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 2020 年報

CONTENTS

CORPORATE INFORMATION

DIRECTORS	
Executive Directors	Wu Chen San, Thomas Wu Jenn Chang, Michael Wu Jenn Tzong, Jackson Ho Chin Fa, Steven
Independent Non-Executive Directors	Huang Hung Ching Liu Chung Kang, Helios Lai Jenn Yang, Jeffrey
COMPANY SECRETARY	Lee Yiu Ming
AUDIT COMMITTEE	Huang Hung Ching, Chairman Liu Chung Kang, Helios Lai Jenn Yang, Jeffrey
REMUNERATION COMMITTEE	Lai Jenn Yang, Jeffrey, Chairman Huang Hung Ching Liu Chung Kang, Helios
NOMINATION COMMITTEE	Liu Chung Kang, Helios, Chairman Lai Jenn Yang, Jeffrey Huang Hung Ching
REGISTERED OFFICE	Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS	Unit 1110, 11/F, New Kowloon Plaza, 38 Tai Kok Tsui Road, Kowloon, Hong Kong
AUDITORS	Deloitte Touche Tohmatsu, Certified Public Accountants 35th Floor, One Pacific Place, 88 Queensway, Hong Kong
PRINCIPAL SHARE REGISTRARS	Butterfield Corporate Services Limited 26 Burnaby Street, Hamilton HM11, Bermuda
HONG KONG BRANCH SHARE REGISTRARS	Tricor Secretaries Limited Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
STOCK CODE	676
PRINCIPAL BANKERS	China Construction Bank Chinatrust Commercial Bank, Ltd Hang Seng Bank Limited Standard Chartered Bank (Hong Kong) Limited
WEBSITE	http://www.pegasusinternationalholdings.com

CHAIRMAN'S STATEMENT

BUSINESS REVIEW AND PROSPECTS

The business conditions throughout 2020 have been the greatest challenge over the last ten years, as the COVID-19 ravaged the world during the year, causing a far-reaching impact and even posing a threat against the entire global community. To control the spread of the COVID-19 pandemic, governments around the world introduced precautionary measures, including the strict control on crowds and unnecessary economic activities and the prohibition of store operations. Despite the relaxation of the restrictions following the improvement of the pandemic, the sentiment of outdoor spending among citizens was subdued due to their fear in viral infection and pessimism about the potential economic recession. As a footwear exporter, the Group was inevitably and materially affected in a hard-hit consumer goods market. Despite our ongoing commitments to the expansion of our customer base during the year, unfortunately no noticeable results were achieved due to the travel-restrictions and potential customers' concerns over future economic uncertainty under the pandemic.

In response to the changing economic environment in recent years, however, the Group has taken advantage of its existing resources to develop new sources of income. During the year, the Group entered into contracts with various third parties in relation to the lease of several idle plants in the PRC, ensuring that it will be able to generate certain stable cash flow in the coming years.

The management will closely monitor the impact of the changing external environment on the Group so as to make strategic adjustments accordingly, which are prepared to address a possible economic downturn and continue identifying potential 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, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2020, in addition to the original business of manufacture and sales of footwear product, the Group commenced the business engaging in lease of properties in the PRC. For the year ended 31 December 2020, the Group recorded a revenue of US$3,352,000 (2019: US$4,595,000) representing 27.1% decrease comparing to 2019.

Profit before taxation of the Group for the year ended 31 December 2020 was US$320,000 (2019: loss before taxation US$21,945,000), an increase of US$22,265,000 as compared to the corresponding period in 2019. After accounting for income taxes expense of US$945,000 (2019: US$25,000), resulted a loss after taxation of US$625,000 (2019: US$21,970,000). Basic loss per share for the year ended 31 December 2020 was 0.08 US cents (2019: 3.01 US cents). Gross margin changed to 13.4% 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 2020, the Group had cash and cash equivalent of US$9,754,000 (2019: US$12,519,000). As at 31 December 2020, the Group did not have any bank borrowing, the management considered that current ratio is a better indicator to reflect the Group's financial position. The current ratio of 1.8 (2019: 2.3) times was derived by the total current assets of US$12,566,000 divided by the total current liabilities of US$6,898,000 as at 31 December 2020.

CAPITAL EXPENDITURE

For the year ended 31 December 2020, the Group did not incur any capital expenditure 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 throughout the year ended 31 December 2020.

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 page 53. 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 independent non-executive directors without the presence of other directors.	Yes	The Chairman will hold 2 meetings in a year to discuss with independent non-executive directors without presence of other 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: (a) review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy; (b) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; (c) assess the independence of independent non-executive directors; and (d) make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.	Yes	Specific written terms of reference have been set up and the committee members understand clearly their authority and duties.

A. DIRECTORS (CONTINUED)

A.5 Nomination Committee (continued)

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

Diversity Policy

The Board has formulated a policy on diversity of the Board. The policy sets out the approach to have diversity on the Board in terms of thought, experience, skill, knowledge, perspective and gender in the Board, based on the applicable laws, rules and regulations applicable to the Company.

A diverse Board will include and make good use of the differences in the skills, knowledge, industry experience, background, race, gender and other qualities of the individual as a whole. All Board appointments will be done on merit, in the context of skills as required for the areas of our business operations and management.

A. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors

Principle

Every director must always know his responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

During the year, 4 Board meetings, 2 Audit Committee meetings, 2 Remuneration Committee and 2 Nomination Committee meetings were held. The attendance record of each director at the aforesaid meetings is set out below:

	Attendance of Meetings			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Wu Chen San, Thomas	4/4	N/A	N/A	N/A
Mr. Wu Jenn Chang, Michael	4/4	N/A	N/A	N/A
Mr. Wu Jenn Tzong, Jackson	4/4	N/A	N/A	N/A
Mr. Ho Chin Fa, Steven	4/4	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Huang Hung Ching	2/2	2/2	2/2	2/2
Mr. Lai Jenn Yang, Jeffrey	2/2	2/2	2/2	2/2
Mr. Liu Chung Kang, Helios	2/2	2/2	2/2	2/2

Code Provisions	Compliance	Actions by the Company
A.6.1		
Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the issuer's operations and business and is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.	Yes	A comprehensive information package containing an introduction to the Group's operations, directors' responsibilities and duties and other statutory requirements will be provided to new directors upon their appointment. They can also elect to receive briefing from the Company Secretary or Company's legal advisor on the content of the information package.

A. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors (continued)

Code Provisions	Compliance	Actions by the Company
A.6.2		
The functions of non-executive directors should include: – bring an independent judgement at the board meeting; – take the lead where potential conflicts of interests arise; – serve on the audit, remuneration, nomination and other governance committees, if invited; and – scrutinise the issuer's performance.	Yes	Independent Non-executive directors are well aware of their functions and have been actively performing their functions.
A.6.3		
Every director should ensure that he can give sufficient time and attention to the issuer's affairs and should not accept the appointment if he cannot do so.	Yes	There is reasonably satisfactory attendance rate.
A.6.4		
The board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the issuer's securities. "Relevant employee" includes any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to possess inside information in relation to the issuer or its securities.	Yes	The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules regarding directors' dealings in securities. Directors have confirmed compliance with the Model Code throughout the year. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. No incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

A. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors (continued)

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

A. DIRECTORS (CONTINUED)

A.6 Responsibilities of directors (continued)

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

A. DIRECTORS (CONTINUED)

A.7 Supply of and access to information

Principle

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

Code Provisions	Compliance	Actions by the Company
A.7.1		
Agenda and accompanying board papers should be sent in full to all directors at least 3 days before board/ board committee meeting.	Yes	Agenda and board papers are sent to all directors at least three days before the meetings unless it is on urgent basis.
A.7.2		
Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The board and each director should have separate and independent access to the issuer's senior management.	Yes	Senior management works closely with the Board and meets each other on regular basis.
A.7.3		
All directors are entitled to have access to board papers and related materials. These papers and related materials should be in a form and quality sufficient to enable the board to make informed decisions on matters placed before it. Queries raised by directors should receive a prompt and full response, if possible.	Yes	Board papers and minutes are properly kept by the company secretarial division under legal department of the Company and are available for inspection by directors.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION

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

Principle

An issuer should disclose its directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the company successfully without paying more than necessary. No director should be involved in deciding his own remuneration.

The Remuneration Committee currently comprises all the three independent non-executive Directors. The Chairman of the Remuneration Committee is Mr. Lai Jenn Yang, Jeffrey.

Code Provisions	Compliance	Actions by the Company
B.1.1		
The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors and have access to professional advice if necessary.	Yes	The Remuneration Committee carries out annual review of compensation packages for all directors of the Company.
B.1.2		
Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.	Yes	A Remuneration Committee has been established by the Board with specific written terms of reference. The Remuneration Committee adopted the model of making recommendation to the Board on the remuneration packages of individual executive directors and senior management.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION (CONTINUED)

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

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

Remuneration Bands	Number of persons
US$1 to US$100,000	8

C. ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

Principle

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

Code Provisions	Compliance	Actions by the Company
C.1.1		
Management should provide such explanation and information to the board to enable it to make an informed assessment of the financial and other information put before it for approval.	Yes	Management is required to provide detailed report and explanation to enable the Board to make an informed assessment before approval.
C.1.2		
Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13.	Yes	Monthly update has been provided to all directors, discussion will be made if necessary.
C.1.3		
The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	Yes	Company's directors and auditors state their respective responsibilities on page 61–66 of the Annual Report.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.1 Financial Reporting (continued)

Code Provisions	Compliance	Actions by the Company
C.1.4		
The directors should include in the separate statement containing a discussion and analysis of the group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term (the business model) and the strategy for delivering the issuer's objectives.	Yes	Management discussion and analysis stating the Company's strategic plans and objectives has been included in the annual report.
C.1.5		
The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required by the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	Yes	The Board aims at presenting a balanced, clear and understandable assessment of the Company's position to its shareholders and the public pursuant to all sort of statutory requirements.

C.2 Risk Management and internal controls

Principle

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

The Board is responsible for evaluating and determining the nature and extend of risks related to the Group, and maintaining appropriate and effective risk management and internal control systems report to the Audit Committee. The internal control system is designed to provide reasonable assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Risk Management and internal controls (continued)

Code Provisions	Compliance	Actions by the Company
C.2.1		
The board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.	Yes	The Board has conducted an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational, compliance controls. Based on the assessments made by the Audit Committee and the Board considered that the key areas of the Group's internal control systems have reasonably been implemented with room for improvement.
C.2.2		
The Board's annual review should, in particular, ensure the adequacy of resources, qualifications and experience of staff of the issuer's accounting, internal audit and financial reporting function, and their training programmes and budget.	Yes	The Board has conducted an annual review on the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function. Sufficient internal and external training has been provided refresh their professional knowledge.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Risk Management and internal controls (continued)

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

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Risk Management and internal controls (continued)

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

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.2 Risk Management and internal controls (continued)

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

C.3 Audit Committee

Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting, risk management and internal control principles and for maintaining an appropriate relationship with the issuer's auditors. The audit committee established under the Listing Rules should have clear terms of reference.

The Audit Committee currently comprises all three independent non-executive directors, the chairman is Mr. Huang Hung Ching. None of the members of the Audit Committee are a former partner of the Company's existing external auditors.

The Audit Committee held 2 meetings during the year to review the financial results and reports, financial reporting, internal control and compliance procedures, and to make recommendations to the Board on the re-appointment of the external auditors.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.3 Audit Committee (continued)

Code Provisions	Compliance	Actions by the Company
C.3.1		
Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.	Yes	Draft minutes prepared by the secretary of the meeting are sent to members within one month of each meeting. Full minutes are kept by the secretary of the meeting.
C.3.2		
A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of two years from the date of the person ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.	Yes	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3		
The terms of reference of the audit committee should include at least the following duties: – review of relationship with the issuer's auditors; – review of financial information of the issuer; and – oversight of the issuer's financial reporting system, risk management and internal control procedures.	Yes	The terms of reference have been revised to cover the scope of duties as required in this Code Provision. The Audit Committee has held 1 meeting with the external audit during the year.
C.3.4		
The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board by including them on the Exchange's website or the issuer's website.	Yes	The terms of reference have been published on the Stock Exchange's website and the Company's website.

C. ACCOUNTABILITY AND AUDIT (CONTINUED)

C.3 Audit Committee (continued)

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

D. DELEGATION BY THE BOARD

D.1 Management functions

Principle

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

Code Provisions	Compliance	Actions by the Company
D.1.1		
When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management.	Yes	The segregation of duties and responsibilities between the Board and the management has been defined and provided in the internal guidelines of the Company.
D.1.2		
An issuer should formalize the functions reserved to the board and those delegated to management. It should review those arrangement periodically to ensure that they remain appropriate to the issuer's need.	Yes	The duties of the Board include: – establishing strategic development and direction of the Company; – setting up the objective of management; – monitoring performance of management; and – overseeing relationships between the Company and its clients.
D.1.3		
An issuer should disclose the respective responsibilities, accountabilities and contributions of the board and management.	Yes	Proper disclosure regarding responsibilities, accountabilities and contributions of the board and management has been made.
D.1.4		
Directors should clearly understand delegation arrangements in place. Issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.	Yes	Details terms and conditions have been set out in the appointment letters of directors.

D. DELEGATION BY THE BOARD (CONTINUED)

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

The Board has established Audit Committee, Remuneration Committee and Nomination Committee with defined terms of reference. The terms of reference of the Board Committees are available on the Stock Exchange's and Company's website.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Code Provisions	Compliance	Actions by the Company
D.2.1		
Where board committees are established to deal with matters, the board should give them sufficiently clear terms of reference to enable them to perform their functions properly.	Yes	The Board has established three Board Committees (Audit Committee, Remuneration Committee and Nomination Committee) with specific terms of reference.
D.2.2		
The terms of reference of board committees should require them to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	Yes	Board Committees would report to the Board their work, findings and recommendations in Board meetings.

D. DELEGATION BY THE BOARD (CONTINUED)

D.3 Corporate Governance Functions

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

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Principle

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

Shareholders' Rights

a. How Shareholders can convene an extraordinary general meeting

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

b. The procedures for putting enquires to the Board

Shareholders may put enquiries to the Board:

(i) in writing to the Company's Hong Kong registered office Unit 1110, New Kowloon Plaza, 38 Tai Kok Tsui Road, Tai Kok Tsui, Kowloon, Hong Kong

(ii) by facsimile to 2317 4710

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

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

A. Proposal for election of a person as a Director

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

(i) If a Shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment/election of director(s), wishes to propose a person (other than the member himself/herself) for election as a director of the Company at that meeting, he/she can deposit a written notice at the Company's principal office in Hong Kong at Unit 1110, New Kowloon Plaza, 38 Tai Kok Tsui Road, Tai Kok Tsui, Kowloon, Hong Kong for the attention of the board of directors of the Company (the "Board") or the company secretary of the Company (the "Company Secretary") or at the share registration office in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

E. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

E.1 Effective communication (continued)

Shareholders' Rights (continued)

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

A. Proposal for election of a person as a Director (continued)

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

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

B. Other proposal

If a Shareholder wishes to make other proposal at Shareholders' meeting, he/she may lodge a written request, duly signed, to the Company's Hong Kong registered office at Unit 1110, New Kowloon Plaza, 38 Tai Kok Tsui Road, Tai Kok Tsui, Kowloon, Hong Kong.

E. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

E.1 Effective communication (continued)

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

E. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

E.1 Effective communication (continued)

Code Provisions	Compliance	Actions by the Company
E.1.3 The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	Yes	Sufficient clear days were given to the shareholders for general meetings.
E.1.4 The board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness.	Yes	Proper shareholders' communication policy is in place and will be reviewed by the Chairman regularly.
E.1.5 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 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.

E. COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

Constitutional Documents

During the year ended 31 December 2020, 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	1,536
Taxation services	58
Internal control review services	99
	1,693

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 *2020 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 2020 to 31 December 2020.

STAKEHOLDER ENGAGEMENT

The Group understands that its ESG objectives should involve all of its stakeholders in order to effectively achieve its set goals. It is also the intention of the management to provide regular updates 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

ENVIRONMENT

While striving to generate revenue for stakeholders and providing the best products and services to its clients, the Group recognizes the environmental potential impacts associated with its operation activities. Minimising such environmental impacts is at the heart of the Group's daily operation practices and principles for continuous development.

The Group adheres to environmental laws and regulations relevant to its operations, including but limited to the *Environmental Protection Law, Law on Prevention and Control of Atmospheric Protection* and *Law on Environmental Impact Assessment* of the People's Republic of China (PRC). The Group puts in a great amount of effort in order to ensure its activities, including the manufacturing of products and delivery of services, are performed with minimum impact to public health and the environment. In addition, we have proactively established an in-house environmental management policy, which focuses on air and water emission control, in addition to waste management and energy efficiency management.

The following sections of the ESG report will disclose the emissions and consumptions data of the Group during the reporting period, as well as reporting on the Group's policies to minimise its environmental footprints.

Impact from COVID-19

As a result of the COVID-19 pandemic, the Group's business activities were impacted during the Year, which resulted in significant differences in resource consumption and emission performance as compared to previous years. As a result, the Group's environmental statistics for the Year may not be representative of our overall environmental performance.

Air Emission

Industrial activities such as manufacturing are typically associated with significant quantities of air emissions. We strive to break the chain at Pegasus, and in order to ensure that all emissions from our industrial activities adhere to local and national standards, the Group has formulated "Air Emission and Control Guidelines" to closely monitor our factory activities.

Based on our analysis, it was determined that the main sources of emissions from the Group's activities include exhaust gas from gluing and moulding procedures during the manufacturing process.

Sources of air emission: factory

The identification of air emission sources allows the Group to impose targeted emission controls and to follow-up with appropriate actions; i.e., to mitigate the emission of volatile organic compounds (VOCs) concentration in our combustible waste. The Group is also working continuously to reduce the usage of industrial glue. We are currently gradually phasing out conventional industrial glues and replacing them with substitutes with lower VOC content.

ENVIRONMENT (CONTINUED)

Air Emission (continued)

Sources of air emission: factory (continued)

Such procedures ensure that the exhaust fumes from our factories fulfil regulatory requirements, 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. A number of subjects of air emission identified for monitoring include the following:

- Workshop (liquid glue discharge): Volatile organic compound (VOCs);
- Workshop (rubber mixing discharge): Volatile organic compound (VOCs), hydrogen sulfide (H_2S); and
- Ethylene vinyl acetate (EVA) Room and Rubber Matching Room: Dust and other particulate matter.

During the Year, the Group had not been involved in any non-compliances to the local laws and regulations related to air emission.

Carbon Emission

In addition to the efforts made in reducing air pollution, the Group has also explored various measures into reducing its overall carbon footprint associated with its daily operations.

The Carbon Footprint for the Group, including direct emissions (Scope 1) and indirect emissions (Scope 2) and other indirect emissions (Scope 3) for this reporting year is 131 tCO_2e ("Equivalent Tonnes of Carbon Dioxide"). The main sources of carbon emissions of the Group is purchased electricity. During the year, fossil fuels were not consumed during the Group's operation.

Greenhouse Gas Emissions	Emission (tonnes)
Scope 1	–
Scope 2	1,392
Scope 3[1]	124
Total	1,516

Compared to last year's carbon emission of 3,236 tCO_2e, the significant decline in carbon emission for this reporting period is mainly due to reduced company operations during the year.

[1] Scope 3 emissions are newly included for this reporting year, covering indirect emissions associated with processing of fresh water supply.

ENVIRONMENT (CONTINUED)

Waste Management

The Group strives to reduce the amount of waste generated from its daily its operation. Waste management guidelines and procedures have been established by the Group, and have been put 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 managed 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 a waste management hierarchy principle to prioritize its various management strategies. All factory waste must undergo the complete process of sorting, collection, monitoring, storage, recycle or disposal, data analysis and review.

Waste generated during the Group's operation are categorised into hazardous waste and non-hazardous waste. Hazardous waste generated by the Group includes waste glue, ink and ink containers. Hazardous wastes are disposed of by qualified hazardous waste handling services and such disposals are recorded for declaration as per regulatory requirements. As for non-hazardous waste, recyclables are segregated based on category and are sent to appropriate recyclers and treatment facilities respectively to reduce the net amount of waste generated.

The Group has not been accounting for domestic waste generated by its facilities, which have been collected and disposed of directly by local government services.

As a result of its comprehensive waste reduction measures, the Group generated a total of 1.1 tonnes of hazardous waste, 10.5 tonnes of non-hazardous waste, and have consumed a total of 8.9 tonnes of paper and 26.4 tonnes of paper boxes (i.e. shoeboxes) as packaging material.

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. As part of the Group's resources management strategy, inspections on energy and resources consumption have been conducted on a daily basis and results were constantly monitored to minimise wastage. Policies on the efficient use of resources, including energy, water and other raw materials are in place and communicated to staff members as part of their training requirement, and frequently reviewed and updated for further improvements.

The Group's operations are in accordance with the "Guidelines to Material Requirements Planning", which was reviewed and updated in March 2018. 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

As mentioned, the reduced production during the reporting period has resulted in a significant impact on the energy consumption patterns of the Group. The Group's total electricity consumption of 2,288,657 kWh, which corresponds to a reduction of about 60% as compared to the previous year. The energy intensity by electricity consumption is reported at 87.5 kWh/HK$1,000 revenue generated in 2020.

To monitor the energy efficiency of our machineries, electricity metering devices were installed at each building to monitor the daily consumption of individual operation units. An operation schedule was established for our respective production plants, where staff were strictly required to operate machineries according to a pre-defined schedule. This practice resulted in notable improvements on machinery utilisation efficiency. Furthermore, optimizations to the Group's production lines through consolidation and integration of production steps has resulted in further improvements in the manufacturing efficiency of our production facilities and reduced energy consumption.

Our staff are engaged to promote the Group's efforts in minimizing its environmental impacts and have introduced a scheme to foster a green living style. Energy saving tips and reminders are posted at our manufacturing plants and dormitories, on notice boards and next to electrical switches, to remind our staff to reduce unnecessary energy consumption. This scheme promotes environmental awareness amongst the workforce and thus lays the foundation of a sustainable living culture.

The Group will continue increasing its efforts in the areas of environmental management and resource conservation.

Overall, the energy consumption profile of the Group in 2020 consisted of 2,288,657 kWh of electricity. No fossil fuel consumption was recorded by the Group during the year.

Water

The Group recorded a water consumption of 136,579 m^3 during the reporting period (2019: 148,961 m^3), which is about 10% less than the previous year. Nevertheless, the Group will continue to enforce its water conservation efforts and existing water-saving policy – the "Water Resources Management Policy".

Regarding the wastewater generated by the Group's operations, it has continued its efforts in reducing the volume of sewage discharge during the reporting period . The Group has established "Wastewater Pollution Control Management Guidelines" for sewage treatment and water recycling management. Of the wastewater generated by the Group, about 65% is recycled before discharge. Prior to discharge, the Group processes its wastewater at onsite water treatment facilities before final discharge, reducing chemical organic demand (COD), suspended solids (SS), biochemical oxygen demand (BOD), ammonia nitrogen (NH3-N) and phosphate to levels in compliance with local emission limits.

In conclusion, the amount of sewage generated for the Group is 75,425 m^3 for the year. And the water consumption intensity was at 2.9 m^3/HK$1,000 revenue generated.

ENVIRONMENT (CONTINUED)

Summary

The consolidated data with respect to key performance indicators (KPIs) regarding emissions and resource consumption associated with the Group during the reporting period is summarized in the following table.

Environmental KPIs

Category	Unit	2020
Energy Consumption		
Total Energy Consumption	GJ	8,239
Petrol Consumption	GJ (L)	–
Electricity Consumption	GJ (kWh)	8,239 (2,288,657)
Total Consumption Intensity	GJ/1,000 HK$ revenue	0.315
Greenhouse Gas Emissions		
Total Greenhouse Gas (GHG) Emissions	tCO_2e	1,516
Scope 1 – Direct Emissions	tCO_2e	–
Scope 2 – Energy Indirect Emissions	tCO_2e	1,392
Scope 3 – Other Indirect Emissions	tCO_2e	124
Total Greenhouse Gas (GHG) Emissions Intensity	tCO_2e/1,000 HK$ revenue	0.058
Air Emissions		
Nitrogen Oxides (NO_x) Emissions	kg	–
Sulphur Oxides (SO_x) Emissions	kg	–
Particulate Matter Emissions	kg	–
Waste Management		
Total Hazardous Waste Produced	tonnes	1.1
Total Non-Hazardous Waste Produced	tonnes	10.5
Total Hazardous Waste Intensity	kg/1,000 HK$ revenue	0.041
Total Non-Hazardous Waste Intensity	kg/1,000 HK$ revenue	0.4016
Total Wastewater Generation	m^3	75,435
Use of Resources		
Total Water Consumption	m^3	136,579
Total Water Consumption Intensity	m^3/1,000 HK$ revenue	5.22
Packaging Materials		
Paper	tonnes	8.9
Paper Boxes	tonnes	26.4

SOCIAL

The Group believes that our employees are the most valuable asset to our business and, we strive to provide the best working environment and remuneration within our ability in order 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 employment topics such as working hours, remuneration, employee benefits, holidays and leaves etc. While all staff are paid above minimum legal wages, overtime work is on voluntary basis (no more than three hours per day) and employees will receive overtime pay up to 3 times of their normal wage. In addition to statutory holidays, the Group also provides paid annual leave, bereavement leave, marriage leave, maternity leave, paternity leave, sick leave and compensation leave to employees. Leave application from employees are approved by management based on production schedule, with the exception of personal reasons (i.e. marriage, funeral, maternity, injury, etc.). We provide social insurance and housing provident fund to all our employees in accordance with related social welfare regulations in the PRC.

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

Prevention of Forced and Child Labour

The Group does not tolerate the use of forced and child labour, and it stands up to takes action towards protecting those that are vulnerable in the society. The Group strictly accords to its "Child Labour Prohibition Polices and Remedial Procedures" to prohibit any use of child labour, by not employing employees aged below the relevant legal threshold (under 16 years of age) of the respective jurisdictions. During the recruitment process, the Group conducts a thorough background check for each candidate, including verification of their identity. In the unlikely event of underaged candidates being hired in operations, the Group will follow the procedure mandated in its "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 has established "Anti-Forced Labour Procedures" to ensure that all employees hired by the company are able to work in a peaceful and voluntary manner.

SOCIAL (CONTINUED)

Prevention of Forced and Child Labour (continued)

During the reporting period, there was neither child nor forced labour in the Group's operations, and the Group remains 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).

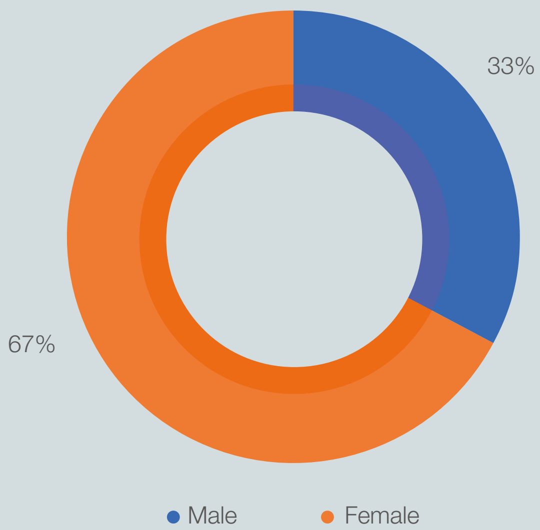
Equal Opportunity Employer

The Group is an equal opportunity employer and shall not tolerate any form discrimination in the workplace, which also covers the recruitment process, as well as staff promotions and remunerations. The Group believes employees should be evaluated solely based on their work performance, rather than factors such as 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.

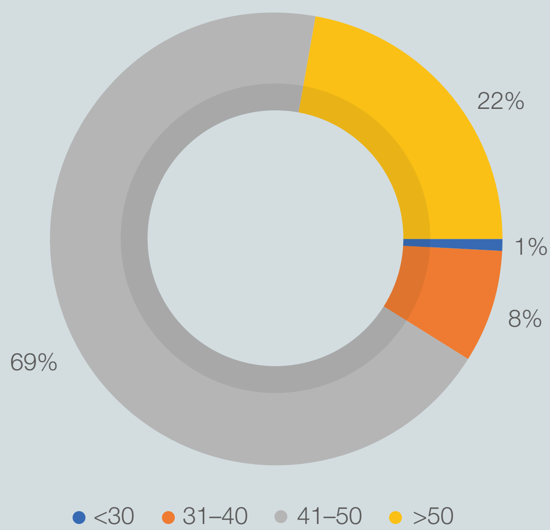
Workplace Diversity

Pegasus welcomes candidates from all backgrounds. As of 31 December 2020, the Group has approximately 240 employees. Based on the analysis of the Group's demographics, it was found that 41 to 50 year-old is our dominant age group. The current male to female ratio of our staff is 1:2.01 in comparison to 1:1.78 from the previous reporting period. The following charts presents data regarding the diversity of our staff members, in terms of gender and age distribution.

GENDER DISTRIBUTION



AGE DISTRIBUTION



SOCIAL (CONTINUED)

Appraisal System and Termination of Employment

The Group's appraisal system is designed to assess the employees' work objectives, performances, attitude and capacity. Employees will be promoted with according salary adjustment following a point-based appraisal system, following the pay scale set in the Group's "Salary Policy". In addition, our "Dismissal Management Policy" provides a clear guidance on handling employee 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 sign-off and filing.

Health and Safety

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

The Group's "Occupational Health and Safety Policy" has been developed in compliance with local laws and regulations. Additional focus has been placed 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. The Group protects staff from potential occupational health risks and ensure work place safety. Through control measures, such as provision of personal protection equipment to staff who are required to work at potentially hazardous environments, along with the displaying of "Material Safety Data Sheet ("MSDS")" and relevant notes on notification boards. In addition, machinery at our manufacturing facilities have incorporated various safety features by design, including two-hand controls and emergency shutdown switches.

Provision of Clean 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, along with the constant monitoring of drinking water quality. It is the intention of the management to provide all our factory employees with access to water safe for consumption at convenient locations throughout their work hours.

During the reporting period, no work-related fatalities or work injuries were recorded. The Group will continue to improve on its work safety policies to target a zero workplace injury clean record following full resumption of our operations.

COVID-19 Response Measures

During the year, the Group's business operations were impacted by COVID-19. To limit the likelihood of the pandemic from impacting the Group's employees, the Group has introduced a set of emergency response policies which detail the precautions to be taken. In case any staff member experiences a fever or syndromes of upper respiratory infection, they are required to inform their supervisors and immediately leave the workplace to seek medical advice. The employee's workstation will be disinfected thoroughly and the staff member will only be allowed to return to the workplace after confirmation of satisfactory health condition issued from a hospital.

SOCIAL (CONTINUED)

Development and Training

The Group strongly believes that the enhanced skill set and knowledge of its staff via corporate training, will be reflected in the production of better quality of products and services. During the reporting year, the Group arranged various training courses for employees from different departments. The Group empowers new staff by helping them to adapt to their new working environment. All new staff members are provided with an 8-hour orientation training, which covers a diverse list of topics, including work rights and benefits, as well as environmental protection policies, and occupational health and safety. Employees are required to pass a test after completion of the orientation training to confirm their understanding of the training material and ability to apply the knowledge.

The Group conducts both internal and external trainings for concerned staff members, departments, and sometimes all of its employees. Training topics included Work Safety, Emergency Response & First-Aid, Occupational Hygiene, Machinery Operation, etc. The majority of these training courses are targeted at general staff regarding their daily work routines.

The training statistics for the Group's staff during the reporting period are summarized below:

Training Statistics	
Total Training Hours	2,270
Male Employees	827
Female Employees	1,443
Senior Management Staff	198
Middle Management Staff	317
Other Employees	1,729
Average Training Hours	
Male Employees	10.5
Female Employees	9.1

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. As part of this strategy, the Group carefully selects suppliers to allow comprehensive control of its finished products.

SOCIAL (CONTINUED)

Supply Chain Management and Product Quality Control (continued)

The Group has adopted a specific "Supplier Assessment Checklist" for supplier performance verification amongst different aspects, including quality, delivery schedule, 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. It is also essential for our suppliers to have an adequate quality assurance system and be capable of issuing quality reports (eg. SGS reports) for their supplied goods. All audit results are evaluated by the Procurement Department Manager prior to inclusion in the "Qualified Supplier List". The performance of accredited suppliers in the list are reviewed on a half-yearly basis. By doing so, positive influence will be exerted on supplier's manufacturing practices, minimising supplier risk to the Group's business which may result from sub-quality purchases.

The Group is strictly abiding to relevant national laws and regulations on product quality. By formulating internal rules and policies regarding product quality according to relevant laws and regulations of the state, the Group 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 organized 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, only suppliers with products complying with stringent worldwide regulations and the REACH Restricted Substances List ("RSL") will be selected. They will also be required to provide the AZO Test Report to ensure their products are free of hazardous materials. The manufacturing processes employed by our suppliers are regularly inspected by QAT to ensure compliance with the Group's "Quality Management Policy", which covers the whole production process including 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 exact issue of the finished goods, the production team would accordingly arrange for the handling of the rejected products, such as unpacking, sorting degrading, and discarding. The team would remanufacture the required quantities by due and ensure they are up to standard before release.

Products rejected by the client will be sent to a specialized depot where inventory of such goods is strictly monitored. Such products are disposed regularly, and documented in detail (including the quantity, factory of production, production date and methods of disposal) to ensure proper tracking of rejected products.

SOCIAL (CONTINUED)

Protection of Intellectual Property

The Group established clear guidelines addressing the management of client's product safety and intellectual rights. From the confidential product design process to limiting the production quantity of goods, responsible departments are trained explicitly safeguard every client's rights on intellectual property 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 of any possibilities which may lead to an infringement of copyright to a client's product; for example, missing of sample product, the product sales department would perform a follow-up action with the client immediately to report on the issue and seek for further advice.

Materials Unit: The material unit assists in logistics and storage of materials provided by our client. It also maintains a clear record of the product's location and 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 distribute any form of information without prior approval by the client.

Consumer Satisfaction and Product Recall Procedures

Pegasus strives to produce the best service and products possible. Unfortunately, in rare occurrences, and like any other reputable companies, there may be unsatisfied customers coming back to us with complaints. The Group takes complaints seriously and has developed "Customer Services and Complaint Guidelines" for frontline staff with official procedures for handling customer complaints.

Upon receipt of customer complaints, the complaints would be forwarded to the QAT, where an assigned team member would conduct a meeting with concerned department in effort of identifying the underlying issue behind the complaint.

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.

SOCIAL (CONTINUED)

Consumer Satisfaction and Product Recall Procedures (continued)

A monthly report documenting the reported customer complaints is issued to the manufacturing department for them to develop relevant improvement strategies accordingly.

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

As a result, the Group's product recall rate remained within the Group's target of 0.08%.

Anti-Corruption

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

The Group has established a "Code of Conduct" to give clear guidelines on the prevention of corruption and bribery activities in its operations. Relevant anti-corruption policies are instructed to all new staff members during 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, theft, money laundering, extortion, conflict of interest, intellectual property infringement, and unfair competition, etc. are also strictly forbidden under the Code of Conduct. A telephone hotline has been established for whistleblowing in case any suspicious activities are identified. The Group treats anti-corruption very seriously and thorough investigation will be performed for each reported case.

During the reporting period, 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 provide positive impact to the local community through monetary donations and volunteer activities. It is our goal to contribute to the well-being of local citizens and maintain a symbiotic relationship with the community. The Group will continue to look for opportunities to extend our community outreach and social contribution.

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 2020 included in 2020 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 2020 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 2020, 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 2020 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 2021.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Huang Hung Ching

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

Hong Kong, 30 March 2021

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Chen San, Thomas, aged 70, 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 63, 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 65, 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 68, 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 57, 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 63, 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 70, 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 56, 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 60, 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.

Mr. Hans Wu, aged 31, 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. Ng Chung Lok, aged 37, 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 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged principally in the manufacture and sale of footwear products and leasing of investment properties to generate rental income. The activities of its associate and subsidiaries are set out in Notes 15 and 31, 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 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 67.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The buildings and investment properties of the Group were revalued at 31 December 2020. A revaluation increase of US$1,113,000 and US$14,922,000 net of related deferred taxation US$278,000 and US$3,731,000 have been credited directly to the properties revaluation reserve.

Details of movements during the year in the Group's property, plant and equipment and investment properties are set out in Notes 12 and 13 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 22 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 2020 and 2019, the Company's reserves available for distribution to shareholders consisted of retained profits and contributed surplus, totalling US$19,818,000 (2019: US$20,273,000).

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wu Chen San, Thomas (Chairman)
Mr. Wu Jenn Chang, Michael (Deputy Chairman)
Mr. Wu Jenn Tzong, Jackson
Mr. Ho Chin Fa, Steven

Independent non-executive directors:

Mr. Huang Hung Ching
Mr. Lai Jenn Yang, Jeffrey
Mr. Liu Chung Kang, Helios

In accordance with Clause 87(1) of the Company's Bye-laws, Messrs. Lai Jenn Yang, Jeffrey will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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

DIRECTORS (CONTINUED)

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange (the "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 2020, 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 2020, 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 26 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 2020, 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 2020.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the Group's largest customer accounted for approximately 61.80% of the Group's total revenue. The five largest customers accounted for all of the Group's total revenues.

For the year ended 31 December 2020, the Group's largest supplier accounted for approximately 19.05% of the Group's total purchases. The five largest suppliers comprised 68.31% 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 2020.

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, 30 March 2021

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 67 to 143, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 significance of the balance to the consolidated financial statements as a whole, combined with the significant estimates associated with the determination of the fair value of the Group's buildings. As disclosed in Note 4 to the consolidated financial statements, the management estimated the fair value of the Group's buildings to be US$23,969,000 at 31 December 2020, representing 35% of total assets of the Group. During the year, revaluation increases of US$315,000 and US$798,000 were recognised in properties revaluation reserve at the date of transfer from owner-occupation to investment properties and as at year ended 31 December 2020, respectively. The fair value of the buildings was supported by valuations conducted by an independent external valuer. Details of the valuation techniques and key inputs used in the valuation are disclosed in Note 12 to the consolidated financial statements. The valuation of buildings is dependent on certain key inputs including reversionary yield, comparable market rents of similar properties with adjustments to reflect different locations, vacancy ratio and land yield. Changes to these key inputs may result in changes in the fair value of the Group's buildings.	Our procedures in relation to the management's valuation of buildings included: • Evaluating the competence, capabilities and objectivity of the independent external valuer; • Understanding the valuer's valuation techniques, key inputs adopted in the valuation; and • Assessing the reasonableness of property valuation techniques, key inputs used in the valuation by (i) checking the reversionary yield and market rents of similar properties and locations based on available market data; and (ii) comparing to relevant market information on vacancy ratio and land yield adopted in similar properties and locations.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant estimates associated with the determination of the fair value of the Group's investment properties. As disclosed in Note 4 to the consolidated financial statements, the management estimated the fair value of the Group's investment properties to be US$27,307,000 at 31 December 2020, representing 40% total assets of the Group. During the year, certain of property, plant and equipment and right-of-use assets were transferred to investment properties and an increase in fair value of investment properties amounted to US$14,922,000 and US$3,746,000, at the date of transfer from right-of-use assets to investment properties and as at year ended 31 December 2020, respectively. The fair value of the investment properties was supported by valuations conducted by an independent external valuer. Details of the valuation techniques and key inputs used in the valuation are disclosed in Note 13 to the consolidated financial statements. The valuation of investment properties is dependent on certain key inputs including the term yield, reversionary yield, market rents of similar properties with adjustments to reflect different locations. Changes to these key inputs may result in changes in the fair value of the Group's investment properties.	Our procedures in relation to the management's valuation of investment properties included: • Evaluating the competence, capabilities and objectivity of the independent external valuer; • Understanding the valuer's valuation techniques, key inputs adopted in the valuation; and • Assessing the reasonableness of property valuation techniques, key inputs used in the valuation by (i) checking the details of rentals to the respective underlying existing tenancy agreements; and (ii) comparing to relevant market information on reversionary yield and market rents adopted in similar properties.

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, action taken to eliminate threats or safeguards applied.

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 Yeung Pik Fung.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	2020	2019
		US$'000	US$'000
Revenue	5	3,352	4,595
Cost of sales		(2,903)	(11,189)
Gross profit (loss)		449	(6,594)
Other income		340	590
Other gains and losses		447	(8,408)
Fair value change of investment properties		3,746	–
Selling and distribution costs		(332)	(567)
General and administrative expenses		(3,252)	(4,114)
Other expense		(1,037)	(2,568)
Share of result of an associate		–	(240)
Interest expense on lease liabilities		(41)	(44)
Profit (loss) before tax	6	320	(21,945)
Tax expense	9	(945)	(25)
Loss for the year attributable to owners of the Company		(625)	(21,970)
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		2,863	(911)
Items that will not be reclassified subsequently to profit or loss:			
Revaluation increase (decrease) on buildings		1,113	(6,511)
Revaluation surplus of right-of-use assets transferred to investment properties		14,922	–
Deferred tax recognised on revaluation of buildings		(278)	1,628
Deferred tax recognised on revaluation surplus of investment properties reclassified from right-of-use assets transferred to investment properties		(3,731)	–
		12,026	(4,883)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	**2020**	2019
		US$'000	US$'000
Other comprehensive income (expense) for the year, net of tax		**14,889**	(5,794)
Total comprehensive income (expense) for the year attributable to owners of the Company		**14,264**	(27,764)
Loss per share	11		
Basic		**(0.08 US cents)**	(3.01 US cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 US$'000	2019 US$'000
Non-current assets			
Property, plant and equipment	12	**23,981**	28,916
Investment properties	13	**27,307**	–
Right-of-use assets	14	**3,561**	4,173
Accrued rentals	17	**469**	–
Interest in an associate	15	**–**	–
		55,318	33,089
Current assets			
Inventories	16	**1,435**	438
Trade and other receivables	17	**999**	1,150
Financial assets at fair value through profit or loss	18	**378**	565
Bank balances and cash	19	**9,754**	12,519
		12,566	14,672
Current liabilities			
Trade and other payables	20	**2,738**	2,296
Lease liabilities	21	**114**	92
Provision for housing provident fund	27	**3,109**	3,016
Tax payable		**937**	896
		6,898	6,300
Net current assets		**5,668**	8,372
		60,986	41,461

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 US$'000	2019 US$'000
Capital and reserves			
Share capital	22	**9,428**	9,428
Reserves		**43,487**	29,223
Total equity		**52,915**	38,651
Non-current liabilities			
Deferred tax liabilities	23	**7,307**	1,979
Lease liabilities	21	**764**	831
		8,071	2,810
		60,986	41,461

The consolidated financial statements on pages 67 to 143 were approved and authorised for issue by the Board of Directors on 30 March 2021 and are signed on its behalf by:

Wu Chen San, Thomas
DIRECTOR

Wu Jenn Chang, Michael
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company						
	Share capital	Share premium	Properties revaluation reserve	Translation reserve	Merger reserve	Retained profits (Accumulated losses)	Total
	US$'000	US$'000	US$'000	US$'000	US$'000 (note)	US$'000	US$'000
At 1 January 2019	9,428	21,637	9,029	12,554	(4,512)	18,279	66,415
Loss for the year	–	–	–	–	–	(21,970)	(21,970)
Exchange differences on translating foreign operations	–	–	–	(911)	–	–	(911)
Revaluation decrease on buildings	–	–	(6,511)	–	–	–	(6,511)
Deferred tax liability recognised on revaluation of buildings	–	–	1,628	–	–	–	1,628
Total comprehensive expense for the year	–	–	(4,883)	(911)	–	(21,970)	(27,764)
At 31 December 2019	9,428	21,637	4,146	11,643	(4,512)	(3,691)	38,651
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(625)**	**(625)**
Exchange differences on translating foreign operations	**–**	**–**	**–**	**2,863**	**–**	**–**	**2,863**
Revaluation increase on buildings	**–**	**–**	**1,113**	**–**	**–**	**–**	**1,113**
Revaluation surplus of right-of-use assets transferred to investment properties	**–**	**–**	**14,922**	**–**	**–**	**–**	**14,922**
Deferred tax liability recognised on revaluation of buildings	**–**	**–**	**(278)**	**–**	**–**	**–**	**(278)**
Deferred tax liability recognised on revaluation surplus of right-of-use assets transferred to investment properties	**–**	**–**	**(3,731)**	**–**	**–**	**–**	**(3,731)**
Total comprehensive income (expense) for the year	**–**	**–**	**12,026**	**2,863**	**–**	**(625)**	**14,264**
At 31 December 2020	**9,428**	**21,637**	**16,172**	**14,506**	**(4,512)**	**(4,316)**	**52,915**

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 2020

	2020 US$'000	2019 US$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**320**	(21,945)
Adjustments for:		
Depreciation of property, plant and equipment	**981**	1,905
Depreciation of right-of-use assets	**157**	281
(Gain) loss on disposal of property, plant and equipment	**(426)**	2,308
Net loss on fair value changes of financial assets at fair value through profit or loss	**187**	37
Write-down of inventories	**346**	1,687
Revaluation decrease on investment properties	**(3,746)**	–
Interest expense on lease liabilities	**41**	44
Provision for housing provident fund	**48**	35
Interest income	**(88)**	(245)
Impairment loss recognised in respect of property, plant and equipment	**–**	4,982
Impairment loss recognised in respect of right-of-use assets	**–**	913
(Reversal of) impairment loss recognised in respect of an associate	**(266)**	266
Share of result of an associate	**–**	240
Dividends from financial assets at fair value through profit or loss ("FVTPL")	**–**	(37)
Unrealised net exchange gain	**–**	(380)
Operating cash flows before movements in working capital	**(2,446)**	(9,909)
(Increase) decrease in inventories	**(1,240)**	2,658
(Increase) decrease in trade and other receivables	**(142)**	281
Increase (decrease) in trade and other payables and provision for housing provident fund	**388**	(936)
Cash used in operations	**(3,440)**	(7,906)
Tax paid to other jurisdictions	**(10)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(3,450)**	(7,906)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 US$'000	2019 US$'000
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	**438**	848
Dividends from an associate	**266**	–
Interest received	**88**	245
Dividends from financial assets at FVTPL	**–**	37
NET CASH FROM INVESTING ACTIVITIES	**792**	1,130
FINANCING ACTIVITIES		
Repayment of lease liabilities	**(92)**	(92)
Interest expense on lease liabilities	**(41)**	(44)
NET CASH USED IN FINANCING ACTIVITIES	**(133)**	(136)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,791)**	(6,912)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**12,519**	19,441
Effect of foreign exchange rate changes	**26**	(10)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	**9,754**	12,519

1. GENERAL INFORMATION

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 and leasing of investment properties to generate operating lease income.

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

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

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

Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Application of Amendments to HKAS 1 and HKAS 8 Definition of Material (Continued)

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 17	Insurance Contracts and the related Amendments[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

[1] Effective for annual periods beginning on or after 1 January 2023
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 June 2020
[5] Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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.

For the year ended 31 December 2020, the Group incurred a loss of US$625,000. The Group has only one sole customer in manufacture and sales of footwear products. In preparing the consolidated financial statements, the directors have given careful consideration to the impact of current and anticipated future liquidity of the Group and were satisfied that:

(a) As at 31 December 2020, the Group has bank balances and cash of US$9,754,000, which is available for its working capital requirements for the next twelve months;

(b) As at 31 December 2020, the Group currently does not have any borrowings and material capital commitment. The directors do not expect the Group will have significant cash outflows from investing activities and financing activities for the next twelve months;

(c) For the year ended 31 December 2020, the Group entered into 5 lease contracts. The projected income from lease contracts are US$2,430,000 for the next twelve months. Meanwhile, the Group streamlined its business operation and carried out a series of staff integration. The Group recognised redundancy costs of US$1,037,000. The Group would be able to control costs and has sufficient funds to meet its current and future obligations. Relevant actions include completion of staff integration for the year ended 31 December 2020, continuing the manufacture and sales of footwear products and leasing out the unutilised land and buildings in the People's Republic of China (the "PRC").

The directors are of the opinion that taking into account of the internal available funds of the Group, the projected rental income generated from the lease contracts for the next twelve months and the cost control on the existing operation, the Group has sufficient working capital for its present requirements for the foreseeable future which is at least, but is not limited to twelve months from the end of the report date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with HKFRS 16 “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” (“HKAS 36”).

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.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

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

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

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

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. 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.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 is not allocated to any asset, including goodwill, that 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers

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 or 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.

Leases

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.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases (Continued)

The Group as a lessee

Short-term lease

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

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.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises 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.

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Retirement benefits cost

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.

Termination benefits

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

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 (loss) 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 (other than in a business combination) 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation (Continued)

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, except for freehold land, which is always presumed to be recovered entirely through sale.

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 the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

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 to the same taxable entity by the same taxation authority.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods, or for administrative purposes 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.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment (Continued)

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land classified as right-of-use assets) at the date of transfer is recognised in other comprehensive income and accumulated in properties revaluation reserve. On the subsequent sale or retirement of the property, the relevant properties revaluation reserve will be transferred directly to retained profits.

Depreciation on revalued buildings is recognised in profit or loss.

Depreciation is recognised so as to write off the cost or valuation of property, plant and equipment less than 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use 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 property, plant and equipment and right-of-use 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.

In testing a cash-generating unit for impairment, corporates assets are allocated to the relevant cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating unit, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating unit. 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 or the group of cash-generating units. 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 or the group of cash-generating units. 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment on property, plant and equipment and right-of-use assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of 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 or a group of 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. 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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 fair value.

A financial asset is 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets *(Continued)*

Financial assets at FVTPL

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

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

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, refundable rental deposit and bank balances) and accrued rentals which are subject to impairment assessment under HKFRS 9. 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and accrued rentals.

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 increases in the likelihood or risk of a default occurring since initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 *(Continued)*

(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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 *(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 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 *(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 and 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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

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. CRITICAL ACCOUNTING JUDGEMENT AND 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.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or assets arising from investment properties that are measure using their fair value model, the directors of the Company have reviewed the Group's investment properties and concluded that they are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Therefore, the directors of the Company have determined that the presumption that the carrying amounts of investment properties are recovered through sale is rebutted. As a result, deferred tax liabilities of US$5,245,000 (2019: nil) have been recognised on the basis that these investment properties will be recovered through use as the Group is subject to income tax in the PRC.

Key sources of estimation uncertainty

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

As at 31 December 2020, the management estimates the fair value of the buildings with reference to fair value determined by an independent external valuer using property valuation techniques, key inputs including reversionary yield, comparable market rents of similar properties with adjustment to reflect different locations, vacancy ratio, land yield and the remaining useful lives of the leasehold lands.

In prior year, the management estimated the fair value of the buildings with referent to fair value determined by the independent external valuer using property valuation techniques and key inputs, including current construction costs of similar buildings and the remaining useful lives of the Group's buildings, and other assumptions.

Note 12 provides detailed information about the valuation techniques, key inputs used in the determination of the fair value of the buildings. These key inputs impact the revaluation of buildings over the useful lives of buildings and also the amount recognised in properties revaluation reserve.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Valuation of buildings (Continued)

As at 31 December 2020, the fair value of the buildings was US$23,969,000 (2019: US$28,892,000), with a revaluation increase of US$315,000 and US$798,000 (2019: decrease of nil and US$6,511,000) being recognised in properties revaluation reserve at the date of transfer from owner-occupation to investment properties and as at year ended 31 December 2020, respectively.

Valuation of investment properties

The management estimates the fair value of the investment properties with reference to fair value determined by an independent external valuer using property valuation techniques, key inputs including the term yield, reversionary yield, market rents of similar properties with adjustments to reflect different locations. Note 13 provides detailed information about the valuation techniques, key inputs used in the determination of the fair value of the investment properties. These key inputs impact the fair value of investment properties and also the amount recognised in consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2020, the fair value of the investment properties was US$27,307,000 (2019: nil), with a fair value increase of US$3,746,000 (2019: nil) recognised in profit or loss for the year ended 31 December 2020.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment assessment of Identified PPE and Identified ROU assets (as defined in Note 12)

The Group no longer continued its business relationship with the largest customer since 2018 and received less sales orders from some of its existing customers, the management of the Group concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of Identified PPE and Identified ROU assets during the year ended 31 December 2019. Further assessment on recoverable amounts of Identified PPE and Identified ROU assets was performed as at 31 December 2020..

The recoverable amounts of Identified PPE and Identified ROU assets were determined on the basis of the cash-generating unit to which the assets belong as it was not possible to estimate the recoverable amount individually. An impairment loss was recognised for the amount by which the carrying amounts of cash-generating unit exceeds their recoverable amounts, which had been determined based on value in use calculations as it was not possible to measure fair value less costs of disposal because there was no basis to make a reliable estimation of the amount obtainable from the sales of the assets in an orderly transaction between market participants at the measurement date.

In estimating the value in use calculation which assessed based on the discounted future pre-tax cash flows expected to be derived from the cash-generating unit, 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.

Based on the management's assessment, an impairment loss on certain Identified PPE and Identified ROU assets of US$4,982,000 and US$913,000 were recognised in profit or loss during the year ended 31 December 2019. As at 31 December 2020, the accumulated impairment loss of the related Identified PPE and Identified ROU assets are US$7,531,000 (2019: US$7,531,000) and US$913,000 (2019: US$913,000), respectively. No reversal of impairment loss on these Identified PPE and Identified ROU assets were recognised in profit or loss during the year ended 31 December 2020.

Provision for housing provident fund

As explained in Note 27, 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 2020, the carrying amount of the provision for housing provident fund is US$3,109,000 (2019: US$3,016,000).

5. REVENUE AND SEGMENT INFORMATION

Revenue generated from manufacturing and sales of footwear products is recognised at a point in time during the year. The Group's contracts with customers for manufacturing and sales of footwear products are based on customer's specification with no alternative use to the Group. Taking into consideration for contract terms and the relevant legal and regulatory environment that apply to those relevant contracts, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specified location. Transportation and handling activities that occur before the customers obtain control are considered as fulfilment activities. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence and loss relation to the goods. The normal credit period is 60 days upon delivery.

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.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

In prior years, the Group's chief executive officer, being the chief operating decision maker (the "CODM") of the Group, for the purpose of resources allocation and performance assessment, regularly reviewed the revenue and operating results analysis by geographical market based on destination of the goods shipped or delivered, irrespective of the origin of the goods. The Group's operating and reportable segments were determined based on location of geographical markets, including North America, Asia, Europe and Other regions segment.

During the year, the Group reorganised its internal reporting structure upon commencement of the business engaging in leasing of properties in the PRC which resulted in changes to the composition of its operating and reportable segments.

Information reported to the CODM are reorganised based on types of goods or services delivered or provided. There are two operating and reportable segments, namely manufacture and sales of footwear products and lease of properties. Prior year segment information have been represented to conform with the current year's presentation.

However, the CODM does not regularly review the assets and liabilities by operating segments and hence no analysis of segment assets and segment liabilities are presented.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

For the year ended 31 December 2020

	Manufacture and sales of footwear products US$'000	Lease of properties US$'000	Total US$'000
REVENUE	**2,070**	**1,282**	**3,352**
RESULTS			
Segment results	**(556)**	**985**	**429**
Unallocated other income			**340**
Unallocated other gains and losses			**447**
Unallocated other expense			**(1,037)**
Fair value change of investment properties			**3,746**
Unallocated corporate expenses			**(3,605)**
Profit before tax			**320**

For the year ended 31 December 2019

	Manufacture and sales of footwear products US$'000	Lease of properties US$'000	Total US$'000
REVENUE	4,595	–	4,595
RESULTS			
Segment results	(6,681)	–	(6,681)
Unallocated other income			590
Unallocated other gains and losses			(8,408)
Unallocated other expense			(2,568)
Unallocated corporate expenses			(4,638)
Share of result of an associate			(240)
Loss before tax			(21,945)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the (loss incurred) profit earned by each segment without allocation of other income (including interest income, dividends from financial assets at FVTPL, government subsidies and certain other income), other gains and losses (including loss from change in fair value of financial assets at FVTPL, impairment loss recognised in respect of property, plant and equipment and right-of use assets), other expense (representing redundancy cost), unallocated expenses (including central administration costs and certain unallocated expenses), 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.

Other segment information

For the year ended 31 December 2020

	Manufacture and sales of footwear products US$'000	Lease of properties US$'000	Total US$'000
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	981	–	981
Depreciation of right-of-use assets	157	–	157
Gain on disposal of property, plant and equipment	(426)	–	(426)
Write-down of inventories	346	–	346

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2019

	Manufacture and sales of footwear products US$'000	Lease of properties US$'000	Total US$'000
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	1,905	–	1,905
Depreciation of right-of-use assets	281	–	281
Loss on disposal of property, plant and equipment	2,308	–	2,308
Write-down of inventories	1,687	–	1,687

Revenue from footwear products and lease of properties

The Group's revenue for the year ended 31 December 2020 was generated from manufacture and sales of footwear products, and rental income from lease of properties (2019: manufacture and sales of footwear products).

Geographical information

The Group's revenue from contracts with customer generated from manufacture and sales of footwear products based on the destination of the goods shipped or delivered, is detailed below:

	2020 US$'000	2019 US$'000
United States of America	**829**	3,413
Japan	**9**	36
Others	**1,232**	1,146
	2,070	4,595

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

The Group's rental income generated from lease of properties in the PRC amounted to US$1,282,000 (2019: nil).

The Group's operations are located in the PRC and Hong Kong. The information about its non-current assets by geographical location and place of operations are detailed below:

	2020	2019
	US$'000	US$'000
PRC	**55,318**	33,089

Information about major customers

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

	2020	2019
	US$'000	US$'000
Customer A*	**2,070**	2,499
Customer B* (note)	**–**	2,048
Customer C	**530**	–
Customer D	**423**	–

* The revenue of the above customers are generated from its various locations in North America, Asia and Europe.

note: The customer did not conduct any business with the Group for the year ended 31 December 2020.

6. PROFIT (LOSS) BEFORE TAX

	2020 US$'000	2019 US$'000
Profit (loss) before tax has been arrived at after charging:		
Directors' emoluments (Note 7)	**136**	155
Other staff costs	**2,816**	7,928
Retirement benefits scheme contributions (note e)	**110**	588
Total staff costs	**3,062**	8,671
Capitalised in inventories	**(1,277)**	(3,198)
	1,785	5,473
Auditor's remuneration	**198**	191
Cost of inventories recognised as an expense (note a)	**2,691**	11,154
Depreciation of right-of-use assets	**157**	281
Depreciation of property, plant and equipment	**981**	1,905
Provision for housing provident fund (included in cost of sales) (Note 27)	**48**	35
and after charging (crediting) to other gains and losses:		
(Gain) loss on disposal of property, plant and equipment	**(426)**	2,308
Loss from change in fair value of financial assets at FVTPL	**187**	37
Impairment loss recognised in respect of property, plant and equipment (note b)	**–**	4,982
Impairment loss recognised in respect of right-of-use assets (note b)	**–**	913
(Reversal of) impairment loss recognised in respect of an associate	**(266)**	266
Net foreign exchange loss (gain)	**58**	(98)
and after crediting to other income:		
Government subsidies (note d)	**(39)**	(152)
Interest income	**(88)**	(245)
Dividends from financial assets at FVTPL	**–**	(37)
and after charging to other expense:		
Redundancy costs (note c)	**1,037**	2,568

6. PROFIT (LOSS) BEFORE TAX *(Continued)*

notes:

a. Included in cost of inventories recognised as an expense is write-down of inventories of US$346,000 (2020: US$1,687,000).

b. During the year ended 31 December 2019, the Group conducted an impairment review of the Group's Identified PPE and Identified ROU assets as defined in Note 12 as the Group no longer continued its business relationship with a largest customer since 2019 and received less sales orders from some of its existing customers during 2019. Accordingly, the Group recognised impairment loss in respect of its Identified PPE and Identified ROU assets of US$4,982,000 and US$913,000 respectively (2020: nil).

c. During the year ended 31 December 2020, the Group streamlined its business operation and carried out a series of staff integration due to the decrease of customers' demand and the uncertainty of the global economic environment as a result of the outbreak of 2019 novel Coronavirus ("COVID-19"). Accordingly, the Group recognised redundancy costs of US$1,037,000 (2019: US$2,568,000).

d. During the year ended 31 December 2020, the Group recognised government grants of US$39,000 in respect of COVID-19-related subsidies, which relates to Employment Support Scheme provided by the Hong Kong government. The subsidies are one-off and non-recurring in nature.

   During the year ended 31 December 2019, the amount represented subsidy income received from certain government authorities in the PRC as support funds on expenses incurred for certain technology enhancement in production of a PRC subsidiary. The subsidies are one-off and non-recurring in nature.

e. Included in the retirement benefits scheme contributions is the state-managed retirement benefits scheme operated by the government of the PRC contributed by the employees of the Group's PRC subsidiaries and Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employee in Hong Kong. During the year ended 31 December 2020, the PRC government has exempted the contribution to the state-managed retirement benefits scheme for the period from February 2020 to June 2020 in respect of COVID-19.

7. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2019: 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
2020								
Fees	**–**	**–**	**–**	**–**	**8**	**8**	**8**	**24**
Other emoluments								
Salaries and other benefits	**–**	**15**	**–**	**97**	**–**	**–**	**–**	**112**
	–	**15**	**–**	**97**	**8**	**8**	**8**	**136**
2019								
Fees	–	–	–	–	8	8	8	24
Other emoluments								
Salaries and other benefits	–	15	14	97	–	–	–	126
Bonus	–	–	–	5	–	–	–	5
	–	15	14	102	8	8	8	155

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.

7. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

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 for the year ended 31 December 2020 (2019: 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, one (2019: one) are executive directors of the Company whose emoluments are included in the disclosure in Note 7 above. The emoluments of the remaining four (2019: four) individuals, are as follows:

	2020	2019
	US$'000	US$'000
Basic salaries and allowances	**193**	190
Retirement benefits scheme contributions	**4**	4
	197	194

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following band is as follows:

	2020	2019
	No. of employees	No. of employees
Nil to HK$1,000,000	**4**	4

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 2020 and 2019.

9. TAX EXPENSE

	2020 US$'000	2019 US$'000
Hong Kong Profits Tax		
Current year	**10**	27
Overprovision in prior years	**(2)**	(2)
	8	25
Deferred taxation (Note 23)	**937**	–
	945	25

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 gazette 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%. No provision has been made as the PRC subsidiaries incurred tax losses for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. No provision has been made as the group entities incorporated in these jurisdictions have no assessable profits for both years.

9. TAX EXPENSE *(Continued)*

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

	2020 US$'000	2019 US$'000
Profit (loss) before tax	**320**	(21,945)
Tax at the domestic income tax rate of 25% (2019: 25%) (note)	**80**	(5,486)
Tax effect of share of result of an associate	**–**	60
Tax effect of expenses not deductible for tax purposes	**266**	1,350
Tax effect of income not taxable for tax purposes	**(75)**	(42)
Tax effect of deductible temporary differences not recognised	**39**	1,483
Utilisation of deductible temporary differences previously not recognised	**(404)**	(88)
Overprovision in prior years	**(2)**	(2)
Tax effect of tax losses not recognised	**967**	2,758
Effect of different tax rates of subsidiaries operating in other jurisdictions	**74**	(8)
Tax expense for the year	**945**	25

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

10. DIVIDENDS

No dividend was paid or proposed for shareholders of the Company during the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: nil).

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of US$625,000 (2019: US$21,970,000) and on the number of ordinary shares of 730,650,000 (2019: 730,650,000) in issue during the year.

There are no potential ordinary shares outstanding for each of the two years ended 31 December 2020 and 2019.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST OR VALUATION						
At 1 January 2019	36,871	1,679	107,014	25,530	636	171,730
Exchange adjustments	(436)	(19)	(426)	(279)	(6)	(1,166)
Disposals	–	–	(29,686)	(1,010)	–	(30,696)
Revaluation	(7,543)	–	–	–	–	(7,543)
At 31 December 2019	28,892	1,660	76,902	24,241	630	132,325
Exchange adjustments	1,572	104	2,663	1,581	25	5,945
Transfer to investment properties (Note 13)	(6,763)	–	–	–	–	(6,763)
Disposals	–	–	(21,625)	(2)	(132)	(21,759)
Revaluation	268	–	–	–	–	268
At 31 December 2020	23,969	1,764	57,940	25,820	523	110,016
Comprising:						
At cost	–	1,764	57,940	25,820	523	86,047
At valuation – 2020	23,969	–	–	–	–	23,969
	23,969	1,764	57,940	25,820	523	110,016
DEPRECIATION AND IMPAIRMENT						
At 1 January 2019	–	1,629	101,135	22,343	600	125,707
Exchange adjustments	(21)	(19)	(362)	(206)	(5)	(613)
Provided for the year	1,053	17	609	215	11	1,905
Impairment loss recognised in profit and loss	–	33	2,553	2,396	–	4,982
Eliminated on disposals	–	–	(27,033)	(507)	–	(27,540)
Eliminated on revaluation	(1,032)	–	–	–	–	(1,032)
At 31 December 2019	–	1,660	76,902	24,241	606	103,409
Exchange adjustments	–	104	2,663	1,581	25	4,373
Provided for the year	981	–	–	–	–	981
Transfer to investment properties (Note 13)	(136)	–	–	–	–	(136)
Eliminated on disposals	–	–	(21,625)	(2)	(120)	(21,747)
Eliminated on revaluation	(845)	–	–	–	–	(845)
At 31 December 2020	–	1,764	57,940	25,820	511	86,035
CARRYING VALUES						
At 31 December 2020	23,969	–	–	–	12	23,981
At 31 December 2019	28,892	–	–	–	24	28,916

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

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	Over the shorter of the term of the lease, or 2%
Leasehold improvements	Over the shorter of the term of the lease, or 20%
Plant and machinery	10%–20%
Furniture, fixtures and equipment	20%–33⅓%
Motor vehicles	20%

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

As at 31 December 2020, property, plant and equipment of US$86,047,000 (2019: US$103,433,000) have been fully depreciated and impaired but still in use.

Impairment assessment of Identified PPE and Identified ROU assets (as defined in this note)

As the Group no longer continued its business relationship with the largest customer since 2018 and received less sales orders from some of its existing customers during the year ended 31 December 2019, and the management of the Group concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of property, plant and equipment ("Identified PPE") as disclosed in this note, and right-of-use assets ("Identified ROU assets") as disclosed in Note 14, with carrying amounts of US$33,874,000 and US$5,086,000, respectively. Further assessment on recoverable amounts of Identified PPE and Identified ROU assets was performed as at 31 December 2020.

The recoverable amounts of Identified PPE and Identified ROU assets were determined on the basis of the cash-generating unit to which the assets belong as it was not possible to estimate the recoverable amount individually. The recoverable amounts of the cash-generating unit have been determined based on value in use calculations as it was not possible to measure fair value less costs of disposal because there was no basis to make a reliable estimation of the amount obtainable from the sales of the assets in an orderly transaction between market participants at the measurement date. The recoverable amounts had been assessed based on the discounted future pre-tax cash flows expected to be derived from the Identified PPE and Identified ROU assets.

The key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which included budgeted sales, gross margin and growth rate, such estimation was based on the unit's past performance and management's expectations for the market development.

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

Impairment assessment of Identified PPE and Identified ROU assets (as defined in this note) *(Continued)*

During the year ended 31 December 2019, the calculation used cash flow projections approved by the management covering the following 5 years with annual growth rates estimated based on the historical records. The cash flows beyond the five-year period were extrapolated using zero growth rate. The discount rate used in measuring the amount of value in use was 11.08% in relation to Identified PPE and Identified ROU assets.

Based on the result of the assessment, management of the Group determined that the recoverable amounts of Identified PPE and Identified ROU assets were lower than the carrying amounts. Accordingly, impairment losses of US$4,982,000 and US$913,000 had been recognised in respect of certain Identified PPE and Identified ROU assets respectively for the year ended 31 December 2019, no impairment had been allocated to buildings and the related leasehold lands as the fair value less costs of disposal was higher than the respective carrying amounts. As at 31 December 2020, the accumulated impairment loss of the related Identified PPE and Identified ROU assets are US$7,531,000 (2019: US$7,531,000) and US$913,000 (2019: US$913,000), respectively. No reversal of impairment loss on these Identified PPE and Identified ROU assets were recognised in profit or loss during the year ended 31 December 2020.

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

For the year ended 31 December 2020, the Group entered into certain lease agreements, pursuant to which the Group agreed to lease out the self-occupied factories and staff quarters located in the PRC to independent third parties. Accordingly, certain buildings of US$6,627,000 have been transferred to investment properties at the end of owner-occupation. In addition, the management of the Group observed that the market evidence of recent rental income for similar properties becomes more available and has changed the valuation technique from depreciated replacement cost basis to income approach. The change of valuation technique has no material impact to the consolidated financial statements. The management of the Group considered the change results in a measurement that is more representative of fair value in the circumstances.

The buildings were revalued at 31 December 2020 by RHL Appraisal Limited ("RHL") on an income approach. RHL is an independent qualified professional valuers not connected with the Group. The valuation report on these buildings is signed by a director of RHL who is a member of the Hong Kong Institute of Surveyors, and was arrived at by reference to the key inputs, including reversionary yield, comparable market rents of similar properties, vacancy ratio, land yield and the remaining useful lives of the leasehold land.

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

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

The buildings were revalued at 31 December 2019 by RHL on a depreciated replacement cost basis. The valuation report on these buildings was signed by a director of RHL, and was arrived at by reference to the key inputs, including current construction costs of similar buildings and the remaining useful lives of the Group's buildings, and certain assumptions.

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.

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

A revaluation increase of US$1,113,000 (2019: decrease of US$6,511,000) has been recorded directly to properties revaluation reserve for the year ended 31 December 2020.

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$15,268,000 (2019: US$18,137,000).

There were no transfers into or out of Level 3 during both years. The following table gives information about how the fair values of the buildings are determined (in particular, the valuation techniques and key inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

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

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

Buildings held by the Group	Fair value 2020 US$'000	Fair value 2019 US$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Sensitivity
The PRC						
Industrial buildings and staff quarters	**23,969**	28,892	Level 3	2020: Income approach The key inputs are: (1) Reversionary yield (2) Monthly market rent (3) Vacancy ratio (4) Land yield	Reversionary yield of 9% per annum, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future	The higher the reversionary yield, the lower the fair value, and vice versa
					Monthly rent, based on internal floor area using direct market comparables and taking into account of age, location and individual factors such as size of properties and layout which ranged from Renminbi ("RMB") RMB12 to RMB21 per square meter an average of the gross floor area	The higher the monthly rent the higher the fair value, and vice versa
					Vacancy ratio of 15%, based on available market data of similar buildings in nearby location	The higher the vacancy ratio, the lower the fair value, and vice versa
					Land yield of 5%, based on available market data of similar location	The higher the land yield, the lower the fair value, and vice versa
				2019: Depreciated replacement cost basis The key input: Construction costs	Current construction costs of similar buildings available from market data were ranged from RMB500 to RMB1,200 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

13. INVESTMENT PROPERTIES

The Group leases out various buildings under operating leases with rentals receivable monthly. The lease contracts are entered into for fixed term of 4 to 15 years (2019: nil), with extension option to extend the lease beyond the periods held by lessees only.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

For the year ended 31 December 2020, the total cash outflow for leases is US$297,000 (2019: nil).

	US$'000
Fair value	
At 1 January 2020	–
Transfer from property, plant and equipment	6,627
Transfer from right-of-use asset	15,609
Increased in fair value recognised in profit or loss	3,746
Exchange realignment	1,325
At 31 December 2020	27,307

All of the Group's investment properties are located in the PRC.

13. INVESTMENT PROPERTIES *(Continued)*

During the year ended 31 December 2020, property, plant and equipment and right-of-use assets fair valued at US$6,627,000 and US$15,609,000, respectively were transferred to investment properties upon change in use of certain properties, evidenced by end of owner-occupation as the Group entered into various operating leases with independent external third parties. The management of the Group assessed the fair value of these buildings which are determined based on valuations performed by RHL. The valuations of the building and leasehold lands are carried out on the respective dates of transfer, by using income approach, which was arrived at by reference to the key inputs, including the term yield, reversionary yield, market rents of similar properties.

The fair value of the Group's investment properties as at 31 December 2020 has been arrived at on the basis of a valuation carried out on the respective dates by RHL. The fair value gain is mainly attributable to progressive increase of rental income entered into for fixed term of 6 to 15 years of the existing lease contracts signed by the Group and the independent third parties as compared to valuation performed as at the date of transfer.

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

The Group's investment properties are categorised within level 3 of the fair value hierarchy as at 31 December 2020.

13. INVESTMENT PROPERTIES *(Continued)*

There were no transfers into or out of Level 3 during the year.

Investment properties held by the Group	Fair value		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Sensitivity
	2020	2019				
	US$'000	US$'000				
The PRC						
Industrial buildings and staff quarters	**27,307**	nil	Level 3	Income approach The key inputs are: (1) Term yield (2) Reversionary yield (3) Monthly market rent	Term yield ranged from 5.5% to 7% per annum. Reversionary yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future, which ranged from 6.5% to 8% per annum	The higher the term yield and reversionary yield, the lower the fair value, and vice versa
					Monthly rent, based on internal floor area using direct market comparables and taking into account of age, location and individual factors such as size of properties and layout, which ranged from RMB9 to RMB21 per square meter	The higher the monthly rent the higher the fair value, and vice versa

14. RIGHT-OF-USE ASSETS

	Leasehold lands US$'000	Office premise US$'000	Total US$'000
As at 31 December 2020			
Carrying amount	3,561	–	3,561
As at 31 December 2019			
Carrying amount	4,173	–	4,173
For the year ended 31 December 2020			
Depreciation charge	157	–	157
For the year ended 31 December 2019			
Depreciation charge	195	86	281

	Year ended 31 December 2020 US$'000	Year ended 31 December 2019 US$'000
Expense relating to short-term leases	**124**	124
Total cash outflow for leases	**257**	260
Transfer to investment properties (Note 13)	**687**	–

	As at 31 December 2020 US$'000	As at 31 December 2019 US$'000
Leasehold lands with land certificates	**3,561**	4,173

14. RIGHT-OF-USE ASSETS *(Continued)*

Right-of-use assets are depreciated on a straight-line basis over the shorter of estimated useful life and lease term, which is 2 years for office premise (2019: 3 years) and range from 23 to 27 years for leasehold lands (2019: 24 to 28 years).

For both years, the Group leases office premise for its operations. Lease contracts are entered into for fixed term of 1 to 5 years for office premises, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests.

Extension option

The Group has extension option in a lease for office premise. The extension option held is exercisable only by the Group.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension option. The potential exposures to this future lease payments for extension option in which the Group is not reasonably certain to exercise is summarised below:

	Lease liabilities recognised as at 31 December 2020	**Potential future lease payments not included in lease liabilities (undiscounted)**	**Lease liabilities recognised as at 31 December 2019**	**Potential future lease payments not included in lease liabilities (undiscounted)**
	US$'000	US$'000	US$'000	US$'000
Office premise – Hong Kong	106	300	192	300

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2020 and 2019, there is no such triggering event.

14. RIGHT-OF-USE ASSETS *(Continued)*

Restrictions or covenants on leases

In addition, lease liabilities of US$923,000 were recognised related to Identified ROU assets as defined in Note 12 as at 31 December 2019 (2020: nil). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Impairment assessment

Particulars regarding impairment testing of Identified ROU assets are set out in Note 12.

15. INTEREST IN AN ASSOCIATE

	2020	2019
	US$'000	US$'000
Cost of unlisted investment in an associate	**400**	400
Share of post-acquisition losses, net of dividends received (note)	**(400)**	(134)
Impairment loss recognised in respect of an associate (note)	**–**	(266)
	–	–

note: Dividend income of US$266,000 has been received from the associate during the year ended 31 December 2020 and a reversal of impairment loss of US$266,000 (2019: impairment loss of US$266,000) had been recognised in profit or loss.

15. INTEREST IN AN ASSOCIATE *(Continued)*

The associate is inactive during the year. In the opinion of the directors of the Company, the associate is not material to the Group. The summarised financial information in respect of the Group's associate is not presented.

Particulars of the Group's associate at 31 December 2020 and 2019 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%	Inactive

16. INVENTORIES

	2020	2019
	US$'000	US$'000
Raw materials	**492**	323
Work in progress	**398**	56
Finished goods	**545**	59
	1,435	438

17. TRADE AND OTHER RECEIVABLES

	2020 US$'000	2019 US$'000
Trade receivables	591	959
Prepayment and other deposit	178	85
Refundable rental deposit	28	43
Accrued rentals	469	–
Other receivables	202	63
Total trade and other receivables	1,468	1,150
Less: accrued rentals shown under non-current assets	(469)	–
	999	1,150

As at 1 January 2019, trade receivables from contracts with customers amounted to US$826,000.

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:

	2020 US$'000	2019 US$'000
0–30 days	396	573
31–60 days	193	211
Over 60 days	2	175
Total trade receivables	591	959

17. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2020, included in the Group's trade receivables balances are debtors with aggregate carrying amount of US$2,000 (2019: US$175,000) which are past due as at the reporting date. None of the past due balances has been past due for 90 days or more for both years.

The Group's rental income are based on effective accrued rentals after taking into account of rent free period and progressive rentals which are recorded as unbilled rental receivables. Rental receivables are invoiced to tenants on a monthly basis after the rent free period and are due for settlement upon the issuance of invoices.

Accrued rentals of the Group amount to US$469,000 (2019: nil) represented the unbilled rental receivables. Accrued rentals will be collected in more than 1 year and the whole amount are classified under non-current assets.

Details of impairment assessment of trade and other receivables are set out in Note 29.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2020 **US$'000**	2019 US$'000
Listed securities held for trading:		
Equity securities listed in Hong Kong	**378**	565

19. 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 2.39% (2019: 0.01% to 3.01%) per annum.

Included in bank balances and cash, fixed bank deposits of US$6,256,000 (2019: US$7,450,000) carry interest ranging from 0.26% to 2.39% (2019: 2.17% to 3.01%) per annum and will mature within 3 months.

Details of impairment assessment of bank balances are set out in Note 29.

20. TRADE AND OTHER PAYABLES

	2020 US$'000	2019 US$'000
Trade payables	**198**	170
Accrued payroll	**281**	390
Accrued expenses	**689**	817
Rental deposit received	**671**	–
Others	**899**	919
	2,738	2,296

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

	2020 US$'000	2019 US$'000
0–30 days	**71**	42
31–60 days	**4**	7
Over 60 days	**123**	121
Total trade payables	**198**	170

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.

21. LEASE LIABILITIES

	2020 US$'000	2019 US$'000
Lease liabilities payable:		
Within one year	**114**	92
Within a period of more than one year but not more than two years	**9**	113
Within a period of more than two years but not more than five years	**34**	28
Within a period of more than five years	**721**	690
	878	923
Less: Amount due for settlement with 12 months shown under current liabilities	**(114)**	(92)
Amount due for settlement after 12 months shown under non-current liabilities	**764**	831

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	RMB US$'000	HK$ US$'000
At 31 December 2020	772	106
At 31 December 2019	731	192

22. SHARE CAPITAL

	Number of shares	Amount US$'000
Authorised:		
Ordinary shares of Hong Kong dollar ("HK$") 0.10 each		
At 1 January 2019, 31 December 2019 and 31 December 2020	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each (note)		
At 1 January 2019, 31 December 2019 and 31 December 2020	150	15,000
		34,355

	Number of shares		Amount	
	2020	2019	**2020**	2019
	'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. No convertible non-voting preference shares were ever issued.

23. 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	Revaluation of investment properties in the PRC	Total
	US$'000	US$'000	US$'000
At 1 January 2019	3,650	–	3,650
Credit to other comprehensive expense	(1,628)	–	(1,628)
Exchange adjustments	(43)	–	(43)
At 31 December 2019	1,979	–	1,979
Transfer	(339)	339	–
Charge to other comprehensive expense	278	3,731	4,009
Charge to profit or loss	–	937	937
Exchange adjustments	144	238	382
At 31 December 2020	2,062	5,245	7,307

At 31 December 2020, the Group had unused tax losses of US$18,013,000 (2019: US$14,942,000) and deductible temporary difference of US$9,745,000 (2019: US$11,205,000) 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$17,426,000 (2019: US$14,359,000) that will expire in 2021 to 2025 (2019: 2020 to 2024). Other losses may be carried forward indefinitely.

24. OPERATING LEASE

The Group as lessor

At 31 December 2020, undiscounted lease payments receivable on leases are as follows:

	US$'000
Within one year	2,126
In the second year	2,377
In the third year	2,496
In the fourth year	2,367
In the fifth year	1,805
After five years	15,703
	26,874

All of the properties held by the Group for rental purposes have committed tenants for the tenancy ranging from 4 to 15 years (2019: nil) and the rentals are pre-determined at fixed amounts with progressive increase. The lease commitments presented above is based on the existing committed monthly minimum lease payments.

25. RETIREMENT BENEFITS SCHEMES

The Group operates a 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$110,000 (2019: US$588,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

26. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	2020	2019
	US$'000	US$'000
Short-term employee benefits	**284**	338
Post-employment benefits	**2**	2
	286	340

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

27. 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$48,000 (2019: US$35,000) has been made in profit or loss during the year ended 31 December 2020. The directors of the Company believe that adequate provisions has been made in the Group's consolidated financial statements as at 31 December 2020 and 2019.

28. 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.

29. FINANCIAL INSTRUMENTS

29a. Categories of financial instruments

	2020 US$'000	2019 US$'000
Financial assets		
Financial assets at FVTPL	**378**	565
Financial assets at amortised cost	**11,044**	13,584
Financial liabilities		
Amortised cost	**1,022**	641
Lease liabilities	**878**	923

29b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, accrued rentals, financial assets at FVTPL, bank balances and cash, trade and other payables and lease liabilities. 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.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currencies (i.e. US$ and HK$) denominated monetary assets and monetary liabilities other than the functional currencies (i.e. RMB and New Taiwan Dollars ("NT$")) of the relevant group entities are as follows:

	2020	2019
	US$'000	US$'000
Current assets denominated in:		
US$	**240**	7
HK$	**274**	244
Current liabilities denominated in:		
US$	**32,017**	27,991

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.

Sensitivity analysis

The Group mainly exposes to the effects of fluctuation in US$ and HK$ against RMB, and US$ against NT$.

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB and NT$ against the relevant foreign currencies. 5% (2019: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A negative number below indicates an increase in loss for the year where RMB and NT$ strengthen 5% (2019: 5%) against the relevant foreign currencies of the group entities. For a 5% (2019: 5%) weakening of RMB and NT$ against the relevant foreign currencies of the group entities, there would be an equal and opposite impact on the loss for the year of the Group and the amounts below would be positive.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis *(Continued)*

	2020 US$'000	2019 US$'000
Loss for the year	**(1,181)**	(1,040)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to lease liabilities (see Note 21 for details). The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits (see Note 19 for details). The Group continues to monitor the exposure on 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 equity price risk through its investments in equity securities measured at FVTPL. For equity securities measured at FVTPL quoted in The Stock Exchange of Hong Kong Limited, the management of the Group manages this exposure by monitoring its portfolio of investments.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective equity instruments had been 15% (2019: 15%) higher/lower, the loss for the year ended 31 December 2020 would decrease/increase by US$57,000 (2019: US$85,000) as a result of the changes in fair value of investments at FVTPL.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables and other receivables, accrued rentals, refundable rental deposit and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables and accrued rentals

As at 31 December 2020, the Group has concentration of credit risk by customer as 100% (2019: 100%) of the Group's total trade receivables were due from its sole customer. In order to minimise the credit risk on its trade debts, the management of the Group's finance and sales team is responsible for determination of credit limits, credit approvals and other monitoring procedures for its sole customer to ensure that follow-up action is taken to recover overdue debts. The sole customer is well-known manufacturers of footwear in the industry which has good repayment history.

In addition, the Group performs impairment assessment under ECL model on trade balances and accrued rentals individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables, refundable rental deposit 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, refundable rental deposit 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.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

Other receivables, refundable rental deposit and bank balances and cash (Continued)

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

Internal credit rating	Description	Trade receivables and accrued rentals	Other financial assets
Grade 1	The counterparty has a low risk of default and does not have any material past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Grade 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
Grade 3	There is evidence indicating that the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Grade 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

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.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

Other receivables, refundable rental deposit and bank balances and cash (Continued)

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

	Notes	Internal/external credit rating	12m or lifetime ECL	Gross carrying amount	
				2020	2019
				US$'000	US$'000
Financial assets at amortised cost					
Trade receivables	17	Grade 1 (note 1)	Lifetime ECL	**591**	959
Accrued rentals	17	Grade 1 (note 1)	Lifetime ECL	**469**	–
Other receivables	17	Grade 1 (note 2)	12m ECL	**202**	63
Refundable rental deposit	17	Grade 1 (note 2)	12m ECL	**28**	43
Bank balances	19	Ranged from Aa3 to A2 (note 3)	12m ECL	**9,692**	12,486

notes:

1. For trade receivables and accrued rentals, 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.

   For the year ended 31 December 2020 and 2019, the Group performed impairment assessment on trade receivables and accrued rentals 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 has considered that credit risk on other receivables and refundable rental deposit 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 closely monitors the past-due information of other debtors. In addition, the Company performs impairment assessment under ECL model on other receivables and refundable rental deposit individually based on the assessment in the risk of default of the respective counterparties. For the year ended 31 December 2020 and 2019, the Group has assessed that the expected loss rates for other receivables and refundable rental deposit were insignificant. Thus, no loss allowance for other receivables and refundable rental deposit were recognised.

3. The credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(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.

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 month	1–3 months	3 months to 1 year	1–5 years	>5 years	Total undiscounted cash flows	Carrying amount at 31.12.2020
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2020								
Trade and other payables	–	1,022	–	–	–	–	1,022	1,022
Lease liabilities	3.42% – 4.90%	–	25	84	55	756	920	878
Subtotal		1,022	25	84	55	756	1,942	1,900
2019								
Trade and other payables	–	641	–	–	–	–	641	641
Lease liabilities	3.42% – 4.90%	–	16	80	148	722	966	923
Subtotal		641	16	80	148	722	1,607	1,564

29. FINANCIAL INSTRUMENTS *(Continued)*

29c. 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 2020 US$'000	2019 US$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets mandatorily measured at FVTPL	**378**	565	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.

30. 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.

	Lease liabilities US$'000
At 1 January 2019	1,024
Financing cash flows	(136)
Interest expense on lease liabilities	44
Exchange adjustments	(9)
At 31 December 2019	923
Financing cash flows	(133)
Interest expense on lease liabilities	41
Exchange adjustments	47
At 31 December 2020	878

31. DETAILS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2020 and 2019 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
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

31. DETAILS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
			Directly	Indirectly	
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%	Leasing of investment properties to generate rental income, 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.

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020	2019
	US$'000	US$'000
Non-current assets		
Investments in subsidiaries	**26,465**	26,465
Amount due from a subsidiary	**24,715**	23,722
	51,180	50.187
Current assets		
Amounts due from subsidiaries	**927**	1,803
Other receivables	**54**	54
Bank balances	**5**	5
	986	1,862
Current liabilities		
Other payables	**130**	135
Amounts due to a subsidiary	**1,153**	576
	1,283	711
Net current (liabilities) assets	**(297)**	1,151
	50,883	51,338
Capital and reserves		
Share capital	**9,428**	9,428
Reserves	**41,455**	41,910
	50,883	51,338

32. 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 2019	21,637	19,486	1,814	42,937
Loss for the year	–	–	(1,027)	(1,027)
At 31 December 2019	21,637	19,486	787	41,910
Loss for the year	–	–	(455)	(455)
At 31 December 2020	21,637	19,486	332	41,455

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				
	2016	2017	2018	2019	**2020**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Revenue	79,330	76,046	38,965	4,595	**3,352**
Profit (loss) before tax	579	773	(15,362)	(21,945)	**320**
Tax (expense) credit	(351)	(190)	96	(25)	**(945)**
Profit (loss) for the year	228	583	(15,266)	(21,970)	**(625)**

ASSETS AND LIABILITIES

	At 31 December				
	2016	2017	2018	2019	**2020**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Total assets	95,668	100,671	77,183	47,761	**67,884**
Total liabilities	(12,117)	(14,513)	(10,768)	(9,110)	**(14,969)**
Total equity	83,551	86,158	66,415	38,651	**52,915**