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)

INTERIM REPORT 2018 中期報告

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30 2018

	NOTES	Six months ended 30 June **2018** **US$'000** **(unaudited)**	 2017 US$'000 (unaudited)
Revenue	3	**29,773**	44,245
Cost of sales		**(24,338)**	(37,819)
Gross profit		**5,435**	6,426
Other (expense) income, gains and losses, net		**(6,236)**	172
Selling and distribution costs		**(1,174)**	(1,702)
General and administrative expenses		**(3,154)**	(3,901)
Share of result of an associate		**(53)**	3
(Loss) profit before tax	4	**(5,182)**	998
Tax expense	5	**–**	(111)
(Loss) profit for the period attributable to owners of the Company		**(5,182)**	887
Other comprehensive income, net of income tax			
Item that may be reclassified subsequently to profit loss:			
Exchange differences on translating foreign operations		**3,358**	1,054
Total comprehensive (expense) income for the period attributable to owners of the Company		**(1,824)**	1,941
(Loss) earnings per share	7		
– Basic		**(0.71 US cents)**	0.12 US cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	30 June 2018 US$'000 (unaudited)	31 December 2017 US$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**53,946**	53,471
Prepaid lease payments		**4,673**	4,618
Interest in an associate		**572**	626
		59,191	58,715
Current assets			
Inventories		**6,377**	9,653
Trade and other receivables	9	**3,369**	6,681
Prepaid lease payments		**176**	171
Tax recoverable		**8**	14
Financial assets at fair value through profit or loss		**684**	743
Bank balances and cash		**24,613**	24,694
		35,227	41,956
Current liabilities			
Trade and other payables	10	**6,861**	9,553
Tax payable		**923**	900
		7,784	10,453
Net current assets		**27,443**	31,503
		86,634	90,218
Capital and reserves			
Share capital	11	**9,428**	9,428
Share premium and reserves		**73,020**	76,730
Total equity		**82,448**	86,158
Non-current liabilities			
Deferred tax liabilities		**4,186**	4,060
		86,634	90,218

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company						
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Properties revaluation reserve US$'000	Translation reserve US$'000	Retained profits US$'000	Total US$'000
At January 1, 2017 (audited)	9,428	21,637	(4,512)	8,410	10,912	37,676	83,551
Profit for the period	–	–	–	–	–	887	887
Exchange differences on translating foreign operations	–	–	–	–	1,054	–	1,054
Total comprehensive income for the period	–	–	–	–	1,054	887	1,941
Payment of dividends (Note 6)	–	–	–	–	–	(942)	(942)
At June 30, 2017 (unaudited)	9,428	21,637	(4,512)	8,410	11,966	37,621	84,550
At January 1, 2018 (audited)	**9,428**	**21,637**	**(4,512)**	**9,668**	**14,506**	**35,431**	**86,158**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(5,182)**	**(5,182)**
Exchange differences on translating foreign operations	**–**	**–**	**–**	**–**	**3,358**	**–**	**3,358**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**3,358**	**(5,182)**	**(1,824)**
Payment of dividends (Note 6)	**–**	**–**	**–**	**–**	**–**	**(1,886)**	**(1,886)**
At June 30, 2018 (unaudited)	**9,428**	**21,637**	**(4,512)**	**9,668**	**17,864**	**28,363**	**82,448**

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended June 30,	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**1,793**	13,131
INVESTING ACTIVITIES		
Interest received	**76**	10
Purchase of property, plant and equipment	**(14)**	(450)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**62**	(440)
CASH USED IN A FINANCING ACTIVITY		
Dividends paid	**(1,886)**	(942)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(31)**	11,749
CASH AND CASH EQUIVALENTS AT JANUARY 1	**24,694**	14,163
Effect of foreign exchange rate changes	**(50)**	–
CASH AND CASH EQUIVALENTS AT JUNE 30 REPRESENTED BY BANK BALANCES AND CASH	**24,613**	25,912

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies on application of HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from manufacture and sales of footwear products at a point in time.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies on application of HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Under HKFRS 15, revenue from manufacture and sales of footwear products is recognised at a point in time when the customer obtains control of the distinct goods.

The Group has performed an assessment on the impact of the adoption of HKFRS 15 and concluded that there is no material financial impact on the timing and amounts of revenue recognised in prior and current periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL")

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. The application of HKFRS 9 has no impact in the classification and measurement on the Group's financial assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" *(Continued)*

Impairment under ECL model

The Group assesses for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, financial assets at fair value through profit or loss, bank balances and cash). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" *(Continued)*

Impairment under ECL model *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" *(Continued)*

Impairment under ECL model *(Continued)*

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has individually assessed that it has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and have concluded that no material financial impact exists, and therefore no adjustment to the opening retained profits at 1 January 2018 has been recognised.

3. 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 six months ended 30 June 2018

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	**12,934**	**10,400**	**5,285**	**1,154**	**29,773**
RESULTS					
Segment results	**2,357**	**1,861**	**967**	**213**	**5,398**
Unallocated income, gains and losses					**239**
Interest income					**76**
Unallocated expenses					**(10,842)**
Share of loss of an associate					**(53)**
Loss for the period					**(5,182)**

3. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the six months ended 30 June 2017

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	29,271	7,827	5,930	1,217	44,245
RESULTS					
Segment results	4,761	782	725	122	6,390
Unallocated income, gains and losses					162
Interest income					10
Unallocated expenses					(5,567)
Share of profit of an associate					3
Profit before tax					998
Tax expense					(111)
Profit for the period					887

4. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
(Loss) profit for the period has been arrived at after charging:		
Auditor's remuneration	**116**	77
Cost of inventories recognised as an expense (Note)	**29,986**	37,819
Depreciation of property, plant and equipment	**1,102**	1,064
Release of prepaid lease payments	**90**	83
and after charging (crediting) to other income, gains and losses:		
Loss on disposal of property, plant and equipment	**–**	480
Redundancy costs	**6,717**	–
Loss (gain) on fair value changes of held for trading investments	**59**	(94)

Note: Included in cost of inventories recognised as an expense for the six months ended 30 June 2018 was allowance of inventories of US$1,069,000 (six months ended 30 June 2017: nil).

5. TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Current tax:		
People's Republic of China ("PRC")		
Enterprise Income Tax	–	111

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

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

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

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

6. DIVIDENDS

During the current interim period, a final dividend of 2.0 HK cents per share in respect of the year ended 31 December 2017 (2017: 1.0 HK cent per share in respect of the year ended 31 December 2016) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to US$1,886,000 (six months ended 30 June 2017: US$942,000).

The directors of the Company have determined that no dividend will be paid in respect of the interim period.

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the (loss) profit for the period attributable to owners of the Company of US$5,182,000 (six months ended 30 June 2017: profit for the period attributable to owners of the Company of US$887,000) and on the number of ordinary shares of 730,650,000 (2017: 730,650,000) in issue during the period.

There are no potential ordinary shares outstanding for six months ended 30 June 2018 and 2017.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of US$14,000 (six months ended 30 June 2017: US$450,000).

The directors of the Company are of the opinion that the carrying value of the Group's buildings included in property, plant and equipment as at 30 June 2018 are not materially different from their fair values at 31 December 2017. Accordingly, no valuation movement has been recognised in respect of the Group's buildings included in property, plant and equipment for the period.

9. TRADE AND OTHER RECEIVABLES

	30 June 2018 US$'000 (unaudited)	31 December 2017 US$'000 (audited)
Trade receivables	**2,264**	5,842
Other receivables	**1,105**	839
Total trade and other receivables	**3,369**	6,681

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:

	30 June 2018 US$'000 (unaudited)	31 December 2017 US$'000 (audited)
0 – 30 days	**2,009**	4,645
31 – 60 days	**255**	1,196
Over 60 days	**–**	1
Total trade receivables	**2,264**	5,842

10. TRADE AND OTHER PAYABLES

	30 June 2018 US$'000 (unaudited)	31 December 2017 US$'000 (audited)
Trade payables	**1,681**	3,172
Accrued payroll	**1,018**	2,134
Accrued expenses	**422**	503
Provision for housing provident fund (Note 12)	**2,378**	2,378
Others	**1,362**	1,366
	6,861	9,553

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

	30 June 2018 US$'000 (unaudited)	31 December 2017 US$'000 (audited)
0 – 30 days	**746**	1,557
31 – 60 days	**41**	542
Over 60 days	**894**	1,073
Total trade payables	**1,681**	3,172

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.

11. SHARE CAPITAL

	Number of shares	Amount US$'000
Authorised:		
Ordinary shares of Hong Kong dollar ("HK$") 0.10 each		
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each (Note)		
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	150	15,000
		34,355

	Number of shares		Amount	
	30 June 2018 '000	31 December 2017 '000	**30 June 2018 US$'000**	31 December 2017 US$'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 six months ended 30 June 2018 and year ended 31 December 2017.

12. CONTINGENT LIABILITIES

During the year ended 31 December 2017 and the six months period ended 30 June 2018, 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 current facts and circumstances, provision for housing provident fund of approximately US$2,378,000 had been made in profit or loss for the year ended 31 December 2017 and the directors of the Company believe that adequate provisions has been made in the Group's condensed consolidated financial statements as at 30 June 2018.

13. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's 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), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value 30 June 2018 US$'000 (unaudited)	 31 December 2017 US$'000 (audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Listed equity securities classified as held for trading investments	**684**	743	Level 1	Quoted bid prices in an active market

There were no transfers between Level 1 and 2 during the current interim period.

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

14. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the current interim period, the Group's largest customer and the directors of the Company have reached a commercial consensus that they will no longer continue their business relationship with effect from September 2018. Details are set out in the Company's announcement dated 18 July 2018.

FINANCIAL REVIEW

During the six months ended 30 June 2018, the Group continued to concentrate on the manufacture and sales of footwear products. For the six months ended 30 June 2018, the Group achieved a turnover of US$29,773,000 (six months ended 30 June 2017: US$44,245,000) compared with the six months ended 30 June 2017, the turnover decreased by 32.7%.

Loss before taxation of the Group for the six months ended 30 June 2018 was US$5,182,000 (six months ended 30 June 2017: profit before tax US$998,000).

Basic loss per share for the six months ended 30 June 2018 was 0.71 US cents (six months ended 30 June 2017: basic earnings per share 0.12 US cents). The gross profit margin is 18.3% during the current period.

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

In the first half of 2018, the escalating trade war exerted a profound impact on the global economy. As a manufacturer and exporter in China, the Group took the full brunt as clients inevitably adjusted their global procurement strategies. We have proactively negotiated with all clients, but considering the future of the market and the rising costs in China, the Group's largest customer and we have reached a commercial consensus that we will no longer continue our business relationship in later time of the year.

FUTURE PROSPECTS

Despite the significant impacts of the decision on the Group, we are confident that we can overcome the challenges facing us as the Group possesses sufficient financial resources to meet operational needs thanks to our always robust strategy. The Group will continue our normal business operation of the production business and maintain close communication and cooperation with other clients. It will also proactively explore every opportunity to expand sources of income from different platforms in an attempt to provide new driver for the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's total net assets was US$82,448,000, comprising mainly current assets of US$35,227,000, non-current assets of US$59,191,000, current liabilities of US$7,784,000 and non-current liability of US$4,186,000. The current ratio was approximately 4.5 times and net bank balances and cash of US$24,613,000 was recorded as at 30 June 2018. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2018, the interests of the directors and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinances (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers, were as follows:

Long positions

(a) *Ordinary shares of HK$0.10 each of the Company*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wu Jenn Chang, Michael	Beneficial owner	8,000,000	1.09%
Wu Jenn Tzong, Jackson	Beneficial owner	1,000,000	0.14%
		9,000,000	1.23%

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Long positions *(Continued)*

(b) Ordinary shares of the associated corporations of the Company

Pegasus Footgear Management Limited (note 1)

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 and Corporate (note 2)	6,470	32%
Wu Jenn Chang, Michael	Corporate (note 3)	6,470	32%
Wu Jenn Tzong, Jackson	Corporate (note 4)	6,470	32%
		19,410	96%

Notes:

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

2. 3,235 shares are jointly held by Mr. Wu Chen San, Thomas and Mrs. Peggy Wu, the spouse of Mr. Wu Chen San, Thomas, and 3,235 shares are held by Skyplus Limited, a company owned by Mrs. Peggy Wu.

3. The shares are entirely held by MW Investment Limited, a company owned by Mr. Wu Jenn Chang, Michael.

4. The shares are entirely held by JW Investment Limited, a company owned by Mr. Wu Jenn Tzong, Jackson.

Save as disclosed above, at 30 June 2018, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' Interests in Shares", the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Long position

Ordinary shares of HK$0.10 each of the Company

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

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 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2018.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exact than the required standard set out in Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

AUDIT COMMITTEE

The audit committee of the Board has reviewed, with management of the Company, the Group's unaudited condensed consolidated financial information for the six months ended 30 June 2018, the interim report, the accounting principles and practices adopted by the Group and has discussed risk management, internal controls, and financial reporting matters.

By Order of the Board
Pegasus International Holdings Limited
Wu Chen San, Thomas
Chairman

Hong Kong, 28 August 2018