Since 1956

Pegasus International Holdings Limited

創 信 國 際 控 股 有 限 公 司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

(Stock Code 股份代號：676)

INTERIM REPORT 2019 中期報告

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June **2019** **US$'000** **(unaudited)**	 2018 US$'000 (unaudited)
Revenue	3	**2,935**	29,773
Cost of sales		**(6,293)**	(24,338)
Gross (loss) profit		**(3,358)**	5,435
Other (expense) income, gains and losses, net		**(1,725)**	(6,236)
Selling and distribution costs		**(344)**	(1,174)
General and administrative expenses		**(3,520)**	(3,154)
Share of result of an associate		**(70)**	(53)
Finance costs	4	**(23)**	–
Loss before tax	5	**(9,040)**	(5,182)
Tax expense	6	**–**	–
Loss for the period attributable to owners of the Company		**(9,040)**	(5,182)
Other comprehensive income, net of income tax			
Item that may be reclassified subsequently to profit loss:			
Exchange differences on translating foreign operations		**535**	3,358
Total comprehensive expense for the period attributable to owners of the Company		**(8,505)**	(1,824)
Loss per share	8		
– Basic		**(1.24 US cents)**	(0.71 US cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	**30 June 2019 US$'000 (unaudited)**	31 December 2018 US$'000 (audited)
Non-current assets			
Property, plant and equipment	9	**44,756**	46,023
Right-of-use assets	2	**741**	–
Prepaid lease payments		**4,173**	4,227
Interest in an associate		**436**	506
		50,106	50,756
Current assets			
Inventories		**2,359**	4,786
Trade and other receivables	10	**1,141**	1,435
Prepaid lease payments		**163**	163
Financial assets at fair value through profit or loss	14	**602**	602
Bank balances and cash		**14,589**	19,441
		18,854	26,427
Current liabilities			
Trade and other payables	11	**2,431**	3,159
Lease liabilities	2	**88**	–
Provision for housing provident fund	13	**3,078**	3,078
Tax payable		**887**	881
		6,484	7,118
Net current assets		**12,370**	19,309
		62,476	70,065
Capital and reserves			
Share capital	12	**9,428**	9,428
Share premium and reserves		**48,482**	56,987
Total equity		**57,910**	66,415
Non-current liabilities			
Deferred tax liabilities		**3,678**	3,650
Lease liabilities	2	**888**	–
		4,566	3,650
		62,476	70,065

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company						
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Properties revaluation reserve US$'000	Translation reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2018 (audited)	9,428	21,637	(4,512)	9,668	14,506	35,431	86,158
Loss for the period	–	–	–	–	–	(5,182)	(5,182)
Exchange differences on translating foreign operations	–	–	–	–	3,358	–	3,358
Total comprehensive income (expense) for the period	–	–	–	–	3,358	(5,182)	(1,824)
Payment of dividends (Note 6)	–	–	–	–	–	(1,886)	(1,886)
At 30 June 2018 (unaudited)	9,428	21,637	(4,512)	9,668	17,864	28,363	82,448
At 1 January 2019 (audited)	**9,428**	**21,637**	**(4,512)**	**9,029**	**12,554**	**18,279**	**66,415**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(9,040)**	**(9,040)**
Exchange differences on translating foreign operations	**–**	**–**	**–**	**–**	**535**	**–**	**535**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**535**	**(9,040)**	**(8,505)**
Payment of dividends (Note 6)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2019 (unaudited)	**9,428**	**21,637**	**(4,512)**	**9,029**	**13,089**	**9,239**	**57,910**

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the share capital of the acquiring companies issued in exchange pursuant to a corporate reorganisation prior to the listing of the Company's shares in 1996.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(4,902)**	1,793
INVESTING ACTIVITIES		
Interest received	**140**	76
Purchase of property, plant and equipment	**–**	(14)
NET CASH FROM INVESTING ACTIVITIES	**140**	62
FINANCING ACTIVITIES		
Repayment of lease liabilities – principal	**(63)**	–
Repayment of lease liabilities – interest	**(23)**	–
Dividends paid	**–**	(1,886)
NET CASH USED IN FINANCING ACTIVITIES	**(86)**	(1,886)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(4,848)**	(31)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**19,441**	24,694
Effect of foreign exchange rate changes	**(4)**	(50)
CASH AND CASH EQUIVALENTS AT 30 JUNE REPRESENTED BY BANK BALANCES AND CASH	**14,589**	24,613

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date.

Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles/machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life.

Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities *(Continued)*

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Definition of a lease

The Group has elected 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.5%.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

	At 1 January 2019 US$'000
Operating lease commitments disclosed as at 31 December 2018	1,692
Lease liabilities discounted at relevant increments borrowing rates	1,024
Add: Lease liabilities resulting from lease modifications of existing leases	–
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	1,024
Add: Obligations under finance leases recognised at 31 December 2018	–
Lease liabilities as at 1 January 2019	1,024
Analysed as	
Current	92
Non-current	932
	1,024

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	**Right-of-use assets** US$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		1,032
Amounts included in property, plant and equipment under HKAS 17		
– Restoration and reinstatement costs	(a)	15
Adjustments on rental deposits at 1 January 2019	(b)	3
Less: Accrued lease liabilities relating to rent free period at 1 January 2019	(c)	(254)
		796
By class:		
Leasehold lands		–
Office buildings		796
Office equipment		–
		796

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

(a) In relation to the leases of office buildings that the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property, plant and equipment amounting to US$15,000 as at 1 January 2019 were included as right-of-use assets.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, US$3,000 was adjusted to refundable rental deposits paid and right-of-use assets.

(c) Rent free period

These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

3. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the chief operating decision maker of the Group, being the Group's chief executive officer, regularly reviews the revenue and operating results analysis by geographical market based on destination of the goods shipped or delivered, irrespective of the origin of the goods. The Group's reportable and operating segments determined based on location of geographical markets are North America, Asia and Europe. The other regions segment includes the revenue and operating results analysis in various locations other than those disclosed above. However, the chief operating decision maker does not regularly review the assets and liabilities by operating segments and hence no analysis of segment assets and segment liabilities are presented.

Segment revenue and results

For the six months ended 30 June 2019

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	**2,520**	**141**	**186**	**88**	**2,935**
RESULTS					
Segment results	**(3,198)**	**(42)**	**(102)**	**(48)**	**(3,390)**
Unallocated income, gains and losses					**(1,865)**
Interest income					**140**
Unallocated expenses					**(3,832)**
Interest on lease liabilities					**(23)**
Share of loss of an associate					**(70)**
Loss before tax					**(9,040)**
Tax expense					**–**
Loss for the period					**(9,040)**

3. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the six months ended 30 June 2018

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

4. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Interest on lease liabilities	**23**	–

5. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging:		
Auditor's remuneration	**77**	116
Cost of inventories recognised as an expense (Note)	**6,293**	29,986
Depreciation of property, plant and equipment	**700**	1,102
Depreciation of right-of-use assets	**59**	–
Release of prepaid lease payments	**84**	90
and after charging to other (expense) income, gains and losses:		
Loss on disposal of property, plant and equipment	**851**	–
Redundancy costs	**2,123**	6,717
Loss on fair value changes of held for trading investments	**–**	59

Note: Included in cost of inventories recognised as an expense for the six months ended 30 June 2019 was allowance of inventories of Nil (six months ended 30 June 2018: US$1,069,000).

6. TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Current tax:		
People's Republic of China ("PRC")		
Enterprise Income Tax	**–**	–

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

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

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

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

7. DIVIDENDS

No dividend were paid, declared or proposed during the interim period (2018: 2.0 HK cent per share in respect of the year ended 31 December 2017, the aggregate amount of the final dividend declared and paid in the six months ended 30 June 2018 amounted to US$1,886,000).

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

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of US$9,040,000 (six months ended 30 June 2018: loss for the period attributable to owners of the Company of US$5,182,000) and on the number of ordinary shares of 730,650,000 (2018: 730,650,000) in issue during the period.

There are no potential ordinary shares outstanding for six months ended 30 June 2019 and 2018.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group did not acquire any property, plant and equipment (six months ended 30 June 2018: US$14,000).

The directors of the Company are of the opinion that the carrying value of the Group's buildings included in property, plant and equipment as at 30 June 2019 are not materially different from their fair values at 31 December 2018. Accordingly, no valuation movement has been recognised in respect of the Group's buildings included in property, plant and equipment for the period.

10. TRADE AND OTHER RECEIVABLES

	30 June 2019 US$'000 (unaudited)	31 December 2018 US$'000 (audited)
Trade receivables	**572**	826
Other receivables	**569**	609
Total trade and other receivables	**1,141**	1,435

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

	30 June 2019 US$'000 (unaudited)	31 December 2018 US$'000 (audited)
0–30 days	**355**	823
31–60 days	**216**	–
Over 60 days	**1**	3
Total trade receivables	**572**	826

11. TRADE AND OTHER PAYABLES

	30 June 2019 US$'000 (unaudited)	31 December 2018 US$'000 (audited)
Trade payables	**747**	905
Accrued payroll	**415**	629
Accrued expenses	**496**	671
Others	**773**	954
	2,431	3,159

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

	30 June 2019 US$'000 (unaudited)	31 December 2018 US$'000 (audited)
0–30 days	**141**	671
31–60 days	**57**	93
Over 60 days	**549**	141
Total trade payables	**747**	905

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.

12. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Authorised:		
Ordinary shares of Hong Kong dollar ("HK$") 0.10 each		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each (Note)		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	150	15,000
		34,355

	Number of shares		Amount	
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018
	'000	'000	**US$'000**	US$'000
Issued and fully paid:				
Ordinary shares of HK$0.10 each	**730,650**	730,650	**9,428**	9,428

Note: Convertible non-voting preference shares, when issued and outstanding, will carry a fixed cumulative dividend. Under certain circumstances, they will also be entitled to an additional dividend and can be convertible into ordinary shares of the Company. There were no convertible non-voting preference shares issued for the six months ended 30 June 2019 and year ended 31 December 2018.

13. 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.

The directors of the Company believe that adequate provisions has been made in the Group's consolidated financial statements as at 30 June 2019.

14. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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

Financial assets	Fair value 30 June 2019 US$'000 (unaudited)	 31 December 2018 US$'000 (audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets mandatorily measured at fair value through profit or loss	**602**	602	Level 1	Quoted bid prices in an active market

There were no transfers between Level 1,2 and 3 during the current interim period.

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

FINANCIAL REVIEW

During the six months ended 30 June 2019, the Group continued to concentrate on the manufacture and sales of footwear products. For the six months ended 30 June 2019, the Group achieved a turnover of US$2,935,000 (six months ended 30 June 2018: US$29,773,000) compared with the six months ended 30 June 2018, the turnover decreased by 90.1%.

Loss before taxation of the Group for the six months ended 30 June 2019 was US$9,040,000 (six months ended 30 June 2018: loss before tax US$5,182,000).

Basic loss per share for the six months ended 30 June 2019 was 1.24 US cents (six months ended 30 June 2018: basic loss per share 0.71 US cents). The gross loss is US$3,358,000 during the current period.

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

As affected by the new round of trade negotiation between China and the United States, the economy remained weak in 2019. As the purchasing power and investment confidence of global consumers and customers tended to be more conservative, the entire export manufacturing industry recorded a significant decline in terms of production value and sales performance. In the event that a consensus cannot be reached due to intensifying trade tensions, the economy of every country will slow down further, in which it will pose tremendous impact on domestic manufacturing industry.

The Group will pay close attention to the development of the relevant events, uphold the principle of consistent financial measures, adjust operation strategies to enhance the efficiency of resources utilization. The Group will continue to adhere to its excellent product quality and satisfactory customer service, and at the same time develop potential opportunities progressively and prudently, and we are confident to overcome such unprecedent challenges.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group's total net assets was US$57,910,000, comprising mainly current assets of US$18,854,000, non-current assets of US$50,106,000, current liabilities of US$6,484,000 and non-current liability of US$4,566,000. The current ratio was approximately 2.9 times and net bank balances and cash of US$14,589,000 was recorded as at 30 June 2019. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2019, the interests of the directors and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinances (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers, were as follows:

Long positions

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

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

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Long positions *(Continued)*

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

Pegasus Footgear Management Limited (note 1)

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the associated corporation
Wu Chen San, Thomas	Beneficial owner and Corporate (note 2)	6,470	32%
Wu Jenn Chang, Michael	Corporate (note 3)	6,470	32%
Wu Jenn Tzong, Jackson	Corporate (note 4)	6,470	32%
		19,410	96%

Notes:

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

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

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

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

Save as disclosed above, at 30 June 2019, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' Interests in Shares", the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Long position

Ordinary shares of HK$0.10 each of the Company

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

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2019.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

During the six month ended 30 June 2019, the Company complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and such amendments and revisions under the Corporate Governance Code effective from 1 April 2012.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company.

Having made specify enquiry of all directors, the directors had complied with the required standard set out in the Model Code throughout the six month ended 30 June 2019.

AUDIT COMMITTEE

The audit committee of the Board has reviewed, with management of the Company, the Group's unaudited condensed consolidated financial information for the six months ended 30 June 2019, the interim report, the accounting principles and practices adopted by the Group and has discussed risk management, internal controls, and financial reporting matters.

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

Hong Kong, 28 August 2019