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 2012 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 26 Burnaby Street, Hamilton HM11, 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 2012. The Group recorded the net profit after taxation of US$2,205,000 (2011: net loss after taxation of US$4,136,000), and the slight decrease of turnover from US$101,987,000 in 2011 to US$96,408,000 in this year. The gross profit margin dropped from 16.7% in 2011 to 13.1% in the year.

Geographical Market

North America remains the largest export market of the Group, accounting for 60.8% of the Group's turnover. Turnover contribution from the Asian and European market and other regions represented 27.0%, 7.2% and 5.1% respectively.

BUSINESS REVIEW

In 2012, the economy downturn still remains in the global major consumption markets with the consumer's consumption habits tending to be conservative. However, benefitting from the cooperation with major customers, improvements in all aspects and many perspectives and efforts committed to the operation, the Group recorded flat results.

Domestic Market

Currently, the domestic market in China faces growth slowdown, fierce competition and gradual saturation. In order to cope with the increasing operating costs, the Group maintains a prudent development strategy to slow down the pace of expansion.

SOCIAL RESPONSIBILITY

We commit ourselves to the needs of the staff and the local community all the time. We have improved the production safety continuously and will provide proper trainings to the employees at all levels so as to enhance their efficiencies.

The Group will as always continue to contribute the community by donating to the charity foundation under the spirit of "From Society and For Society".

FUTURE PROSPECTS

The year of 2013 will see the economic tendency of slow recovery in the major consumption markets. With continuous internal improvements, coupled with strict cost control and quality assurance, we believe that our performance should have an optimistic growth in the future.

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, 27 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2012, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31 December 2012, the Group recorded a turnover of US$96,408,000 (2011: US$101,987,000) representing 5.5% decrease comparing to 2011.

Profit before taxation of the Group for the year ended 31 December 2012 was US$2,892,000 (2011: loss before taxation: US$1,314,000), an improvement of US$4,206,000 as compared to the corresponding period in 2011. After accounting for income taxes of US$687,000, resulted a profit after taxation of US$2,205,000 (2011: loss after taxation: US$4,136,000). Basic earnings per share for the year ended 31 December 2012 was 0.30 US cents (basic loss per share for 2011: 0.57 US cents). Gross profit margin decreased to 13.1% 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$3,714,000 in 2012 as compared to 2011. This, helped to reduce the interest expenses by US$72,000.

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 2012, the Group had cash and cash equivalent of US$21,902,000 (2011: US$7,432,000) and total borrowings of US$428,000 (2011: US$4,142,000), and reached the net bank balances and cash of US$21,474,000 (US$3,290,000 in 2011). As at 31 December 2012 the Group's solid financial liquidity position was reflected by a healthy current ratio of 8.7 (2011: 4.8) times.

CAPITAL EXPENDITURE

For the year ended 31 December 2012, the Group incurred US$420,000 in capital expenditure, of which approximately 60% 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.

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 all requirements set out in Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules and such amendments and revisions under the Corporate Governance Code effective from 1 April 2012 (collectively the "Code") throughout the year ended 31 December 2012.

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 35 to 36. 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		
Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and should be open for inspection at any reasonable time on reasonable notice by any director.	Yes	Minutes are kept by appointed secretary and open for inspection by any directors.
A.1.5		
Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered and decisions reached. Draft and final versions of minutes should be sent to all directors for their comment and records respectively, within a reasonable time after the board meeting is held.	Yes	Sufficient details were recorded in the board minutes. 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.1.6		
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.1.7		
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 and whose associates, have no material interests in the transaction, 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.
A.1.8		
An issuer should arrange appropriate insurance cover in respect of legal action against its directors.	Yes	All directors are covered by insurance in respect of legal action against them.

A.2 Chairman and Chief Executive

Principle

There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of business. There should be a clear division of these responsibilities 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 (the chief executive) 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 (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 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.
A.2.4		
One of the important roles of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner. The chairman should be primarily responsible for drawing up and approving the agenda for each board meeting. He should take into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate this responsibility to a designated director or the company secretary.	Yes	The Chairman has a clear responsibility to ensure the Board works effectively and perform responsibilities. The Chairman works with the company secretary in drawing up the agenda for each board meeting.

A. DIRECTORS (CONTINUED)

A.2 Chairman and Chief Executive (continued)

Code Provisions	Compliance	Actions by the Company
A.2.5		
The chairman should take primary responsibility for ensuring that good corporate governance practices and procedures are established.	Yes	The Chairman has a clear responsibility to ensure good corporate governance practices and procedures are in place and effective.
A.2.6		
The chairman should encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that it acts in the best interests of the issuer. The chairman should encourage directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that board decisions fairly reflect board consensus.	Yes	The Chairman has a clear responsibility to encourage all directors contribute actively to the Board's affairs for the best interests of the Company.
A.2.7		
The chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.	Yes	The Chairman will hold 2 meetings in a year to discuss with independent non-executive directors without presence of other executive directors.
A.2.8		
The chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the board as a whole.	Yes	Effective communication channels are in place and their views are considered by the Board.
A.2.9		
The chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.	Yes	The Chairman has a clear responsibility to promote open discussions between executive and non-executive directors.

A. DIRECTORS (CONTINUED)

A.3 Board composition

Principle

The board should have a balance of skills and experience appropriate for the requirements of the issuer's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive directors (including independent 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 weigh.

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 identified in all corporate communications that disclose the names of directors.	Yes	Composition of the Board, by category of Directors, is disclosed in all corporate communications.
A.3.2		
An issuer should maintain on its website and on the Exchange's website an updated list of its directors identifying their role and function and whether they are independent non-executive directors.	Yes	An updated list of executive directors and independent non-executive directors identifying their role and function is maintained on the Stock Exchange's website and the Company's website.

A. DIRECTORS (CONTINUED)

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. 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.4.3		
Serving more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be re-elected.	Yes	Currently no independent non-executive director has served the Company more than 9 years. Upon further appointment, details will be given to shareholders accompanying that resolution to explain the independence.

A. DIRECTORS (CONTINUED)

A.5 Nomination Committee

The Nomination Committee currently comprises all the three independent non-executive Directors. The Chairman of the Nomination Committee is Mr. Liu Chung Kang, Helios.

Code Provisions	Compliance	Actions by the Company
A.5.1		
Issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.	Yes	All members (including the chairman of the Committee) in the Nomination Committee are independent non-executive directors.
A.5.2		
The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties. It should perform the following duties a) review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy; (b) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; (c) assess the independence of independent non-executive directors; and (d) make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive	Yes	Specific written terms of reference have been set up and the committee members understand clearly thier authority and duties.

A. DIRECTORS (CONTINUED)

A.5 Nomination Committee (continued)

Code Provisions	Compliance	Actions by the Company
A.5.3		
The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board by including them on the Exchange's website and issuer's website.	Yes	Terms of reference has been published on the Stock Exchange's website and the Company's website.
A.5.4		
Issuers should provide the nomination committee sufficient resources to perform its duties. Where necessary, the nomination committee should seek independent professional advice, at the issuer's expense, to perform its responsibilities.	Yes	The Company will pay for the fee for all professional advice and other assistance as required by the Nomination Committee.
A.5.5		
Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.	Yes	Proper circular has been sent to shareholders and explanatory statement accompanying the notice of the relevant general meeting for the election of independent non-executive director.

A. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors

Principle

Every director must always know his responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, 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, 2 Remuneration Committee and 2 Nomination Committee meetings 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	2/2	2/2
Mr. Lai Jenn Yang, Jeffrey	2/4	2/2	2/2	2/2
Mr. Liu Chung Kang, Helios	2/4	2/2	2/2	2/2

Code Provisions	Compliance	Actions by the Company
A.6.1		
Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the issuer's operations and business and is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.	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. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors (continued)

Code Provisions	Compliance	Actions by the Company
A.6.2		
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.6.3		
Every director should ensure that he can give sufficient time and attention to the issuer's affairs and should not accept the appointment if he cannot do so.	Yes	There is reasonably satisfactory attendance rate.
A.6.4		
The board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the issuer's securities. "Relevant employee" includes any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to possess inside information in relation to the issuer or its securities.	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.

A. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors (continued)

Code Provisions	Compliance	Actions by the Company
A.6.5		
All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.	Yes	The Company will arrange and pay for the fee of professional trainings to all directors. During the year, the types of training provided to each director as shown below: **Executive Directors** — **Types of training provided** Mr. Wu Chen San, Thomas — Regulatory update/ Business operation related Mr. Wu Jenn Chang, Michael — Regulatory update/ Business operation related Mr. Wu Jenn Tzong, Jackson — Regulatory update/ Business operation related Mr. Ho Chin Fa, Steven — Business operation related **Independent Non-executive Directors** Mr. Huang Hung Ching — Financial related Mr. Lai Jem Yang. Jeffery — Business operation related Mr. Liu Chung King, Helios — Business operation related
A.6.6		
Each director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed. The board should determine for itself how frequently this disclosure should be made.	Yes	All directors have disclosed the change, the number and nature of offices held in public companies or organisations and other significant commitments to the Company annually.

A. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors (continued)

Code Provisions	Compliance	Actions by the Company
A.6.7		
Independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.	Yes	Independent non-executive directors attended the general meetings to answer shareholders' questions, if any.
A.6.8		
Independent non-executive directors and other non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	Yes	Independent non-executive directors have made active contributions to the Company's affairs.

A.7 Supply of and access to information

Principle

Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

Code Provisions	Compliance	Actions by the Company
A.7.1		
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. DIRECTORS (CONTINUED)

A.7 Supply of and access to information (continued)

Code Provisions	Compliance	Actions by the Company
A.7.2		
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.7.3		
All directors are entitled to have access to board papers and related materials. These papers and related materials should be in a form and quality sufficient to enable the board to make informed decisions on matters placed before it. Queries raised by directors should receive a prompt and full response, if 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 AND BOARD EVALUATION

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

Principle

An issuer should disclose its directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the company successfully without paying more than necessary. 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		
The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors and have access to professional advice if 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 AND BOARD EVALUATION (CONTINUED)

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

Code Provisions	Compliance	Actions by the Company
B.1.2		
Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.	Yes	A Remuneration Committee has been established by the Board with specific written terms of reference. The Remuneration Committee adopted the model of making recommendation to the Board on the remuneration packages of indiviidual executive directors and senior management.
B.1.3		
The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board by including them on the Exchange's website and the issuer's website.	Yes	Terms of reference have been published on the Stock Exchange's website and the Company's website
B.1.4		
The remuneration committee should be provided with sufficient resources to perform its duties.	Yes	The Company will pay for the fee for all professional advice and other assistance as required by the Remuneration Committee.
B.1.5		
Issuers should disclose details of any remuneration payable to members of senior management by band in their annual reports.	Yes	The remuneration payable to senior management by bands as shown below:

Remuneration Bands	Number of persons
US$1 to US$100,000	6
US100,001 to US$200,000	1

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 to enable it to make an informed assessment of the financial and other information put before it 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		
Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13.	Yes	Monthly update has been provided to all directors, discussion will be made if necessary.
C.1.3		
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 42 of the Annual Report.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.1 Financial Reporting (continued)

Code Provisions	Compliance	Actions by the Company
C.1.4		
The directors should include in the separate statement containing a discussion and analysis of the group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term (the business model) and the strategy for delivering the issuer's objectives.	Yes	Management discussion and analysis stating the Company's strategic plans and objectives has been included in the annual report.
C.1.5		
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 by 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 issuer's and its subsidiaries' internal control system 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 issuer's auditors. The audit committee established under 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. The Audit Committee has held 2 meetings with the external audit (without presence of executive directors) during the year.
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 by including them on the Exchange's website or the issuer's website.	Yes	The terms of reference have been published on the Stock Exchange's website and the Company's website.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.3 Audit Committee (continued)

Code Provisions	Compliance	Actions by the Company
C.3.5		
Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	N/A	During the year, there was no disagreement between the Board and the Audit Committee regarding such issue.
C.3.6		
The audit committee should be provided with sufficient resources to perform its duties.	Yes	The Company will at its expenses provide such assistance as required by the Audit Committee
C.3.7		
The terms of reference of the audit committee should also require it: (a) to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and (b) to act as the key representative body for overseeing the issuer's relations with the external auditor.		The Audit Committee has a clear responsibility to ensure fair and independent investigation and proper follow up if necessary and take active role in comunnicate with external auditor.

D. DELEGATION BY THE BOARD

D.1 Management functions

Principle

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

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. It should review those arrangement periodically to ensure that they remain appropriate to the issuer's need.	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.1.3		
An issuer should disclose the respective responsibilities, accountabilities and contributions of the board and management.	Yes	Proper disclosure regarding responsibilities, accountabilities and contributions of the board and management has been made.
D.1.4		
Directors should clearly understand delegation arrangements in place. Issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.	Yes	Details terms and conditions have been set out in the appointment letters of directors.

D. DELEGATION BY THE BOARD (CONTINUED)

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with their 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 on the Stock Exchange's and Company's website.

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.

Code Provisions	Compliance	Actions by the Company
D.2.1		
Where board committees are established to deal with matters, the board should give them sufficiently clear terms of reference to enable them to perform their functions properly.	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 them to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	Yes	Board Committees would report to the Board their work, findings and recommendations in Board meetings.

D. DELEGATION BY THE BOARD (CONTINUED)

D.3 Corporate Governance Functions

Code Provisions	Compliance	Actions by the Company
D.3.1		
The terms of reference of the board (or a committee or committees performing this function) should include at least: (a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of directors and senior management; (c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and (e) to review the issuer's compliance with the code and disclosure in the Corporate Governance Report.	Yes	Specific written terms of reference have been set up and the board members understand clearly their authority and duties.
D.3.2		
The board should be responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 or it may delegate the responsibility to a committee or committees.	Yes	Corporate governance duties have been delegated to Remuneration Committee, Nomination Committee and Audit Committee properly.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Principle

The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings to communicate with them and encourage their participation.

Shareholders' Rights

a. How Shareholders can convene an extraordinary general meeting

According with Aritcle 58 of the Company's Bye-Laws, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

b. The procedures for putting enquires to the Board

Shareholders may put enquiries to the Board

(i) in writing to the Company's Hong Kong registered office

Room 1517, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong

(ii) by facsimile to 2317 4710

(iii) by attending the Company's annual general meeting or extraordinary meetings

c. The procedures for putting forward proposals at Shareholders' meetings

A. Proposal for election of a person as a Director

The following procedures regarding the Shareholders' right to propose a person for election as a Director has been published on the Company's website

(i) If a Shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment/election of director(s), wishes to propose a person (other than the member himself/herself) for election as a director of the Company at that meeting, he/she can deposit a written notice at the Company's principal office in Hong Kong at Rm1517, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong for the attention of the board of directors of the Company (the "Board") or the company secretary of the Company (the "Company Secretary") or at the share registration office in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

E. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

E.1 Effective communication (continued)

(ii) In order for the Company to inform all members of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, his/her biographical details as required by Rule 13.51(2) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and be signed by the member concerned together with a written notice signed by the person proposed for election as a director indicating his/her willingness to be elected.

(iii) The minimum length of the period, during which such written notice(s) are given, shall be at least seven (7) days and the period for lodgment of such notice(s) will commence no earlier than the day after the dispatch of the notice of the general meeting and end no later than seven (7) days prior to the date of such general meeting. If the notice is received less than fifteen (15) business days prior to the date of that general meeting, the Company will need to consider adjournment of the general meeting in order to (i) assess the suitability of the proposed candidate; and (ii) publish an announcement or circulate a supplementary circular in relation to the proposal to the members at least fourteen (14) days and not less than ten (10) clear business days prior to the general meeting.

B. Other proposal

If a Shareholder wishes to make other proposal at Shareholders' meeting, he/she may lodge a written request, duly signed, to the Company's Hong Kong registered office at Room 1517, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

E. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

E.1 Effective communication (continued)

Code Provisions	Compliance	Actions by the Company
E.1.1		
For each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting. Issuers should avoid "bundling" resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are "bundled", issuers should explain the reasons and material implications in the notice of meeting.	Yes	Separate resolutions are proposed at the meeting on each substantially separate issue.
E.1.2		
The chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should 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 requires independent shareholders' approval. An issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.	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. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

E.1 Effective communication (continued)

Code Provisions	Compliance	Actions by the Company
E.1.3		
The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	Yes	Sufficient clear days were given to the shareholders for general meetings.
E.1.4		
The board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness.	Yes	Proper shareholders' communication policy is in place and will be reviewed by the Chairman regularly.

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 on voting by 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.

F. COMPANY SECRETARY

Principle

The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.

Code Provisions	Compliance	Actions by the Company
F.1.1		
The company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs. Where an issuer engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the issuer whom the external provider can contact.	Yes	Mr. Lee Yiu Ming, the Company Secretary is an employee of the Company who has clear understanding of the Company's operation. Mr. Lee confirmed that he has taken no less than 15 hours relevant professional training during the year.
F.1.2		
The board should approve the selection, appointment or dismissal of the company secretary.	Yes	Selection, appointment or dismissal of the company secretary will be approved by the Board.
F.1.3		
The company secretary should report to the board chairman and/or the chief executive.	Yes	The Company Secretary will report to the Chairman and Chief Executive if necessary.
F.1.4		
All directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.	Yes	The Company Secretary will advise all directors to ensure the compliance of all applicable rules and regulations.

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	1,100
Taxation services	43
	1,143

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 2012 included in 2012 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 2012, 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 2012, 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 2013.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Huang Hung Ching

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

Hong Kong, 27 March 2013

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Chen San, Thomas, aged 62, 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 55, 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 30 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Tzong, Jackson, aged 57, 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 36 years' experience in the footwear manufacturing business.

Mr. Ho Chin Fa, Steven, aged 60, 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 30 years' experience in the footwear manufacturing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Hung Ching aged 49, 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 55, 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 62, 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 48, 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 62, 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 52, 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 28, 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 6 years' experience in footwear manufacturing and product development.

Ms. Li Yan Ling, aged 50, 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 23 years' experience in footwear manufacturing and product development.

Ms. Li Hong Jia, aged 36 , 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 13 years' experience in footwear manufacturing and product development.

Ms. Gina Wu, aged 29, 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 2012.

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 and principal subsidiaries are set out in Notes 16 and 32, respectively, to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 44.

An interim dividend of 0.5 HK cents per share amounting to US$471,000 in aggregate was paid to the shareholders during the year. The directors now recommend the payment of final dividend of 2.0 HK cents per share to the shareholders whose names appear on the register members on 7 June 2013, amounting to US$1,885,000.

PROPERTY, PLANT AND EQUIPMENT

The buildings of the Group were revalued at 31 December 2012. A revaluation decrease of US$2,029,000 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 25 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 2012, the Company's reserves available for distribution to shareholders consisted of retained profits and contributed surplus, totalling US$21,562,000 (2011: US$19,733,000).

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 Chen San, Thomas, Wu Jenn Chang, Michael and Ho Chin Fa, Steven, 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 2012, 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 2012, 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 30 to the consolidated financial statements, no contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, at 31 December 2012, 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 2012.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the largest customer of the Group accounted for approximately 67% of the Group's turnover. The five largest customers accounted for approximately 97% of the Group's turnover.

For the year ended 31 December 2012, the largest supplier of the Group accounted for approximately 14% of the Group's total purchases. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 32% of the Group's 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 2012.

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, 27 March 2013

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 44 to 97, which comprise the consolidated statement of financial position as at 31 December 2012, 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 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 US$'000	2011 US$'000
Revenue	7	**96,408**	101,987
Cost of sales		**(83,741)**	(84,950)
Gross profit		**12,667**	17,037
Other income		**4,137**	601
Selling and distribution costs		**(5,490)**	(7,737)
General and administrative expenses		**(8,490)**	(10,212)
Share of profit (loss) of an associate		**108**	(5)
Share of loss of a jointly controlled entity		**–**	(886)
Interest on bank borrowings wholly repayable within five years		**(40)**	(112)
Profit (loss) before taxation	8	**2,892**	(1,314)
Taxation	11	**(687)**	(2,822)
Profit (loss) for the year attributable to owners of the Company		**2,205**	(4,136)
Other comprehensive (expense) income			
Exchange differences arising on translation of foreign operations		**710**	6,504
Revaluation decrease on buildings		**(2,029)**	(626)
Deferred tax arising on revaluation of buildings		**507**	156
Reclassification of translation reserve to profit or loss upon disposal of a jointly controlled entity		**(103)**	–
Deferred tax liability reversed on disposal of buildings		**95**	–
Other comprehensive (expense) income for the year, net of tax		**(820)**	6,034
Total comprehensive income for the year attributable to owners of the Company		**1,385**	1,898
Earnings (loss) per share	13		
Basic		**0.30 US cents**	(0.57) US cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 US$'000	2011 US$'000
Non-current assets			
Property, plant and equipment	14	**57,139**	63,028
Prepaid lease payments	15	**5,778**	6,031
Interests in an associate	16	**681**	613
Interests in a jointly controlled entity	17	**–**	–
		63,598	69,672
Current assets			
Inventories	18	**36,677**	48,147
Trade and other receivables	19	**11,695**	14,889
Prepaid lease payments	15	**176**	178
Held for trading investments	20	**606**	426
Bank balances and cash	21	**21,902**	7,432
		71,056	71,072
Assets classified as held for sale	22	**–**	944
		71,056	72,016
Current liabilities			
Trade and other payables	23	**7,514**	10,648
Unsecured bank borrowings – due within one year	24	**428**	4,142
Tax payable		**260**	311
		8,202	15,101
Net current assets		**62,854**	56,915
		126,452	126,587
Capital and reserves			
Share capital	25	**9,428**	9,428
Share premium and reserves		**114,128**	113,685
Total equity		**123,556**	123,113
Non-current liability			
Deferred tax liabilities	26	**2,896**	3,474
		126,452	126,587

The consolidated financial statements on pages 44 to 97 were approved and authorised for issue by the Board of Directors on 27 March 2013 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 2012

	Attributable to owners of the Company						
	Share capital US$'000	Share premium US$'000	Properties revaluation reserve US$'000	Translation reserve US$'000	Merger reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2011	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 26)	–	–	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
Profit for the year	–	–	–	–	–	2,205	2,205
Exchange differences arising on translation of foreign operations	–	–	–	710	–	–	710
Revaluation decrease on buildings	–	–	(2,029)	–	–	–	(2,029)
Deferred tax liability reversed on revaluation of buildings (Note 26)	–	–	507	–	–	–	507
Reclassification of translation reserve to profit or loss upon disposal of a jointly controlled entity	–	–	–	(103)	–	–	(103)
Deferred tax liability reversed on disposal of buildings (Note 26)	–	–	95	–	–	–	95
Total comprehensive (expense) income for the year	–	–	(1,427)	607	–	2,205	1,385
Transfer of revaluation reserve upon disposal of buildings	–	–	(378)	–	–	378	–
Dividends recognised as distribution (Note 12)	–	–	–	–	–	(942)	(942)
At 31 December 2012	9,428	21,644	5,830	23,881	(4,512)	67,285	123,556

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 2012

	2012 US$'000	2011 US$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**2,892**	(1,314)
Adjustments for:		
Depreciation of property, plant and equipment	**2,944**	3,130
(Gain) loss on fair value changes of held for trading investments	**(160)**	173
Loss on disposal of plant and equipment	**100**	4
Gain on disposal of prepaid lease payments and buildings	**(3,500)**	(270)
Gain on disposal of a jointly controlled entity	**(119)**	–
Gain on fair value changes of derivative financial instruments	**–**	(61)
Interest income	**(207)**	(150)
Interest expenses	**40**	112
Release of prepaid lease payments	**178**	178
Share of (profit) loss of an associate	**(108)**	5
Share of loss of a jointly controlled entity	**–**	886
Operating cash flows before movements in working capital	**2,060**	2,693
Decrease in inventories	**11,811**	1,421
Decrease (increase) in trade and other receivables	**4,154**	(4,937)
Increase in held for trading investments	**(20)**	(168)
(Decrease) increase in trade and other payables	**(3,206)**	2,609
Decrease in derivative financial instruments	**–**	114
Cash generated from operations	**14,799**	1,732
Taxation paid in other jurisdictions	**(740)**	(3,703)
Hong Kong Profits Tax paid	**(2)**	(4)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**14,057**	(1,975)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 US$'000	2011 US$'000
INVESTING ACTIVITIES		
Net proceeds on disposal of prepaid lease payments and buildings	**5,250**	461
Interest received	**207**	150
Dividend received from an associate	**40**	80
Purchase of property, plant and equipment	**(420)**	(795)
Proceeds on disposal of plant and equipment	**–**	12
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**5,077**	(92)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(4,767)**	(5,636)
Dividends paid	**(942)**	(943)
Interest paid	**(40)**	(112)
Bank borrowings raised	**1,053**	2,392
NET CASH USED IN FINANCING ACTIVITIES	**(4,696)**	(4,299)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**14,438**	(6,366)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**7,432**	13,701
Effect of foreign exchange rate changes	**32**	97
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	**21,902**	7,432

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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to 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 HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

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:

All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. 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.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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. HK (SIC) Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC)-Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

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

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards may not have significant impact on amounts reported in the consolidated financial statements.

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 the application of the new standard may affect certain 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 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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, HKFRSs 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.

Income and expenses 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 titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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)*

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. The financial statements of associates used for equity accounting purposes are prepared using accounting policies as those of the Group for like transactions and events in similar circumstances. 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 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.

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 financial statements of jointly controlled entities used for equity accounting purposes are prepared using accounting policies as those of the Group for like transactions and events in similar circumstances.

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.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, 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 (or cash-generating unit) 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 (or a cash-generating unit) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are 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 necessary to make the sale.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 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 term; 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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.

Financial liabilities and equity instruments

Debt 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 Group 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.

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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 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 2012, a deferred tax asset of US$694,000 (2011: US$690,000) 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$11,469,000 (2011: US$9,570,000) and US$11,468,000 (2011: US$13,311,000), 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

	2012	2011
	US$'000	US$'000
Financial assets		
Fair value through profit or loss		
– held for trading investments	**606**	426
Loans and receivables (including cash and cash equivalents)	**32,919**	21,622
Financial liabilities		
Amortised cost	**3,712**	10,687

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, 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 certain amounts due from and to group companies, bank balances and trade and other payables that are denominated in foreign currency, which expose the Group to foreign currency risk.

At the end of the reporting period, the carrying amounts of the Group's monetary assets that are denominated in currencies other than the functional currency of the relevant group entities are as follows:

	2012	2011
	US$'000	US$'000
Current assets		
US dollar	**35,354**	20,213
Hong Kong dollar ("HK dollar")	**229**	397
Current liabilities		
US dollar	**1,035**	6,366
HK dollar	**214**	3,748
Non-current intragroup balance that form part of net investment		
US dollar	**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 Renminbi ("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 an increase in Group's profit 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.

	2012	2011
	US$'000	US$'000
Profit or loss	**1,287**	520
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 24 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 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 2012 and 2011, 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 98% (2011: 97%) of the Group's total trade receivables as at 31 December 2012.

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 61% (2011: 64%) and 97% (2011: 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 for all its customers and in particular, its five largest customers to ensure that follow-up action is taken to recover overdue debts. The five largest customers are either overseas listed entities or well-known manufacturers of footwear in the industry which have good repayment history. 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 2012, the Group had available unutilised bank borrowings facilities of approximately US$11,000,000 (2011: US$8,000,000).

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	Total undiscounted cash flows	Carrying amount
	%	US$'000	US$'000	US$'000	US$'000	US$'000
2012						
Non-derivative financial liabilities						
Trade and other payables	–	**3,284**	**–**	**–**	**3,284**	**3,284**
Bank borrowings						
– variable rate	1.99	**428**	**–**	**–**	**428**	**428**
		3,712	**–**	**–**	**3,712**	**3,712**
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

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 2012, the aggregate undiscounted principal amounts of these bank loans amounted to US$375,000 (2011: US$375,000). 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 (2011: within one year) 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$377,000 (2011: US$382,000).

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 actual changes in interest rates differ to those estimated 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 that are traded in active liquid markets (e.g. the Group's held for trading investments (see Note 20)) are determined with reference to quoted market bid prices.

- 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 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 1	
	2012	2011
	US$'000	US$'000
Financial assets at FVTPL		
Held for trading investment	**606**	426

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 and hence no analysis of segment assets and segment liabilities are presented.

Segment revenues and results

For the year ended 31 December 2012

	North America US$'000	Asia US$'000	Europe US$'000	Other regions US$'000	Total US$'000
REVENUE					
External sales of goods	58,599	25,995	6,921	4,893	96,408
RESULTS					
Segment results	6,884	1,821	709	731	10,145
Unallocated income					3,930
Interest income					207
Unallocated expenses					(11,458)
Share of profit of an associate					108
Interest on bank borrowings wholly repayable within five years					(40)
Profit before taxation					2,892
Taxation					(687)
Profit for the year					2,205

7. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

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)

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, gain on disposal of a jointly controlled entity, gain on disposal of prepared lease payments and buildings, gain (loss) on fair value changes of derivative financial instruments and held for trading investments, net exchange gain (loss), central administration costs, directors' emoluments, share of profit (loss) 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	Other regions	Operating segment total	Re-conciliations	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 2012							
Depreciation	1,382	613	163	115	2,273	671	2,944
For the year ended 31 December 2011							
Depreciation	1,570	527	267	85	2,449	681	3,130

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:

	2012	2011
	US$'000	US$'000
United States of America	**57,067**	63,427
People's Republic of China ("PRC")	**9,173**	10,646
Japan	**6,647**	4,420
Belgium	**4,959**	7,273
South Korea	**2,242**	1,530
Others	**16,320**	14,691
	96,408	101,987

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 are detailed below:

	2012 US$'000	2011 US$'000
PRC	**63,591**	69,663
Hong Kong	**4**	5
Taiwan	**3**	4
	63,598	69,672

Information about major customers

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

	2012 US$'000	2011 US$'000
Customer A	**65,025**	63,356
Customer B	**16,684**	17,929

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

8. PROFIT (LOSS) BEFORE TAXATION

	2012 US$'000	2011 US$'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' emoluments (Note 9)	**430**	419
Other staff costs	**29,858**	33,415
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**2,056**	1,779
Total staff costs	**32,344**	35,613
Auditor's remuneration	**148**	156
Cost of inventories recognised as an expense	**83,741**	84,950
Depreciation for property, plant and equipment	**2,944**	3,130
Loss on disposal of plant and equipment*	**100**	4
Loss on fair value changes of held for trading investments*	**–**	173
Net foreign exchange losses*	**–**	992
Release of prepaid lease payments*	**178**	178
and after crediting to other income:		
Gain on disposal of a jointly controlled entity (Note 22)	**119**	–
Gain on disposal of prepaid lease payments and buildings	**3,500**	270
Gain on fair value changes of derivative financial instruments	**–**	61
Gain on fair value changes of held for trading investments	**160**	–
Interest income	**207**	150
Net foreign exchange gain	**57**	–

* Included in administrative expenses

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 7 (2011: 7) directors and chief executive 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
2012								
Fees	–	–	–	–	8	8	8	24
Other emoluments								
Salaries and other benefits	132	84	61	93	–	–	–	370
Bonus	11	10	–	15	–	–	–	36
	143	94	61	108	8	8	8	430
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

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

Mr. Wu Jenn Chang, Michael is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

No director and chief executive waived any emoluments in each of the two years ended 31 December 2012.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2011: four) were executive directors of the Company whose emoluments are included in the disclosure in Note 9 above. The emoluments of the remaining one (2011: one) individual was as follows:

	2012	2011
	US$'000	US$'000
Basic salaries and allowances	**193**	184
Retirement benefits scheme contributions	**2**	2
	195	186

11. TAXATION

	2012	2011
	US$'000	US$'000
Current tax:		
Hong Kong Profits Tax	**11**	–
PRC Enterprise Income Tax	**239**	363
PRC Land Appreciation Tax	**282**	–
Taiwan Income Tax	**1**	1
	533	364
(Over)underprovision in prior years:		
PRC Enterprise Income Tax	**154**	2,458
	687	2,822

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

11. TAXATION *(Continued)*

During the year ended 31 December 2011, 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 which was charged to the profit or loss in the year ended 31 December 2011.

The provision for Land Appreciation Tax is calculated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value on the disposal of prepaid lease payments and buildings, with certain allowable deductions.

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 26.

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

	2012 **US$'000**	2011 US$'000
Profit (loss) before taxation	**2,892**	(1,314)
Tax at the domestic income tax rate of 25% (Note)	**723**	(329)
Tax effect of share of (profit) loss of an associate/ a jointly controlled entity	**(27)**	223
Tax effect of expenses not deductible for tax purposes	**338**	318
Tax effect of income not taxable for tax purposes	**(723)**	(644)
(Over)underprovision in respect of prior year	**154**	2,458
Tax effect of tax losses/deductible temporary differences not recognised	**18**	796
Land Appreciation Tax	**282**	–
Effect on Land Appreciation Tax	**(71)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(7)**	–
Tax charge for the year	**687**	2,822

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

12. DIVIDENDS

	2012	2011
	US$'000	US$'000
Dividends recognised as a distribution during the year:		
2012 interim – 0.5 HK cents (2011: 0.5 HK cents) per share	**471**	472
2011 Final – 0.5 HK cents (2011: 2010 final dividend 0.5 HK cents) per share	**471**	471
	942	943

A final dividend of 2.0 HK cents per share in respect of the year ended 31 December 2012 (2011: 0.5 HK cents) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit for the year attributable to owners of the Company of US$2,205,000 (2011: loss of US$4,136,000) and on 730,700,000 (2011: 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 2012.

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 2011	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
Exchange adjustments	326	1	13	690	183	5	1,218
Additions	24	106	–	250	37	3	420
Disposals	(1,632)	–	–	(86)	(243)	–	(1,961)
Revaluation	(2,682)	–	–	–	–	–	(2,682)
At 31 December 2012	40,107	147	1,810	118,091	26,289	882	187,326
Comprising:							
At cost	–	147	1,810	118,091	26,289	882	147,219
At valuation – 2012	40,107	–	–	–	–	–	40,107
	40,107	147	1,810	118,091	26,289	882	187,326
DEPRECIATION							
At 1 January 2011	–	–	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
Exchange adjustments	–	–	13	671	134	4	822
Provided for the year	653	–	–	1,605	664	22	2,944
Eliminated on disposals	–	–	–	(74)	(155)	–	(229)
Eliminated on revaluation	(653)	–	–	–	–	–	(653)
At 31 December 2012	–	–	1,810	105,789	21,749	839	130,187
CARRYING VALUE							
At 31 December 2012	40,107	147	–	12,302	4,540	43	57,139
At 31 December 2011	44,071	40	–	13,650	5,206	61	63,028

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% or over lease term if shorter
Leasehold improvements	20% or over lease term if shorter
Plant and machinery	5%-20%
Furniture, fixtures and equipment	20%-33$\frac{1}{3}$%
Motor vehicles	20%

The buildings were revalued at 31 December 2012 and 31 December 2011 by RHL Appraisal Limited on a depreciated replacement cost basis. RHL Appraisal Limited is not connected with the Group. RHL Appraisal Limited is a member of the Institute of Valuers. The valuation was arrived at by reference to current construction costs of similar buildings less allowance of accrued depreciation.

On 1 December 2012, the Group disposed of a portion of prepaid lease payments and buildings to a third party for a cash consideration of US$5,546,000. These buildings were revalued at the date of disposal by RHL Appraisal Limited on a depreciated replacement cost basis.

A revaluation decrease of US$2,029,000 (2011: US$626,000) has been debited directly to properties revaluation reserve for the year ended 31 December 2012.

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$23,714,000 (2011: US$25,615,000).

15. PREPAID LEASE PAYMENTS

	2012	2011
	US$'000	US$'000
The Group's prepaid lease payments comprise		
land use rights in the PRC under medium-term leases	**5,954**	6,209
Analysed for reporting purpose as:		
Current assets	**176**	178
Non-current assets	**5,778**	6,031
	5,954	6,209

16. INTERESTS IN AN ASSOCIATE

	2012 US$'000	2011 US$'000
Cost of unlisted investment in an associate	400	400
Share of post-acquisition profits, net of dividends received	281	213
	681	613

Particulars of the Group's associate at 31 December 2012 and 2011 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 and voting power 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:

	2012	2011
	US$'000	US$'000
Total assets	**1,893**	1,834
Total liabilities	**(190)**	(301)
Net assets	**1,703**	1,533
Group's share of net assets of an associate	**681**	613
Revenue	**4,818**	5,278
Profit (loss) for the year	**270**	(12)
Other comprehensive income	**–**	–
Group's share of profit (loss) of an associate for the year	**108**	(5)

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2012 US$'000	2011 US$'000
Cost of unlisted investment in a jointly controlled entity	–	2,400
Share of post-acquisition loss and other comprehensive income, net of dividends received	–	(1,456)
	–	944
Transfer to assets classified as held for sale (Note 22)	–	(944)
	–	–

Particulars of the Group's jointly controlled entity at 31 December 2011 were 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 and voting power 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 ended 31 December 2011, the Group's interests in CPL were classified as held for sale (Note 22) and was disposed of during the year ended 31 December 2012.

18. INVENTORIES

	2012 US$'000	2011 US$'000
Raw materials	**22,375**	28,639
Work in progress	**4,752**	6,556
Finished goods	**9,550**	12,952
	36,677	48,147

19. TRADE AND OTHER RECEIVABLES

	2012 US$'000	2011 US$'000
Trade receivables	**9,295**	11,000
Consideration receivables from disposal of a jointly controlled entity	**960**	–
Other receivables	**1,440**	3,889
Total trade and other receivables	**11,695**	14,889

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

	2012 US$'000	2011 US$'000
0-30 days	**7,990**	9,589
31-60 days	**1,214**	1,289
Over 60 days	**91**	122
Total trade receivables	**9,295**	11,000

19. TRADE AND OTHER RECEIVABLES *(Continued)*

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% (2011: 99%) of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of US$91,000 (2011: US$122,000) 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.

Ageing of trade receivables which were past due but not impaired

	2012	2011
	US$'000	US$'000
61-90 days	**6**	47
91-120 days	**1**	4
Over 121 days	**84**	71
Total	**91**	122

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

	2012	2011
	US$'000	US$'000
Equity securities listed in Hong Kong	**606**	426

21. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at market interest rates, ranging from 0.07% to 1.55% (2011: 0.01% to 1.55%) per annum.

22. ASSETS CLASSIFIED AS HELD FOR SALE

On 31 August 2011, the Group resolved to dispose of its entire 30% equity interests in a jointly controlled entity, CPL. Negotiations with several interested parties took place. The Group's interests in CPL, which were then expected to be sold within twelve months, were classified as assets held for sale and were presented separately in the consolidated statement of financial position.

During the year ended 31 December 2012, the Group entered into a sale and purchase agreement to dispose of its entire interests in CPL to a third party at a consideration of US$960,000, resulting in a gain on disposal of approximately US$119,000 which was recognised as other income for the current year.

23. 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:

	2012	2011
	US$'000	US$'000
0-30 days	**1,775**	3,752
31-60 days	**116**	177
Over 60 days	**217**	210
Total trade payables	**2,108**	4,139
Other payables	**5,406**	6,509
	7,514	10,648

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.

24. UNSECURED BANK BORROWINGS

	2012 US$'000	2011 US$'000
Bank loans	**375**	3,750
Trust receipt loans	**53**	392
	428	4,142
Carrying amount repayable*:		
Within one year	**428**	3,767
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
	428	4,142
Less: Amounts due within one year shown under current liabilities	**(428)**	(4,142)
Amounts shown under non-current liabilities	**–**	–

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

24. 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:

	2012	2011
Effective interest rate:		
Variable-rate borrowings	**1.68% to 2.05%**	1.65% to 2.7%

25. SHARE CAPITAL

	Number of shares	**Amount** US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1 January 2011, 31 December 2011 and 31 December 2012	1,500,000	19,355
Convertible non-voting preference shares of US$100,000 each (note)		
At 1 January 2011, 31 December 2011 and 31 December 2012	150	15,000
		34,355

25. SHARE CAPITAL *(Continued)*

	Number of shares		Amount	
	2012	2011	**2012**	2011
	'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, will carry a fixed cumulative dividend. Under certain circumstances, they will also be entitled to an additional dividend and can be convertible into ordinary shares of the Company. There were no convertible non-voting preference shares issued as at 31 December 2011 and 31 December 2012.

26. 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 2011	4,098	(655)	3,443
Charge to other comprehensive income	(156)	–	(156)
Exchange differences	222	(35)	187
At 31 December 2011	4,164	(690)	3,474
Charge to other comprehensive income	(507)	–	(507)
Reversed upon disposal of buildings	(95)	–	(95)
Exchange differences	28	(4)	24
At 31 December 2012	3,590	(694)	2,896

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

26. DEFERRED TAXATION *(Continued)*

At 31 December 2012, the Group had unused tax losses of US$11,469,000 (2011: US$9,570,000) available for offset against future profits and deductible temporary difference of US$14,244,000 (2011: US$16,071,000) in respect of accelerated accounting depreciation. No deferred tax asset has been recognised in respect of the full amount of unused tax losses and deductible temporary difference of US$11,468,000 (2011: US$13,311,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$8,888,000 (2011: US$7,660,000) that will expire in 2012 to 2017. Other losses may be carried forward indefinitely.

Deferred taxation has not been provided in respect of 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.

27. OPERATING LEASE COMMITMENTS

	The Group as lessee	
	2012	2011
	US$'000	US$'000
Minimum lease payments paid by the Group under operating leases during the period	**437**	350

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:

	2012	2011
	US$'000	US$'000
Within one year	**242**	241
In the second to fifth year inclusive	**215**	180
Over five years	**1,072**	1,104
	1,529	1,525

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.

28. COMMITMENTS

At 31 December 2012, the Group had 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$521,000 (2011: US$73,000).

29. 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.

30. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

Nature of transactions	2012 US$'000	2011 US$'000
Purchases by the Group from a former jointly controlled entity	323	1,699

(ii) Remuneration of key management personnel

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

	2012 US$'000	2011 US$'000
Short term benefits	845	877
Post-employment benefits	3	3
	848	880

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

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 US$'000	2011 US$'000
Assets		
Investments in subsidiaries	**26,465**	26,465
Amounts due from subsidiaries	**26,238**	27,187
Other receivables	**29**	29
Bank balances	**2**	2
	52,734	53,683
Liabilities		
Other payables	**100**	39
Amount due to a subsidiary	**–**	2,839
	100	2,878
	52,634	50,805
Capital and reserves		
Share capital	**9,428**	9,428
Reserves (note)	**43,206**	41,377
	52,634	50,805

31. 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 2011	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
Profit for the year	–	–	2,771	2,771
Dividends recognised as distribution (Note 12)	–	–	(942)	(942)
At 31 December 2012	21,644	19,486	2,076	43,206

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.

32. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
			Directly	Indirectly	
W.P.T. Development Inc.	British Virgin Islands/ Hong Kong	Ordinary US$8	100%	–	Investment holding
Pacific Footgear Corporation	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100%	Marketing and trading in footwear

32. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
			Directly	Indirectly	
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				
	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	**2012 US$'000**
Revenue	148,114	106,539	72,363	101,987	**96,408**
Profit (loss) before taxation	1,954	1,366	(2,331)	(1,314)	**2,892**
Taxation	(388)	(264)	(168)	(2,822)	**(687)**
Profit (loss) for the year	1,566	1,102	(2,499)	(4,136)	**2,205**

ASSETS AND LIABILITIES

	At 31 December				
	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	**2012 US$'000**
Total assets	152,214	138,021	142,897	141,688	**134,654**
Total liabilities	32,888	19,619	20,739	18,575	**11,098**
Total equity	119,326	118,402	122,158	123,113	**123,556**