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 2011 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 China Construction Bank Chinatrust Commercial Bank, Ltd Hang Seng Bank Limited Standard Chartered Bank (Hong Kong) Limited The Hong Kong and Shanghai Banking Corporation Limited
WEBSITE	http://www.pegasusinternationalholdings.com

CHAIRMAN'S STATEMENT

I am pleased to present our annual results for the year ending 31 December 2011. The Group recorded a net loss after taxation of US$4,136,000 (2010: US$2,499,000), and an increase of turnover from US$72,363,000 in 2010 to US$101,987,000 in this year. Gross profit margin slightly dropped from 17.7% in 2010 to 16.7% in the year.

Geographical Market

North America remains the largest export market of the Group, accounting for 64.1% of the Group's turnover. Turnover contribution from the Asian and European market and other regions represented 21.5%, 10.9% and 3.5% respectively.

BUSINESS REVIEW

It is undeniable that the market participants of the manufacturing industry all over the world have experienced a rather tough year throughout 2011, numerous outbreaks of financial and credit crisis have adversely affected the American and European economy, and have severely weakened the China export trade market. Benefit from the collaboration between western country leaders for the breakthrough to the current situation, the contraction of export volume did show sign of recovery in 2011, the Group recorded an overall increment of export trading when compared to last year.

China is now undergoing an active phase of reforming its rules and regulations to better protect the local employees in every corporate. Together with many other goals on the agenda of the Chinese government, such as improved social welfare and sustainable economic expansion, it significant increases production costs such as the statutory employee retirement contributions, environment and labor protection and local tax expenses. However, the Group views these changes as exciting and encouraging, since they also coincide with the Group's core values.

Domestic Market

China is still the striking market around the world. We have being expanding our business in various aspects and developing different products for many years. Thus, we are familiar with domestic market to a certain extent. The Group gives priority to China market. Yet, the market has been undergoing rapid and material changes in recent years, such as climate, consumer preference and behavior and business environment, posing challenges for the Group's development in China. The Group will work closely with the local sales office and the marketing leaders to substantiate a series of new promotion activities, to secure our competitive edges and maintain our market shares in this attractive high potential market.

The Group is dedicated to developing its own brand, Magic House, main products of which include clothes and shoes. And with self-owned distribution channels, we have laid a sound foundation for our business development. Other projects, such as exclusive right to market children's shoes of OshKosh B'Gosh, a world-known brand, have achieved a positive progress. We will continue to explore domestic market adhering to a conservative, safe and stable strategy.

SOCIAL RESPONSIBILITY

Contribution to the community is one of the largest momentums to drive the Group to excel and move forward. During year 2011, the Group had maintained a high standard in promoting work safety awareness, as well as, minimizing industrial waste and damage to the environment. The Group will never cease learning, while refining our business policies and improving manufacturing technologies will remain as our ongoing endeavors. We are also proud of the Group's comprehensive corporate governance structure and talented management and staff.

CHAIRMAN'S STATEMENT

Being a caring corporation, the Group continues to contribute the community by donation. We strongly believe that treasuring and respecting local resources can prepare and foster the Group's to evolve with the times.

Also, our commitment to local society and concern to workers are reinforced. The Group will continue our success and share the achievement with the stakeholders and the community.

FUTURE PROSPECTS

Facing a lot of uncertainties, the Group expects the hard times will not persist for a long period of time. Operational reforms aim at bringing out the greatest synergy from existing resources. Financial plans also take an important role in formulating a better assets management strategy, resulted the strongest liquidity position among recent years.

APPRECIATION

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

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 28 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2011, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31 December 2011, the Group recorded a turnover of US$101,987,000 (2010: US$72,363,000) representing 40.9% increase comparing to 2010.

Loss before taxation of the Group for the year ended 31 December 2011 was US$1,314,000 (2010: US$2,331,000), an improvement of US$1,017,000 as compared to the corresponding period in 2010. However, after accounting for income taxes of US$2,822,000, resulted a loss after taxation of US$4,136,000 (2010: US$2,499,000). Basic loss per share for the year ended 31 December 2011 was 0.57 US cents (basic loss per share for 2010: 0.34 US cents). Gross profit margin slightly decreased to 16.7% in the year. In addition, the Group continued to exercise tight cost control and implemented policies to improve efficiency.

The Group will continue to observe this conservative approach, to stay in low gearing ratio, in formulating resources allocation. The Group had successfully reduced its bank borrowings by US$3,244,000 in 2011 as compared to 2010. This, helped to reduce the interest expenses by US$44,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. Under the global finance crisis, the Group put great effort to maintain a healthy and strong financial position, and the main focus was cash flow management. Trade receivables were reviewed regularly to ensure that were neither past due nor impaired, and trade payables were scheduled to match our cash flow pattern. Spending, capital expenditure, other than necessary, were greatly controlled. As at 31 December 2011, the Group had cash and cash equivalent of US$7,432,000 (2010: US$13,701,000) and total borrowings of US$4,142,000 (2010: US$7,386,000), and reached the net bank balances and cash of US$3,290,000 (US$6,315,000 in 2010). As at 31 December 2011 the Group's solid financial liquidity position was reflected by a healthy current ratio of 4.8 (2010: 4.6) times.

CAPITAL EXPENDITURE

For the year ended 31 December 2011, the Group incurred US$759,000 in capital expenditure, of which approximately 88% 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 31 December 2011.

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 25 to 26. 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.

A. DIRECTORS (CONTINUED)

A.1 The Board (continued)

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.

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 32 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		
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.	Not applicable	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.
C.3.6		
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.	Yes	The audit committee should be provided with sufficient resources to discharge its duties. 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	1,040
Taxation services	42
	1,082

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 31 December 2011 included in 2011 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 31 December 2011, 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 30 June 2011, prior to public announcement and filing.

The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditors for 2012.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Huang Hung Ching

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

Hong Kong, 28 March 2012

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Chen San, Thomas, aged 61, 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 over 40 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Chang, Michael, aged 54, 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 29 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Tzong, Jackson, aged 56, 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 35 years' experience in the footwear manufacturing business.

Mr. Ho Chin Fa, Steven, aged 59, 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 29 years' experience in the footwear manufacturing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Hung Ching aged 48, 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 54, 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 61, is currently a director of Emo Technology Inc., 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 47, 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.

Ms. Lin Hui Fan, aged 61, 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 51, is a supervisor of Panyu Pegasus. Mr. Hsieh joined the Group in 1991 and has over 30 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.

Ms. Chen Xin Xin, aged 27, is a senior manager of Panyu Pegasus in product development. Ms. Chen graduated from the National Taiwan University. Ms. Chen joined the Group in 2007 and has 5 years' experience in footwear manufacturing and product development.

Ms. Li Yan Ling, aged 49, is a senior manager of Panyu Pegasus in technical department. Ms. Li graduated from the Guangdong University of Technology. Ms. Li joined the Group in 1993 and has 22 years' experience in footwear manufacturing and product development.

Ms. Li Hong Jia, aged 35 , is a senior manager of Panyu Pegasus in sales department. Ms. Li graduated from the Guangdong University of Foreign Languages . Ms. Li joined the Group in 2000 and has 12 years' experience in footwear manufacturing and product development.

Ms. Gina Wu, aged 28, is a special assistant of Panyu Pegasus in sales department. Ms. Wu majored in International Business Department from National Taiwan University. She worked for the Boston Consulting Group as an associate and Avery Dennison Corporation as a project consultant. Ms. Wu joined the Group in 2009 and assists the senior management team in retail business development of the Group.

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

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 33, respectively, to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 34.

An interim dividend of 0.5 HK cents per share amounting to US$472,000 in aggregate was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 0.5 HK cents per share to the shareholders whose names appear on the register of members on 8 June 2012, amounting to US$472,000.

PROPERTY, PLANT AND EQUIPMENT

The buildings of the Group were revalued at 31 December 2011. A revaluation decrease of US$626,000 has been debited directly to the properties revaluation reserve.

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

SHARE CAPITAL

Details of the Group's share capital are set out in Note 26 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 31 December 2011, the Company's reserves available for distribution to shareholders consisted of retained profits and contributed surplus, totalling US$19,733,000 (2010: US$20,772,000).

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

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

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

DIRECTORS' REPORT

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 *(Chairman)*

Mr. Wu Jenn Chang, Michael *(Deputy Chairman)*

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, Jeffrey, retire by rotation and, being eligible, offer themselves for re-election.

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 25 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 31 December 2011, 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 Issuers, were as follows:

Long positions

(i) 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%

(ii) 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%

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

(ii) 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 31 December 2011, 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 PURCHASE 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 31 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

At 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' Interests 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

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Long position (continued)

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 31 December 2011.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the largest customer of the Group accounted for approximately 62% of the Group's turnover. The five largest customers accounted for approximately 94% of the Group's turnover.

For the year ended 31 December 2011, 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 Group's employee emoluments policy is set up by the Board of Directors on the basis of the employees' merit, qualifications and competence.

The emoluments of the Company's directors 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 31 December 2011.

PRE-EMPTIVE RIGHTS

There are no provisions 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, 28 March 2012

INDEPENDENT AUDITOR'S REPORT

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 34 to 89, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 31 December 2011 and of the Group's loss 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

28 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 US$'000	2010 US$'000
Revenue	7	**101,987**	72,363
Cost of sales		**(84,950)**	(59,531)
Gross profit		**17,037**	12,832
Other income		**601**	368
Selling and distribution costs		**(7,737)**	(7,261)
General and administrative expenses		**(10,212)**	(8,159)
Share of (loss) profit of an associate		**(5)**	30
Share of (loss) profit of a jointly controlled entity		**(886)**	15
Interest on bank borrowings wholly repayable within five years		**(112)**	(156)
Loss before taxation	8	**(1,314)**	(2,331)
Taxation	11	**(2,822)**	(168)
Loss for the year attributable to owners of the Company		**(4,136)**	(2,499)
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		**6,504**	2,554
Revaluation (decrease) increase on buildings		**(626)**	6,156
Deferred tax arising on revaluation of buildings		**156**	(1,539)
Share of translation reserve of a jointly controlled entity		**–**	27
Other comprehensive income for the year, net of tax		**6,034**	7,198
Total comprehensive income for the year attributable to owners of the Company		**1,898**	4,699
Loss per share	13		
Basic		**(0.57) US cents**	(0.34) US cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2011

	NOTES	2011 US$'000	2010 US$'000
Non-current assets			
Property, plant and equipment	14	**63,028**	63,009
Prepaid lease payments	15	**6,031**	6,034
Interests in an associate	16	**613**	698
Interests in a jointly controlled entity	17	**–**	1,830
		69,672	71,571
Current assets			
Inventories	18	**48,147**	47,020
Trade and other receivables	19	**14,889**	9,952
Prepaid lease payments	15	**178**	169
Held for trading investments	20	**426**	431
Derivative financial instruments	21	**–**	53
Bank balances and cash	22	**7,432**	13,701
		71,072	71,326
Assets classified as held for sale	23	**944**	–
		72,016	71,326
Current liabilities			
Trade and other payables	24	**10,648**	8,760
Unsecured bank borrowings-due within one year	25	**4,142**	5,511
Tax payable		**311**	1,150
		15,101	15,421
Net current assets		**56,915**	55,905
		126,587	127,476
Capital and reserves			
Share capital	26	**9,428**	9,428
Share premium and reserves		**113,685**	112,730
Total equity		**123,113**	122,158
Non-current liabilities			
Unsecured bank borrowings-due after one year	25	**–**	1,875
Deferred tax liabilities	27	**3,474**	3,443
		3,474	5,318
		126,587	127,476

The consolidated financial statements on pages 34 to 89 were approved and authorised for issue by the Board of Directors on 28 March 2012 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 31 December 2011

	Attributable to owners of the Company						
	Share capital	Share premium	Properties revaluation reserve	Translation reserve	Merger reserve	Retained profits	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2010	9,428	21,644	3,576	14,189	(4,512)	74,077	118,402
Loss for the year	–	–	–	–	–	(2,499)	(2,499)
Exchange differences arising on translation of foreign operations	–	–	–	2,554	–	–	2,554
Revaluation increase on buildings	–	–	6,156	–	–	–	6,156
Deferred tax liability arising on revaluation of buildings (Note 27)	–	–	(1,539)	–	–	–	(1,539)
Share of translation reserve of a jointly controlled entity	–	–	–	27	–	–	27
Total comprehensive income (expense) for the year	–	–	4,617	2,581	–	(2,499)	4,699
Dividends recognised as distribution (Note 12)	–	–	–	–	–	(943)	(943)
At 31 December 2010	9,428	21,644	8,193	16,770	(4,512)	70,635	122,158
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(4,136)**	**(4,136)**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**6,504**	**–**	**–**	**6,504**
Revaluation decrease on buildings	**–**	**–**	**(626)**	**–**	**–**	**–**	**(626)**
Deferred tax liability reversed on revaluation of buildings (Note 27)	**–**	**–**	**156**	**–**	**–**	**–**	**156**
Total comprehensive (expense) income for the year	**–**	**–**	**(470)**	**6,504**	**–**	**(4,136)**	**1,898**
Transfer of revaluation reserve upon disposal of building	**–**	**–**	**(88)**	**–**	**–**	**88**	**–**
Dividends recognised as distribution (Note 12)	**–**	**–**	**–**	**–**	**–**	**(943)**	**(943)**
At 31 December 2011	**9,428**	**21,644**	**7,635**	**23,274**	**(4,512)**	**65,644**	**123,113**

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 STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
OPERATING ACTIVITIES		
Loss before taxation	(1,314)	(2,331)
Adjustments for:		
Depreciation of property, plant and equipment	3,130	3,000
Loss on fair value changes of held for trading investments	173	2
Loss (gain) on disposal of property, plant and equipment	4	(5)
Gain on disposal of prepaid lease payment	(270)	–
Gain on fair value changes of derivative financial instruments	(61)	(53)
Interest income	(150)	(160)
Interest expenses	112	156
Release of prepaid lease payments	178	169
Share of loss (profit) of an associate	5	(30)
Share of loss (profit) of a jointly controlled entity	886	(15)
Operating cash flows before movements in working capital	2,693	733
Decrease (increase) in inventories	1,421	(6,041)
Increase in trade and other receivables	(4,937)	(1,842)
Increase in held for trading investments	(168)	(433)
Increase in trade and other payables	2,609	888
Decrease in derivative financial instruments	114	–
Cash generated from (used in) operations	1,732	(6,695)
Taxation paid in other jurisdictions	(3,703)	(157)
Hong Kong Profits Tax paid	(4)	(3)
NET CASH USED IN OPERATING ACTIVITIES	(1,975)	(6,855)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(795)	(451)
Proceeds on disposal of prepaid lease payments	419	–
Interest received	150	160
Dividend received from an associate	80	–
Proceeds on disposal of property, plant and equipment	54	63
NET CASH USED IN INVESTING ACTIVITIES	(92)	(228)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(5,636)	(4,182)
Bank borrowings raised	2,392	3,011
Dividends paid	(943)	(943)
Interest paid	(112)	(156)
NET CASH USED IN FINANCING ACTIVITIES	(4,299)	(2,270)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,366)	(9,353)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	13,701	22,883
Effect of foreign exchange rate changes	97	171
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	7,432	13,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 to the annual report.

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 new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

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

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

Amendments to HKFRS 7	Disclosures-Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures-Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax-Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors expect HKFRS 9 will be adopted in financial year beginning 1 January 2015. Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2011, the adoption of HKFRS 9 is not expected to have significant impact on the Group's consolidated financial statements.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

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

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC)-Int 12 Consolidation-Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may not have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

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

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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

The principal accounting policies are set out below.

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 statement of comprehensive income from the effective date of acquisition and 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 into line with those used by other members of the Group.

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

Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 as described below, are stated in the consolidated financial position at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses, if any.

Buildings held for use in the production or supply of goods or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, 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 end of the reporting period.

Any revaluation increase arising on revaluation of buildings is recognised in other comprehensive income and accumulated in the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to in profit or loss to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is recognised in profit or loss 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 recognised so as to write off the cost or fair value of items of property, plant and equipment, other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 disposal or retirement of an item of properties, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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 under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

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 other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. 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 exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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) using exchange rates prevailing at the end of the reporting period. Income and expenses items 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 in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Borrowing costs

All 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 recognised as an expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 include financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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 to the net carrying amount on initial recognition.

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL are derivative financial instruments and held for trading investments.

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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement 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. subsequent to initial recognition, loans and receivables (including trade and other receivables 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 of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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
- breach of contract, such as default or delinquency in interest and 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, in addition, 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.

For loans and receivables, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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 trade and other receivables, 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 a receivable 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 loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

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 (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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables and unsecured bank borrowings) are subsequently measured at amortised cost using the effective interest method.

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 the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognised financial liabilities when, and only when, the Group's the obligation 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 judgments, 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income taxes

At 31 December 2011, a deferred tax asset of US$690,000 (2010: US$655,000) in relation to deductible temporary differences has been recognised to offset the Group's deferred tax liabilities. No deferred tax asset has been recognised on the tax losses and other deductible temporary difference of US$9,570,000 (2010: US$6,383,000) and US$14,574,000 (2010: US$14,574,000), 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 on the future taxable temporary differences are more or less than expected, additional recognition or reversal of deferred tax asset may arise.

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 debts and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and various reserves.

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 the 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 debts or the redemption of existing debts.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2011 **US$'000**	2010 US$'000
Financial assets		
Fair value through profit or loss		
– held for trading investments	**426**	431
– derivative financial instruments	**–**	53
Loans and receivables (including cash and cash equivalents)	**21,622**	22,179
Financial liabilities		
Amortised cost	**10,687**	13,155

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6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, held for trading investments, derivative financial instruments, bank balances and cash, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price 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 it 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.

At the end of the reporting period, the carrying amounts of the Group's monetary assets (including amounts due from fellow subsidiaries of US$20,154,000 (2010: US$19,156,000) and bank balances and cash) and monetary liabilities (including amounts due to fellow subsidiaries of US$9,979,000 (2010: US$6,574,000) and trade and other payables) that were denominated in currencies other than the functional currency of the relevant group entities are as follows:

	2011	2010
	US$'000	US$'000
Current assets		
US dollar against Renminbi ("RMB")	**20,213**	19,182
Hong Kong dollar ("HK dollar") against US dollar	**397**	423
Current liabilities		
US dollar against RMB	**6,366**	4,204
HK dollar against US dollar	**3,748**	2,628
Non-current intergroup balance that form part of net investment		
US dollar against RMB	**82,291**	82,291

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

In order to mitigate the currency risk, the Group may occasionally enter into foreign exchange forward contracts to hedge US dollar against RMB. The Group continues to review the effectiveness of the underlying strategies in monitoring currency risk and will enter into foreign exchange forward contracts should the need arise.

Sensitivity analysis

A positive number below indicates a decrease in Group's loss where US dollar strengthens by 5% against RMB. A negative number below indicates a decrease in the Group's other comprehensive income recognised in translation reserve where US dollar strengthens by 5% against RMB. If US dollar weakens by 5% against RMB, there would be an equal and opposite impact on the profit or loss and other comprehensive income of the Group.

	2011	2010
	US$'000	US$'000
Profit or loss	**520**	562
Translation reserve	**(4,115)**	(4,115)

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 25 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 continues to monitor the exposure on cash flow interest rate risk and will consider hedging the interest rate should the need arise.

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 concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR").

The Group is exposed to interest rate risk for bank deposits and bank borrowings at the end of the reporting period. In the management's opinion, the Group does not have material interest rate risk exposure and hence no sensitivity analysis is presented.

(iii) Price risk

The Group is exposed to equity price risk through its held for trading securities. In management's opinion, the Group does not have material equity price risk exposure, and hence no sensitivity analysis is presented.

Credit risk

At 31 December 2011 and 2010, 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 statement of financial position.

The Group's credit risk by geographical locations is mainly concentrated in North America, Europe and Asia, which accounted for approximately 97% (2010: 95%) of the Group's total trade receivables as at 31 December 2011.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

The Group has concentration of credit risk by customer as 64% (2010: 56%) and 91% (2010: 91%) of the Group's total trade receivables were due from its largest customer and the five largest customers, respectively.

In order to minimise the credit risk on its trade debts, 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 debt at the end of each reporting period 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.

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

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.

At 31 December 2011, the Group had available unutilised bank borrowings facilities of approximately US$8,000,000 (2010: US$13,290,000).

The following table details the Group's remaining contractual maturity for its 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. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-2 years	Total undiscounted cash flows	Carrying amount
	%	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2011							
Non-derivative financial liabilities							
Trade and other payables	–	**4,720**	**316**	**1,509**	**–**	**6,545**	**6,545**
Bank borrowings							
– variable rate	1.89	**782**	**1,018**	**2,418**	**–**	**4,218**	**4,142**
		5,502	**1,334**	**3,927**	**–**	**10,763**	**10,687**
2010							
Non-derivative financial liabilities							
Trade and other payables	–	5,366	202	201	–	5,769	5,769
Bank borrowings							
– variable rate	1.86	1,886	636	3,056	1,908	7,486	7,386
		7,252	838	3,257	1,908	13,255	13,155

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2011, the aggregate undiscounted principal amounts of these bank loans amounted to US$375,000 (2010: US$1,875,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year (2010: within one to two years) by instalments after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to US$382,000 (2010: US$1,913,000).

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables (Continued)

The amounts included above for variable interest rate bank borrowings are subject to change if there are changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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 in active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of foreign exchange forward contracts are determined based on the difference between the market forward rates at the end of the reporting period 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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 2 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value *(Continued)*

Fair value measurements recognised in the statement of financial position *(Continued)*

	2011		
	Level 1	**Level 2**	**Total**
	US$'000	**US$'000**	**US$'000**
Financial assets at FVTPL			
Held for trading investment	**426**	**–**	**426**

	2010		
	Level 1	Level 2	Total
	US$'000	US$'000	US$'000
Financial assets at FVTPL			
Held for trading investments	431	–	431
Derivative financial instruments	–	53	53
Total	431	53	484

There were no transfer between Level 1 and 2 in the current year.

7. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the chief operating decision maker of the Group, being the Group's chief executive officer, regularly reviews the revenue and operating results analysis by geographical market based on destination of the goods shipped or delivered, irrespective of the origin of the goods. The Group's operating segments determined based on location of geographical markets are North America, Asia, Europe and other regions. However, the chief operating decision maker does not regularly review the assets and liabilities by operating segments.

7. SEGMENT INFORMATION *(Continued)*

Segment revenues and results

For the year ended 31 December 2011

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

7. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 2010

	North America US$'000	Asia US$'000	Europe US$'000	Others regions US$'000	Total US$'000
REVENUE					
External sales of goods	38,819	22,010	8,122	3,412	72,363
RESULTS					
Segment results	4,984	1,584	862	499	7,929
Unallocated income					208
Interest income					160
Unallocated expenses					(10,517)
Share of profit of an associate					30
Share of profit of a jointly controlled entity					15
Interest on bank borrowings wholly repayable within five years					(156)
Loss before taxation					(2,331)
Taxation					(168)
Loss for the year					(2,499)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of corporate income and expenses, interest income, central administration costs, directors' emoluments, share of (loss) profit of an associate/a jointly controlled entity and interest on bank borrowings. This is the measure reported to the chief operating decision maker for the purpose of resources allocation and performance assessment.

7. SEGMENT INFORMATION *(Continued)*

Other segment information

	North America	Asia	Europe	Others regions	Operating segment total	Recon-ciliations	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Amounts included in the measure of segment profit or loss:							
For the year ended 31 December 2011							
Depreciation	1,570	527	267	85	2,449	681	3,130
For the year ended 31 December 2010							
Depreciation	1,198	679	251	105	2,233	767	3,000

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

Revenue from major product

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

Geographical information

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

	2011	2010
	US$'000	US$'000
United States of America	**63,427**	38,312
People's Republic of China ("PRC")	**10,646**	11,276
Belgium	**7,273**	6,125
Japan	**4,420**	3,739
South Korea	**1,530**	1,790
United Kingdom	**2,207**	1,096
Others	**12,484**	10,025
	101,987	72,363

7. SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

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

	2011	2010
	US$'000	US$'000
PRC	**69,663**	71,554
Hong Kong	**5**	9
Taiwan	**4**	8
	69,672	71,571

Information about major customers

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

	2011	2010
	US$'000	US$'000
Customer A	**63,356**	40,233
Customer B	**17,929**	7,339
Customer C	**N/A[1]**	8,642

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

[1] The corresponding revenue do not contribute over 10% of the total sales of the Group.

8. LOSS BEFORE TAXATION

	2011 US$'000	2010 US$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments (Note 9)	**419**	497
Other staff costs	**33,415**	23,828
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**1,779**	1,396
Total staff costs	**35,613**	25,721
Auditor's remuneration	**156**	133
Cost of inventories recognised as an expense	**84,950**	59,531
Depreciation for property, plant and equipment	**3,130**	3,000
Loss on disposal of property, plant and equipment	**4**	–
Loss on fair value changes of held for trading investments (included in administrative expenses)	**173**	2
Net foreign exchange losses	**992**	409
Release of prepaid lease payments (included in administrative expenses)	**178**	169
and after crediting to other income:		
Gain on disposal of prepaid lease payments	**270**	–
Gain on disposal of property, plant and equipment	**–**	5
Gain on fair value changes of derivative financial instruments	**61**	53
Interest income	**150**	160

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 7 (2010: 7) directors were as follows:

	Wu Chen San, Thomas	Wu Jenn Chang, Michael	Wu Jenn Tzong, Jackson	Ho Chin Fa, Steven	Huang Hung Ching	Lai Jenn Yang, Jeffrey	Liu Chung Kang, Helios	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2011								
Fees	**–**	**–**	**–**	**–**	**8**	**8**	**8**	**24**
Other emoluments								
Salaries and other benefits	**134**	**82**	**61**	**91**	**–**	**–**	**–**	**368**
Bonus	**12**	**10**	**–**	**5**	**–**	**–**	**–**	**27**
	146	**92**	**61**	**96**	**8**	**8**	**8**	**419**
2010								
Fees	–	–	–	–	8	8	8	24
Other emoluments								
Salaries and other benefits	194	85	61	84	–	–	–	424
Bonus	18	10	–	21	–	–	–	49
	212	95	61	105	8	8	8	497

The bonus 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 31 December 2011.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: four) were executive directors of the Company whose emoluments are included in the disclosure in Note 9 above. The emoluments of the remaining one (2010: one) individual was as follows:

	2011	2010
	US$'000	US$'000
Basic salaries and allowances	**184**	133
Retirement benefits scheme contributions	**2**	2
	186	135

11. TAXATION

	2011	2010
	US$'000	US$'000
Current tax:		
PRC	**363**	167
Taiwan	**1**	1
	364	168
Underprovision in prior years:		
PRC	**2,458**	–
	2,822	168

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong Profits Tax is made in the consolidated financial statements as there is no assessable profit for both years.

During the year, the Group reached a settlement agreement with a PRC tax authority regarding the Group's transfer pricing arrangements for previous years, resulting in payment of Enterprise Income Tax of approximately US$2,458,000 (2010: Nil) which was charged to profit or loss in the current year.

11. TAXATION *(Continued)*

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Save as disclosed above, in the opinion of the directors, the Group is not subject to taxation in any other jurisdictions.

Details of the deferred taxation are set out in Note 27.

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

	2011	2010
	US$'000	US$'000
Loss before taxation	**(1,314)**	(2,331)
Tax at the domestic income tax rate of 25%	**(329)**	(583)
Tax effect of share of loss (profit) of an associate/ a jointly controlled entity	**223**	(11)
Tax effect of expenses not deductible for tax purposes	**318**	619
Tax effect of income not taxable for tax purposes	**(644)**	(365)
Underprovision in respect of prior year	**2,458**	–
Tax effect of tax losses/deductible temporary differences not recognised	**796**	508
Tax charge for the year	**2,822**	168

Note: The domestic tax rate (which is the PRC EIT rate) in the jurisdiction where the operations of the Group is substantially based is used.

12. DIVIDENDS

	2011	2010
	US$'000	US$'000
Dividends recognised as a distribution during the year:		
2011 interim-0.5 HK cents (2010: nil) per share	**472**	–
2010 Final-0.5 HK cents (2010: 2009 final dividend 1.0 HK cents) per share	**471**	943
	943	943

An interim dividend of 0.5 HK cents per share amounting to US$472,000 in aggregate was paid to the shareholders during the year. A final dividend of 0.5 HK cents per share in respect of the year ended 31 December 2011 (2010: 0.5 HK cents) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of US$4,136,000 (2010: US$2,499,000) and on 730,700,000 (2010: 730,700,000) ordinary shares in issue during the year.

There are no potential ordinary shares outstanding for each of the two years ended 31 December 2011.

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Construction in progress US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
COST OR VALUATION							
At 1 January 2010	36,656	23	1,669	109,270	24,310	907	172,835
Exchange adjustments	847	1	38	2,093	531	18	3,528
Additions	–	–	–	163	168	120	451
Disposals	–	–	–	–	–	(92)	(92)
Revaluation	5,548	–	–	–	–	–	5,548
At 31 December 2010	43,051	24	1,707	111,526	25,009	953	182,270
Exchange adjustments	2,332	1	90	5,012	1,269	45	8,749
Additions	–	15	–	699	81	–	795
Disposals	(49)	–	–	–	(47)	(124)	(220)
Revaluation	(1,263)	–	–	–	–	–	(1,263)
At 31 December 2011	44,071	40	1,797	117,237	26,312	874	190,331
Comprising:							
At cost	–	40	1,797	117,237	26,312	874	146,260
At valuation-2011	44,071	–	–	–	–	–	44,071
	44,071	40	1,797	117,237	26,312	874	190,331
DEPRECIATION							
At 1 January 2010	–	–	1,669	93,596	18,404	864	114,533
Exchange adjustments	–	–	38	1,948	365	19	2,370
Provided for the year	608	–	–	1,591	786	15	3,000
Eliminated on disposals	–	–	–	–	–	(34)	(34)
Eliminated on revaluation	(608)	–	–	–	–	–	(608)
At 31 December 2010	–	–	1,707	97,135	19,555	864	119,261
Exchange adjustments	7	–	90	4,668	910	36	5,711
Provided for the year	637	–	–	1,784	687	22	3,130
Eliminated on disposals	(7)	–	–	–	(46)	(109)	(162)
Eliminated on revaluation	(637)	–	–	–	–	–	(637)
At 31 December 2011	–	–	1,797	103,587	21,106	813	127,303
CARRYING VALUE							
At 31 December 2011	44,071	40	–	13,650	5,206	61	63,028
At 31 December 2010	43,051	24	–	14,391	5,454	89	63,009

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

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

Buildings	2%
Leasehold improvements	20%
Plant and machinery	5%-20%
Furniture, fixtures and equipment	20%-33$^{1}/_{3}$%
Motor vehicles	20%

The buildings were revalued at 31 December 2011 and 31 December 2010 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. 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 of US$25,615,000 (2010: US$26,377,000).

15. PREPAID LEASE PAYMENTS

	2011	2010
	US$'000	US$'000
The Group's prepaid lease payments comprise land use rights in the PRC under medium-term leases	**6,209**	6,203
Analysed for reporting purpose as:		
Current assets	**178**	169
Non-current assets	**6,031**	6,034
	6,209	6,203

16. INTERESTS IN AN ASSOCIATE

	2011 US$'000	2010 US$'000
Cost of unlisted investment in an associate	**400**	400
Share of post-acquisition profits, net of dividends received	**213**	298
	613	698

Particulars of the Group's associate at 31 December 2011 and 2010 are as follows:

Name of associate	Form of business structure	Place of incorporation	Principal place of operation	Issued and fully paid share capital	Proportion of nominal value of issued share 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's associate is set out below:

	2011	2010
	US$'000	US$'000
Total assets	**1,834**	2,001
Total liabilities	**(301)**	(255)
Net assets	**1,533**	1,746
Group's share of net assets of an associate	**613**	698
Revenue	**5,278**	4,020
(Loss) profit for the year	**(12)**	75
Other comprehensive income	**–**	–
Group's share of (loss) profit of an associate for the year	**(5)**	30

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2011 US$'000	2010 US$'000
Cost of unlisted investment in a jointly controlled entity	**2,400**	2,400
Share of post-acquisition loss and other comprehensive income, net of dividends received	**(1,456)**	(570)
	944	1,830
Transfer to assets classified as held for sale (Note 23)	**(944)**	–
	–	1,830

Particulars of the Group's jointly controlled entity at 31 December 2010 and 2011 are as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation	Principal place of operation	Issued and fully paid share capital	Proportion of nominal value of issued share capital indirectly held by the Company	Principal activities
C.P.L. International Company Limited ("CPL")	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

During the year, the Group's interests in CPL have been classified as held for sale (Note 23).

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

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

	As at 31.8.2011 US$'000	2010 US$'000
Total assets	**3,706**	4,482
Total liabilities	**(2,762)**	(2,652)
Net assets	**944**	1,830
Income recognised in profit or loss	**2,472**	4,737
Expenses recognised in profit or loss	**3,358**	4,722
Other comprehensive income	**–**	27

18. INVENTORIES

	2011 US$'000	2010 US$'000
Raw materials	**28,639**	28,244
Work in progress	**6,556**	5,652
Finished goods	**12,952**	13,124
	48,147	47,020

19. TRADE AND OTHER RECEIVABLES

	2011 US$'000	2010 US$'000
Trade receivables	**11,000**	6,787
Other receivables	**3,889**	3,165
Total trade and other receivables	**14,889**	9,952

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

	2011 US$'000	2010 US$'000
0-30 days	**9,589**	6,011
31-60 days	**1,289**	626
Over 60 days	**122**	150
Total trade receivables	**11,000**	6,787

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits by customer. Limits attributed to customers are reviewed periodically. 99% (2010: 98%) 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$122,000 (2010: US$150,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which were past due but not impaired

	2011	2010
	US$'000	US$'000
61-90 days	**47**	62
91-120 days	**4**	79
Over 121 days	**71**	9
Total	**122**	150

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. HELD FOR TRADING INVESTMENTS

	2011	2010
	US$'000	US$'000
Equity securities listed in Hong Kong	**426**	431

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
	US$'000	US$'000
Foreign exchange forward contracts	**–**	53

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Major terms of foreign exchange forward contracts at 31 December 2010 were as follows:

Aggregate notional amount	Maturity	Exchange rates
Sell US$3,000,000	From April 2011 to June 2011	Sell US$/Buy RMB at a range of 6.760 to 6.768

The above derivatives were measured at fair value at the end of the reporting period and were settled net in cash with issuer. Their fair values were determined based on the difference between the market forward rates at the end of the reporting period for remaining duration of the outstanding contracts and their contracted forward rates.

At 31 December 2011, the Group had no outstanding foreign exchange forward contracts.

22. 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 0.01% to 1.55% (2010: 0.19% to 1.91%) per annum.

23. ASSETS CLASSIFIED AS HELD FOR SALE

On 31 August 2011, the Group resolved to dispose of its 30% equity interests in a jointly controlled entity, CPL. Negotiations with several interested parties have subsequently taken place. The Group's interests in CPL, which are expected to be sold within twelve months, have been classified as assets held for sale and are presented separately in the consolidated statement of financial position. The net proceeds of disposal are expected to exceed the carrying amount and accordingly, no impairment loss has been recognised.

24. TRADE AND OTHER PAYABLES

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

	2011	2010
	US$'000	US$'000
0-30 days	3,752	2,520
31-60 days	177	202
Over 60 days	210	201
Total trade payables	4,139	2,923
Other payables	6,509	5,837
	10,648	8,760

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

25. UNSECURED BANK BORROWINGS

	2011 US$'000	2010 US$'000
Bank loans	**3,750**	7,375
Trust receipt loans	**392**	11
	4,142	7,386
Carrying amount repayable*:		
Within one year	**3,767**	3,636
More than one year, but not exceeding two years	**–**	1,875
	3,767	5,511
Carrying amount of bank loans that are not repayable within one year after the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**375**	1,875
	4,142	7,386
Less: Amounts due within one year shown under current liabilities	**(4,142)**	(5,511)
Amounts shown under non-current liabilities	**–**	1,875

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

25. UNSECURED BANK BORROWINGS *(Continued)*

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:

	2011	2010
Effective interest rate:		
Variable-rate borrowings	**1.65% to 2.7%**	1.27% to 2.10%

26. SHARE CAPITAL

	Number of shares	**Amount**
		US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1 January 2010, 31 December 2010 and 31 December 2011	1,500,000	19,355
Convertible non-voting preference shares of US$100,000 each (note)		
At 1 January 2010, 31 December 2010 and 31 December 2011	150	15,000
		34,355

26. SHARE CAPITAL *(Continued)*

	Number of shares		Amount	
	2011	2010	**2011**	2010
	'000	'000	**US$'000**	US$'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. There is no convertible non-voting preference shares issued as at 31 December 2010 and 31 December 2011.

27. 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 1 January 2010	2,501	(640)	1,861
Charge to other comprehensive income	1,539	–	1,539
Exchange differences	58	(15)	43
At 31 December 2010	4,098	(655)	3,443
Credit to other comprehensive income	(156)	–	(156)
Exchange differences	222	(35)	187
At 31 December 2011	4,164	(690)	3,474

For the purpose of presentation in the consolidated statement of financial position, the above deferred assets and liabilities have been offset.

27. DEFERRED TAXATION *(Continued)*

At 31 December 2011, the Group had unused tax losses of US$9,570,000 (2010: US$6,383,000) available for offset against future profits and deductible temporary difference of US$17,336,000 (2010: US$17,195,000) in respect of accelerated accounting depreciation. No deferred tax asset has been recognised in respect of the full amount of unused tax losses and the remaining deductible temporary difference of US$14,574,000 (2010: US$14,574,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$7,660,000 (2010: US$4,867,000) that will expire in 2012 to 2017. Other losses may be carried forward indefinitely.

Deferred taxation has not been provided in respect of certain undistributed earnings of the Group's PRC subsidiaries arising after 1 January 2008, because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. OPERATING LEASE COMMITMENTS

	The Group as lessee	
	2011	2010
	US$'000	US$'000
Minimum lease payments paid by the Group under operating leases during the period	**350**	542

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011	2010
	US$'000	US$'000
Within one year	**241**	287
In the second to fifth year inclusive	**180**	234
Over five years	**1,104**	1,084
	1,525	1,605

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

29. COMMITMENTS

At 31 December 2011, the Group has capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounted to US$73,000 (2010: US$24,000).

At 31 December 2010, the Group had commitments for the agreements with licensors to obtain licenses to use certain materials and trademarks in a number of merchandising activities. The minimum royalties payable to the licensors for the remaining contract periods at 31 December 2010 amounted to US$479,000.

30. 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 Scheme, 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 benefit scheme is to make the specified contributions.

31. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

Nature of transactions	**2011**	2010
	US$'000	US$'000
Purchases by the Group from a jointly controlled entity	**1,699**	1,811

31. RELATED PARTY DISCLOSURES *(Continued)*

(ii) Remuneration of key management personnel

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

	2011 US$'000	2010 US$'000
Short term benefits	**877**	820
Post-employment benefits	**3**	2
	880	822

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

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 US$'000	2010 US$'000
Investments in subsidiaries	**26,465**	26,465
Amounts due from subsidiaries	**27,187**	27,308
Other assets	**31**	31
Total assets	**53,683**	53,804
Total liabilities	**2,878**	1,960
	50,805	51,844
Capital and reserves		
Share capital	**9,428**	9,428
Reserves (note)	**41,377**	42,416
	50,805	51,844

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

note:

Reserves

	Share premium US$'000	Contributed surplus US$'000	Retained profits US$'000	Total US$'000
At 1 January 2010	21,644	19,486	2,389	43,519
Loss for the year	–	–	(160)	(160)
Dividends recognised as distribution (Note 12)	–	–	(943)	(943)
At 31 December 2010	21,644	19,486	1,286	42,416
Loss for the year	–	–	(96)	(96)
Dividends recognised as distribution (Note 12)	–	–	(943)	(943)
At 31 December 2011	21,644	19,486	247	41,377

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.

33. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2011 and 2010 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 Directly	Attributable equity interest held by the Company Indirectly	Principal activities
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

33. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
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. * 廣州市番禺創信鞋業有限公司	PRC	Registered capital US$42,800,000	–	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	–	100%	Marketing and trading in footwear in the PRC

* 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 31 December				
	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000	**2011** **US$'000**
Revenue	149,875	148,114	106,539	72,363	**101,987**
Profit (loss) before taxation	2,458	1,954	1,366	(2,331)	**(1,314)**
Taxation	(363)	(388)	(264)	(168)	**(2,822)**
Profit (loss) for the year	2,095	1,566	1,102	(2,499)	**(4,136)**

ASSETS AND LIABILITIES

	At 31 December				
	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000	**2011** **US$'000**
Total assets	153,350	152,214	138,021	142,897	**141,688**
Total liabilities	41,196	32,888	19,619	20,739	**18,575**
Total equity	112,154	119,326	118,402	122,158	**123,113**