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 2018 年報**

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# CORPORATE INFORMATION

| | |
|---|---|
| **DIRECTORS** | |
| **Executive Directors** | Wu Chen San, Thomas<br>Wu Jenn Chang, Michael<br>Wu Jenn Tzong, Jackson<br>Ho Chin Fa, Steven |
| **Independent Non-Executive Directors** | Huang Hung Ching<br>Liu Chung Kang, Helios<br>Lai Jenn Yang, Jeffrey |
| **COMPANY SECRETARY** | Lee Yiu Ming |
| **AUDIT COMMITTEE** | Huang Hung Ching, Chairman<br>Liu Chung Kang, Helios<br>Lai Jenn Yang, Jeffrey |
| **REMUNERATION COMMITTEE** | Lai Jenn Yang, Jeffrey, Chairman<br>Huang Hung Ching<br>Liu Chung Kang, Helios |
| **NOMINATION COMMITTEE** | Liu Chung Kang, Helios, Chairman<br>Lai Jenn Yang, Jeffrey<br>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<br>35th Floor, One Pacific Place, 88 Queensway, Hong Kong |
| **PRINCIPAL SHARE REGISTRARS** | Butterfield Corporate Services Limited<br>26 Burnaby Street, Hamilton HM11, Bermuda |
| **HONG KONG BRANCH SHARE REGISTRARS** | Tricor Secretaries Limited<br>Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong |
| **STOCK CODE** | 676 |
| **PRINCIPAL BANKERS** | China Construction Bank<br>Chinatrust Commercial Bank, Ltd<br>Hang Seng Bank Limited<br>Standard Chartered Bank (Hong Kong) Limited |
| **WEBSITE** | http://www.pegasusinternationalholdings.com |

# CHAIRMAN'S STATEMENT

## BUSINESS REVIEW AND PROSPECTS

For the entire export manufacturing industry in China, 2018 was the toughest and the jerkiest year in recent decade. Through nearly 12 months of trade negotiation with the United States, a consensus has yet to be reached until today, while other European countries are also showing signs of joining the force one after another, whereby new trade protectionist barriers are gradually emerging. Under the uncertainty of a growing list of new tariff-imposed products, customers also tend to remain conservative in supplier selection, and the locality of manufacturer has become a key considering factor.

As stated in our announcement last year, the Group and its largest customer had reached a commercial consensus that the business relationship would no longer continue since September last year, which undoubtedly had caused significant impact on our operation. As such, the Group made corresponding adjustments to our operation and carried out a series of staff integration in stages in the second half year to enhance efficiency. This had enabled the Group to continue our normal production business and improved our competitive strengths, and at the same time maintained a good communication and cooperation relationship with our existing clients. On the other hand, the Group will also try to pool our potentials together and leverage our own advantages in assets and healthy financial position to explore different business development opportunities.

## 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, 28 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

During the year ended 31 December 2018, the Group continued to concentrate on the manufacture and sales of footwear products. For the year ended 31 December 2018, the Group recorded a turnover of US$38,965,000 (2017: US$76,046,000) representing 48.8% decrease comparing to 2017.

Loss before taxation of the Group for the year ended 31 December 2018 was US$15,362,000 (2017: profit before taxation was US$773,000), a decrease of US$16,135,000 as compared to the corresponding period in 2017. After accounting for income taxes credit of US$96,000 (2017: tax expense of US$190,000), resulted a loss after taxation of US$15,266,000 (2017: profit after taxation of US$583,000). Basic loss per share for the year ended 31 December 2018 was 2.09 US cents (2017: Basic earnings per share was 0.08 US cents). Gross profit margin decreased to 13.1% 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 2018, the Group had cash and cash equivalent of US$19,441,000 (2017: US$24,694,000). As at 31 December 2018, the Group’s solid financial liquidity position was reflected by a healthy current ratio of 3.7 (2017: 4.0) times.

## CAPITAL EXPENDITURE

For the year ended 31 December 2018, the Group incurred US$39,000 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 2018.

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 57. 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 directors and whose associates, have no material interests in the transaction, should be present at such board meeting. | Yes | The Company will continue to ensure that such matters that require board meetings be held instead of by way of circulation. |
| **A.1.8** | | |
| An issuer should arrange appropriate insurance cover in respect of legal action against its directors. | Yes | All directors are covered by insurance in respect of legal action against them. |

### A.2 Chairman and Chief Executive

**Principle**

There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

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

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

## A. DIRECTORS (CONTINUED)

### A.2 Chairman and Chief Executive (continued)

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

| Code Provisions | Compliance | Actions by the Company |
|---|---|---|
| **A.2.1** | | |
| The roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. | Yes | Division of responsibilities between the Chairman and the Managing Director is clearly defined and set out in writing. Chairman and Managing Director are served by different persons. |
| **A.2.2 & A.2.3** | | |
| The chairman should ensure that all directors are properly briefed on issues arising at board meetings and they receive adequate information in a timely manner. | Yes | The Chairman has a clear responsibility to ensure all the directors are properly briefed and given accurate information. |
| **A.2.4** | | |
| One of the important roles of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner. The chairman should be primarily responsible for drawing up and approving the agenda for each board meeting. He should take into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate this responsibility to a designated director or the company secretary. | Yes | The Chairman has a clear responsibility to ensure the Board works effectively and perform responsibilities. The Chairman works with the company secretary in drawing up the agenda for each board meeting. |

## A. DIRECTORS (CONTINUED)

### A.2 Chairman and Chief Executive (continued)

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

## A. DIRECTORS (CONTINUED)

### A.3 Board composition

**Principle**

The board should have a balance of skills and experience and diversity of perspectives 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 and diversity of perspectives 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 non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be re-elected. | Yes | 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 non-executive directors. |
| **A.5.2** | | |
| The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties. It should perform the following duties:<br>(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;<br>(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;<br>(c) assess the independence of independent non-executive directors; and<br>(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:<br>– bring an independent judgement at the board meeting;<br>– take the lead where potential conflicts of interests arise;<br>– serve on the audit, remuneration, nomination and other governance committees, if invited; and<br>– 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: |
| **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. |

Training provided to each director (A.6.5):

| 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. 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.<br><br>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 | 8 |
| US100,001 to US$200,000 | 1 |

## C. ACCOUNTABILITY AND AUDIT

### C.1 Financial Reporting

**Principle**

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

| Code Provisions | Compliance | Actions by the Company |
|---|---|---|
| **C.1.1** | | |
| Management should provide such explanation and information to the board to enable it to make an informed assessment of the financial and other information put before it for approval. | Yes | Management is required to provide detailed report and explanation to enable the Board to make an informed assessment before approval. |
| **C.1.2** | | |
| Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. | Yes | Monthly update has been provided to all directors, discussion will be made if necessary. |
| **C.1.3** | | |
| The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. | Yes | Company's directors and auditors state their respective responsibilities on page 65–70 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.<br><br>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:<br>(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;<br>(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;<br>(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;<br>(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<br>(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:<br>(a) the process used to identify, evaluate and manage significant risks;<br>(b) the main features of the risk management and internal control systems;<br>(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;<br>(d) the process used to review the effectiveness of the risk management and internal control systems; and<br>(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 two 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:<br>– review of relationship with the issuer's auditors;<br>– review of financial information of the issuer; and<br>– 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.<br><br>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:<br>(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<br>(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:<br>– establishing strategic development and direction of the Company;<br>– setting up the objective of management;<br>– monitoring performance of management; and<br>– 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:<br>(a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board;<br>(b) to review and monitor the training and continuous professional development of directors and senior management;<br>(c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements;<br>(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and<br>(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**<br>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**<br>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.1.5**<br>The issuer should have a policy on payment of dividends and should disclose at in the annual report | Yes | Details of the dividend policy as below. |

***Dividend Policy***

The Board may recommend a payment of dividends after considering the Group's financial position, market condition, shareholders' interest, distributable reserves and any other conditions that the Board consider relevant. In case of recommendation of the final dividend, separate resolution will be proposed in the AGM for the approval of the shareholders.

The amount of dividends the Company has declared and made in previous years are not indicative of the dividends that may pay in the future.

### 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**<br>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 2018, 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 | 1,318 |
| Taxation services | 55 |
| Internal control review services | 79 |
| | 1,452 |

## 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.

## 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 *2018 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.

The reporting period of this report shall cover the date from 1 January 2018 to 31 December 2018.

## STAKEHOLDER ENGAGEMENT

The Group understands that its ESG objectives have to involve all of its stakeholders in order to effectively achieve its set goals. 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 table below presents our communication methods with our stakeholders.

| Internal Stakeholders | External Stakeholders | Engagement methods: |
|---|---|---|
| • The Board | • Shareholders | • Meetings |
| • Management | • Investors | • Interviews |
| • General Staff | • Customers | • Direct mail and email |
| | • Supplier | • Company website |
| | • Community | • Staff performance appraisals |
| | | • Training and conferences |
| | | • Annual General Meeting |
| | | • Announcements and disclosures |

# ENVIRONMENTAL AND SOCIAL REPORT

## 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, and exhaust gas from our transportation fleet.

*Sources of air emission: factory*

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 continues to work on material improvement every year to reduce the amount of industrial glue usage. We gradually phasing out conventional industrial glues and replacing them into ones with low VOC content. The current industrial glues with a low VOC content is around 60% of industrial glue usage.

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 had not been involved in air emission related non-compliances to the local laws and regulations.

## ENVIRONMENT (CONTINUED)

### Air Emission (continued)

*Sources of air emission: transportation*

In Hong Kong and the Pearl River Delta, key air pollutants are nitrogen oxides (NOx), sulphur oxides (SOx), and respiratory suspended particles (RSP), known as PM. These pollutants tend to be generated by motor vehicles. The Group had such emissions through a company-owned private car and a forklift. Such emissions are tabulated as below:

| Pollutant | Emission (tonnes) |
|---|---|
| NOx | 0.00595 |
| SOx | 0.000260 |
| PM | 0.000442 |

Table 1 Air Emission by Type

### Carbon Emission

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

The Carbon Footprint for the Group based on its Scope 1 and Scope 2 emissions for this reporting year is 8,084.7 tCO2e ("Tonnes of Carbon Dioxide Equivalent"), resulting from a purchased source of electricity and fuel consumption for company vehicles.

The following table records the Group's Scope 1 and Scope 2 carbon emissions.

| | Emission (tonnes) |
|---|---|
| Scope 1 | 45.9 |
| Scope 2 | 8,038.8 |
| Total | 8,084.7 |

Table 2 Carbon Emission by Scope

Compared to last year's carbon emission of 17,756.3 tCO2e, the significant 54.5% drop in carbon emission for this reporting period is due to a reduction in electricity consumption (12,760,000kWh this year versus 28,103,839 kWh last year).

## 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.

*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.

Waste are categorised into hazardous waste and non-hazardous waste. Hazardous waste generated by the Group includes waste glue and ink and their containers. They are 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.

As a result of its comprehensive measures, the Group generated a total of 22.7 tonnes of hazardous waste, 308.4 tonnes of non-hazardous waste, and have consumed a total of 891.8 tonnes paper-based packaging material for finished products (i.e. shoeboxes). The hazardous waste and non-hazardous waste production is reduced by 70% and 37.5% respectively.

## ENVIRONMENT (CONTINUED)

### Waste Management (continued)

*Total Waste Production (continued)*

The following presents a chart to compare waste generated by the Group for this year and the previous year.

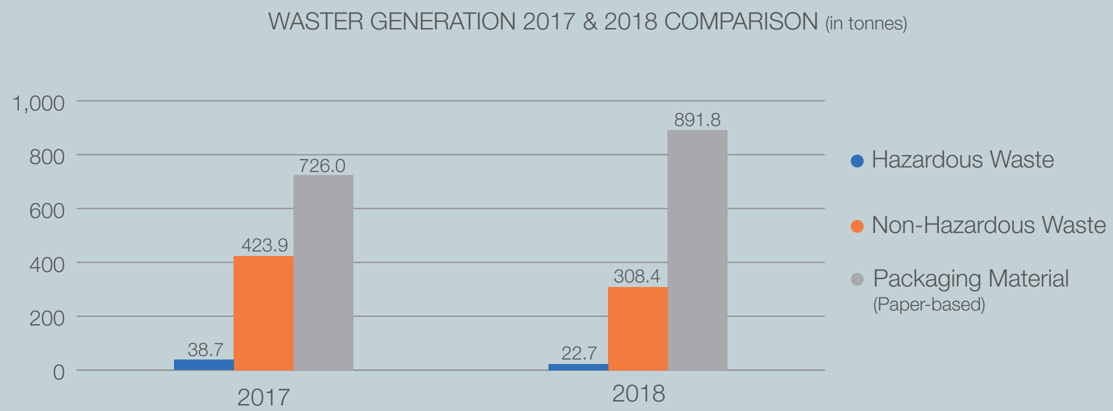



Figure 1 Waste Generation Comparison with the Previous Year's

### Use of Resources and Conservation Practices

To strengthen the company's management on energy and resources consumption, the "Energy and Resources Management Guidelines" was established in 2017. Inspections on energy and resources consumption have been conducted on a daily basis and results were constantly monitored to minimise misuse. 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.

In March 2018, the "Guidelines to Material Requirements Planning" was updated and reviewed. These guidelines involved 12 functioning parties within the Group; and outlined their roles and duties in regards to correct materials purchase procedures to ensure product quality, enhance work efficiency, and reduce material wastage.

## ENVIRONMENT (CONTINUED)

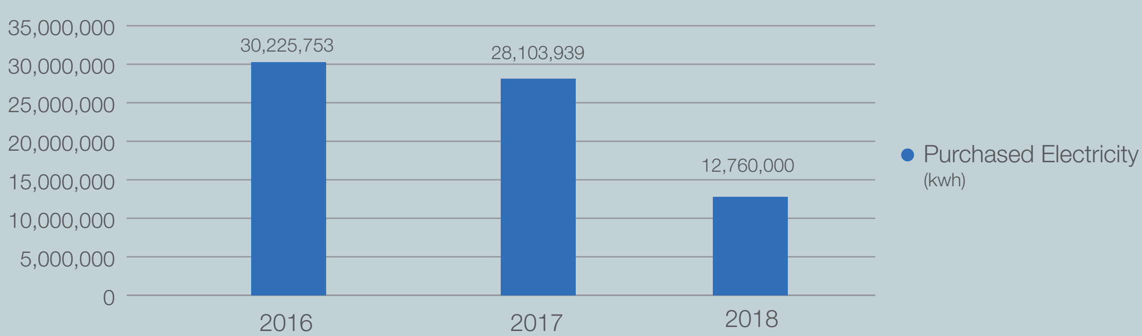
### Use of Resources and Conservation Practices (continued)

*Energy*

12,760,000kWh electricity consumption of the Group this year would still mean a 54.5% reduction per last years. The Group shall utilise this new number as a base case for its annual 5% reduction targets that has been successfully achieved in 2016 and 2017. The energy intensity by electricity consumption is reported at 41.7kWh/HK$1,000 revenue generated in 2018.

As a 3-year recap, the following charts showcase the amount of electricity purchased by the Group since 2016.

PURCHASED ELECTRICITY (kWh) FOR 2016–2018




For better energy saving of our operation machineries, the 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.

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.

The Group would not reduce its efforts in the areas of environmental management and resource conservation that have been in practice. We will always be in place and continued despite business challenges.

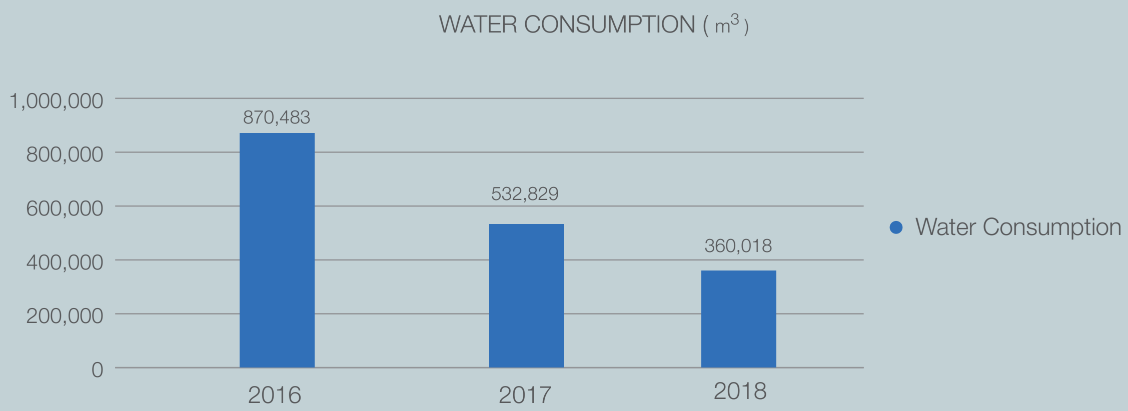
To provide an overview, the energy consumption profile of the Group consisted of a 12,760,000kWh use of electricity, 11,484L of petrol and 5,656Ls of diesel expenditure in 2018.

## ENVIRONMENT (CONTINUED)

### Use of Resources and Conservation Practices (continued)

*Water*

The Group recorded a water consumption of 360,018 $m^3$ throughout 2018. The 32.4% water reduction is still good news to the environment. Similar to the energy consumption reduction, the Group shall review its base case according to its new production volume but remain its water conservation efforts and existing water-saving policy – the "Water Resources Management Policy".




For wastewater, the Group has continued its efforts in reducing the volume of sewage discharged. The "Wastewater Pollution Control Management Guidelines" has been in place for sewage treatment and water recycling management. 60% of water continued to be recycled and repeated on usage before discharge. Black water would then be treated by its installed plant facilities before final discharge if and only if they comply to the strict local emission limits concerning: chemical organic demand (COD), suspended solid (SS), biochemical oxygen demand (BOD), ammonia nitrogen ($NH_3$-N) and phosphate.

In conclusion, the amount of sewage generated for the Group is 78,349 $m^3$ for the year. And the water consumption intensity was at 1.18 $m^3$/ HK$1,000 revenue generated.

## SOCIAL

The Group believes that our employees are the most valuable asset to our business and, We strive to provide within our ability, the best working environment and remuneration to retain talents. During the Year, the Group has worked diligently to comply with applicable employment and labour related laws and regulations.

### Employment and Labour Practices

Continued from the previous years, the Group complies with all applicable laws, regulations and industry standards on employment and labour practices.

Our "Attendance Management Policy", "Leave Policy" and "Payroll and Distribution Guideline" describes matters on working hours, remuneration, employee benefits, holidays and leaves etc. 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 and compensation leave to employees with relevant supporting documents. Furthermore, except for the personal reasons (i.e. marriage, funeral, maternity, injury, etc.), employee has the right to leave upon management approval and it's depended on the production plan and progress. We provide social insurance and housing provident fund accordance with PRC social welfare related regulations to all our employees.

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.

## SOCIAL (CONTINUED)

### 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 the exit interview with the employee who applied for resignation. The employee should complete the work handover and are required to fill in relevant documents which will also be reviewed and submitted to the human resource department for signed off and filing.

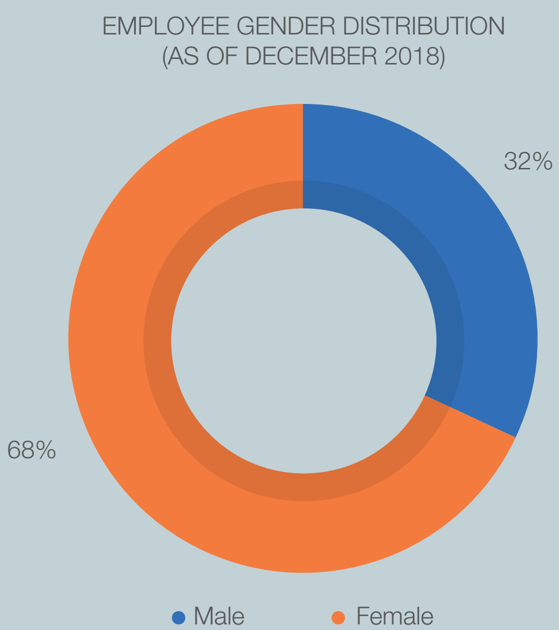
## SOCIAL (CONTINUED)

### Workplace Diversity

Pegasus welcomes candidates from all backgrounds. As of December 2018, the Group has 952 employees under full-time employment. 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 1:2.17 male to female, in comparison to last year's 1:2.6. The following presents data regarding the gender and age distribution of our staff members.

| | Type of Employment | | Gender | | Age Range | | | | |
|---|---|---|---|---|---|---|---|---|---|
| By December 2018 | Full-Time | Part-time | M | F | Below 30 | 30–40 | 40–50 | 50–60 | 60+ |
| | 100% | 0% | 32% | 68% | 3.05% | 15.3% | 70.9% | 10.4% | 0.315% |

Table 3 Pegasus Staff Age Distribution



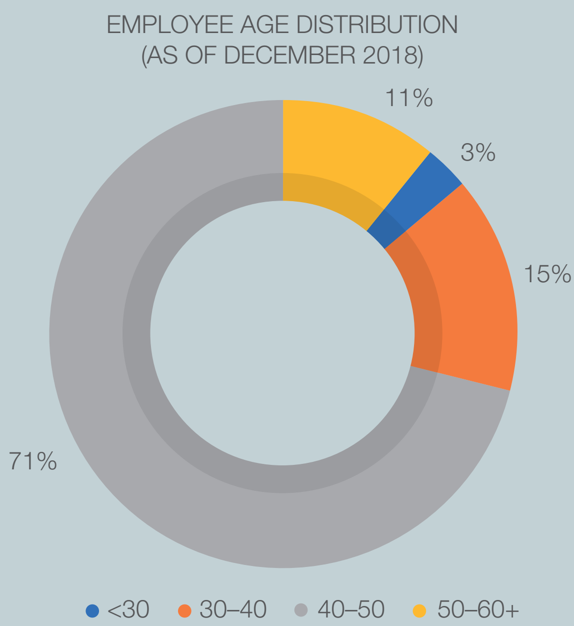




Figure 4&5 Employee Gender and Age Distribution

## 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.

*Provision of Clean and Safety Potable Water*

The group has established the "Potable Water Management Guidelines" and "Water Dispenser Maintenance Guideline" in order to divide duties amongst departments for the purchase and management of water dispenser and the constant monitor of drinking water quality. It is the intention of the management for all our factory employees to be able to access safety drinking water conveniently and at any time during their work hours.

The Group now utilise the opportunity to report on its work injury incidences in 2018 for future reference and improvement. The number of days lost due to work-related injury is 97 days, that is a 48.1% reduction compared to last year's 187 days. The group will continue to improve on its work safety policies to eventually achieve a 0 workplace injury clean record. 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** | 11 | 8 | 3 | 0 | 8 | 3 | 0 | 0 |

Table 4 Work-related Injury Age and Gender Distribution

During 2018, the Group had recorded no work-related fatality as a result of all operation activity.

## SOCIAL (CONTINUED)

### 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 2018, 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.

The Group conducts both internal and external trainings for concerned staff members, departments, and sometimes all of its employees. For internal training, topics include Work at height, Manual Handling, Fire Drill, Catering Facility Management, Traffic Safety, First Aid Training etc. These training courses have been organized for manufacturing staff members at different sections of the production line, staff catering managers, certain factory production units and when required, all of its staff members. The majority of these training courses are targeted at general staff regarding their daily work routines.

For external training, topics include Safe production, Energy Management, Work Place Health Hazards, Environmental Pollution training, Corporate Hygiene Management etc. These training courses have been organized for the Group's CSR department, Engineering department, Securities and General Management. These courses target at middle and senior management sector regarding the Group's performance as a whole.

## 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** | 4,744 | 3,073 | 65% |
| **Female** | 16,427 | 13,675 | 83% |

Table 5. The percentage of employees trained by gender

**Percentage of Employee trained by Employee Category**

| | Total | Attendance | Training Ratio |
|---|---|---|---|
| **Senior Management** | 156 | 143 | 92% |
| **Management** | 953 | 842 | 88% |
| **Staff** | 20,180 | 15,824 | 78% |

Table 6. The percentage of employees trained by employee category

**The Average Training Hours Completed per Employee by Gender**

| | Total Attendance | Training Hours | Total Hours |
|---|---|---|---|
| **Male** | 3,073 | 200 | 9,104 |
| **Female** | 13,675 | 210 | 37,655 |

Table 7. The Average Training Hours completed per Employee by Gender

**The Average Training Hours Completed per Employee by Employee Category**

| | Total Attendance | Training Hours | Total Hours |
|---|---|---|---|
| **Senior Management** | 143 | 214 | 483 |
| **Management** | 842 | 206 | 2,336 |
| **Staff** | 15,842 | 203 | 43,902 |

Table 8. 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 2018, 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 a 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 has always had 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.

## SOCIAL (CONTINUED)

### Supply Chain Management and Product Quality Control (continued)

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.

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.

## SOCIAL (CONTINUED)

### 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.

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 0.03% to 0.08% during 2018, which is controlled within the Group's target in 0.08%.

## SOCIAL (CONTINUED)

### 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 2018, there has been no incident of 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 2018, the Group has actively engaged and supported community events and fundraising activities. Continuing its care for the elderly and its neighbourhood communities, this year the Group reached out to the Taiwanese Charity Association ad donated RMB10,000 in support of their activities. In October, the Group donated RMB15,000 to the community elderly event in the Jiubi village and another RMB20,000 to the Annual Nanshan Charity Association Fundraising event in the same month. The Group has become regular donators and sponsors to these community charity events and have been known for its generous support.

# 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 2018 included in 2018 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 2018 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 2018, 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 2018, 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 2019.

## MEMBERS OF THE AUDIT COMMITTEE

Mr. Huang Hung Ching

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

Hong Kong, 28 March 2019

# BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

Mr. Wu Chen San, Thomas, aged 68, 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 61, 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 63, is responsible for the Group's sourcing functions conducted in Taiwan through the Group's subsidiary, Topstair 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 66, 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 55, 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 61, 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 68, is currently a director of Emo Technology Inc., Ltd. He graduated from Chiao Tung University in Taiwan. He obtained a bachelor degree in Electricity Engineering and a master degree in Management Science. Prior to joining the Company, he had more than 20 years of experience in managing software development.

# BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

Mr. Lee Yiu Ming, aged 54, 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 58, 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 56, 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.

Mr. Hans Wu, aged 29, 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 6 years' experience in footwear manufacturing and product development.

Mr. Calvin Chen, aged 38, 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 7 years' experience in footwear manufacturing and product development.

Mr. Ng Chung Lok, aged 35, 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.

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

## 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 29, 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

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 71 and 72.

## PROPERTY, PLANT AND EQUIPMENT

The buildings of the Group were revalued at 31 December 2018. A revaluation decrease of US$852,000 has been debited directly to the properties revaluation reserve.

Details of movements during the year in the Group's property, plant and equipment are set out in Note 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 2018, the Company's reserves available for distribution to shareholders consisted of retained profits and contributed surplus, totalling US$21,300,000 (2017: US$20,221,000).

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. Wu Chen San, Thomas, Wu Jenn Chang, Michael and Ho Chin Fa, Steven, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

## 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 "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

## DIRECTORS' SERVICE CONTRACTS

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

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 2018, 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 and corporate (note b) | 6,470 | 32% |
| Wu Jenn Chang, Michael | Corporate (note c) | 6,470 | 32% |
| Wu Jenn Tzong, Jackson | Corporate (note d) | 6,470 | 32% |
| | | 19,410 | 96% |

notes:

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

b. 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.

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 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 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 2018, 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 2018.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's largest customer accounted for approximately 87.0% of the Group's total revenue. The five largest customers accounted for approximately 98.7% of the Group's revenue.

For the year ended 31 December 2018, the Group's largest supplier accounted for approximately 26.0% of the Group's total purchases. The five largest suppliers comprised 60.9% 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 2018.

## PRE-EMPTIVE RIGHTS

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

## AUDITOR

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

On behalf of the Board

**Wu Chen San, Thomas**
*CHAIRMAN*
Hong Kong, 28 March 2019

**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 71 to 138, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.<br><br>As disclosed in Note 4 to the consolidated financial statements, the management estimated the fair value of the Group's buildings to be US$36,871,000 at 31 December 2018, with a revaluation decrease of US$852,000 being recognised in properties revaluation reserve for the year ended 31 December 2018.<br><br>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:<br><br>• Evaluating the competence, capabilities and objectivity of the independent external valuer;<br><br>• Understanding the valuer's valuation techniques, key unobservable inputs and assumption adopted in the valuations; and<br><br>• Assessing the reasonableness of property valuation techniques, key unobservable inputs and assumptions adopted by the independent external valuer to entity-specific information and market data. |

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of plant and machinery*** | |
| We identified the impairment assessment of plant and machinery used for manufacture of footwear products as a key audit matter due to the significant judgment involved in the management's impairment assessment process as the Group no longer continued its business relationship with a largest customer during the year ended 31 December 2018.<br><br>As disclosed in Notes 4 and 12 to the consolidated financial statements, the carrying amount of plant and machinery is US$5,879,000 as at 31 December 2018, net of accumulated impairment loss of US$2,549,000. As set out in Note 4 to the consolidated financial statements, in deciding whether the plant and machinery were impaired or not required an estimation of the value in use of the plant and machinery. In estimating the value in use of the plant and machinery, the management of the Group prepared cash flow projection of the manufacture and sales of footwear products business and the key assumptions used included the discount rate, budgeted sales, gross margin and growth rate.<br><br>Based on the management's assessment, an impairment loss on plant and machinery of US$2,549,000 was recognised in profit or loss during the year ended 31 December 2018. | Our procedures in relation to the management's impairment assessment of plant and machinery included:<br><br>• Understanding how the management perform impairment assessment including the estimation of cash flow projection and key assumptions used;<br><br>• Assessing and challenging the management's key assumptions and estimates, which include the budgeted sales, gross margin and growth rate, to historical results and reference to the market information based on our knowledge of the footwear markets; and<br><br>• Assessing the reasonableness of the discount rate applied in determining the value in use by benchmarking against 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.

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

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.

- 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.

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

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.

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

28 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | NOTES | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|---|
| Revenue | 5 | **38,965** | 76,046 |
| Cost of sales | | **(33,849)** | (65,327) |
| Gross profit | | **5,116** | 10,719 |
| Other (expense) income, gains and losses, net | | **(12,197)** | 1,021 |
| Selling and distribution costs | | **(1,849)** | (3,121) |
| General and administrative expenses | | **(6,312)** | (7,861) |
| Share of result of an associate | | **(120)** | 15 |
| (Loss) profit before tax | 6 | **(15,362)** | 773 |
| Tax credit (expense) | 9 | **96** | (190) |
| (Loss) profit for the year attributable to owners of the Company | | **(15,266)** | 583 |
| **Other comprehensive (expense) income** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translating foreign operations | | **(1,952)** | 3,594 |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Revaluation (decrease) increase on buildings | | **(852)** | 1,677 |
| Deferred tax recognised on revaluation of buildings | | **213** | (419) |
| | | **(639)** | 1,258 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | NOTE | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|---|
| Other comprehensive (expense) income for the year, net of tax | | **(2,591)** | 4,852 |
| Total comprehensive (expense) income for the year attributable to owners of the Company | | **(17,857)** | 5,435 |
| (Loss) earnings per share | 11 | | |
| Basic | | **(2.09 US cents)** | 0.08 US cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | NOTES | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 12 | **46,023** | 53,471 |
| Prepaid lease payments | 13 | **4,227** | 4,618 |
| Interest in an associate | 14 | **506** | 626 |
| | | **50,756** | 58,715 |
| Current assets | | | |
| Inventories | 15 | **4,786** | 9,653 |
| Trade and other receivables | 16 | **1,435** | 6,681 |
| Prepaid lease payments | 13 | **163** | 171 |
| Tax recoverable | | **–** | 14 |
| Financial assets at fair value through profit or loss | 17 | **602** | 743 |
| Bank balances and cash | 18 | **19,441** | 24,694 |
| | | **26,427** | 41,956 |
| Current liabilities | | | |
| Trade and other payables | 19 | **3,159** | 7,175 |
| Provision for housing provident fund | 25 | **3,078** | 2,378 |
| Tax payable | | **881** | 900 |
| | | **7,118** | 10,453 |
| Net current assets | | **19,309** | 31,503 |
| | | **70,065** | 90,218 |
| Capital and reserves | | | |
| Share capital | 20 | **9,428** | 9,428 |
| Share premium and reserves | | **56,987** | 76,730 |
| Total equity | | **66,415** | 86,158 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 21 | **3,650** | 4,060 |
| | | **70,065** | 90,218 |

The consolidated financial statements on pages 71 to 138 were approved and authorised for issue by the Board of Directors on 28 March 2019 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 2018

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital US$'000 | Share premium US$'000 | Properties revaluation reserve US$'000 | Translation reserve US$'000 | Merger reserve US$'000 (Note) | Retained profits US$'000 | Total US$'000 |
| At 1 January 2017 | 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 |
| Dividends recognised as distribution (Note 10) | – | – | – | – | – | (2,828) | (2,828) |
| At 31 December 2017 | 9,428 | 21,637 | 9,668 | 14,506 | (4,512) | 35,431 | 86,158 |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **(15,266)** | **(15,266)** |
| Exchange differences on translating foreign operations | **–** | **–** | **–** | **(1,952)** | **–** | **–** | **(1,952)** |
| Revaluation decrease on buildings | **–** | **–** | **(852)** | **–** | **–** | **–** | **(852)** |
| Deferred tax liability recognised on revaluation of buildings (Note 21) | **–** | **–** | **213** | **–** | **–** | **–** | **213** |
| Total comprehensive expense for the year | **–** | **–** | **(639)** | **(1,952)** | **–** | **(15,266)** | **(17,857)** |
| Dividends recognised as distribution (Note 10) | **–** | **–** | **–** | **–** | **–** | **(1,886)** | **(1,886)** |
| At 31 December 2018 | **9,428** | **21,637** | **9,029** | **12,554** | **(4,512)** | **18,279** | **66,415** |

note: 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 2018

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| (Loss) profit before tax | **(15,362)** | 773 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **1,683** | 1,971 |
| Loss on disposal of property, plant and equipment | **8** | 520 |
| Net loss (gain) on fair value changes of financial assets at fair value through profit or loss | **141** | (163) |
| Impairment loss recognised in respect of plant and machinery | **2,549** | – |
| Write-down of inventories (net reversal of allowance on inventories) | **2,259** | (730) |
| Interest income | **(236)** | (64) |
| Release of prepaid lease payments | **177** | 172 |
| Share of result of an associate | **120** | (15) |
| Unrealised net exchange loss | **932** | 1,607 |
| Operating cash flows before movements in working capital | **(7,729)** | 4,071 |
| Decrease in inventories | **2,307** | 5,749 |
| Decrease in trade and other receivables | **5,251** | 2,079 |
| Increase in financial assets at fair value through profit or loss | **–** | (28) |
| (Decrease) increase in trade and other payables and provision for housing provident fund | **(3,591)** | 1,463 |
| Cash (used in) generated from operations | **(3,762)** | 13,334 |
| Taxation refund from (paid in) other jurisdictions | **56** | (113) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | **(3,706)** | 13,221 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Interest received | **236** | 64 |
| Proceeds on disposal of property, plant and equipment | **19** | 88 |
| Purchase of property, plant and equipment | **(39)** | (767) |
| Proceeds from disposal of financial assets at fair value through profit or loss | **–** | 725 |
| NET CASH FROM INVESTING ACTIVITIES | **216** | 110 |
| CASH USED IN A FINANCING ACTIVITY | | |
| Dividends paid | **(1,886)** | (2,828) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(5,376)** | 10,503 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | **24,694** | 14,163 |
| Effect of foreign exchange rate changes | **123** | 28 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash | **19,441** | 24,694 |

## 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 principal activities of the Company and its subsidiaries (the “Group”) are manufacture and sales of footwear products.

The consolidated financial statements are presented in the United States dollar (“US$”), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### New and Amendments to HKFRSs that are mandatorily effective for the current year

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

| | |
|---|---|
| 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 |

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

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

### HKFRS 15 *"Revenue from Contracts with Customers"*

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

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

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

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 years.

### HKFRS 9 *"Financial Instruments"*

In the current year, 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.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

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

**HKFRS 9 *"Financial Instruments"*** *(Continued)*

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from the application of HKFRS 9 are disclosed in Note 3.

*Classification and measurement of financial assets*

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, US$743,000 of the Group's investments were considered as held for trading and continued to be measured at fair value through profit or loss ("FVTPL").

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

*Impairment under ECL model*

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit-impaired under HKAS 39, trade receivables have been assessed individually based on internal credit rating.

ECL for other financial assets at amortised cost, including bank balances and other receivables, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

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.

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

**New and amendments to HKFRSs in issue but not yet effective**

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[5] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle[1] |

[1] Effective for annual periods beginning on or after 1 January 2019.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after 1 January 2021.
[4] Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
[5] Effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 2. APPLICATION OF NEW AND AMENDMENTS TO 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 lease 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 cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

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.

Other than certain requirements which are also applicable to lessor, 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.

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

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

As at 31 December 2018, the Group has non-cancellable operating lease commitments of US$1,692,000 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 unless they qualify for low value or short-term 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in 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. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) - Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

## 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Basis of consolidation** *(Continued)*

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.

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

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

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment in an associate *(Continued)*

The Group assesses whether there is objective evidence that the interest in an associate may be impaired. When any objective evidence exists, 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.

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.

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

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 or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Revenue recognition (prior to 1 January 2018)**

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.

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.

**Leases**

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 for 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### 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.

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.

### Retirement benefits cost and termination benefits

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. A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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.

### 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 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Taxation** *(Continued)*

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

**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 fair value 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property, plant and equipment** *(Continued)*

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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.

**Impairment of tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually. When it is not possible to estimate the recoverable amount 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of tangible assets *(Continued)*

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.

### 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.

### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers, which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL 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 FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms 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 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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income ("FVTOCI") as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or 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 includes any dividend or interest earned on the financial asset and is included in the “other (expense) income, gains and losses” line item.

*Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and bank balances and cash). The amount of ECL 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, 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 based on internal credit-rating.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

*Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

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, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

(i) 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 at the reporting date with the risk of a default occurring on the financial instrument 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; or
- 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.

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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

*Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

*Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets are classified into financial assets at 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.

(i) Financial assets 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.

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 includes any dividend earned on the financial assets and is included in the “other (expense) income, gains and losses” line item.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)*

(ii) 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 (before application of HKFRS 9 on 1 January 2018)*

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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- 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 reorganisation.

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 trade 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Financial assets (Continued)*

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)*

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.

*Derecognition of financial assets*

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

*Financial liabilities and equity*

*Classification as debt or equity*

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.

*Financial liabilities at amortised cost*

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

*Derecognition of financial liabilities*

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 are the key assumptions 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 2018, the fair value of the buildings was US$36,871,000 (2017: US$40,262,000), with a revaluation decrease of US$852,000 (2017: increase of US$1,677,000) being recognised in properties revaluation reserve for the year ended 31 December 2018.

**Impairment assessment of plant and machinery**

Plant and machinery are stated at cost less accumulated depreciation and impairment, if any. The directors of the Company review the carrying amounts of plant and machinery whenever events or changes in circumstances indicate that the carrying amounts of plant and machinery may be impaired at the end of the reporting period. An impairment loss is recognised for the amount by which the carrying amounts of plant and machinery exceeds their recoverable amounts. The recoverable amounts of relevant assets have been determined on the basis of value in use. Based on the management's assessment, an impairment loss on plant and machinery of US$2,549,000 was recognised in profit or loss during the year ended 31 December 2018.

In estimating the value in use calculation which uses the discounted future pre-tax cash flows expected to be derived from the plant and machinery, key assumptions used by the management of the Group included the discount rate, budgeted sales, gross margin and growth rate of the manufacture and sales of footwear products business.

As at 31 December 2018, the carrying amount of plant and machinery is US$5,879,000 (2017: US$9,364,000), net of accumulated impairment loss of US$2,549,000 (2017: nil).

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

**Provision for housing provident fund**

As explained in Note 25, the Group has made provision for housing provident fund based upon the management's estimation for the claims against a subsidiary of the Group. In determining the provision for housing provident fund, management made an assessment based on its best estimate and judgement of whether it is probable that an outflow of resources will be required to settle the claims, and, if applicable, the final amount of the settlements. Management considers in its assessment information about the nature and status of the claims. While the ultimate outcome of the claims will be higher or lower than the estimated provision made by the management of the Group, any increase or decrease in the estimates would affect the profit or loss in the future.

As at 31 December 2018, the carrying amount of the provision for housing provident fund is US$3,078,000 (2017: US$2,378,000).

## 5. REVENUE AND SEGMENT INFORMATION

Revenue represents the manufacture and sales of footwear products recognised at a point in time during the year. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the designated location (delivery). The average credit period is 60 days upon delivery. Sales-related warranties associated with the goods cannot be purchased separately and they serve as an assurance that the goods sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" consistent with its previous accounting treatment.

The contracts for manufacture and sales of footwear products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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.

All revenue from contracts with customers recognised at a point in time.

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment revenue and results**

For the year ended 31 December 2018

| | North America US$'000 | Asia US$'000 | Europe US$'000 | Other regions US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales of goods | 19,644 | 10,429 | 6,930 | 1,962 | 38,965 |
| RESULTS | | | | | |
| Segment results | 2,524 | 1,778 | 584 | 165 | 5,051 |
| Unallocated income, gains and losses | | | | | 1,299 |
| Interest income | | | | | 236 |
| Unallocated expenses | | | | | (21,828) |
| Share of result of an associate | | | | | (120) |
| Loss before tax | | | | | (15,362) |

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment revenue and results** *(Continued)*

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 result of an associate | | | | | 15 |
| Profit before tax | | | | | 773 |

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

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Revenue from major product

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

### Geographical information

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

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| United States of America | **18,600** | 51,384 |
| People's Republic of China ("PRC") | **2,996** | 3,778 |
| Belgium | **4,905** | 5,827 |
| South Korea | **2,129** | 2,309 |
| Japan | **4,134** | 3,351 |
| Others | **6,201** | 9,397 |
| | **38,965** | 76,046 |

## 5. REVENUE AND 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:

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| PRC | **50,703** | 58,644 |
| Hong Kong | **52** | 70 |
| Taiwan | **1** | 1 |
| | **50,756** | 58,715 |

### Information about major customers

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

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Customer A | **33,916** | 66,078 |

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

## 6. (LOSS) PROFIT BEFORE TAX

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| (Loss) profit before tax has been arrived at after charging: | | |
| Directors' emoluments (Note 7) | **236** | 347 |
| Other staff costs | **26,885** | 30,662 |
| Retirement benefits scheme contributions (excluding contributions in respect of directors) | **2,036** | 3,274 |
| Total staff costs | **29,157** | 34,283 |
| Auditor's remuneration | **170** | 158 |
| Cost of inventories recognised as an expense (note a) | **33,149** | 62,949 |
| Depreciation of property, plant and equipment | **1,683** | 1,971 |
| Provision for housing provident fund (included in cost of sales) (Note 25) | **700** | 2,378 |
| Release of prepaid lease payments | **177** | 172 |
| and after charging (crediting) to other (expense) income, gains and losses, net: | | |
| Loss on disposal of property, plant and equipment | **8** | 520 |
| Impairment loss recognised in respect of plant and machinery (included in other expense) (note c) | **2,549** | – |
| Redundancy costs (included in other expense) (note b) | **11,183** | – |
| Net loss (gain) on financial assets at FVTPL | **141** | (163) |
| Interest income | **(236)** | (64) |
| Net foreign exchange gain | **(1,151)** | (193) |

notes:

a. Included in cost of inventories recognised as an expense is write-down of inventories of US$2,259,000 (2017: net reversal of allowance on inventories of US$730,000).

b. During the year ended 31 December 2018, the Group streamlined its business operation and carried out a series of staff integration, accordingly the Group recognised redundancy costs of US$11,183,000 (2017: nil).

c. During the year ended 31 December 2018, the Group conducted an impairment review of the Group's plant and machinery as the Group no longer continued their business relationship with a largest customer, accordingly the Group recognised impairment loss in respect of its plant and machinery of US$2,549,000 (2017: nil).

## 7. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2017: 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 |
| **2018** | | | | | | | | |
| Fees | – | – | – | – | 8 | 8 | 8 | 24 |
| Other emoluments | | | | | | | | |
| Salaries and other benefits | 50 | 15 | 43 | 95 | – | – | – | 203 |
| Bonus | – | – | – | 9 | – | – | – | 9 |
| Retirement benefits scheme contributions | – | – | – | – | – | – | – | – |
| | 50 | 15 | 43 | 104 | 8 | 8 | 8 | 236 |
| **2017** | | | | | | | | |
| Fees | – | – | – | – | 8 | 8 | 8 | 24 |
| Other emoluments | | | | | | | | |
| Salaries and other benefits | 99 | 40 | 61 | 96 | – | – | – | 296 |
| Bonus | 8 | – | – | 19 | – | – | – | 27 |
| Retirement benefits scheme contributions | – | – | – | – | – | – | – | – |
| | 107 | 40 | 61 | 115 | 8 | 8 | 8 | 347 |

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 2018 (2017: 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 (2017: four) are executive directors of the Company whose emoluments are included in the disclosure in Note 7 above. The emoluments of the remaining one (2017: one) individual are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Basic salaries and allowances | **77** | 75 |
| Retirement benefits scheme contributions | **2** | 2 |
| | **79** | 77 |

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 2018 and 2017.

## 9. TAX CREDIT (EXPENSE)

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Current tax: | | |
| Hong Kong Profits Tax | **19** | 27 |
| PRC Enterprise Income Tax | **–** | 163 |
| | **19** | 190 |
| Overprovision in prior years: | | |
| PRC Enterprise Income Tax | **(115)** | – |
| | **(96)** | 190 |

## 9. TAX CREDIT (EXPENSE) *(Continued)*

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements and 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.

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.

## 9. TAX CREDIT (EXPENSE) *(Continued)*

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

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| (Loss) profit before tax | **(15,362)** | 773 |
| Tax at the domestic income tax rate of 25% (note) | **(3,841)** | 193 |
| Tax effect of share of result of an associate | **30** | (4) |
| Tax effect of expenses not deductible for tax purposes | **4,047** | 332 |
| Tax effect of income not taxable for tax purposes | **(426)** | (1,250) |
| Tax effect of deductible temporary differences not recognised | **175** | 595 |
| Overprovision in prior years | **(115)** | – |
| Tax effect of tax losses not recognised | **28** | 343 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **6** | (19) |
| Tax (credit) expense for the year | **(96)** | 190 |

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

## 10. DIVIDENDS

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Dividends recognised as a distribution during the year: | | |
| 2018 interim – nil (2017: 2.0 HK cents per shares) | – | 1,886 |
| 2017 final – 2.0 HK cents (2017: 2016 final dividend 1.0 HK cents) per share | **1,886** | 942 |
| | **1,886** | 2,828 |

No final dividend in respect of the year ended 31 December 2018 (2017: 2.0 HK cents) has been proposed by the directors.

## 11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to owners of the Company of US$15,266,000 (2017: profit for the year attributable to owners of the Company of US$583,000) and on the number of ordinary shares of 730,650,000 (2017: 730,650,000) in issue during the year.

There are no potential ordinary shares outstanding for each of the two years ended 31 December 2018 and 2017.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Construction in progress | Leasehold improvements | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| COST OR VALUATION | | | | | | | |
| At 1 January 2017 | 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 |
| Exchange adjustments | (1,951) | – | (81) | (4,444) | (1,288) | (25) | (7,789) |
| Additions | – | – | – | 1 | 38 | – | 39 |
| Disposals | – | – | – | (83) | (5) | – | (88) |
| Revaluation | (1,440) | – | – | – | – | – | (1,440) |
| At 31 December 2018 | 36,871 | – | 1,679 | 107,014 | 25,530 | 636 | 171,730 |
| Comprising: | | | | | | | |
| At cost | – | – | 1,679 | 107,014 | 25,530 | 636 | 134,859 |
| At valuation – 2018 | 36,871 | – | – | – | – | – | 36,871 |
| | 36,871 | – | 1,679 | 107,014 | 25,530 | 636 | 171,730 |

## 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings | Construction in progress | Leasehold improvements | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2017 | – | – | 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 |
| Exchange adjustments | (30) | – | (81) | (4,259) | (1,021) | (22) | (5,413) |
| Provided for the year | 618 | – | 17 | 730 | 306 | 12 | 1,683 |
| Impairment loss recognised in profit and loss | – | – | – | 2,549 | – | – | 2,549 |
| Eliminated on disposals | – | – | – | (61) | – | – | (61) |
| Eliminated on revaluation | (588) | – | – | – | – | – | (588) |
| At 31 December 2018 | – | – | 1,629 | 101,135 | 22,343 | 600 | 125,707 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2018 | 36,871 | – | 50 | 5,879 | 3,187 | 36 | 46,023 |
| At 31 December 2017 | 40,262 | – | 67 | 9,364 | 3,727 | 51 | 53,471 |

## 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Except for construction in progress, property, plant and equipment less their residual values over their estimated useful life 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% – $33\frac{1}{3}$% |
| 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 2018 and 2017.

During the year, the directors of the Company conducted an impairment review of the Group's plant and machinery as the Group no longer continued their business relationship with a largest customer in the current year. Accordingly, impairment losses of US$2,549,000 have been recognised in respect of plant and machinery, which are used in the manufacture and sales of footwear products. The recoverable amounts of the relevant assets have been determined on the basis of their value in use calculation which uses the discounted future pre-tax cash flows expected to be derived from the plant and machinery. The key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, gross margin and growth rate, such estimation is based on the unit's past performance and management's expectations for the market development. The discount rate used in measuring the amount of value in use was 11.08% in relation to plant and machinery.

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

The buildings were revalued at 31 December 2018 and 31 December 2017 by RHL Appraisal Limited on a depreciated replacement cost basis. RHL Appraisal Limited is not connected with the Group. The valuation report on these buildings is signed by a director of RHL Appraisal Limited who is a member of the Hong Kong Institute of Surveyors, and 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 (2017: RMB500 to RMB1,500) 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.

## 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

**Fair value measurement and valuation process of the Group's buildings** *(Continued)*

Another key unobservable input used in valuing the buildings was the remaining useful lives of the buildings, which ranged from 25 to 29 years (2017: 26 to 30 years). A decrease in the remaining useful lives of the buildings would result in a decrease 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 decrease of US$852,000 (2017: increase of US$1,677,000) has been recorded directly to properties revaluation reserve for the year ended 31 December 2018.

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$18,942,000 (2017: US$20,524,000).

## 13. PREPAID LEASE PAYMENTS

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Analysed for reporting purpose as: | | |
| Current assets | **163** | 171 |
| Non-current assets | **4,227** | 4,618 |
| | **4,390** | 4,789 |

## 14. INTEREST IN AN ASSOCIATE

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Cost of unlisted investment in an associate | **400** | 400 |
| Share of post-acquisition profits, net of dividends received | **106** | 226 |
| | **506** | 626 |

Particulars of the Group's associate at 31 December 2018 and 2017 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 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.

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

## 14. INTEREST IN AN ASSOCIATE *(Continued)*

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Current assets | **1,639** | 1,665 |
| Non-current assets | **22** | 27 |
| Current liabilities | **396** | 128 |
| Revenue | **5,068** | 4,317 |
| (Loss) profit for the year and total comprehensive (expense) income | **(299)** | 37 |

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

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Equity attributable to owners of the associate | **1,265** | 1,564 |
| Proportion of the Group's ownership and carrying amount of the Group's 40% interest in the associate | **506** | 626 |

## 15. INVENTORIES

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Raw materials | **2,206** | 4,263 |
| Work in progress | **1,072** | 4,242 |
| Finished goods | **1,508** | 1,148 |
| | **4,786** | 9,653 |

## 16. TRADE AND OTHER RECEIVABLES

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Trade receivables | **826** | 5,842 |
| Prepayment and other deposit | **297** | 529 |
| Refundable rental deposit | **31** | 31 |
| Other receivables | **281** | 279 |
| Total trade and other receivables | **1,435** | 6,681 |

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to US$826,000 and US$5,842,000 respectively.

## 16. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| 0 – 30 days | **823** | 4,645 |
| 31 – 60 days | **–** | 1,196 |
| Over 60 days | **3** | 1 |
| Total trade receivables | **826** | 5,842 |

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.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$3,000 at the end of the reporting period has been past due for 90 days or more but is not considered as in default based on historical records of settlement.

As at 31 December 2017, 99.9% of the trade receivables that are neither past due nor impaired have no default payment history.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of US$1,000 which were past due for over 121 days 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.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 27.

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Listed securities held for trading: | | |
| Equity securities listed in Hong Kong | **602** | 743 |

## 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 3.01% (2017: 0.01% to 1.90%) per annum.

Details of impairment assessment of bank balances for the year ended 31 December 2018 are set out in Note 27.

## 19. TRADE AND OTHER PAYABLES

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Trade payables | **905** | 3,172 |
| Accrued payroll | **629** | 2,134 |
| Accrued expenses | **671** | 503 |
| Others | **954** | 1,366 |
| | **3,159** | 7,175 |

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

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| 0 – 30 days | **671** | 1,557 |
| 31 – 60 days | **93** | 542 |
| Over 60 days | **141** | 1,073 |
| Total trade payables | **905** | 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.

## 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 2017, 31 December 2017 and 31 December 2018 | 1,500,000,000 | 19,355 |
| *Convertible non-voting preference shares of US$100,000 each (note)* | | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 150 | 15,000 |
| | | 34,355 |

| | Number of shares 2018 '000 | Number of shares 2017 '000 | Amount 2018 US$'000 | Amount 2017 US$'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 year ended 31 December 2017 and 31 December 2018.

## 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 2017 | 3,488 |
| Charge to other comprehensive income | 419 |
| Exchange adjustments | 153 |
| At 31 December 2017 | 4,060 |
| Credit to other comprehensive expense | (213) |
| Exchange adjustments | (197) |
| At 31 December 2018 | 3,650 |

At 31 December 2018, the Group had unused tax losses of US$5,279,000 (2017: US$10,686,000) and deductible temporary difference of US$3,078,000 (2017: US$2,378,000) 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 US$4,704,000 (2017: US$10,111,000) that will expire in 2019 to 2023 (2017: 2018 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 of US$37,698,000 (2017: US$37,583,000) will not reverse in the foreseeable future.

## 22. OPERATING LEASE COMMITMENTS

### The Group as lessee

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Minimum lease payments paid by the Group under operating leases during the year | **238** | 270 |

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:

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Within one year | **135** | 135 |
| In the second to fifth year inclusive | **367** | 452 |
| Over five years | **1,190** | 937 |
| | **1,692** | 1,524 |

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 fifty 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$2,036,000 (2017: US$3,274,000) 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:

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Short term benefits | **422** | 567 |
| Post-employment benefits | **2** | 2 |
| | **424** | 569 |

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

## 25. PROVISION FOR HOUSING PROVIDENT FUND

There were claims made against a subsidiary of the Group in respect of housing provident fund which were initiated by the employees of the 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 US$700,000 (2017: US$2,378,000) has been made in profit or loss during the year ended 31 December 2018. The directors of the Company believe that adequate provisions has been made in the Group's consolidated financial statements as at 31 December 2018.

## 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

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| **Financial assets** | | |
| Financial assets mandatorily measured at FVTPL | **602** | – |
| Listed equity securities classified as held for trading investment | **–** | 743 |
| Financial assets at amortised cost | **20,351** | – |
| Loans and receivables (including cash and cash equivalents) | **–** | 30,638 |
| **Financial liabilities** | | |
| Amortised cost | **1,153** | 3,796 |

### 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:

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Current assets | | |
| US$ | **7,786** | 11,122 |
| HK$ | **232** | 262 |
| Current liabilities | | |
| US$ | **250** | 945 |
| HK$ | **–** | 750 |
| 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 of the Group 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 a decrease in the Group's loss/an increase in the Group's profit where US$ and HK$ strengthens by 5% against the functional currencies of the group entities. A negative number below indicates an increase in the Group's other comprehensive expense/a decrease in the Group's other comprehensive income recognised in translation reserve where US$ and HK$ strengthens by 5% against the functional currencies of the group entities. If US$ and HK$ weakens by 5% against the functional currencies of the group entities, there would be an equal and opposite impact on the profit or loss and other comprehensive income of the Group.

| | **2018** | 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| Profit or loss | **290** | 363 |
| 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 investments in equity securities measured at FVTPL (2017: 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 and impairment assessment*

At 31 December 2018 and 2017, 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.

*Trade receivables*

The Group's credit risk by geographical locations is mainly concentrated in North America, Europe and Asia, which accounted for approximately 99% (2017: 99%) of the Group's total trade receivables as at 31 December 2018.

As at 31 December 2018, the Group has concentration of credit risk as 56% and 100% of the Group's total trade receivables were due from its largest trade receivables balances and three largest trade receivables balances, respectively.

As at 31 December 2017, the Group has concentration of credit risk by customer as 87% and 99% of the Group's total trade receivables were due from its largest customer and the five largest customers, respectively.

As at 31 December 2017, in order to minimise the credit risk on its trade debts, the management of the Group's finance and sales 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 performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 27. FINANCIAL INSTRUMENTS *(Continued)*

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

*Credit risk and impairment assessment (Continued)*

*Other receivables and bank balances and cash*

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.

The Group has considered that credit risk on other receivables and bank balances and cash has not increased significantly since initial recognition and has assessed the expected credit loss rate under 12m ECL method based on the Group's assessment in the risk of default of the respective counterparties.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables | Other financial assets |
|---|---|---|---|
| Stage 1 | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL – not credit-impaired | 12m ECL |
| Stage 2 | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Stage 3 | There is evidence indicating that the asset is credit-impaired | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Stage 4 | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

## 27. FINANCIAL INSTRUMENTS *(Continued)*

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

*Credit risk and impairment assessment (Continued)*

*Other receivables and bank balances and cash (Continued)*

The estimated loss rates are estimated based on historical observed default rates over the expected lives of the debtors and are adjusted for forward-looking information, including but not limited to expected growth rate of the industry, that available without undue cost or effort.

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

| 2018 | Notes | Internal credit rating | 12m or lifetime ECL | Gross carrying amount |
|---|---|---|---|---|
| | | | | US$'000 |
| **Financial assets at amortised cost** | | | | |
| Trade receivables | 16 | Stage 1 (note 1) | Lifetime ECL | 826 |
| Other receivables | 16 | Stage 1 (note 2) | 12m ECL | 84 |
| Bank balances | 18 | Stage 1 (note 2) | 12m ECL | 19,384 |

notes:

1. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL individually based on the historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of the reporting period, including time value of money where appropriate.

   In the opinion of the directors of the Company, the trade receivables within stage 1, stage 2, stage 3 and stage 4 at the end of the reporting period which have been past due over 90 days are not considered as in default by considering the expected subsequent and historical repayment from trade debtors.

   For the year ended 31 December 2018, the Group performed impairment assessment on trade receivables and concluded that the probability of defaults of the counterparty are insignificant and accordingly, no allowance for credit losses is provided.

2. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

   For the year ended 31 December 2018, the Group has assessed that the expected loss rates for other receivables and bank balances were immaterial. Thus, no loss allowance for other receivables and bank balances were recognised.

## 27. FINANCIAL INSTRUMENTS *(Continued)*

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

*Credit risk and impairment assessment (Continued)*

*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 repayable on demand.

### 27c. Fair value measurements of financial instruments

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) |
|---|---|---|---|---|
| | **2018** | 2017 | | |
| | **US$'000** | US$'000 | | |
| Financial assets mandatorily measured at FVTPL | **602** | – | Level 1 | Quoted bid prices in an active market |
| Listed equity securities classified as held for trading investments | **–** | 743 | Level 1 | Quoted bid prices in an active market |

There were no transfers between Level 1, 2 and 3 during both years.

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 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 | – |
| Dividend recognised as distribution (Note 10) | 2,828 |
| Financing cash flows | (2,828) |
| At 31 December 2017 | – |
| Dividend recognised as distribution (Note 10) | 1,886 |
| Financing cash flows | (1,886) |
| At 31 December 2018 | – |

## 29. DETAILS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2018 and 2017 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 |
| 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 |

## 29. 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 Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| 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 |
| 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.

## 30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 2018<br>US$'000 | 2017<br>US$'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 | | |
| Amounts due from subsidiaries | **15,770** | 8,882 |
| Dividend receivables | **2,000** | 31,000 |
| Other receivables | **231** | 211 |
| Bank balances | **5** | 5 |
| | **18,006** | 40,098 |
| Current liabilities | | |
| Other payables | **106** | 106 |
| Amounts due to subsidiaries | **–** | 23,171 |
| | **106** | 23,277 |
| Net current assets | **17,900** | 16,821 |
| | **52,365** | 51,286 |
| Capital and reserves | | |
| Share capital | **9,428** | 9,428 |
| Reserves | **42,937** | 41,858 |
| | **52,365** | 51,286 |

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

**Movement in the Company's reserves**

| | Share premium | Contributed surplus | Retained profits | Total |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| At 1 January 2017 | 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 |
| Profit for the year | – | – | 2,965 | 2,965 |
| Dividends recognised as distribution (Note 10) | – | – | (1,886) | (1,886) |
| At 31 December 2018 | 21,637 | 19,486 | 1,814 | 42,937 |

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.

# FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014<br>US$'000 | 2015<br>US$'000 | 2016<br>US$'000 | 2017<br>US$'000 | **2018**<br>**US$'000** |
| Revenue | 77,579 | 74,675 | 79,330 | 76,046 | **38,965** |
| Profit (loss) before tax | 1,573 | 1,332 | 579 | 773 | **(15,362)** |
| Tax (expense) credit | (167) | (13) | (351) | (190) | **96** |
| Profit (loss) for the year | 1,406 | 1,319 | 228 | 583 | **(15,266)** |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2014<br>US$'000 | 2015<br>US$'000 | 2016<br>US$'000 | 2017<br>US$'000 | **2018**<br>**US$'000** |
| Total assets | 131,073 | 101,233 | 95,668 | 100,671 | **77,183** |
| Total liabilities | (11,381) | (11,389) | (12,117) | (14,513) | **(10,768)** |
| Total equity | 119,692 | 89,844 | 83,551 | 86,158 | **66,415** |