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 2017 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	Unit 1110, 11/F, New Kowloon Plaza, 38 Tai Kok Tsui Road, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
STOCK CODE	676
PRINCIPAL BANKERS	China Construction Bank Chinatrust Commercial Bank, Ltd Hang Seng Bank Limited Standard Chartered Bank (Hong Kong) Limited
WEBSITE	http://www.pegasusinternationalholdings.com

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

The year 2017 has been a challenging year. With incessant political disputes among Western countries, the economy and capital failed to find a clear path forward, leading to more conservative market sentiment than the previous year. The Group strove to win new customers and bring new drivers to our business on top of existing ones. As always, Group's competitiveness and profitability were undermined by high costs such as salary and benefits in China.

SOCIAL RESPONSIBILITY

The Group upholds sound corporate responsibility principles. The Social Responsibility Department of the Group maintains and monitors data on gas discharged and waste derived in the course of production on an on-going basis while the plants steadfastly abide by the environmental protection rules and procedures formulated in accordance with relevant laws and regulations to minimize the impacts on the surrounding environment. The Group is concerned about the needs of employees and local communities and is devoted to sponsoring various local charity events and caring for local residents. In addition, we endeavor to improve work safety and provide proper training for employees at various levels to improve their work efficiency.

PROSPECTS

The coming year is expected to witness escalating trade wars underpinned by protectionism as well as volatile global economy, with the export-led manufacturing industry in China bearing the brunt. Combining its existing experience and strength, the Group will continue to prudently manage its funds and optimize product quality to earn the trust of customers and suppliers, thereby achieving satisfactory results for stakeholders of the Group.

APPRECIATION

I would like to express my heart-felt appreciation to all members of the Board, the executives, and all employees of the Group for their dedication and contribution and thank all business partners and shareholders on behalf of the Group for their trust and long-standing support.

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 27 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2017, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31 December 2017, the Group recorded a turnover of US$76,046,000 (2016: US$79,330,000) representing 4.1% decrease comparing to 2016.

Profit before taxation of the Group for the year ended 31 December 2017 was US$773,000 (2016: US$579,000), an increase of US$194,000 as compared to the corresponding period in 2016. After accounting for income taxes expense of US$190,000 (2016: US$351,000), resulted a profit after taxation of US$583,000 (2016: US$228,000). Basic earnings per share for the year ended 31 December 2017 was 0.08 US cents (2016: 0.03 US cents). Gross profit margin increased to 14.1% in this 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.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. Since the global finance crisis couple of years ago, 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 2017, the Group had cash and cash equivalent of US$24,694,000 (2016: US$14,163,000). As at 31 December 2017, the Group's solid financial liquidity position was reflected by a healthy current ratio of 4.0 (2016: 4.5) times.

CAPITAL EXPENDITURE

For the year ended 31 December 2017, the Group incurred US$767,000 in capital expenditure, of which approximately 100% 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 2017.

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 52. 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 nonexecutive 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 website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 nonexecutive 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	Upon further appointment of independent non-executive director serves more than 9 years, 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 nonexecutive 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 their 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	2/2	2/2	2/2	2/2
Mr. Lai Jenn Yang, Jeffrey	2/2	2/2	2/2	2/2
Mr. Liu Chung Kang, Helios	2/2	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. DIRECTORS (CONTINUED)

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.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.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 individual executive directors and senior management.

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.1.3		
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	7
US100,001 to US$200,000	2

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 61–65 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 Risk Management and internal controls

Principle

The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal controls systems. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems.

The Board is responsible for evaluating and determining the nature and extend of risks related to the Group, and maintaining appropriate and effective risk management and internal control systems report to 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 Risk Management and internal controls (continued)

Code Provisions	Compliance	Actions by the Company
C.2.1		
The board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.	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. 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, ensure the adequacy of resources, qualifications and experience of staff of the issuer's accounting, internal audit 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. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Risk Management and internal controls (continued)

Code Provisions	Compliance	Actions by the Company
C.2.3 The board's annual review should, in particular, consider: (a) the changes, since the last annual review, in the nature and extent of significant risks, and the issuer's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the board (or board committee(s)) which enables it to assess control of the issuer and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.	Yes	The Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group, please refers to the Risk Management and Internal Control statement on page 37.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Risk Management and internal controls (continued)

Code Provisions	Compliance	Actions by the Company
C.2.4		
Issuers should disclose, in the Corporate Governance Report, a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period. In particular, they should disclose: (a) the process used to identify, evaluate and manage significant risks; (b) the main features of the risk management and internal control systems; (c) an acknowledgement by the board that it is responsible for the risk management and internal control systems and reviewing its their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss; (d) the process used to review the effectiveness of the risk management and internal control systems; and (e) the procedures and internal controls for the handling and dissemination of inside information.	Yes	The Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group, please refers to the Risk Management and Internal Control statement on page 37.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Risk Management and internal controls (continued)

Code Provisions	Compliance	Actions by the Company
C.2.5		
The issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report.	Yes	The Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group, please refers to the Risk Management and Internal Control statement on page 37.

C.3 Audit Committee

Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting, risk management 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, risk management 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 1 meeting with the external audit 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 communicate 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 Article 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 Unit 1110, New Kowloon Plaza, 38 Tai Kok Tsui Road, Tai Kok Tsui, 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 Unit 1110, New Kowloon Plaza, 38 Tai Kok Tsui Road, Tai Kok Tsui, 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 Level 22, Hopewell Centre, 183 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 Stock Exchange 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 Unit 1110, New Kowloon Plaza, 38 Tai Kok Tsui Road, Tai Kok Tsui, 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.

Constitutional Documents

During the year ended 31 December 2017, there had not been any change in the Company's memorandum and articles of association.

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.

RISK MANAGEMENT AND INTERNAL CONTROL

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage it risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the Senior Managements. The Board of Directors determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Managements identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board of Directors at least once a year. The Board of Directors had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with requirements of Securities & Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

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	1,246
Taxation services	53
Internal control review services	109
	1,408

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.

ENVIRONMENTAL AND SOCIAL REPORT

SCOPE AND REPORTING PERIOD

In pursuant to the requirement of the Environmental, Social and Governance Reporting guide ("Environmental, Social and Governance Guide") in Appendix 27 of the Rules Governing the Listing of Securities from the Stock Exchange of Hong Kong Limited, The Group has prepared the 2017 Environmental Social and Governance Report (thereafter "ESG Report"). The scope of this report will cover the Group's progress on its of ESG initiatives, their application and practices, and finally the disclosure of results as a year-end summary over this covered period.

It is also the intention of the management to provide an overview of the Group's direction in terms of managing ESG related issues, driving for ESG initiatives throughout the group, and communicating its ESG performance results with the stakeholders.

The reporting period of this report shall cover the date from 1 January 2017 to 31 December 2017.

ENVIRONMENT

While striving to generate revenue for stakeholders, and providing the best products and services to clients, the Group recognizes the potential impacts that operation activities may cause to the natural environment. Minimising such environmental impacts is at the heart of the Group's daily operation practices and continuous development.

The Group adheres to national environmental policies, environmental protection law and regulations. In order to ensure all activities, products and services of the company are carried out with minimum impact to the public health and the natural environment. In addition, we proactively established our in-house environmental management policy, focusing on air and water emission control, waste management and energy efficiency management.

The following sections will disclose its air and water emissions data; consumption of water, energy and raw materials and report on policies in place to minimise its environmental footprints.

Air Emission

Manufacturing processes and air emissions are notoriously related. At Pegasus, we strive to break the chain. In order to ensure that all industrial emissions adhere to local and national standards, the Group has formulated "Air Emission and Control Guidelines" to closely monitor our factory activities.

These emissions include exhaust gas from gluing and molding throughout the manufacturing process, summarized as below.

ENVIRONMENT (CONTINUED)

Air Emission (continued)

Sources of air emission

The identification of air emission sources allows the Group to impose emission controls and to follow-up with appropriate actions; i.e., to mitigate the emission of VOCs concentration in our combustible waste, the Group has replaced the industrial glue into ones with low VOC content.

Such procedures ensure that the factory exhaust fulfil regulatory requirement, and the Group takes pride in its clean record of pollution abatement notices from the authorities and zero complaints from the public or any other stakeholders concerned. Some of the identified and supervision types of air emission are the followings:

- Workshop (liquid glue discharge): Volatile organic compound (VOCs);
- Workshop (rubber mixing discharge): Volatile organic compound (VOCs), odor (hydrogen sulfide); and
- Ethylene vinyl acetate (EVA) Room and Rubber Matching Room: Dust.

During the Year, the Group did not conduct any non-compliance action with air emission related laws and regulations with the local government.

Carbon Emission

In addition to the efforts made in reducing air pollution, the Group is also exploring measures into reducing carbon emission, and in particularly reducing its overall carbon footprint.

As a summary, and based on its electricity consumption alone, the Carbon Footprint for the Group in this reporting year was 17,700 tCO_2e ("Tonnes of Carbon Dioxide Equivalent"), resulting from a purchased source of electricity and petroleum consumption.

With this information available, the Group will continue monitoring our carbon footprint from various emission sources, and further measures will be investigated in the future.

ENVIRONMENT (CONTINUED)

Waste Management

The Group strives to reduce the amount of waste generated in its operation activities. Waste management guidelines and procedures are in place in all areas of its production where hazardous and non-hazardous waste were generated. To ensure all wastes are properly treated according to specified procedures, the Corporate Responsibility Department (CRD), which is under the Environmental Management Department (EMD) is responsible for monitoring the implementation of waste segregation, collection, storage, record and disposal in a daily basis.

The following summarises the total volume (in tonnes) of hazardous and non-hazardous waste the Group generated throughout the reporting period:

Total Waste Production

The Group has adopted the waste management hierarchy principle to prioritize various management strategies. All factory waste must go through complete procedures of sorting, collection, monitoring, storage, recycle or disposal, data analysis and review. Hazardous waste is disposed of by qualified hazardous waste services and such are recorded and declared per regulatory requirements. For non-hazardous waste, they are sorted into recyclables and non-recyclables by type before sent off to recyclers and treatment facilities respectively.

The Group has not been accounting for domestic waste generated, those have been disposed of and collected directly by local government services, and will further disclose as data is available.

As a result of its comprehensive measures, the Group generated a total of 40 tonnes of hazardous waste, 420 tonnes of non-hazardous waste, and a total of 730 tonnes packaging material used for finished products (excluding interior packaging materials).

Use of Resources and Conservation Practices

Resource management is a primary focus in the operations.

To strengthen company's management on energy and resources consumption, the "Energy and Resources Management Guidelines" was established. The aforementioned CRD is responsible for inspecting and monitoring the daily energy and resources consumption across the factory. Policies on the efficient use of resources, including energy, water and other raw materials are in place and communicated to staff as part of their training requirement, and frequently reviewed and updated for improvements.

ENVIRONMENT (CONTINUED)

Use of Resources and Conservation Practices (continued)

Energy

The Group had committed to a 5%–10% in its in-direct (scope 2) carbon emissions last year, which was a 30,000,000 kWh of electricity purchase. In 2017, the Group recorded a 28,000,000 kWh use of electricity incurred as a result of its operations, meaning that achieved a 7% reduction outcome.

Electricity Consumption	**kWh**
Manufacturing	26,500,000
Daily Operation	1,500,000
Total	28,000,000

The Group is closely seeking for improvement in its operation machineries for better energy savings: electricity metering devices were installed at each building to monitor the daily consumption of individual operation unit; an operation schedule was established among different plants and staff were strictly required to operate machineries on schedule instead of turning the idle ones on. The practice resulted in notable improvement on machinery utilisation efficiency. Furthermore, the Group has revamped its production line resulting in a consolidation of multiple production steps. This has further increased the manufacturing efficiency and reduced energy consumption. In the long run, the Group is working on the phasing out of energy-demanding machineries to further step down its energy consumption.

The staff are engaged to promote the Group's environmental efforts and have introduced a scheme to foster green living style. Energy saving tips and reminders are posted on the notices board and next to electrical switches at both manufacturing plants and dormitories, thus reminding the staff to reduce unnecessary energy consumption. The scheme promotes environmental awareness amongst the workforce and thus lays the foundation of a sustainable living culture.

To provide an overview, the energy consumption of the Group's operations contributed to a 28,000,000 kWh use of electricity, 156MJ gas consumption and 21,500Ls of petrol expenditure in 2017.

ENVIRONMENT (CONTINUED)

Use of Resources and Conservation Practices (continued)

Water

The Group recorded a water consumption of 532,000m^3 throughout 2017. Compared to last year's water usage of 870,000m^3, the 38.8% significant reduction is a solid showcase of the Group's dedication and commitment to the sustainable use of water.

The serious reduction of water consumption in its daily operations do not happen overnight and is a collaborated result of proper environmental management in place. The Group has enforced "Water Resources Management Policy" that stipulates the conscious consumption of water. Awareness training on water saving practices was provided to all staff members. For example, water saving tips and reminders were posted at bathrooms and toilets. Employees were reminded to shut off the water supply when not in use. Dormitory management officer was assigned to conduct regular checks and maintenance for water tanks and water supply pipelines to prevent water leakages, which were repaired in an urgent manner when discovered.

Water Consumption	m^3
Production	393,000
Daily Operation	139,000
Total	532,000

For wastewater, in addition to complying to national laws and regulations, the Group has established "Wastewater Pollution Control Management Guidelines" for sewage treatment and water recycling management. The Group integrated the concept of prevention, reduction, reuse, and qualified disposal of water resources in its management policy. Wastewater streams are segregated according to the level of contamination. By doing so, the use of treatment chemicals can be reduced and a greater volume of water could be reused. Waste water recycling systems divert used water from facility showers, sinks, dishwashers, or laundry facilities for wastewater treatment. Treated water meeting given water quality standard will be reused in toilet flushing. According to records, 60% of water was recycled and repeated on usage before discharge. Black water would then be treated by its installed facilities in plant before final discharge only if they meet the strict local emission limits concerning: chemical organic demand (COD), suspended solid (SS), biochemical oxygen demand (BOD), ammonia nitrogen (NH3-N) and phosphate.

ENVIRONMENTAL AND SOCIAL REPORT

SOCIAL

The Group believes that employees are the most valuable asset to its business and, it strives to provide within its ability, the best working environment and benefits to retain talents. During the Year, the Group works diligently to comply with applicable employment and labour related laws and regulations.

Employment and Labour Practices

As a socially responsible company, the Group understands the People that work with us are the cornerstone of our success. The Group celebrate talent's works of excellence by offering them a competitive remuneration and benefits scheme. The Group also ensures that staff are well-taken care of and fitted to work by providing access to adequate leaves and medical services when appropriate.

The Group complies with all applicable laws, regulations and industry standards on working hours, and our "Attendance Management Policy" was formulated as the company guideline on related matters. While all staff are paid above minimum legal wages, overtime work is on voluntary basis and employees will receive overtime pay up to 3 times of their normal wage (no more than three hours per day). In addition to statutory holidays, the Group also provides paid annual leave, funeral leave, marriage leave, maternity leave, paternity leave, sick leave, compassionate leave and compensation leave to employees with relevant supporting documents. Furthermore, employee has the right to leave upon management approval for personal reasons. All staff members are entitled to social insurance and medical insurance in PRC.

The Group also employs an "Award and Penalty System", where employees with good presentation, responsibility, discipline and act as role models are recognised and given cash bonus. Alternatively, disciplinary action would be taken if an employee has committed an act of serious misconduct or deceitful behaviours.

Equal Opportunity Employer

The Group is an equal opportunity employer and shall not tolerate discrimination in the workplace, across the recruitment process, nor when it comes to staff promotions and remunerations. The Group believes work performance shall not be judged based on people's gender, age, race, religion, disability, sexual orientation, family status, maternity or political affiliation. The above non-discrimination principle is applied across all aspects of our human resource management, including the wages, benefits, promotion, training, discipline, dismissal and retirement of our staff members.

Appraisal System and Resignation

Appraisal system is in place to assess the employees' work objectives, performances, attitude and capacity. Employees will be promoted with salary adjustment based on a point-based appraisal system and set pay scale as written in the Group's "Salary Policy". In addition, our "Dismissal Management Policy" provided a clear guidance on resignation, where resigning employees are required to provide a one month's written notice, stating reason for leaving to their managers. Managers are responsible for hosting a meeting to discuss with employees concerned and are required to fill in relevant documents which will also be reviewed, discussed before human resource department signed off.

SOCIAL (CONTINUED)

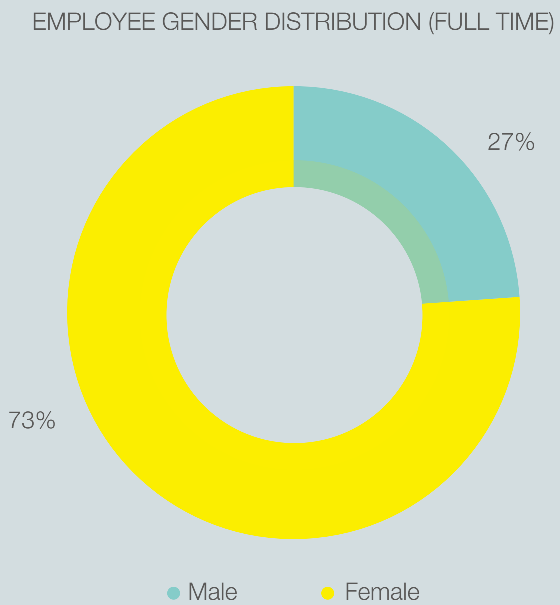
Workplace Diversity

Pegasus welcomes candidates from all backgrounds. The Group's employee age ranges from the age of below 30 to over 60, with those aged between 40 to 50 being our dominant age group. Gender distribution is estimated to be roughly 1:2.6 male to female. The following presents data regarding the gender and age distribution of our staff members.

Pegasus Staff Age Distribution

	Type of Employment		Gender		Age Range			
By December 2017	**Full-Time**	**Part-time**	**M**	**F**	**Below 30**	**30–40**	**40–50**	**50–60+**
	100%	0%	27%	73%	7%	23%	66%	4%

Table 1 — Pegasus staff age distribution



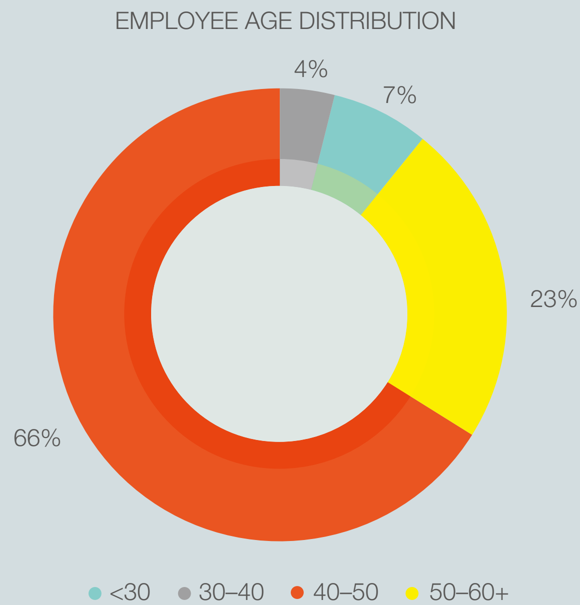


Figure 1 and 2 — Gender and age distribution of Pegasus staff

SOCIAL (CONTINUED)

Health and Safety

Safety would not be compromised at all cost in the Group, and it strives to maintain high standards of health and occupational safety. The Group pledges to do its best in order for all staff members come to work happily and go home safely.

The Group's "Occupational Health and Safety Policy" adheres to the local laws and regulations, and places additional focus on the safety of high risk activities such as work-from-height, operation of machinery, electric works etc. Safety standards are applied universally in all of the group's operations, including those performed by the sub-contractors. Through control measures, such as provision of personal protection equipment to staff who are required to work at potential hazards exposure environment, displaying of "Material Safety Data Sheet ("MSDS")" and relevant notes on notification boards, the Group protects staff from potential occupational health risks and ensure work place safety.

The Group now utilise the opportunity to report on its work injury incidences in 2017 for future reference and improvement. The number of days lost due to work-related injury is 187 days. The following table reports on the distribution of work injury incidences.

		Gender		Age Range				
	Total	**M**	**F**	**Below 30**	**30–40**	**40–50**	**50–60**	**Above 60**
No. of work-related injury incidences	36	19	17	1	12	16	7	0

Table 2 — Work-related injury and distribution

During 2017, the Group had recorded no work-related fatality as a result of all operation activity.

Development and Training

The Group strongly believes that the enhanced skill set and knowledge of its staff via corporate training, and the result will be reflected in the better quality of products and services provided. Throughout 2017, the Group arranged various training courses for employees from different departments. It empowers new staff by helping them to adapt to their new working environment. All new staff members receive an 8-hour orientation training, which covers diverse topics, including work rights and benefits, as well as environmental protection policies, and occupational health and safety. Employees are required for a test after completion of the orientation training to ensure their material knowledge thereafter. Production line employees receive regular technical skills training to keep them abreast of latest technology. For management staff members, the Group organizes training workshops across all areas for their better knowhow and skillset. These include procurement management, warehouse and delivery management, product knowledge, product storage management, product recall procedure, customer service and complaint procedure, sales and marketing skill, administrative management, risk management, refrigerated products management and emergency preparedness.

SOCIAL (CONTINUED)

Development and Training (continued)

The following reports on training received by staff and its distribution by gender and employee category:

Percentage of Employee trained by Gender

	Total	Attendance	Training Ratio
Male	12,000	11,800	98%
Female	31,100	30,500	98%

Table 3 — The percentage of employees trained by gender

Percentage of Employee trained by Employee Category

	Total	Attendance	Training Ratio
Senior Management	550	530	96%
Management	2,520	2,440	97%
Staff	40,100	39,200	98%

Table 4 — The percentage of employees trained by employee category

The Average Training Hours Completed per Employee by Gender

	Total Attended (Head)	Training Hours	Total Hours
Male	11,900	34	404,600
Female	30,500	36	1,098,000

Table 5 — The Average Training Hours completed per Employee by Gender

The Average Training Hours Completed per Employee by Employee Category

	Total Attended (Head)	Training Hours	Total Hours
Senior Management	530	38	20,140
Management	2,500	52	130,000
Staff	40,000	35	1,400,000

Table 6 — The Average Training Hours completed per Employee by Employee Category

SOCIAL (CONTINUED)

Prevention of Forced and Child Labour

The Group does not tolerate the involvement of forced and child labour in the production processes, and it stands up and takes actions towards protecting the vulnerable in our society. The Group strictly accords to its "Child Labour Prohibition Polices and Remedial Procedures" to prohibit any use of child labour, and it will not hire child labour aged below the relevant legal threshold (under 16 years of age) of the respective markets. During the recruitment process, the Group conducts background check for every new employee and verified the details concerning the identity of such candidate. In the unlikely event of children being hired in operations, the Group follows "Child Labour Remedial Procedures" to undertake all necessary actions to support the education and development of the children who have been mistakenly hired.

In addition, no employees of the Group would be required to work extra hours involuntarily nor required to pay compulsory deposits. The Group establishes "Anti-forced Labour Procedures" to ensure that all employees hired by the company are able to work in a peaceful and voluntary manner.

In 2017, there was neither child nor forced labour in the Group's operations, and the Group is in compliance with Special Protection for Female and Juvenile Workers, Chapter VII, and Labour Law of the People's Republic of China and Provisions on the Prohibition against the Use of Child Labour (State Council Order No. 364) 《禁止使用童工規定》(國務院令第364號).

Supply Chain Management and Product Quality Control

As an company, the Group endeavours to deliver quality products to our customers. A great part of the effort is made on ensuring its products fulfils statutory environmental and social requirements beyond its own production line. Therefore, it carefully selects suppliers to allow comprehensive control of its finished products.

The Group established a specific "Supplier Assessment Checklist" for supplier performance verification amongst different aspects, including quality, delivery time, cost, experience, and ability to respond customer demand, etc. It puts priorities on the suppliers with ISO 9001 QMS or SA 8000 Social Accountability certified. All audit results will be evaluated by the Procurement Department Manager, and accredited suppliers will be added into the "Qualified Supplier List" and performance will be reviewed on a half-yearly basis. By doing so, positive influence will be exerted on supplier's manufacturing practices, minimising risk to our business as a result of sub-quality purchase.

The Group is strictly abided by national laws and regulations on product quality. By formulating internal rules and policies about product quality according to relevant laws and regulations of the state, it operates in strict accordance with the relevant provisions of ISO 9001 Quality Management System ("QMS") international standards to assure the continuous improvement of the business processes, productivity, profitability and customer satisfaction. A well-trained Quality Assurance Team ("QAT") was built to implement the relevant requirements of ISO 9001 system as well as "Company Quality Management Policy" to ensure the quality of all products.

SOCIAL (CONTINUED)

Supply Chain Management and Product Quality Control (Continued)

Starting from raw material sourcing, suppliers with products complying with stringent worldwide regulations and the REACH Restricted Substances List ("RSL") will only be selected. They will also be required to provide the AZO Test Report to ensure their products are free of hazardous materials. Their ongoing manufacturing processes are inspected by QAT to ensure compliance with the Group's "Quality Management Policy" that implements across processes of raw material procurement, production and manufacturing, logistics inventory, sales tracking and product accident handling.

Upon completion of client's order, a client quality assurance representative will sample the finished goods alongside with the handover staff. The sampling record will be signed off and delivered to the production units.

Should the sample quality be rejected by the client, the unsigned sample record would be sent back to the production unit. Depending on the quality issue of the finished goods, the production team would have to arrange for unpacking, sorting degrading, discarding etc procedures. The team would remanufacture required quantities by due and ensure they are up to standard before release.

Protection of Intellectual Property

The Group established clear guidelines on the management of client's product safety and intellectual rights. From the confidential product design process to limiting quantity production of manufactured goods, responsible departments are trained to take care of client's rights on intellectual property explicitly. The following departments work hand in hand to deliver our quality services.

Product Sales Department: It is the primary unit for the protection of client's property rights. Any case that would possibly lead to an infringement of copyright to client's product; for example, sample product missing, the product sales department would require a follow-up action with the client in an immediate fashion to report on the issue and seek for further advice.

Materials Unit: The material unit assists in logistic and storage of materials provided by our client, and it keeps a clear record of the product's location and register personnel involved for their deployment.

R&D Department: The particular department maintains the inventory of client-provided digital resource, such as product design drafts and any other documents that concern intellectual property rights. Access to the database storage is limited to staff members involved in product coordination with client. Staff members are forbidden to any form of information distribution unless approved by the client.

Consumer Satisfaction and Product Recall Procedures

Pegasus strives to produce the best service and products possible. Unfortunately, in very unlikely incidences, and like any other reputable companies, there may be unhappy customers coming back to us with complaints. The Group takes complaints seriously and developed "Customer Services and Complaint Guidelines" for frontline staff with correct handling procedures.

SOCIAL (CONTINUED)

Consumer Satisfaction and Product Recall Procedures (Continued)

Upon receipt of customer complaints, the complaints would be furthered to the QAT. The responsible team member would conduct a meeting with concerned department in hopes of identifying the process that went wrong.

During the meeting, senior and experienced staff members are required to comprehend a solution to improve the concerned quality issues of the finished products. The implementation of the suggested solution would take effect upon the confirmation of results and such will be reported to the client. Such procedures will repeat until the issue is completely resolved.

Information of the client's complaint will be recorded and filed in a confidential manner and kept by the QAT for 1 year for reference and will be destroyed after.

As a result, the Group's product recall rate stood between a 0.01% to 0.08% during 2017, which is controlled within the Group's target in 0.08%.

Anti-Corruption

As a company that brands itself on reputation, the Group understands that strong moral integrity is a key to success for our business.

The Group established "Code of Conduct" to give clear guidelines on the prevention of corruption and bribery activities in its business circumstances. It introduces relevant policies to all new staff members in the orientation training to ensure that employees clearly understand the Group's standards on business integrity. Offering, giving, receiving or promising, directly or indirectly, gifts, hospitality and other payment from or to any employee, client, supplier, and government personnel are strictly prohibited. In addition, bribery, fraud and theft, money laundering, extortion, conflict of interest, intellectual property infringement, and unfair competition, etc. are also strictly forbidden.

During 2017, the Group was unware of any incidences relating to the non-compliance to legal regulations and laws on the matters of corruption, bribery, extortion, fraud and money laundering.

COMMUNITY

The Group contributes to positive impacts of the community in which it is operating in by donations and voluntary works.

Community Investment

In 2017, the Group was actively engaging and supporting community events and fundraising activities, and its hearts especially goes to charity events for the elderly. The Group also pays particular attention to the needs in neighbouring communities. In September 2017, the Group funded the Guangzhou Charity Association and sponsored another community elderly event in the Jiubi village during the following month. The Group also contributed to the Annual Nanshan Charity Association Fundraising event in November 2017. It has the best of intentions making these contributions and becoming sponsors for charity events, as it believes in caring and contributing to the community. And it certainly hoped that contributions made the recipient communities to become a better place for everyone involved.

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 practicing 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 reviewed the risk management and internal control systems and the effectiveness of the Group's internal audit function. 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 2017 included in 2017 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 consolidated 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.

The Committee also reviewed the risk management and internal control report for the year ended 31 December 2017 submitted by an independent professional advisor.

Based on 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 2017, 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 2017, 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 2018.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Huang Hung Ching

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

Hong Kong, 27 March 2018

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Chen San, Thomas, aged 67, 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 60, 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 over 30 years' experience in the footwear manufacturing business.

Mr. Wu Jenn Tzong, Jackson, aged 62, 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 over 30 years' experience in the footwear manufacturing business.

Mr. Ho Chin Fa, Steven, aged 65, 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 over 30 years' experience in the footwear manufacturing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Hung Ching aged 54, 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 60, 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 67, 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.

SENIOR MANAGEMENT

Mr. Lee Yiu Ming, aged 53, 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 the company secretary of the Company. He is responsible for the company secretarial functions of the Group.

Mr. Hsieh Hsin Lee, aged 57, 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. Li Yan Ling, aged 55, 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 over 20 years' experience in footwear manufacturing and product development.

Ms. Mandy Wu, aged 31, is a senior manager of Panyu Pegasus in product development. Ms. Wu graduated from the University of Reading, the United Kingdom. Ms. Wu joined the Group in 2010 and has over 6 years' experience in footwear manufacturing and product development.

Mr. Hans Wu, aged 28, is a business director of Panyu Pegasus. Mr. Wu graduated from University of Manchester, the United Kingdom. Mr. Wu joined the Group in 2013 and has 5 years' experience in footwear manufacturing and product development.

Mr. Calvin Chen, aged 37, is a product engineer of Panyu Pegasus. Mr. Chen graduated from Chinese Culture University and holds a Master's degree in business administration from West Virginia University, United State. Mr. Chen joined the Group in 2014 and has over 6 years' experience in footwear manufacturing and product development.

Mr. Ng Chung Lok, aged 34, obtained a bachelor's degree in Professional Accountancy from the Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he worked in a multinational audit firm for 4 years. Mr. Ng is the Finance Director of the Group. He is responsible for the financial and accounting functions of the Group.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

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 subsidiaries are set out in Notes 14 and 30, respectively, to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement and Management Discussion and Analysis respectively from pages 3 to 4 of this Annual Report. The outlook of the Company's business is discussed throughout this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 66 and 67.

An interim dividend of 2.0 HK cents per share amounting to US$1,885,548 in aggregate was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 2.0 HK cents per share to the shareholders whose names appear on the register members on 1 June 2018, amounting to US$1,885,548.

PROPERTY, PLANT AND EQUIPMENT

The buildings of the Group were revalued at 31 December 2017. A revaluation increase of US$1,677,000 has been credited 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 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 20 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 2017, the Company's reserves available for distribution to shareholders consisted of retained profits and contributed surplus, totalling US$20,221,000 (2016: US$20,090,000).

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

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. Lai Jenn Yang, Jeffrey, will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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

DIRECTORS (CONTINUED)

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. The Company considers all of the independent non-executive directors are independent.

At date of this report, Mr. Lai Jenn Yang, Jeffrey, has served the Company for nine years as an independent non-executive director. Pursuant to code provision A.4.3 of the code provisions under Code on Corporate Governance Practices contained in the Appendix 14 to the Listing Rules, if an independent non-executive directors more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders.

Mr. Lai Jenn Yang was appointed as an independent non-executive director on 22 June 2005. Mr. Lai has been able to fulfill all the requirements regarding independence of an independent non-executive director and provide annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. To the best knowledge of the directors, as at the date of this report, the Company is not aware of any matters or events that may occur and affect the independence of Mr. Lai.

During the tenure of office, Mr. Lai had performed his duties as an independent non-executive director to the satisfaction of the Board of Directors (the "Board"). The Board is of the opinion that Mr. Lai remains independent notwithstanding the length of his service and believes that his valuable knowledge and experience continue to generate significant contribution to the Board, the Company and the shareholders as a whole.

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.

No director 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 2017, 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%

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Long positions *(continued)*

(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%

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 2017, 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 TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Other than as disclosed in Note 24 to the consolidated financial statements, no transactions, arrangements and contracts of significance to which the Company, its holding company or subsidiaries was a party and in which a director or a connected entity of 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

As at 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors and chief executive, the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Pegasus Footgear Management Limited (note)	Beneficial owner	468,743,940	64%

note: Details of the directors' interests in Pegasus Footgear Management Limited are disclosed under the section headed "Directors' Interests in Shares".

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31 December 2017.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the Group's largest customer accounted for approximately 86.8% of the Group's total revenue. The five largest customers accounted for approximately 99.3% of the Group's revenue.

For the year ended 31 December 2017, the Group's largest supplier accounted for approximately 26.8% of the Group's total purchases. The five largest suppliers comprised 57.7% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Board on the basis of the employees' merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, 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 2017.

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 2018

Deloitte. 德勤

TO THE MEMBERS OF PEGASUS INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

OPINION

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 66 to 120, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of buildings	
We identified valuation of buildings as a key audit matter due to the assumptions involved in the determination of the fair value of the Group's buildings. Refer to Note 4 to the consolidated financial statements, the management estimated the fair value of the Group's buildings to be US$40,262,000 at 31 December 2017, with a revaluation increase of US$1,677,000 being recognised in properties revaluation reserve for the year ended 31 December 2017. The fair value of the buildings was supported by valuations conducted by an independent external valuer using property valuation techniques which involved certain assumptions of prevailing market conditions including current construction costs of similar buildings and allowance of accrued depreciation. Changes to these assumptions may result in changes in the fair value of the Group's buildings.	Our procedures in relation to the management's valuation of buildings included: • Evaluating the competence, capabilities and objectivity of the independent external valuer; and • Assessing the reasonableness of property valuation techniques, key inputs and assumptions adopted by the independent external valuer to entity-specific information and market data.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tse Fung Chun.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017**	2016
		US$'000	US$'000
Revenue	5	**76,046**	79,330
Cost of sales		**(65,327)**	(67,869)
Gross profit		**10,719**	11,461
Other income, gains and losses		**1,021**	1,119
Selling and distribution costs		**(3,121)**	(3,579)
General and administrative expenses		**(7,861)**	(8,446)
Share of profit of an associate		**15**	24
Profit before tax	6	**773**	579
Tax expense	9	**(190)**	(351)
Profit for the year attributable to owners of the Company		**583**	228
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**3,594**	(6,929)
Items that will not be reclassified subsequently to profit or loss:			
Revaluation increase on buildings		**1,677**	3,057
Deferred tax recognised on revaluation of buildings		**(419)**	(764)
		1,258	2,293

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTE	2017 US$'000	2016 US$'000
Other comprehensive income (expense) for the year, net of tax		**4,852**	(4,636)
Total comprehensive income (expense) for the year attributable to owners of the Company		**5,435**	(4,408)
Earnings per share			
Basic	11	**0.08 US cents**	0.03 US cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
Non-current assets			
Property, plant and equipment	12	**53,471**	51,519
Prepaid lease payments	13	**4,618**	4,594
Interest in an associate	14	**626**	611
		58,715	56,724
Current assets			
Inventories	15	**9,653**	14,572
Trade and other receivables	16	**6,681**	8,751
Prepaid lease payments	13	**171**	164
Financial assets at fair value through profit or loss	17	**743**	1,277
Bank balances and cash	18	**24,694**	14,163
Tax recoverable		**14**	17
		41,956	38,944
Current liabilities			
Trade and other payables	19	**9,553**	8,055
Tax payable		**900**	574
		10,453	8,629
Net current assets		**31,503**	30,315
		90,218	87,039
Capital and reserves			
Share capital	20	**9,428**	9,428
Share premium and reserves		**76,730**	74,123
Total equity		**86,158**	83,551
Non-current liabilities			
Deferred tax liabilities	21	**4,060**	3,488
		90,218	87,039

The consolidated financial statements on pages 66 to 120 were approved and authorised for issue by the Board of Directors on 27 March 2018 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 2017

	Attributable to owners of the Company						
	Share capital	Share premium	Properties revaluation reserve	Translation reserve	Merger reserve	Retained profits	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2016	9,428	21,637	6,117	17,841	(4,512)	39,333	89,844
Profit for the year	–	–	–	–	–	228	228
Exchange differences on translating foreign operations	–	–	–	(6,929)	–	–	(6,929)
Revaluation increase on buildings	–	–	3,057	–	–	–	3,057
Deferred tax liability recognised on revaluation of buildings (Note 21)	–	–	(764)	–	–	–	(764)
Total comprehensive income (expense) for the year	–	–	2,293	(6,929)	–	228	(4,408)
Payment of dividends (Note 10)	–	–	–	–	–	(1,885)	(1,885)
At 31 December 2016	9,428	21,637	8,410	10,912	(4,512)	37,676	83,551
Profit for the year	**–**	**–**	**–**	**–**	**–**	**583**	**583**
Exchange differences on translating foreign operations	**–**	**–**	**–**	**3,594**	**–**	**–**	**3,594**
Revaluation increase on buildings	**–**	**–**	**1,677**	**–**	**–**	**–**	**1,677**
Deferred tax liability recognised on revaluation of buildings (Note 21)	**–**	**–**	**(419)**	**–**	**–**	**–**	**(419)**
Total comprehensive income for the year	**–**	**–**	**1,258**	**3,594**	**–**	**583**	**5,435**
Payment of dividends (Note 10)	**–**	**–**	**–**	**–**	**–**	**(2,828)**	**(2,828)**
At 31 December 2017	**9,428**	**21,637**	**9,668**	**14,506**	**(4,512)**	**35,431**	**86,158**

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 2017

	2017 US$'000	2016 US$'000
OPERATING ACTIVITIES		
Profit before tax	**773**	579
Adjustments for:		
Depreciation of property, plant and equipment	**1,971**	1,858
Loss on disposal of property, plant and equipment	**520**	113
Gain on fair value changes of held for trading investments	**(163)**	(4)
(Net reversal of allowance on inventories) write-down of inventories	**(730)**	611
Interest income	**(64)**	(69)
Release of prepaid lease payments	**172**	176
Share of profit of an associate	**(15)**	(24)
Unrealised net exchange (loss) gain	**1,607**	(1,610)
Operating cash flows before movements in working capital	**4,071**	1,630
Decrease in inventories	**5,749**	4,336
Decrease (increase) in trade and other receivables	**2,079**	(204)
Increase in held for trading investments	**(28)**	(14)
Increase in trade and other payables	**1,463**	425
Cash generated from operations	**13,334**	6,173
Taxation paid in other jurisdictions	**(113)**	(143)
Hong Kong Profits Tax paid	**–**	(50)
NET CASH FROM OPERATING ACTIVITIES	**13,221**	5,980

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
INVESTING ACTIVITIES		
Proceeds from disposal of financial assets designated as at fair value through profit or loss	**725**	–
Proceeds on disposal of property, plant and equipment	**88**	–
Interest received	**64**	69
Purchase of property, plant and equipment	**(767)**	(2,419)
Purchase of financial assets designated as at fair value through profit or loss	**–**	(725)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**110**	(3,075)
CASH USED IN A FINANCING ACTIVITY		
Dividends paid	**(2,828)**	(1,885)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**10,503**	1,020
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**14,163**	13,462
Effect of foreign exchange rate changes	**28**	(319)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	**24,694**	14,163

1. GENERAL

Pegasus International Holdings Limited (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 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 the United States dollar ("US$"), 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")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 *"Disclosure Initiative"*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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

Amendments to HKAS 7 ***"Disclosure Initiative"*** *(Continued)*

A reconciliation between the opening and closing balances of these items is provided in Note 28. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 28, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contract[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-team Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

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

HKFRS 9 *"Financial Instruments"*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other financial assets are measured at their fair value at subsequent accounting 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.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

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

HKFRS 15 *"Revenue from Contracts with Customers"*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Currently under HKAS 18, the Group recognises revenue from sales of goods when the goods are delivered and titles have been passed to the customer and the significant risks and rewards of ownership of the goods have been transferred to the customer.

Under HKFRS 15, the Group has assessed whether the revenue will be recognised overtime or at a point in time for those manufactured products with no alternative use to the Group, the revenue for such products will be recognised over time if the Group has an enforceable right to payment for performance completed to date or otherwise at a point in time upon customers obtain control of the relevant products.

The directors of the Company are still in the process of assessing the full impact of the application of HKFRS 15 which may potentially affect the timing of revenue recognition.

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

HKFRS 16 *"Leases"*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$1,524,000 as disclosed in Note 22. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of US$31,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments and would be included in the initial measurement of right-of-use assets.

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

HKFRS 16 *"Leases"* *(Continued)*

The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. Upon application of HKFRS 16, the directors of the Company will consider the measurement model to be applied to the Group's leases under HKFRS 16, specifically, the potential election of revaluation model to certain right-of-use assets that relate to the class of property, plant and equipment in which the Group currently applies revaluation model. A reasonable estimate of the financial effect, if any, will be provided upon completion of a detailed review by the directors of the Company.

Other than the above, the directors anticipate that the application of other new and revised 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 HKFRSs 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 of Hong Kong Limited 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 at the end of each reporting period, 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Dividend and interest income

Dividend income from investments is recognised when the rights to receive payment have been established.

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.

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 statement of financial position at cost or revalued amount, less subsequent accumulated depreciation and subsequent 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 amounts do not differ materially from that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising from 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 recognise in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of such buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is recognised so as to write off the cost or valuation 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.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment in an associate

An associate is an entity over which the Group has significant influence. 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 an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is 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 associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's 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 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

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

Impairment of 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 relevant 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 asset individually, 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 of disposal 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 (or a cash-generating unit) 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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 immediately in profit or loss, 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 determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all 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, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as 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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. US$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, 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 before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 bases 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in an associate, 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 interest 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 are recognised in profit or loss, except when they relate 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.

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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducing any amount already paid.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

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 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 at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Financial assets are classified into 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 and points 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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

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
- on initial recognition it is a part of a portfolio of identified 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 FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial assets. Fair value is determined in the manner described in Note 27.

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 measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade 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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the loans and receivables 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 in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, 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 derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. 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 is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of buildings

The management estimates the fair value of the buildings with reference to fair value determined by an independent external valuer using property valuation techniques which involved certain assumptions of prevailing market conditions including current construction costs of similar buildings and allowance of accrued depreciation. Note 12 provides detailed information about the valuation techniques, key inputs and assumptions used in the determination of the fair value of the buildings. These estimation and assumptions impact the revaluation of buildings over the useful lives of buildings and also the amount recognised in properties revaluation reserve.

As at 31 December 2017, the fair value of the buildings was US$40,262,000 (2016: US$37,559,000), with a revaluation increase of US$1,677,000 (2016: US$3,057,000) being recognised in properties revaluation reserve for the year ended 31 December 2017.

5. 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 reportable and operating segments determined based on location of geographical markets are North America, Asia and Europe. The other regions segment includes the revenue and operating results analysis in various locations other than those disclosed above. 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 revenue and results

For the year ended 31 December 2017

	North America US$'000	Asia US$'000	Europe US$'000	Other regions US$'000	Total US$'000
REVENUE					
External sales of goods	**53,070**	**11,283**	**8,355**	**3,338**	**76,046**
RESULTS					
Segment results	**8,808**	**706**	**806**	**326**	**10,646**
Unallocated income, gains and losses					**957**
Interest income					**64**
Unallocated expenses					**(10,909)**
Share of profit of an associate					**15**
Profit before tax					**773**
Tax expense					**(190)**
Profit for the year					**583**

5. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2016

	North America US$'000	Asia US$'000	Europe US$'000	Other regions US$'000	Total US$'000
REVENUE					
External sales of goods	52,028	13,626	6,885	6,791	79,330
RESULTS					
Segment results	9,072	913	710	686	11,381
Unallocated income, gains and losses					1,050
Interest income					69
Unallocated expenses					(11,945)
Share of profit of an associate					24
Profit before tax					579
Tax expense					(351)
Profit for the year					228

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/loss on fair value changes of held for trading investments, net exchange loss/gain, central administration costs, directors' emoluments and share of profit of an associate. This is the measure reported to the chief operating decision maker for the purpose of resources allocation and performance assessment.

5. SEGMENT INFORMATION *(Continued)*

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:

	2017	2016
	US$'000	US$'000
United States of America	**51,384**	49,796
People's Republic of China ("PRC")	**3,778**	6,362
Belgium	**5,827**	4,529
South Korea	**2,309**	1,400
Japan	**3,351**	3,015
Others	**9,397**	14,228
	76,046	79,330

5. 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 and place of operations are detailed below:

	2017	2016
	US$'000	US$'000
PRC	58,644	56,697
Hong Kong	70	26
Taiwan	1	1
	58,715	56,724

Information about major customers

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

	2017	2016
	US$'000	US$'000
Customer A	66,078	67,113

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

6. PROFIT BEFORE TAX

	2017 US$'000	2016 US$'000
Profit before tax has been arrived at after charging:		
Directors' emoluments (Note 7)	**347**	482
Other staff costs	**30,662**	32,471
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**3,274**	4,518
Total staff costs	**34,283**	37,471
Auditor's remuneration	**158**	150
Cost of inventories recognised as an expense (Note)	**62,949**	67,869
Depreciation of property, plant and equipment	**1,971**	1,858
Provision for housing provident fund (included in cost of sales) (Note 25)	**2,378**	–
Release of prepaid lease payments	**172**	176
and after charging (crediting) to other income, gains and losses:		
Loss on disposal of property, plant and equipment	**520**	113
Gain on fair value changes of held for trading investments	**(163)**	(4)
Interest income	**(64)**	(69)
Net foreign exchange gain	**(193)**	(369)

Note: Included in cost of inventories recognised as an expense is net reversal of allowance on inventories of US$730,000 (2016: write-down of inventories of US$611,000).

7. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2016: seven) directors and chief executive were as follows:

	Executive directors				Independent non-executive directors			
	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
2017								
Fees	–	–	–	–	8	8	8	24
Other emoluments								
Salaries and other benefits	99	40	61	96	–	–	–	296
Bonus	8	–	–	19	–	–	–	27
	107	40	61	115	8	8	8	347
2016								
Fees	–	–	–	–	8	8	8	24
Other emoluments								
Salaries and other benefits	99	164	61	96	–	–	–	420
Bonus	8	14	–	16	–	–	–	38
	107	178	61	112	8	8	8	482

Other benefits represent social welfare and the bonus is determined with reference to the Group's operating results, individual performance of the directors and the comparable market statistics and approved by the Remuneration Committee.

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.

Neither the chief executive nor any of the directors waived any emoluments in the year ended 31 December 2017 (2016: nil).

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2016: four) are executive directors of the Company whose emoluments are included in the disclosure in Note 7 above. The emoluments of the remaining one (2016: one) individual are as follows:

	2017 US$'000	2016 US$'000
Basic salaries and allowances	75	53
Retirement benefits scheme contributions	2	2
	77	55

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2017 and 2016.

9. TAX EXPENSE

	2017 US$'000	2016 US$'000
Current tax:		
Hong Kong Profits Tax	27	30
PRC Enterprise Income Tax	163	322
	190	352
Overprovision in prior years:		
Hong Kong Profits Tax	–	(1)
	190	351

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.

9. TAX EXPENSE *(Continued)*

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 21.

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

	2017	2016
	US$'000	US$'000
Profit before tax	**773**	579
Tax at the domestic income tax rate of 25% (Note)	**193**	145
Tax effect of share of profit of an associate	**(4)**	(6)
Tax effect of expenses not deductible for tax purposes	**332**	944
Tax effect of income not taxable for tax purposes	**(1,250)**	(992)
Tax effect of deductible temporary differences not recognised	**595**	–
Overprovision in respect of prior year	**–**	(1)
Tax effect of tax losses not recognised	**343**	266
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(19)**	(5)
Tax charge for the year	**190**	351

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

10. DIVIDENDS

	2017 US$'000	2016 US$'000
Dividends recognised as a distribution during the year:		
2017 interim – 2.0 HK cents (2016: 1.0 HK cents) per share	**1,886**	943
2016 final – 1.0 HK cents (2016: 2015 final dividend 1.0 HK cents) per share	**942**	942
	2,828	1,885

A final dividend of 2.0 HK cents per share in respect of the year ended 31 December 2017 (2016: 1.0 HK cents) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of US$583,000 (2016: US$228,000) and on the number of ordinary shares of 730,650,000 (2016: 730,650,000) in issue during the year.

There are no potential ordinary shares outstanding for each of the two years ended 31 December 2017 and 2016.

12. 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 2016	37,828	–	1,783	119,162	26,670	721	186,164
Exchange adjustments	(2,735)	(3)	(125)	(7,216)	(1,929)	(27)	(12,035)
Additions	–	68	–	1,896	416	39	2,419
Disposals	–	–	–	(1,123)	(9)	–	(1,132)
Revaluation	2,466	–	–	–	–	–	2,466
At 31 December 2016	37,559	65	1,658	112,719	25,148	733	177,882
Exchange adjustments	1,644	1	69	3,940	1,104	23	6,781
Additions	–	–	84	123	560	–	767
Disposals	–	–	(51)	(5,308)	(27)	(95)	(5,481)
Transfers	–	(66)	–	66	–	–	–
Revaluation	1,059	–	–	–	–	–	1,059
At 31 December 2017	40,262	–	1,760	111,540	26,785	661	181,008
Comprising:							
At cost	–	–	1,760	111,540	26,785	661	140,746
At valuation – 2017	40,262	–	–	–	–	–	40,262
	40,262	–	1,760	111,540	26,785	661	181,008
ACCUMULATED DEPRECIATION							
At 1 January 2016	–	–	1,750	109,277	22,867	714	134,608
Exchange adjustments	(26)	–	(125)	(6,820)	(1,480)	(42)	(8,493)
Provided for the year	617	–	10	1,009	207	15	1,858
Eliminated on disposals	–	–	–	(1,010)	(9)	–	(1,019)
Eliminated on revaluation	(591)	–	–	–	–	–	(591)
At 31 December 2016	–	–	1,635	102,456	21,585	687	126,363
Exchange adjustments	15	–	69	3,730	862	18	4,694
Provided for the year	603	–	17	713	638	–	1,971
Eliminated on disposals	–	–	(28)	(4,723)	(27)	(95)	(4,873)
Eliminated on revaluation	(618)	–	–	–	–	–	(618)
At 31 December 2017	–	–	1,693	102,176	23,058	610	127,537
CARRYING VALUES							
At 31 December 2017	40,262	–	67	9,364	3,727	51	53,471
At 31 December 2016	37,559	65	23	10,263	3,563	46	51,519

12. 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	10% – 20%
Furniture, fixtures and equipment	20% – 33$^1/_3$%
Motor vehicles	20%

All the buildings are erected on land with medium-term land use rights in the PRC.

Certain property, plant and equipment have been fully depreciated but still in use during the years ended 31 December 2017 and 2016.

Fair value measurement and valuation process of the Group's buildings

The buildings were revalued at 31 December 2017 and 31 December 2016 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 Hong Kong Institute of Surveyors. The valuation was arrived at by reference to current construction costs of similar buildings less allowance of accrued depreciation. The senior management reports the valuation findings to the board of directors every year to explain the cause of fluctuations in the fair value of the assets. There has been no change to the valuation technique during the year.

In estimating the fair value of the buildings, the highest and best use of the buildings is their current use.

One of the key unobservable input used in valuing the buildings was the construction cost which ranged from Renminbi ("RMB") 500 to RMB1,500 (2016: RMB500 to RMB1,400) per square metre. An increase in the construction cost per square metre used would result in an increase in the fair value measurement of the buildings, and vice versa.

Another key unobservable input used in valuing the building was the remaining useful lives of the buildings, which ranged from 26 to 30 years. An increase in the remaining useful lives of buildings would result in an increase in the fair value measurement of the buildings, and vice versa.

The buildings measured at fair value fell within the Level 3 category. There was no transfer into or out of Level 3 during the year.

A revaluation increase of US$1,677,000 (2016: US$3,057,000) has been recorded directly to properties revaluation reserve for the year ended 31 December 2017.

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$20,524,000 (2016: US$21,127,000).

13. PREPAID LEASE PAYMENTS

	2017 US$'000	2016 US$'000
Analysed for reporting purpose as:		
Current assets	**171**	164
Non-current assets	**4,618**	4,594
	4,789	4,758

14. INTEREST IN AN ASSOCIATE

	2017 US$'000	2016 US$'000
Cost of unlisted investment in an associate	**400**	400
Share of post-acquisition profits, net of dividends received	**226**	211
	626	611

Particulars of the Group's associate at 31 December 2017 and 2016 are as follows:

Name of associate	Form of entity	Place of incorporation	Principal place of operation	Issued and fully paid share capital	Proportion of ownership interest and voting power held by the Group	Principal activities
Hi-Tech Pacific Limited	Private limited company	British Virgin Islands	PRC	Ordinary US$1,000,000	40%	Investment holding in companies engaging in manufacturing and sale of footwear materials

The associate is accounted for using the equity method in these consolidated financial statements.

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

The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

14. INTEREST IN AN ASSOCIATE *(Continued)*

	2017 US$'000	2016 US$'000
Current assets	**1,665**	1,854
Non-current assets	**27**	31
Current liabilities	**128**	358
Revenue	**4,317**	3,678
Profit for the year and total comprehensive income	**37**	59

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 US$'000	2016 US$'000
Equity attributable to owners of the associate	**1,564**	1,527
Proportion of the Group's ownership and carrying amount of the Group's 40% interest in the associate	**626**	611

15. INVENTORIES

	2017 US$'000	2016 US$'000
Raw materials	**4,263**	5,831
Work in progress	**4,242**	3,312
Finished goods	**1,148**	5,429
	9,653	14,572

16. TRADE AND OTHER RECEIVABLES

	2017 US$'000	2016 US$'000
Trade receivables	**5,842**	7,583
Other receivables	**839**	1,168
Total trade and other receivables	**6,681**	8,751

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:

	2017 US$'000	2016 US$'000
0 – 30 days	**4,645**	6,862
31 – 60 days	**1,196**	716
Over 60 days	**1**	5
Total trade receivables	**5,842**	7,583

16. 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. 99.9% (2016: 99.9%) of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of US$1,000 (2016: US$5,000) which are past due at the end of the reporting period 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

	2017	2016
	US$'000	US$'000
Over 121 days	**1**	5

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	US$'000	US$'000
Held for trading investments:		
Equity securities listed in Hong Kong	**743**	552
Financial assets designated as at FVTPL:		
Financial product issued by a bank (Note)	**–**	725
	743	1,277

Note: On 31 August 2016, the Group bought a principal-protected and interest yielding financial product with a principal sum of RMB5,000,000 (equivalent to approximately US$725,000) from a bank. The investment was a principal-protected yield enhancement bank deposit and contained an embedded derivative, which represented the returns varying with the underlying investment portfolio of the financial product and comprised primarily of debt instrument products including government and corporate bonds. The principal amount together with the investment return were redeemable for every seven days and therefore, the amount was classified as current assets as at 31 December 2016.

The management considered the amount paid for the financial product approximated its fair value at the end of the reporting period.

The financial product was fully redeemed in cash in March 2017.

18. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at market interest rates, ranging from 0.01% to 1.90% (2016: 0.01% to 1%) per annum.

19. TRADE AND OTHER PAYABLES

	2017 US$'000	2016 US$'000
Trade payables	**3,172**	3,331
Accrued payroll	**2,134**	2,476
Accrued expenses	**503**	635
Provision for housing provident fund (Note 25)	**2,378**	–
Others	**1,366**	1,613
	9,553	8,055

The following is an analysis of trade payables by age presented based on the invoice date at the end of the reporting period:

	2017 US$'000	2016 US$'000
0 – 30 days	**1,557**	2,569
31 – 60 days	**542**	239
Over 60 days	**1,073**	523
Total trade payables	**3,172**	3,331

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.

20. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount US$'000
Authorised		
Ordinary shares of Hong Kong dollar ("HK$") 0.10 each		
At 1 January 2016, 31 December 2016 and 31 December 2017	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each (Note)		
At 1 January 2016, 31 December 2016 and 31 December 2017	150	15,000
		34,355

	Number of shares		Amount	
	2017 '000	2016 '000	**2017 US$'000**	2016 US$'000
Issued and fully paid				
Ordinary shares of HK$0.10 each	**730,650**	730,650	**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 for the year ended 31 December 2016 and 31 December 2017.

21. DEFERRED TAXATION

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

	Revaluation of buildings in the PRC
	US$'000
At 1 January 2016	2,936
Charge to other comprehensive income	764
Exchange differences	(212)
At 31 December 2016	3,488
Charge to other comprehensive income	419
Exchange differences	153
At 31 December 2017	4,060

At 31 December 2017, the Group had unused tax losses of US$10,686,000 (2016: US$12,513,000) and deductible temporary difference of US$2,378,000 (2016: nil) available for offset against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately US$8,085,000 (2016: US$9,912,000) that will expire in 2018 to 2023 (2016: 2017 to 2022). 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.

22. OPERATING LEASE COMMITMENTS

The Group as lessee

	2017	2016
	US$'000	US$'000
Minimum lease payments paid by the Group under operating leases during the year	270	265

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:

	2017	2016
	US$'000	US$'000
Within one year	135	216
In the second to fifth year inclusive	452	510
Over five years	937	832
	1,524	1,558

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

23. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme, 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 specified percentage of 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.

The total expenses recognised in profit or loss of US$3,274,000 (2016: US$4,518,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

24. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	2017 **US$'000**	2016 US$'000
Short term benefits	**567**	668
Post-employment benefits	**2**	2
	569	670

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

25. CONTINGENT LIABILITIES

During the year ended 31 December 2017, claims against a subsidiary of the Group in respect of housing provident fund were initiated by the employees of this subsidiary, and the Group has lodged appeals against these claims. Up to the date of this report, part of the claims are still under process while certain appeals are still under review by the court. While the ultimate outcome of these claims and legal proceedings cannot presently be reliably estimated, after considering the advice from legal advisor and based on the current facts and circumstances, provision for housing provident fund of approximately US$2,378,000 (2016: nil) has been made in profit or loss and the directors of the Company believe that adequate provisions has been made in the Group's consolidated financial statements for the year ended 31 December 2017.

26. 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 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 each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts.

27. FINANCIAL INSTRUMENTS

27a. Categories of financial instruments

	2017 US$'000	2016 US$'000
Financial assets		
FVTPL		
– held for trading investments	**743**	552
– financial assets designated as at FVTPL	**–**	725
Loans and receivables (including cash and cash equivalents)	**30,846**	22,304
Financial liabilities		
Amortised cost	**4,522**	4,794

27b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in 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 risk or the manner in which it manages and measures the risks.

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group has certain amounts due from and to group companies, trade and other receivables, bank balances and trade and other payables that are denominated in foreign currencies of the relevant group entities.

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currencies denominated monetary assets and monetary liabilities other than the functional currency of the relevant group entities are as follows:

	2017	2016
	US$'000	US$'000
Current assets		
US$	**11,122**	9,306
HK$	**262**	228
Current liabilities		
US$	**945**	589
HK$	**750**	574
Non-current intragroup balance that forms part of net investment		
US$	**82,291**	82,291

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

A positive number below indicates an increase in the Group's profit where US$ 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$ strengthens by 5% against RMB. If US$ 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.

	2017	2016
	US$'000	US$'000
Profit or loss	**363**	314
Translation reserve	**(4,115)**	(4,115)

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

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits (see Note 18 for details). The Group continues to monitor the exposure on cash flow interest rate risk and will consider hedging the interest rate should the need arise.

In the management's opinion, the Group does not have material interest rate risk exposure and hence no sensitivity analysis is presented.

(iii) Price risk

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

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. Financial risk management objectives and policies *(Continued)*

Credit risk

At 31 December 2017 and 2016, 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 99% (2016: 99%) of the Group's total trade receivables as at 31 December 2017.

The Group has concentration of credit risk by customer as 87% (2016: 76%) and 99% (2016: 89%) 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 the 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. All the financial liabilities at the end of the reporting period are non-interest bearing and payable on demand.

27. FINANCIAL INSTRUMENTS *(Continued)*

27c. Fair value measurements of financial instruments

Fair value of financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31 December		Fair value hierarchy	Valuation technique(s) and key input(s)
	2017 **US$'000**	2016 US$'000		
Listed equity securities classified as held for trading investments	**743**	552	Level 1	Quoted bid prices in an active market
Financial product issued by a bank classified as financial assets designated as at FVTPL	**–**	725	Level 2	Redemption price from the bank

There were no transfers between Level 1 and 2 during the year.

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

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable **US$'000**
At 1 January 2017	**–**
Non-cash changes	
Dividend recognised as distribution (Note 10)	**2,828**
Financing cash flows	**(2,828)**
At 31 December 2017	**–**

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 US$'000	2016 US$'000
Non-current Assets		
Investments in subsidiaries	**26,465**	26,465
Amount due from a subsidiary	**8,000**	8,000
	34,465	34,465
Current Assets		
Amount due from a subsidiary	**8,882**	11,959
Dividend receivables	**31,000**	27,000
Other receivables	**211**	211
Bank balances	**5**	5
	40,098	39,175
Current Liabilities		
Other payables	**106**	106
Amounts due to subsidiaries	**23,171**	22,379
	23,277	22,485
Net current assets	**16,821**	16,690
	51,286	51,155
Capital and reserves		
Share capital	**9,428**	9,428
Reserves (Note)	**41,858**	41,727
	51,286	51,155

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Note:

Movement in the Company's reserves

	Share premium US$'000	Contributed surplus US$'000	Retained profits US$'000	Total US$'000
At 1 January 2016	21,637	19,486	1,527	42,650
Profit for the year	–	–	962	962
Dividends recognised as distribution (Note 10)	–	–	(1,885)	(1,885)
At 31 December 2016	21,637	19,486	604	41,727
Profit for the year	–	–	2,959	2,959
Dividends recognised as distribution (Note 10)	–	–	(2,828)	(2,828)
At 31 December 2017	21,637	19,486	735	41,858

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.

30. DETAILS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2017 and 2016 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	
Pegasus Marketing Services Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100%	–	Inactive
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

30. DETAILS OF 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	
Topstair International (H.K.) Company Limited	Hong Kong	Ordinary HK$10,000	-	100%	Provision of administrative services to group companies
Universal Footgear Corporation	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100%	Marketing and trading in footwear
Pacific View Marketing Limited	Hong Kong	Ordinary HK$8	–	100%	Inactive
P&S Marketing Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100%	Inactive
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
廣州市番禺創泰戶外用品有限公司*	PRC	Registered capital US$4,800,000	–	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
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
廣州市昌睿貿易有限公司*	PRC	Registered capital RMB1,000,000	–	100%	Marketing and trading in footwear in the PRC

30. DETAILS OF 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	
廣州市怡秀鞋業有限公司*	PRC	Registered capital RMB500,000	–	100%	Marketing and trading in footwear in the PRC
廣州市豐群鞋業有限公司*	PRC	Registered capital US$10,600,000	–	100%	Manufacture of footwear and footwear materials

* Established in the PRC as a wholly foreign-owned enterprise.

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

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	**2017** **US$'000**
Revenue	75,121	77,579	74,675	79,330	**76,046**
Profit before tax	1,528	1,573	1,332	579	**773**
Tax expense	(160)	(167)	(13)	(351)	**(190)**
Profit for the year	1,368	1,406	1,319	228	**583**

ASSETS AND LIABILITIES

	At 31 December				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	**2017** **US$'000**
Total assets	134,357	131,073	101,233	95,668	**100,671**
Total liabilities	(11,072)	(11,381)	(11,389)	(12,117)	**(14,513)**
Total equity	123,285	119,692	89,844	83,551	**86,158**