clear responsibility to ensure all the directors are properly briefed and given accurate information.

Compliance with Recommended Best Practices

Clear division of responsibilities between Chairman and Managing Director has been approved and adopted by the Company. The Chairman has a clear responsibility to ensure that the Board works effectively and discusses all key and appropriate issues.

A.3 Board composition

Principle

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should include a balanced composition of executive and non-executive directors so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

A. DIRECTORS (CONTINUED)

A.3 Board composition (continued)

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors. The Board has reviewed its own structure, size and composition to ensure that it has a balance of expertise, skills, independence and experience appropriate to the requirements of the business of the Group.

Code Provisions	Compliance	Actions by the Company
A.3.1		
The independent non-executive directors should be expressly identified as such in all corporate communications.	Yes	Composition of the Board, by category of Directors, is disclosed in all corporate communications.

A.4 Appointments, re-election and removal

Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provisions	Compliance	Actions by the Company
A.4.1		
Non-executive directors should be appointed for a specific term, subject to re-election.	Yes	The independent non-executive directors of the Company were appointed for specific terms, and are subject to retirement by rotation in accordance with the Bye-laws of the Company.
A.4.2		
All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	Yes	Every director is subject to retirement by rotation at least once every three years.

A. DIRECTORS (CONTINUED)

A.4 Appointments, re-election and removal (continued)

Compliance with Recommended Best Practices

The Company's circular of its annual general meeting contained detailed information on election of directors, including details of biographies, and, if applicable, independence of all directors standing for re-election. Each of the independent non-executive directors has confirmed their independence.

A.5 Responsibilities of directors

Principle

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

During the year, 4 Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee and 1 Nomination Committee meeting were held. The attendance record of each director at the aforesaid meetings is set out below:

	Attendance of Meetings			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Wu Chen San, Thomas	4/4	N/A	N/A	N/A
Mr. Wu Jenn Chang, Michael	4/4	N/A	N/A	N/A
Mr. Wu Jenn Tzong, Jackson	4/4	N/A	N/A	N/A
Mr. Ho Chin Fa, Steven	4/4	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Huang Hung Ching	2/4	2/2	1/1	1/1
Mr. Lai Jenn Yang, Jeffrey	2/4	2/2	1/1	1/1
Mr. Liu Chung Kang, Helios	2/4	2/2	1/1	1/1

A. DIRECTORS (CONTINUED)

A.5 Responsibilities of directors (continued)

Code Provisions	Compliance	Actions by the Company
A.5.1		
Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.	Yes	A comprehensive information package containing an introduction to the Group's operations, directors' responsibilities and duties and other statutory requirements will be provided to new directors upon their appointment. They can also elect to receive briefing from the Company Secretary or Company's legal advisor on the content of the information package.
A.5.2		
The functions of non-executive directors should include: – bring an independent judgement at the board meeting; – take the lead where potential conflicts of interests arise; – serve on the audit, remuneration, nomination and other governance committees, if invited; and – scrutinise the issuer's performance.	Yes	Independent Non-executive directors are well aware of their functions and have been actively performing their functions.
A.5.3		
Every director should ensure that he can give sufficient time to the affairs of the issuer and should not accept the appointment if he cannot do so.	Yes	There is reasonably satisfactory attendance rate.

A. DIRECTORS (CONTINUED)

A.5 Responsibilities of directors (continued)

Code Provisions	Compliance	Actions by the Company
A.5.4		
Directors must comply with their obligations under the Model Code set out in Appendix 10.	Yes	The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules regarding directors' dealings in securities. Directors have confirmed compliance with the Model Code throughout the year. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. No incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

Compliance with Recommended Best Practices

Directors disclose their other directorship at the time of appointment and, subsequently, at least once every year to the Company.

A.6 Supply of and access to information

Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code Provisions	Compliance	Actions by the Company
A.6.1		
Agenda and accompanying board papers should be sent in full to all directors at least 3 days before board/board committee meeting.	Yes	Agenda and board papers are sent to all directors at least three days before the meetings unless it is on urgent basis.
A.6.2		
Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The board and each director should have separate and independent access to the issuer's senior management.	Yes	Senior management works closely with the Board and meets each other on regular basis.

A. DIRECTORS (CONTINUED)

A.6 Supply of and access to information (continued)

Code Provisions	Compliance	Actions by the Company
A.6.3 All directors are entitled to have access to board papers. Steps must be taken to respond as promptly and fully as possible.	Yes	Board papers and minutes are properly kept by the company secretarial division under legal department of the Company and are available for inspection by directors.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

Principle

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee currently comprises all the three independent non-executive Directors. The Chairman of the Remuneration Committee is Mr. Lai Jenn Yang, Jeffrey.

Code Provisions	Compliance	Actions by the Company
B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.	Yes	A Remuneration Committee has been established by the Board with specific written terms of reference.
B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	Yes	The Remuneration Committee carries out annual review of compensation packages for all directors of the Company.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

B.1 The level and make-up of remuneration and disclosure (continued)

Code Provisions	Compliance	Actions by the Company
B.1.3, B.1.4 & B.1.5		
The terms of reference of the remuneration committee should include the specific duties as stipulated in B.1.3 of Appendix 14 to the Listing Rules. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	The terms of reference are set out in writing with adoption of the specific duties as provided in B.1.3 of Appendix 14 to the Listing Rules. It is available upon request. The Company will pay for the fees for all professional advice and other assistance as required by the Remuneration Committee.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Actions by the Company
C.1.1		
Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	Yes	Management is required to provide detailed report and explanation to enable the Board to make an informed assessment before approval.
C.1.2		
The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	Yes	Company's directors and auditors state their respective responsibilities on page 36 of the Annual Report.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.1 Financial Reporting (continued)

Code Provisions	Compliance	Actions by the Company
C.1.3		
The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	Yes	The Board aims at presenting a balanced, clear and understandable assessment of the Company's position to its shareholders and the public pursuant to all sort of statutory requirements.

C.2 Internal controls

Principle

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Board is responsible for maintaining a sound and effective system of internal controls of the Group and for reviewing its effectiveness through the Audit Committee. The internal control system is designed to provide reasonable assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Internal controls (continued)

Code Provisions	Compliance	Actions by the Company
C.2.1 The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	Yes	The Board has conducted an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational, compliance controls as well as risk management functions. Based on the assessments made by the Audit Committee and the Board considered that the key areas of the Group's internal control systems have reasonably been implemented with room for improvement.
C.2.2 The Board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.	Yes	The Board has conducted an annual review on the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function. Sufficient internal and external training has been provided refresh their professional knowledge.

C.3 Audit Committee

Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

The Audit Committee currently comprises all three independent non-executive directors, the chairman is Mr. Huang Hung Ching. None of the members of the Audit Committee are a former partner of the Company's existing external auditors.

The Audit Committee held 2 meetings during the year to review the financial results and reports, financial reporting, internal control and compliance procedures, and to make recommendations to the Board on the re-appointment of the external auditors.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.3 Audit Committee (continued)

Code Provisions	Compliance	Actions by the Company
C.3.1		
Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.	Yes	Draft minutes prepared by the secretary of the meeting are sent to members within one month of each meeting. Full minutes are kept by the secretary of the meeting.
C.3.2		
A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for one year after he ceases to be a partner of or to have any financial interest in the firm, whichever is the later.	Yes	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3		
The terms of reference of the audit committee should include at least the following duties: – review of relationship with the issuer's auditors; – review of financial information of the issuer; and – oversight of the issuer's financial reporting system and internal control procedures.	Yes	The terms of reference have been revised to cover the scope of duties as required in this Code Provision.
C.3.4		
The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Yes	The terms of reference are available upon request.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.3 Audit Committee (continued)

Code Provisions	Compliance	Actions by the Company
C.3.5		
Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	Not applicable	Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the external auditors of the Company.
C.3.6		
The audit committee should be provided with sufficient resources to discharge its duties.	Yes	The Company will at its expenses provide such assistance as required by the Audit Committee.

D. DELEGATION BY THE BOARD

D.1 Management functions

Principle

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

D. DELEGATION BY THE BOARD (CONTINUED)

D.1 Management functions (continued)

Code Provisions	Compliance	Actions by the Company
D.1.1 When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management.	Yes	The segregation of duties and responsibilities between the Board and the management has been defined and provided in the internal guidelines of the Company.
D.1.2 An issuer should formalize the functions reserved to the board and those delegated to management.	Yes	The duties of the Board include: – establishing strategic development and direction of the Company; – setting up the objective of management; – monitoring performance of management; and – overseeing relationships between the Company and its clients.

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

The Board has established Audit Committee, Remuneration Committee and Nomination Committee with defined terms of reference. The terms of reference of the Board Committees are available upon request.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

D. DELEGATION BY THE BOARD (CONTINUED)

D.2 Board Committees (continued)

Code Provisions	Compliance	Actions by the Company
D.2.1 Board committees are established with sufficiently clear terms of reference.	Yes	The Board has established three Board Committees (Audit Committee, Remuneration Committee and Nomination Committee) with specific terms of reference.
D.2.2 The terms of reference of board committees should require such committees to report back to the board.	Yes	Board Committees would report to the Board their work, findings and recommendations in Board meetings.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Principle

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Actions by the Company
E.1.1 A separate resolution should be proposed by the chairman of a general meeting for substantially separate issue.	Yes	Separate resolutions are proposed at the meeting on each substantially separate issue.

E. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

E.1 Effective communication (continued)

Code Provisions	Compliance	Actions by the Company
E.1.2 The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	The Board Chairman and either the chairman of the Audit Committee and Remuneration Committee or their representatives would attend the annual general meeting ("AGM") of the Company.
E.1.3 The issuer should arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of other general meetings.	Yes	Sufficient clear days were given to the shareholders for general meetings

E.2 Voting by poll

Principle

The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Code Provisions	Compliance	Actions by the Company
E.2.1 The Chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of a poll.	Yes	Details of procedures for conducting a poll was set out in the notice of AGM and Chairman of the meeting prepared to answer any questions from shareholders regarding voting by way of a poll.

NOMINATION OF DIRECTORS

The Company set up a Nomination Committee in 2006. The Nomination Committee comprises the three independent non-executive directors. Mr. Liu Chung Kang, Helios is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

The chairman of the Nomination Committee will report the findings and recommendations of the Nomination Committee to the Board after each meeting. The minutes of all meetings of Nomination Committee will be circulated to the Board for information.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's external auditors is set out as follows:

	HK$'000
Audit services	1,160
Taxation services	36
	1,196

DIRECTOR'S RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

AUDIT COMMITTEE REPORT

The Audit Committee (the "Committee") comprises three members of independent non-executive directors. The chairman of the Committee is Mr. Huang Hung Ching, who is practising certified public accountant.

The Committee oversees the financial reporting process. In this process, management is responsible for the preparation of the Group financial statements including the selection of suitable accounting policies. External auditors are responsible for auditing and attesting to Group financial statements and evaluating Group system of Internal controls. The Committee oversees the respective work of management and external auditors to endorse the processes and safeguards employed by them. The Committee presents a report to the Board on its findings after each Committee meeting.

The Committee reviewed and discussed with management and external auditors the consolidated financial statements for the year ended 31st December 2008 included in 2008 Annual Report. In the regard, the Committee had discussions with management with regard to new or changes in accounting policies as applied, and significant judgments affecting the Group financial statements. The Committee also received reports and met with the external auditors to discuss the general scope of their audit work (including the impact of new or changes in accounting policies as applied), their assessment of Group internal controls.

Based of these review and discussion, and the report of the external auditors, the Committee recommended to the Board approval of the consolidated financial statements for the year ended 31st December, 2008, with the Independent Auditors' Report thereon.

The Committee also reviewed and recommended to the Board approval of the unaudited financial statements for the six months ended 30th June, 2008, prior to public announcement and filing.

The Committee recommended to the Board that the shareholders be asked to re-appointed Deloitte Touche Tohmatsu as the Group's external auditors for 2009.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Huang Hung Ching

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

Hong Kong, 20th April, 2009

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Chen San, Thomas , aged 58, is the Chairman of the Group and is responsible for the Group's sales, marketing and strategic planning. Mr. Wu joined the footwear business founded by his father, Mr. Wu Suei, in the early 1970's and has 39 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Chang, Michael, aged 51, is the Deputy Chairman of the Group and is responsible for the Group's finance, production and purchasing. Mr. Wu is the honor Chairman of Taiwanese-invested Enterprises Association of Guangzhou and honor citizen of Guangzhou city. Mr. Wu joined the footwear business founded by his father, Mr. Wu Suei, in 1983 and has 26 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Tzong, Jackson, aged 53, is responsible for the Group's sourcing functions conducted in Taiwan through the Group's subsidiary, Tospstair International (Taiwan) Ltd. Mr. Wu joined the footwear business founded by his father, Mr. Wu Suei, in 1977 and has 32 years' experience in the footwear manufacturing business.

Mr. Ho Chin Fa, Steven, aged 56, is a Deputy General Manager of the Group. He is responsible for production management and staff training. Mr. Ho joined the Group in 1990 and has 26 years' experience in the footwear manufacturing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Hung Ching aged 45, is currently a partner of Ever Brilliant Accounting Firm, Taipei, Taiwan. He graduated from Fu Jen Catholic University and holds a Master's degree in accounting from Shanghai University of Finance and Economic. He is a member of the Taiwan Provincial CPA Association. Prior to joining the Company, he had over 20 years of experience in accounting and auditing.

Mr. Lai Jenn Yang, Jeffrey, aged 51, is currently an Executive Director of Nicematch International Co., Ltd, which is incorporated in Taiwan. Mr. Lai graduated from Tamkang University in Taiwan and obtained a bachelor degree in Civil Engineering. He also obtained a master degree in Engineering from Ohio State University, USA. Prior to joining to the Company, he had more than 20 years of experience in operation and engineering management.

Mr. Liu Chung Kang, Helios, aged 58, is currently a director of Emo Technology Inc. and Shanghai Netup Management Software Co., Ltd. He graduated from Chiao Tung University in Taiwan. He obtained a bachelor degree in Electricity Engineering and a master degree in Management Science. Prior to joining the Company, he had more than 20 years of experience in managing software development.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lee Yiu Ming, aged 44, graduated from Hong Kong Polytechnic University and holds a Master's degree in business administration from the Queen's University of Belfast, Northern Ireland. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lee is a Deputy General Manager of the Group and the company secretary of the Company. He is responsible for the financial, accounting and company secretarial functions of the Group. Prior to joining the Group in May 1996, he worked for an international accounting firm for over seven years.

Ms. Lin Hui Fan, aged 58, is a supervisor of the quality assurance department of Guangzhou Panyu Pegasus Footwear Co., Ltd ("Panyu Pegasus") and oversees the quality of uppers. Ms. Lin joined the Group in 1991 and has over 30 years' experience in footwear manufacturing. Ms. Lin is responsible for quality control of the Group's footwear products and has extensive experience in training quality control staff.

Mr. Hsieh Hsin Lee, aged 48, is a supervisor of Panyu Pegasus. Mr. Hsieh joined the Group in 1991 and has over 28 years' experience in footwear manufacturing. He is responsible for the Group's production management and quality control process. He is also responsible for staff training.

Mr. Chang Ho Hsi, aged 54, is a senior manager of administration department in Panyu Pegasus. He studied Japanese in Tamkang University, and obtained a bachelor degree in literature. Mr. Chang is also a member of Taiwan Footwear Manufacturers Association in the Republic of China.

Mr. Sun Jong Wook, aged 58, is a Deputy General Manager of Chemical Division of Panyu Pegasus. Mr. Sun graduated form Busan National University. Mr. Sun joined the Group in November 2003. He has 30 years' experience in sole development and manufacture.

Mr. Lee Kuo Hwa, aged 52, is a Deputy General Manager of Sales Department of Panyu Pegasus. Mr. Lee graduated from East Texas State University, Texas, the US and holds a Master's degree in computer science. He is responsible for production management of the Group. Mr. Lee has 14 years' experience in footwear manufacturing business.

Mr. Jimmy Deng, aged 37, is a senior production manager of Panyu Pegasus. Mr. Deng graduated from the Guangdong Zhong Shan University. Mr. Deng joined the Group in 1994 and has 14 years' experience in footwear manufacturing.

Mr. White Yi, aged 37, is a senior manager of Panyu Pegasus in product development. Mr. Yi joined the Group in 1995 and has 13 years' experience in footwear manufacturing and product development.

Mr. Wilson Deng, aged 37, is a senior manager of Panyu Pegasus in product development. Mr. Deng graduated from the Guangdong Zhong Shan University. Mr. Deng joined the Group in 1995 and has 13 years' experience in footwear manufacturing and product development.

Mr. Yang Chih Chieh, Arthur, aged 44, is the general manager of 廣州創信鞋品服飾有限公司. He holds a master's degree in international finance from Northrop University, California, the United States of America. He is responsible for the overall strategy making, sales and marketing, and general management of the domestic sales division. Mr. Yang has over 14 years' experience in footwear industry.

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged principally in the manufacture and sale of footwear products. The activities of its associate, jointly controlled entity and principal subsidiaries are set out in Notes 16, 17 and 31, respectively, to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on page 38.

An interim dividend of HK0.5 cent per ordinary share, amounting to US$468,000 was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT

The buildings of the Group were revalued at 31st December, 2008. A revaluation decrease of US$728,000 has been debited directly to the revaluation reserve.

Details of movements during the year in the property, plant and equipment of the Group are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 24 to the consolidated financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st December, 2008, the Company's reserves available for distribution to shareholders consisted of retained profits, dividend reserve and contributed surplus, totalling US$21,015,000 (2007: US$20,706,000).

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wu Chen San, Thomas
Mr. Wu Jenn Chang, Michael
Mr. Wu Jenn Tzong, Jackson
Mr. Ho Chin Fa, Steven

Independent non-executive directors:

Mr. Huang Hung Ching
Mr. Lai Jenn Yang, Jeffrey
Mr. Liu Chung Kang, Helios

In accordance with Clause 87(1) of the Company's Bye-laws, Messrs. Wu Jenn Tzong, Jackson and Lai Jenn Yang, Jeffery, retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of independent non-executive directors are subject to retirement by rotation in accordance with the provisions of the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing 25th September, 1996 and continuing thereafter until terminated by either party giving to the other party a period of advance notice in writing ranging from three to six months.

None of the directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2008, the interests of the directors and their associates in the shares, underlying shares or debentures of the Company and its associated corporation, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange 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%

(b) Ordinary shares of the associated corporation of the Company
Pegasus Footgear Management Limited (note a)

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 (note b)	3,235	16%
Wu Jenn Chang, Michael	Corporate (note c)	6,470	32%
Wu Jenn Tzong, Jackson	Corporate (note d)	6,470	32%
		16,175	80%

(b) Ordinary shares of the associated corporation of the Company *(continued)*

Notes:

a. Pegasus Footgear Management Limited is the holding company of the Company.

b. The shares are jointly held by Mr. Wu Chen San, Thomas and Mrs. Peggy Wu, the spouse of Mr. Wu Chen San, Thomas.

c. The shares are entirely held by M. W. Investment Limited, a company owned by Mr. Wu Jenn Chang, Michael.

d. The shares are entirely held by J. W. Investment Limited, a company owned by Mr. Wu Jenn Tzong, Jackson.

Save as disclosed above, at 31st December, 2008, 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 year was the Company, its holding company or any of its 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in Note 29 to the consolidated financial statements, no contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31st December, 2008, other than the interests disclosed in "Directors' Interest 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 31st December, 2008.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2008, the largest customer of the Group accounted for approximately 85% of the Group's turnover. The five largest customers accounted for approximately 94% of the Group's turnover.

For the year ended 31st December, 2008, the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

None of the directors, their associates or any shareholder of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in any of the Group's five largest customers or suppliers.

EMOLUMENTS POLICY

The emoluments policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, as authorised by shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2008.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wu Chen San, Thomas

CHAIRMAN

Hong Kong, 20th April, 2009

Deloitte.
德勤

TO THE MEMBERS OF PEGASUS INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pegasus International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 79, which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20th April, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	NOTES	2008 US$'000	2007 US$'000
Revenue	7	**148,114**	149,875
Cost of sales		**(124,155)**	(127,070)
Gross profit		**23,959**	22,805
Other income		**1,135**	1,667
Selling and distribution costs		**(9,974)**	(8,920)
Administrative expenses		**(11,688)**	(11,323)
Share of loss of an associate		**(158)**	(180)
Share of loss of a jointly controlled entity		**(458)**	(164)
Interest on bank borrowings wholly repayable within five years		**(862)**	(1,427)
Profit before taxation	8	**1,954**	2,458
Taxation	11	**(388)**	(363)
Profit for the year		**1,566**	2,095
Dividends paid	12	**1,403**	2,349
Earnings per share	13		
Basic		**0.21 US cents**	0.29 US cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	NOTES	2008 US$'000	2007 US$'000
Non-current assets			
Property, plant and equipment	14	65,436	66,691
Prepaid lease payments	15	6,226	5,980
Interests in an associate	16	606	764
Interests in a jointly controlled entity	17	1,942	2,347
		74,210	75,782
Current assets			
Prepaid lease payments	15	165	155
Inventories	18	53,858	52,305
Trade and other receivables	19	11,123	13,506
Amount due from an associate	16	2	24
Derivative financial instruments	20	–	183
Bank balances and cash	21	12,856	11,395
		78,004	77,568
Current liabilities			
Trade and other payables	22	14,280	13,283
Tax payable		1,011	938
Unsecured bank borrowings – due within one year	23	8,095	11,780
Derivative financial instruments	20	159	–
		23,545	26,001
Net current assets		54,459	51,567
		128,669	127,349
Capital and reserves			
Share capital	24	9,428	9,428
Share premium and reserves		109,898	102,726
Total equity		119,326	112,154
Non-current liabilities			
Unsecured bank borrowings – due after one year	23	6,865	12,705
Deferred tax liabilities	25	2,478	2,490
		9,343	15,195
		128,669	127,349

The consolidated financial statements on pages 38 to 79 were approved and authorised for issue by the Board of Directors on 20th April, 2009 and are signed on its behalf by:

Wu Chen San, Thomas	**Wu Jenn Chang, Michael**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2008

	Attributable to equity holders of the Company							
	Share capital US$'000	Share premium US$'000	Revaluation reserve US$'000	Translation reserve US$'000	Merger reserve US$'000	Dividend reserve US$'000	Retained profits US$'000	Total US$'000
At 1st January, 2007	9,428	21,644	4,564	–	(4,512)	1,414	71,652	104,190
Revaluation increase on buildings	–	–	1,062	–	–	–	–	1,062
Deferred tax liability arising on revaluation of buildings (Note 25)	–	–	(266)	–	–	–	–	(266)
Exchange differences arising on translation of foreign operations	–	–	–	7,142	–	–	–	7,142
Share of reserve of a jointly controlled entity	–	–	–	51	–	–	–	51
Effect of change in tax rate	–	–	229	–	–	–	–	229
Net income recognised directly in equity	–	–	1,025	7,193	–	–	–	8,218
Profit for the year	–	–	–	–	–	–	2,095	2,095
Total recognised income for the year	–	–	1,025	7,193	–	–	2,095	10,313
Final dividends paid for 2006	–	–	–	–	–	(1,414)	–	(1,414)
Interim dividends paid for 2007	–	–	–	–	–	–	(935)	(935)
Final dividends proposed for 2007	–	–	–	–	–	935	(935)	–
At 31st December, 2007	9,428	21,644	5,589	7,193	(4,512)	935	71,877	112,154
Revaluation decrease on buildings	–	–	(728)	–	–	–	–	(728)
Deferred tax liability arising on revaluation of buildings (Note 25)	–	–	182	–	–	–	–	182
Exchange differences arising on translation of foreign operations	–	–	384	7,118	–	–	–	7,502
Share of reserve of a jointly controlled entity	–	–	–	53	–	–	–	53
Net income (expense) recognised directly in equity	–	–	(162)	7,171	–	–	–	7,009
Profit for the year	–	–	–	–	–	–	1,566	1,566
Total recognised income (expense) for the year	–	–	(162)	7,171	–	–	1,566	8,575
Final dividends paid for 2007	–	–	–	–	–	(935)	–	(935)
Interim dividends paid for 2008	–	–	–	–	–	–	(468)	(468)
At 31st December, 2008	9,428	21,644	5,427	14,364	(4,512)	–	72,975	119,326

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the share capital of the acquiring companies issued in exchange pursuant to a corporate reorganisation prior to the listing of the Company's shares in 1996.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	2008 US$'000	2007 US$'000
OPERATING ACTIVITIES		
Profit before taxation	**1,954**	2,458
Adjustments for:		
Depreciation of property, plant and equipment	**6,231**	7,026
Loss (gain) on fair value changes of derivative financial instruments	**342**	(183)
Gain on fair value changes of held for trading investments	**(37)**	(188)
Impairment loss on trade receivables	**34**	162
Interest income	**(212)**	(376)
Interest expenses	**862**	1,427
Release of prepaid lease payments	**165**	153
Share of loss of an associate	**158**	180
Share of loss of a jointly controlled entity	**458**	164
Operating cash flows before movements in working capital	**9,955**	10,823
Increase in inventories	**(1,553)**	(2,009)
Decrease in trade and other receivables	**2,349**	916
Decrease (increase) in amount due from an associate	**22**	(12)
Decrease in held for trading investments	**37**	549
Increase in trade and other payables	**4,280**	1,165
Cash generated from operations	**15,090**	11,432
Hong Kong Profits Tax refunded (paid)	**6**	(5)
Taxation paid in other jurisdictions	**(321)**	(35)
NET CASH FROM OPERATING ACTIVITIES	**14,775**	11,392
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(1,991)**	(2,481)
Prepaid lease payments made	**–**	(169)
Interest received	**212**	376
Dividend received from a jointly controlled entity	**–**	90
NET CASH USED IN INVESTING ACTIVITIES	**(1,779)**	(2,184)
FINANCING ACTIVITIES		
Repayment of bank loans	**(14,145)**	(12,905)
Dividends paid	**(1,403)**	(2,349)
Interest paid	**(862)**	(1,427)
Repayment of trust receipt loans	**(380)**	(2,714)
Bank loans raised	**5,000**	13,000
Trust receipt loans raised	**–**	1,353
NET CASH USED IN FINANCING ACTIVITIES	**(11,790)**	(5,042)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,206**	4,166
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**11,395**	7,129
Effect of foreign exchange rate changes	**255**	100
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash	**12,856**	11,395

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider Pegasus Footgear Management Limited, a company incorporated in the British Virgin Islands, to be the ultimate and immediate holding company of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information.

The consolidated financial statements are presented in United States dollars ("US dollar"), which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are manufacture and sale of footwear products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

[2] Effective for annual periods beginning on or after 1st January, 2009

[3] Effective for annual periods beginning on or after 1st July, 2009

[4] Effective for annual periods ending on or after 30th June, 2009

[5] Effective for annual periods beginning on or after 1st July, 2008

[6] Effective for annual periods beginning on or after 1st October, 2008

[7] Effective for transfers on or after 1st July, 2009

The directors of the Group anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The 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 values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments excluding financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes, other than construction in progress, are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or for administrative purposes, are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Impairment losses on assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Cost comprises direct materials and, when applicable, direct labour costs and those overhead that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less any estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits schemes

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL are derivative financial instruments and held for trading investments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method *(Continued)*

Financial assets at fair value through profit or loss (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For loans and receivables, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amount due from an associate, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an amount due from an associate is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified as FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL.

Financial liabilities at fair value through profit or loss

The Group's financial liabilities at FVTPL include derivatives that are not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives not designated into an effective hedge relationship are deemed as held for trading and are classified as a current asset or a current liability.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Income taxes

At 31st December, 2008, a deferred tax asset of US$640,000 (2007: US$640,000) in relation to deductible temporary differences has been recognised in the Group's balance sheet. No deferred tax asset has been recognised on the tax losses and other deductible temporary difference of US$5,325,000 (2007: US$4,096,000) and US$14,574,000 (2007: US$14,575,000), respectively, due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal or a recognition takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 23, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the repayments of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2008	2007
	US$'000	US$'000
Financial assets		
Fair value through profit or loss		
– derivative financial instruments	**–**	183
Loans and receivables		
(including cash and cash equivalents)	**22,238**	22,759
Financial liabilities		
Fair value through profit or loss		
– derivative financial instruments	**159**	–
Amortised cost	**23,234**	37,089

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, derivative financial instruments, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the Group's exposure to market risks or the manner in which the Group manages and measures the risk.

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Most of the Group's sales are denominated in the functional currency of the group entity making the sale, whilst almost 95% of costs are denominated in the Group entity's functional currency.

At the reporting date, the carrying amounts of the Group's monetary assets and monetary liabilities that were denominated in a currency other than the functional currency of the relevant group entities are as follows:

	2008 **US$'000**	2007 US$'000
Assets		
US dollar	**9,176**	–
Hong Kong dollar ("HK dollar")	**1,088**	874
Liabilities		
US dollar	**1,103**	8,181
HK dollar	**494**	1,063

In order to mitigate the currency risk, the Group has entered into foreign exchange forward contracts to hedge USD against RMB. The Group continues reviewing the effectiveness of these instruments and the underlying strategies in monitoring currency risk and will enter into foreign exchange forward contracts should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Sensitivity analysis for non-derivative financial instruments

If the US dollar strengthens/weakens by 5% against the Renminbi ("RMB"), the Group's post-tax profit for the year ended 31st December, 2008 would increase/decrease by approximately US$303,000 (2007: decrease/increase by approximately US$274,000).

As the HK dollar is pegged to the US dollar, the Group does not have material risk on the HK dollar exposure.

Sensitivity analysis for derivative financial instruments

The Group's derivative financial instruments at each balance sheet date exposed the Group to the market bid and ask foreign currency forward exchange rate risk.

For the outstanding foreign exchange forward contracts, if the market bid and ask forward exchange rate of the US dollar strengthens/weakens by 5% against the RMB, the Group's post-tax profit for the year ended 31st December, 2008 would decrease/increase by approximately US$375,000 (2007: decrease/increase by approximately US$341,000).

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 23 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly attributable to the fluctuation of London Interbank Offered Rate ("LIBOR").

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and bank borrowings at the balance sheet date. For variable-rate bank deposits and bank borrowings, the analysis is prepared assuming the amount of the asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 30 basis point (2007: 30 basis point) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

***Market risk** (Continued)*

(ii) Interest rate risk *(Continued)*

Sensitivity analysis *(Continued)*

If interest rates had been 30 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2008 would decrease/increase by approximately US$34,000 (2007: decrease/increase by approximately US$40,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and bank borrowings.

Credit risk

At 31st December, 2008 and 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's credit risk by geographical locations is mainly concentrated in North America, Europe and Asia, which accounted for approximately 97% (2007: 96%) of the Group's total trade receivables as at 31st December, 2008.

The Group has concentration of credit risk by customer as 83% (2007: 78%) and 95% (2007: 98%) of the Group's total trade receivables was due from its largest customer and the five largest customers, respectively.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

***Liquidity risk** (Continued)*

At 31st December, 2008, the Group had available unutilised overdraft and short-term bank loan facilities of approximately US$3,280,000 (2007: US$3,025,000) and US$3,635,200 (2007: US$12,641,000), respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative financial instruments. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash (inflows)/outflows are presented.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month US$'000	1-3 months US$'000	3 months to 1 year US$'000	1-5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
2008							
Non-derivative financial liabilities							
Trade and other payables	–	4,445	3,829	–	–	8,274	8,274
Bank borrowings							
– variable rate	3.39	1,180	2,184	5,012	7,078	15,454	14,960
		5,625	6,013	5,012	7,078	23,728	23,234
Derivative net settlement							
Foreign exchange forward contracts	–	72	42	45	–	159	159
2007							
Non-derivative financial liabilities							
Trade and other payables	–	7,154	5,450	–	–	12,604	12,604
Bank borrowings							
– variable rate	5.68	435	2,744	9,957	13,465	26,601	24,485
		7,589	8,194	9,957	13,465	39,205	37,089
Derivative net settlement							
Foreign exchange forward contracts	–	(36)	(69)	(78)	–	(183)	(183)

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

- the fair value of derivative financial instruments are determined based on the difference between the market forward rates at the balance sheet date for remaining duration of the outstanding contracts and their contracted forward rates.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. 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 bases on which the Group reports its primary segment information.

The following is an analysis of the Group's sales by geographical market based on the destination of the goods shipped or delivered, irrespective of the origin of the goods:

2008

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	78,075	33,533	32,064	4,442	148,114
RESULTS					
Segment results	10,554	4,532	3,064	601	18,751
Other income					1,135
Unallocated corporate expenses					(16,454)
Share of loss of an associate	–	–	(158)	–	(158)
Share of loss of a jointly controlled entity	–	–	(458)	–	(458)
Interest on bank borrowings wholly repayable within five years					(862)
Profit before taxation					1,954
Taxation					(388)
Profit for the year					1,566

7. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
BALANCE SHEET					
ASSETS					
Segment assets	–	–	–	–	136,808
Interests in an associate	–	–	606	–	606
Interests in a jointly controlled entity	–	–	1,942	–	1,942
Unallocated corporate assets					12,858
Consolidated total assets					152,214
LIABILITIES					
Unallocated corporate liabilities and consolidated total liabilities					32,888

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Unallocated US$'000	Consolidated US$'000
OTHER INFORMATION						
Impairment loss on trade receivables	34	–	–	–	–	34
Capital additions	–	–	–	–	1,991	1,991
Release of prepaid lease payments	–	–	–	–	165	165
Depreciation of property, plant and equipment	–	–	–	–	6,231	6,231

2007

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	76,174	38,436	30,292	4,973	149,875
RESULTS					
Segment results	9,714	4,902	2,857	633	18,106
Other income					1,667
Unallocated corporate expenses					(15,544)
Share of loss of an associate	–	–	(180)	–	(180)
Share of loss of a jointly controlled entity	–	–	(164)	–	(164)
Interest on bank borrowings wholly repayable within five years					(1,427)
Profit before taxation					2,458
Taxation					(363)
Profit for the year					2,095

7. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
BALANCE SHEET					
ASSETS					
Segment assets	–	–	–	–	138,637
Interests in an associate	–	–	764	–	764
Interests in a jointly controlled entity	–	–	2,347	–	2,347
Unallocated corporate assets					11,602
Consolidated total assets					153,350
LIABILITIES					
Unallocated corporate liabilities and consolidated total liabilities					41,196

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Unallocated US$'000	Consolidated US$'000
OTHER INFORMATION						
Impairment loss on trade receivables	162	–	–	–	–	162
Capital additions	–	–	–	–	2,481	2,481
Release of prepaid lease payments	–	–	–	–	153	153
Depreciation of property, plant and equipment	–	–	–	–	7,026	7,026

Segment assets consist of property, plant and equipment, prepaid lease payments, inventories and trade and other receivables. They are not directly attributable to each location of customer and cannot be allocated to geographical segments on a reasonable basis.

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

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**	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
PRC	**128,372**	127,549	**1,991**	2,481
Hong Kong	**8,345**	10,963	**–**	–
Taiwan	**91**	125	**–**	–
	136,808	138,637	**1,991**	2,481

7. SEGMENT INFORMATION *(Continued)*

Business segments

No analysis of financial information by business segment is presented as over 90% of the Group's turnover and trading results are generated from the manufacture and sale of footwear products.

8. PROFIT BEFORE TAXATION

	2008 US$'000	2007 US$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (Note 9)	**831**	950
Other staff costs	**40,779**	41,636
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**2,647**	2,132
Total staff costs	**44,257**	44,718
Auditor's remuneration	**163**	118
Cost of inventories recognised as an expense	**124,155**	127,070
Depreciation of property, plant and equipment	**6,231**	7,026
Impairment loss on trade receivables	**34**	162
Loss on fair value changes of derivative financial instruments (included in administrative expenses)	**342**	–
Net foreign exchange losses	**442**	179
Release of prepaid lease payments (included in administrative expenses)	**165**	153
and after crediting to other income:		
Gain on fair value changes of derivative financial instruments	**–**	183
Gain on fair value changes of held for trading investments	**37**	188
Interest income	**212**	376

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 7 (2007: 8) directors were as follows:

	Wu Chen San, Thomas US$'000	Wu Jenn Chang, Michael US$'000	Wu Jenn Tzong, Jackson US$'000	Ho Chin Fa, Steven US$'000	Huang Hung Ching US$'000	Lai Jenn Yang, Jeffrey US$'000	Liu Chung Kang, Helios US$'000	Total US$'000
2008								
Fees	23	12	12	12	8	8	8	83
Other emoluments								
Salaries and other benefits	227	152	70	96	-	-	-	545
Bonus	23	104	48	28	-	-	-	203
	273	268	130	136	8	8	8	831

	Wu Chen San, Thomas US$'000	Wu Jenn Chang, Michael US$'000	Wu Jenn Tzong, Jackson US$'000	Ho Chin Fa, Steven US$'000	Huang Hung Ching US$'000	Fang Yen Ling US$'000 (note)	Lai Jenn Yang, Jeffrey US$'000	Liu Chung Kang, Helios US$'000	Total US$'000
2007									
Fees	23	12	12	12	2	6	8	8	83
Other emoluments									
Salaries and other benefits	197	166	70	95	–	–	–	–	528
Bonus	33	182	72	52	–	–	–	–	339
	253	360	154	159	2	6	8	8	950

The performance related incentive payment is determined with reference to the Group's operating results, individual performance and the comparable market statistics.

No director waived any emoluments in each of the two years ended 31st December, 2008.

note: Fang Yen Ling resigned as an independent non-executive director during the year ended 31st December, 2007.

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included 4 executive directors (2007: 4 executive directors) of the Company, whose emoluments are included in the disclosure in Note 9 above. The emoluments of the remaining one (2007: one) highest paid individual was as follows:

	2008	2007
	US$'000	US$'000
Basic salaries and allowances	**133**	134
Retirement benefits scheme contributions	**2**	2
	135	136

The emolument of the highest paid employee was within the following bands:

	Number of employees	
	2008	2007
HK$1,000,000 to HK$1,500,000 (equivalent to US$128,041 to US$192,061)	**1**	1

11. TAXATION

	2008	2007
	US$'000	US$'000
Current taxation:		
Hong Kong	**–**	32
PRC	**388**	407
Taiwan	**2**	29
	390	468
Overprovision in prior years:		
Hong Kong	**(2)**	(1)
PRC	**–**	(155)
	(2)	(156)
Deferred tax (Note 25):		
Attributable to a change in tax rate	**–**	51
Taxation attributable to the Group	**388**	363

11. TAXATION *(Continued)*

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 27% or 33% to 25% from 1st January, 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC are 25% for the year ended 31st December, 2008 (2007: ranged from 12% to 33%).

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.

Details of the deferred taxation are set out in Note 25.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2008 **US$'000**	2007 US$'000
Profit before taxation	**1,954**	2,458
Tax at the domestic income tax rate of 25% (2007: 33%)	**489**	811
Tax effect of share of losses of an associate/ a jointly controlled entity	**154**	113
Tax effect of expenses not deductible for tax purposes	**687**	681
Tax effect of income not taxable for tax purposes	**(1,087)**	(1,657)
Overprovision in prior years	**(2)**	(156)
Tax effect of tax losses/deductible temporary differences not recognised	**307**	394
Effect of tax concessions granted to PRC subsidiaries	**–**	(123)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(160)**	249
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	51
Tax charge for the year	**388**	363

note: The domestic tax rate in the jurisdiction where the operations of the Group is substantially based is used.

12. DIVIDENDS

	2008	2007
	US$'000	US$'000
Dividends recognised as a distribution during the year:		
Final, paid – HK1 cent for 2007 (2006: HK1.5 cents) per share	**935**	1,414
Interim, paid – HK0.5 cent for 2008 (2007: HK1 cent) per share	**468**	935
	1,403	2,349

For the year ended 31st December, 2008, the directors do not recommend the payment of a final dividend (2007: HK1 cent).

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company of US$1,566,000 (2007: US$2,095,000) and on 730,700,000 (2007: 730,700,000) ordinary shares in issue during the year.

No diluted earnings per share for the years ended 31st December, 2008 and 2007 have been presented because there are no potential dilutive ordinary shares outstanding.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST OR VALUATION							
At 1st January, 2007	36,120	361	1,467	91,966	17,949	986	148,849
Exchange adjustments	2,493	6	98	8,859	2,041	111	13,608
Additions	39	708	–	1,232	501	1	2,481
Transfers	–	(1,012)	–	88	924	–	–
Disposals	–	–	–	(24)	–	(95)	(119)
Revaluation	307	–	–	–	–	–	307
At 31st December, 2007	38,959	63	1,565	102,121	21,415	1,003	165,126
Exchange adjustments	2,679	4	104	5,689	1,430	61	9,967
Additions	–	–	–	807	1,183	1	1,991
Disposals	–	–	–	–	(10)	(80)	(90)
Transfers	–	(67)	–	–	67	–	–
Revaluation	(1,609)	–	–	–	–	–	(1,609)
At 31st December, 2008	40,029	–	1,669	108,617	24,085	985	175,385
Comprising:							
At cost	–	–	1,669	108,617	24,085	985	135,356
At valuation – 2008	40,029	–	–	–	–	–	40,029
	40,029	–	1,669	108,617	24,085	985	175,385
DEPRECIATION							
At 1st January, 2007	–	–	1,463	70,819	13,478	881	86,641
Exchange adjustments	96	–	98	4,024	1,320	104	5,642
Provided for the year	659	–	2	5,446	902	17	7,026
Eliminated on disposals	–	–	–	(24)	–	(95)	(119)
Eliminated on revaluation	(755)	–	–	–	–	–	(755)
At 31st December, 2007	–	–	1,563	80,265	15,700	907	98,435
Exchange adjustments	24	–	104	5,006	1,065	55	6,254
Provided for the year	857	–	2	4,494	841	37	6,231
Eliminated on disposals	–	–	–	–	(10)	(80)	(90)
Eliminated on revaluation	(881)	–	–	–	–	–	(881)
At 31st December, 2008	–	–	1,669	89,765	17,596	919	109,949
CARRYING VALUE							
At 31st December, 2008	40,029	–	–	18,852	6,489	66	65,436
At 31st December, 2007	38,959	63	2	21,856	5,715	96	66,691

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	2%
Leasehold improvements	20%
Plant and machinery	10%-20%
Furniture, fixtures and equipment	20%-33 1/3%
Motor vehicles	20%

The buildings were revalued at 31st December, 2008 and 31st December, 2007 by Messrs. RHL Appraisal Limited on a depreciated replacement cost basis. Messrs. RHL Appraisal Limited are not connected with the Group. Messrs. RHL Appraisal Limited are members of the Institute of Valuers and have appropriate qualifications and recent experience in valuation of similar properties. The valuation was arrived at by reference to current construction costs of similar buildings less allowance of accrued depreciation.

If the buildings in the PRC had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation as follows:

	2008	2007
	US$'000	US$'000
Cost at the end of the year	**36,127**	36,127
Accumulated depreciation	**(8,250)**	(7,501)
Net book value at the end of the year	**27,877**	28,626

15. PREPAID LEASE PAYMENTS

	2008	2007
	US$'000	US$'000
The Group's prepaid lease payments comprise land use rights in the PRC under medium-term leases	**6,391**	6,135
Analysed for reporting purpose as:		
Current assets	**165**	155
Non-current assets	**6,226**	5,980
	6,391	6,135

16. INTERESTS IN AN ASSOCIATE

	2008 US$'000	2007 US$'000
Cost of unlisted investment in an associate	**400**	400
Share of post-acquisition profits	**206**	364
	606	764
Amount due from an associate	**2**	24

The amount due from an associate is unsecured, interest-free, and repayable on demand.

Particulars of the Group's associate at 31st December, 2008 and 2007 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company	Principal activities
Hi-Tech Pacific Limited	Private limited company	British Virgin Islands	Hong Kong	Ordinary US$1,000,000	40%	Investment holding in companies engaging in manufacturing and sale of footwear materials

16. INTERESTS IN AN ASSOCIATE *(Continued)*

The summarised financial information in respect of the Group' associate is set out below:

	2008 US$'000	2007 US$'000
Total assets	1,777	2,326
Total liabilities	(261)	(416)
Net assets	1,516	1,910
Group's share of net assets of an associate	606	764
Turnover	3,479	3,681
Loss for the year	(394)	(451)
Group's share of loss of an associate for the year	(158)	(180)

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2008 US$'000	2007 US$'000
Cost of unlisted investment in a jointly controlled entity	2,400	2,400
Share of post-acquisition loss and reserves, net of dividends received	(458)	(53)
	1,942	2,347

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Particulars of the Group's jointly controlled entity at 31st December, 2008 and 2007 are as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company	Principal activities
C.P.L. International Company Limited	Private limited company	British Virgin Islands	Hong Kong	Ordinary US$8,000,000	30%	Investment holding in companies engaging in manufacturing and sale of leather materials

The summarised financial information in respect of the Group' jointly controlled entity which is accounted for using the equity method is set out below:

	2008 US$'000	2007 US$'000
Total assets	4,961	5,987
Total liabilities	(3,019)	(3,640)
Net assets	1,942	2,347
Income	6,156	7,832
Expenses	6,614	7,996

18. INVENTORIES

	2008 US$'000	2007 US$'000
Raw materials	32,854	31,236
Work in progress	6,332	8,468
Finished goods	14,672	12,601
	53,858	52,305

19. TRADE AND OTHER RECEIVABLES

	2008 US$'000	2007 US$'000
Trade receivables	9,362	10,734
Other receivables	1,761	2,772
Total trade and other receivables	11,123	13,506

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

	2008 US$'000	2007 US$'000
0-30 days	8,070	9,891
31-60 days	1,166	694
Over 60 days	126	149
Total trade receivables	9,362	10,734

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits. Limits attributed to customers are reviewed periodically. 99% (2007: 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$126,000 (2007: US$52,000) which were past due at the reporting date but for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2008 US$'000	2007 US$'000
61 – 90 days	114	–
91-120 days	11	52
Over 120 days	1	–
Total	126	52

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.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2008		2007	
	Assets	**Liabilities**	Assets	Liabilities
	US$'000	**US$'000**	US$'000	US$'000
Foreign exchange forward contracts	**–**	**159**	183	–

Major terms of foreign exchange forward contracts at the balance sheet date are as follows:

Aggregate notional amount	**Maturity**	**Exchange rates**
2008		
Sell US$10,000,000	From January 2009 to June 2009	Sell US$/Buy RMB at a range of 6.6795 to 6.7843
2007		
Sell US$10,000,000	From January 2008 to May 2008	Sell US$/Buy RMB at a range of 7.4263 to 7.48564

The above derivatives are measured at fair value at each balance sheet date and will be settled net in cash with issuer. Their fair values are determined based on the difference between the market forward rates at the balance sheet date for remaining duration of the outstanding contracts and their contracted forward rates.

21. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at market interest rates, ranging from 1.60% to 4.95% (2007: 1.20% to 3.88%) per annum.

22. TRADE AND OTHER PAYABLES

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

	2008	2007
	US$'000	US$'000
0-30 days	**3,829**	4,312
31-60 days	**661**	1,138
Over 60 days	**557**	1,214
Total trade payables	**5,047**	6,664
Other payables	**9,233**	6,619
	14,280	13,283

22. TRADE AND OTHER PAYABLES *(Continued)*

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 within the credit timeframe.

23. UNSECURED BANK BORROWINGS

	2008 US$'000	2007 US$'000
Bank loans	**14,905**	24,050
Trust receipt loans	**55**	435
	14,960	24,485
Carrying amount repayable:		
On demand or within one year	**8,095**	11,780
More than one year, but not exceeding two years	**4,990**	9,015
More than two years, but not exceeding three years	**1,875**	3,690
	14,960	24,485
Less: Amounts due within one year shown under current liabilities	**(8,095)**	(11,780)
	6,865	12,705

All of the Group's bank borrowings are variable-rate borrowings which carry interest at LIBOR plus a fixed percentage. Interest is repriced every three months.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2008	2007
Effective interest rate:		
Variable-rate borrowings	**2.87% to 3.87%**	4.75% to 6.61%

24. SHARE CAPITAL

	Number of shares	Amount US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1st January, 2007, 31st December, 2007 and 31st December, 2008	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each (note)		
At 1st January, 2007, 31st December, 2007 and 31st December, 2008	150	15,000
		34,355

	Number of shares		Amount	
	2008 '000	2007 '000	**2008 US$'000**	2007 US$'000
Issued and fully paid				
Ordinary shares of HK$0.10 each	**730,700**	730,700	**9,428**	9,428

note: Convertible non-voting preference shares, when issued and outstanding, carry a fixed cumulative dividend. Under certain circumstances, they are entitled to an additional dividend and are convertible into ordinary shares of the Company.

25. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Revaluation of buildings in the PRC	Accelerated accounting depreciation	Total
	US$'000	US$'000	US$'000
At 1st January, 2007	3,093	(691)	2,402
Charge to equity	266	–	266
Effect of change in tax rate	(229)	51	(178)
At 31st December, 2007	3,130	(640)	2,490
Debit to equity	(182)	–	(182)
Exchange differences	170	–	170
At 31st December, 2008	3,118	(640)	2,478

For the purpose of balance sheet presentation, the above deferred assets and liabilities have been offset.

At 31st December, 2008, the Group had unused tax losses of US$5,325,000 (2007: US$4,096,000) available for offset against future profits and deductible temporary difference of US$17,135,000 (2007: US$17,135,000) in respect of accelerated accounting depreciation. No deferred tax assets have been recognised in respect of the full amount of unused tax losses and the remaining deductible temporary difference of US$14,574,000 (2007: US$14,575,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$3,523,000 (2007: US$4,171,000) that will expire in 2009 to 2014 (2007: 2008 to 2013). Other losses may be carried forward indefinitely.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

26. OPERATING LEASE COMMITMENTS

The Group as lessee

	2008 US$'000	2007 US$'000
Minimum lease payments paid by the Group under operating leases during the year	**693**	539

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 US$'000	2007 US$'000
Within one year	**595**	291
In the second to fifth year inclusive	**657**	322
Over five years	**1,025**	984
	2,277	1,597

Operating lease payments represent rentals payable by the Group for its factories and office premises. Leases are negotiated and rental are fixed for two to six years.

27. COMMITMENTS

During the year ended 31st December, 2007, 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 has agreed to pay royalties to the licensors which were based on certain fixed percentages of the selling prices for items sold.

At 31st December, 2008, the Group guaranteed to pay minimum royalties of US$144,000 (2007: US$1,233,000) to the licensors for the remaining contract period.

28. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme with a maximum amount of HK$1,000 per month, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the government of the PRC. These subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

29. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group entered into the following transactions with its related parties:

Nature of transactions	2008 US$'000	2007 US$'000
Purchases by the Group from a jointly controlled entity	**1,434**	1,924

(ii) Remuneration of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008 US$'000	2007 US$'000
Short term benefits	**1,353**	1,456
Post-employment benefits	**2**	2
	1,355	1,458

The remuneration of directors and key executives is determined with reference to the Group's operating results, individual performance and comparable market statistics.

(iii) Related party balances

Details of the balances with the associate as at respective balance sheet dates are set out in the consolidated balance sheet and Note 16.

30. BALANCE SHEET OF THE COMPANY

	2008 US$'000	2007 US$'000
Total assets	**52,136**	52,784
Total liabilities	**49**	1,006
	52,087	51,778
Capital and reserves		
Share capital	**9,428**	9,428
Reserves (note)	**42,659**	42,350
	52,087	51,778

30. BALANCE SHEET OF THE COMPANY *(Continued)*

note:

Reserves

	Share premium US$'000	Contributed surplus US$'000	Dividend reserve US$'000	Retained profits US$'000	Total US$'000
At 1st January, 2007	21,644	19,486	1,414	12	42,556
Profit for the year	–	–	–	2,143	2,143
Final dividends paid for 2006	–	–	(1,414)	–	(1,414)
Interim dividends paid for 2007	–	–	–	(935)	(935)
Final dividends proposed for 2007	–	–	935	(935)	–
At 31st December, 2007	21,644	19,486	935	285	42,350
Profit for the year	–	–	–	1,712	1,712
Final dividends paid for 2007	–	–	(935)	–	(935)
Interim dividends paid for 2008	–	–	–	(468)	(468)
At 31st December, 2008	21,644	19,486	–	1,529	42,659

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under a corporate reorganisation undertaken in 1996.

31. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2008 and 2007 are as follows:

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
W.P.T. Development Inc.	British Virgin Islands/Hong Kong	Ordinary US$8	100%	–	Investment holding
Pacific Footgear Corporation	British Virgin Islands/Hong Kong	Ordinary US$1	–	100%	Marketing and trading in footwear
Wuco Corporation	British Virgin Islands/Hong Kong	Ordinary US$8	–	100%	Trading in footwear and investment holding
Nagano Management Limited	British Virgin Islands/Hong Kong	Ordinary US$11	–	100%	Investment holding
Topstair International (H.K.) Company Limited	Hong Kong	Ordinary HK$10,000	–	100%	Provision of administrative services to group companies
Guangzhou Panyu Pegasus Footwear Co. Ltd. (note) 廣州市番禺創信鞋業有限公司	PRC	Registered capital US$42,800,000 (2007: US$38,000,000)	–	100%	Manufacture of footwear and footwear materials
台灣松鄴國際有限公司	Taiwan	Registered capital NT$5,000,000	–	100%	Trading in raw materials of footwear
廣州創信鞋品服飾有限公司	PRC	Registered capital RMB25,500,000 (2007: RMB1,000,000)	–	100%	Marketing and trading in footwear in the PRC

note: established in the PRC as a wholly foreign-owned enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

FINANCIAL SUMMARY

RESULTS

	Year ended 31st December,				
	2004	2005	2006	2007	**2008**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Turnover	143,704	141,242	141,465	149,875	**148,114**
Profit (loss) before taxation	(1,321)	2,757	3,550	2,458	**1,954**
Taxation	421	(290)	(430)	(363)	**(388)**
Profit (loss) for the year	(900)	2,467	3,120	2,095	**1,566**

ASSETS AND LIABILITIES

	At 31st December,				
	2004	2005	2006	2007	**2008**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Total assets	142,246	146,089	143,477	153,350	**152,214**
Total liabilities	43,817	44,003	39,287	41,196	**32,888**
Total equity	98,429	102,086	104,190	112,154	**119,326**