# Samson Holding Ltd.

# 順誠控股有限公司*

*(Incorporated in the Cayman Islands with limited liability)*

*(Stock Code: 531.hk)*

# ANNUAL REPORT 2020

* for identification purpose only

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# CORPORATE PROFILE

Since its establishment in 1995, Samson Group, including Samson Holding Ltd. (the "Company") and its subsidiaries (the "Group"), has now become a fully vertically-integrated furniture company and ranks as one of top 10 furniture wholesalers in the United States of America (the "U.S."). We currently market a wide range of our furniture products through a portfolio of brand names including Universal Furniture, Miranda Kerr Home, Coastal Living Home Collection, Legacy Classic Furniture, Legacy Classic Kids, Craftmaster Furniture, Baker, Milling Road, McGuire, LacquerCraft Hospitality, Universal Furniture China and Athome, and licensed with Paula Deen and Wendy Bellissimo in the U.S..

In May 2016, we have successfully acquired Grand Manor Furniture Inc., a Lenoir North Carolina U.S.A. based manufacturer established in 1960s which specialises in hospitality seating design and manufacturing. Its major customers include but not limited to Marriott, Hilton, Grand Hyatt and Western hotel chains. In February 2017, we have successfully acquired Baker Interiors Group, LTD. *(formerly known as Kohler Interiors Group, LTD.)* and its subsidiaries (collectively referred to as "BIG"), which owns three global luxury furniture brands, namely, "Baker", "Milling Road" and "McGuire", each with a history of leading design, quality and craftsmanship. BIG sells its products through showrooms in North America, England, and France, and furniture dealer locations across the United States, Europe, Asia and the Middle East. BIG maintains relationships with interior designers who recommend the products to consumers worldwide.

Our team of experienced executives, employees and sales force, comprising the U.S. market expertise, combining with Vietnam and the People's Republic of China (the "PRC") manufacturing know-how, creates a globally-integrated products and services logistics platform that brings forth effective means of business operations by which we strive to maximise ultimate benefits to our customers and shareholders.

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Shan Huei KUO *(Chairman)*
Ms. Yi-Mei LIU *(Deputy Chairman)*
Mr. Mohamad AMINOZZAKERI

## NON-EXECUTIVE DIRECTOR

Mr. Sheng Hsiung PAN

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ming-Jian KUO
Mr. Siu Ki LAU
Mr. Sui-Yu WU

## AUDIT COMMITTEE

Mr. Siu Ki LAU *(Chairman)*
Mr. Sheng Hsiung PAN
Mr. Sui-Yu WU

## REMUNERATION COMMITTEE

Mr. Ming-Jian KUO *(Chairman)*
Mr. Sheng Hsiung PAN
Mr. Sui-Yu WU

## NOMINATION COMMITTEE

Mr. Shan Huei KUO *(Chairman)*
Mr. Ming-Jian KUO
Mr. Sui-Yu WU

## COMPANY SECRETARY

Mr. Kwong Cho SHEUNG

## AUTHORIZED REPRESENTATIVES

Ms. Yi-Mei LIU
Mr. Kwong Cho SHEUNG

## REGISTERED OFFICE

Grand Pavilion
Hibiscus Way
802 West Bay Road
P.O. Box 31119, KY1-1205
Cayman Islands

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 531

## WEBSITES

http://www.samsonholding.com/
http://www.universalfurniture.com/
http://www.legacyclassic.com/
http://www.legacyclassickids.com/
http://www.cmfurniture.com/
http://www.lacquercrafthospitality.com/
https://www.bakerfurniture.com/

## PRINCIPAL PLACES OF BUSINESS

### Vietnam:

6th Road Tam Phuoc Industrial Zone,
Bien Hoa City, Dong Nai Province Vietnam

### China:

China Timber Industry City Development Area
No. 2 Taicheng Road
Jia Shan County
Zhejiang Province
China, 314100

Unit 1007, 10th Floor, Haleson Building
1 Jubilee Street, Central,
Hong Kong

### United States of America:

2575 Penny Road
High Point, NC 27265
U.S.A.

221 Craftmaster Road
Hiddenite, NC 28636
U.S.A.

1 Baker Way
Connelly Springs, NC 28612
U.S.A.

## AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

## PRINCIPAL BANKERS

CTBC Bank
UBP Bank
DBS Bank
MEGA Bank
Wells Fargo Bank

## SHARE REGISTRARS AND TRANSFER OFFICES

### Principal:

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

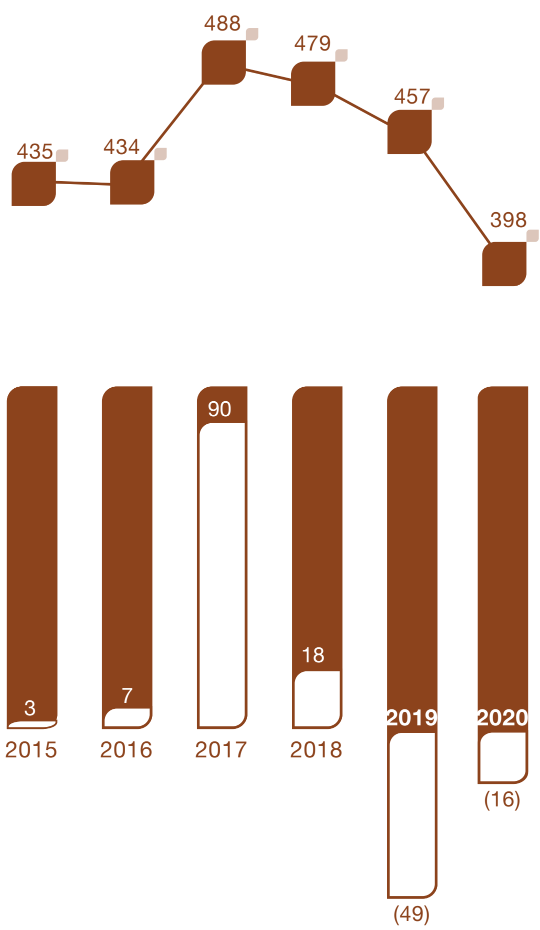
### Hong Kong Branch:

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

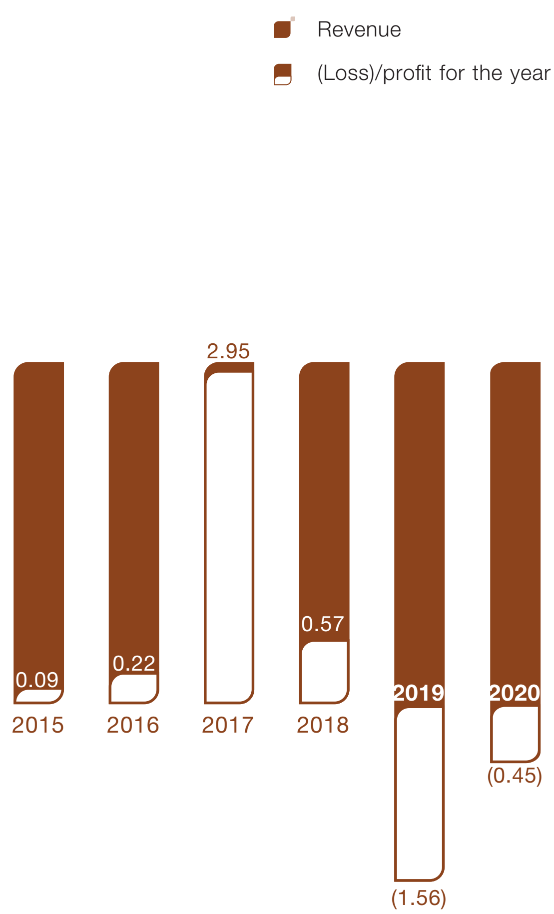
| | **2020 US$'000** | 2019 US$'000 | **2020 HK$'000*** | 2019 HK$'000* |
|---|---|---|---|---|
| **Operating results** | | | | |
| Revenue | **397,582** | 457,240 | **3,101,140** | 3,566,472 |
| Loss before interest and tax | **(12,396)** | (37,108) | **(96,689)** | (289,442) |
| Loss for the year | **(15,721)** | (48,523) | **(122,624)** | (378,479) |
| Loss per share attributable to ordinary equity holders of the parent *(US/HK cent)* | **(0.45)** | (1.56) | **(3.51)** | (12.17) |
| **Financial position** | | | | |
| Total assets | **568,487** | 638,765 | **4,434,199** | 4,982,367 |
| Net current assets | **151,126** | 167,456 | **1,178,783** | 1,306,157 |
| Shareholders' equity attributable to owners of the parent | **295,005** | 318,556 | **2,301,039** | 2,484,737 |

* exchange rate: US$1 to HK$7.8 (for reference only)

**Revenue & (Loss)/profit for the year**
*(US$ MN)*




**(Loss)/earnings per share attributable to ordinary equity holders of parent**
*(US cent)*



# CHAIRMAN'S STATEMENT

**"To maintain and strengthen our position as one of the leading wholesalers in the U.S. residential furniture market and to become one of the leading players in the furniture industry globally"**

On behalf of the board of directors (the "Board") of Samson Holding Ltd., I am pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2020.

## RESULTS

Our turnover was US$397.6 million in 2020, representing a decrease of 13% over the year of 2019. Gross profit margin was recorded at 24.0% in 2020, with a gross profit of US$95.5 million as compared to US$134.0 million in 2019; and a loss for the year of the Group was US$15.7 million, compared to a loss of US$48.5 million in 2019.

## BUSINESS DEVELOPMENT AND OUTLOOK

The worldwide COVID-19 pandemic forced a suspension of global economic activities, resulting in a challenging 2020 for both Samson and the entire furniture industry. While the industry continues to face supply chain disruptions due to the extended lockdown, Samson has been responding to adversities through flexible strategic adjustments. Although sales reduced significantly in the first half of 2020, the diversification of sales channels and the recovery of the U.S. housing market have put Samson back on track. On the demand side, the Federal Reserve ("FED") lowered the interest rate to zero in March 2020 in support of household and business cash flow. The lower mortgage rates have led to a more encouraging and stable housing market, which in turn has powered a healthy upward trend of order volume for the F&HF industry. On the supply side, in order to meet the rising demand and mitigate the risk of supply disruption, Samson is partnering with several shipping service providers to ensure container availability while also expanding workforce recruitment to handle the additional volume. Samson expects to construct another upholstery factory in Vietnam in the second half of 2021 and add three production lines in the U.S.. We expect these timely measures will alleviate any shipment constraints in the second half of 2021.

Here are the progresses made on our principal strategies:

### 1. Focus on strengthening our market presence and brand awareness

With many successful marketing initiatives, our diverse and distinguished brands continue to provide valuable contribution to the Group. Over the last decade, we have grown from a pure OEM manufacturer to a brand-led business. We have established competitive furniture wholesale brands in almost price categories; from the mid to higher price point of the furniture market as well as mass merchant, OEM and hospitality channels. We believe that there would be good opportunities that we can continue to increase shareholder value by consolidating the markets via quality acquisitions and organic growth of the business.

### 2. Focus on building diversified sales channels

The diversified sales channels, such as e-commerce, designer channels, showrooms and hospitality have become major growth drivers and revenue contributors over the past five years. We switched to a more active selling strategy and captured additional sales opportunities through dedicated virtual tours and e-selling events, allowing the Group to reduce reliance on offline sales and reach a wider customer base year around. We will continue to develop non-traditional capabilities and grow our online presence.

3. **Focus on developing global manufacturing base and improving efficiencies and core competitiveness**

   As a vertically integrated company, the Group has successfully transferred from a China-centric manufacturing process to a globally diverse footprint, including China, Vietnam, Bangladesh, Indonesia and United States, to continue to support and expand its furniture brands in the States, and is better equipped to manage future uncertainties in the global market. Moreover, we will continue to invest significant amount of time and capital in the standardisation and automation of our manufacturing process.

4. **Shareholders' value and corporate governance**

   The management is committed to creating value by acting in the best interests of all shareholders. We will continue to thrive in today's business environment by staying focused on investing our brands, expanding product offerings, entering new markets with more effective and diversified channels, improving operation efficiency and cost structure to generate solid growth and sustainable profitability. As such, superior financial results and shareholders' value will be achieved without compromising integrity and business ethics. Through the efforts of the Board and external advisers, the Group will continue promoting transparency and enhancing corporate governance.

## APPRECIATION

I would like to take this opportunity to express my appreciation to our directors, management team and employees for their continuous passion and hard work to the Group. Moreover, I would like to extend my sincere gratitude to all shareholders, customers, suppliers and business partners for their continuous support.

**Shan Huei KUO**
*Chairman*
25 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Samson first entered the high-end luxury home furnishing market in 2017 with the acquisition of Baker Interiors Group, LTD. *(formerly known as Kohler Interiors Group, LTD.)*. The subsequent purchase of Southern Furniture in 2019 further strengthened Samson's already impressive portfolio, enabling the expansion of customized upholstery business through the Universal Furniture brand. These strategic moves have fuelled the steady growth of Samson's mid to high-end brands in the United States. In addition, the introduction of a leading edge data-driven management system has resulted in more optimal production processes and cost allocation.

The worldwide COVID-19 pandemic forced a suspension of global economic activities, resulting in a challenging 2020 for both Samson and the entire furniture industry. While the industry continues to face supply chain disruptions due to the extended lockdown, Samson has been responding to adversities through flexible strategic adjustments. Although sales reduced significantly in the first half of 2020, the diversification of sales channels and the recovery of the U.S. housing market have put Samson back on track. On the demand side, the Federal Reserve ("FED") lowered the interest rate to zero in March 2020 in support of household and business cash flow. The lower mortgage rates have led to a more encouraging and stable housing market, which in turn has powered a healthy upward trend of order volume for the F&HF industry. On the supply side, in order to meet the rising demand and mitigate the risk of supply disruption, Samson is partnering with several shipping service providers to ensure container availability while also expanding workforce recruitment to handle the additional volume. Samson expects to construct another upholstery factory in Vietnam in the second half of 2021 and add three production lines in the U.S.. We expect these timely measures will alleviate any shipment constraints in the second half of 2021.

The COVID-19 pandemic has also accelerated the growth of e-commerce. While High Point Market is postponed in 2021, the Group switched to a more active selling strategy and captured additional sales opportunities through dedicated virtual tours and e-selling events. The current order pipeline indicates that customers are receptive to the new sales model, allowing the Group to reduce reliance on offline sales and reach a wider customer base year around. Samson has also entered into partnership with Costcodirect.com, taking advantage of its home delivery, product buyout, and cross-season sales offerings. Looking ahead to post-pandemic era, Samson will continue to develop its non-traditional capabilities and to grow its online presence.

Samson is no longer impacted by the tariff due to political tension and trade war between China and the U.S., mainly thanks to its swift measures of sourcing its U.S.-bound products from partners in Vietnam as well as its own facilities in Vietnam and Bangladesh. The acquisition of the Vietnamese facility, Timber Industries Co., Ltd., has been fully completed in 2020 with a dedicated production line for Universal Furniture, two lines for OEM customers, and one new upholstery production line with production capacity of 700 containers per month. The investment in Bangladesh has also blossomed, and the expanded production of dining tables and chairs in Bangladesh remains on track. Since 2020, Samson has successfully transferred from a China-centric manufacturing process to a globally diverse footprint and is better equipped to manage future uncertainties in the global market.

Overall, with rising demand and stabilizing container availability, the Group expects sustainable recovery of postponed orders and shipments with improved financials in 2021.

## FINANCIAL REVIEW

Net sales for the year was US$397.6 million compared to US$457.2 million in 2019, a decrease of US$59.6 million or 13.0%. The decrease in net sales was mainly attributable to the global outbreak of coronavirus disease 2019 (the "COVID-19") and the shortage of international containers, resulted in postponement of lots of confirmed orders and shipments by end customers.

Gross profit for the year was US$95.5 million, a decrease of US$38.5 million from US$134.0 million in 2019. Gross profit margin decreased to 24.0% from 29.3% in 2019. The decrease in gross profit margin was mainly attributable to the temporary suspension of operation and regional lockdowns of the Group's principal markets and manufacturing operation in various cities amid outbreak of the COVID-19 since the beginning of 2020, while certain operating costs of the Group remain stable.

Compared with US$139.3 million in 2019, total operating expenses were recorded at US$121.5 million in 2020. The decrease in operating expenses was mainly attributable to effective cost control measures and reduced operating expenses from the shutdown of the U.K. subsidiary in 2019 but partially offset by the newly acquired company.

Compared with a loss of US$48.5 million in 2019, the Group recorded a loss of US$15.7 million in 2020, decreased in loss for the year mainly due to an one time non-cash impairment loss of US$41.3 million from a PRC subsidiary caused by the trade tension between China and the U.S. was recorded in 2019 and such impairment loss was not record for the year. Excluding the one time non-cash impairment loss, the loss for the year was attributable to the decrease of sales due to the global spread of the COVID-19, while relatively fixed costs attached to the operation of the Group remain.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group's cash and cash equivalents decreased by US$36.7 million to US$26.0 million from US$62.7 million as at 31 December 2019. Interest-bearing bank borrowings decreased from US$187.1 million as at 31 December 2019 to US$155.0 million as at 31 December 2020. The corresponding gearing ratio (total bank borrowings/shareholders' equity) decreased from 58.7% as at 31 December 2019 to 52.5% as at 31 December 2020. The Group possesses sufficient cash and available banking facilities to meet working capital requirements and to enable further acquisitions with confidence.

Cash and cash equivalents held by the Group are mainly denominated in U.S. dollars, Renminbi, U.K. Pound Sterling, Vietnamese Dong, New Taiwan dollars, Indonesian Rupiah and Hong Kong dollars. As at 31 December 2020, interest-bearing bank borrowings of US$109.6 million (31 December 2019: US$154.6 million) bore interest at either the floating rates or fixed rate ranging from 0.7% to 1.9% respectively and long term bank borrowing of US$45.4 million bore interest at a floating rate (31 December 2019: US$32.5 million).

Sources of liquidity include cash and cash equivalents, short term bank deposits, cash from operations and general banking facilities granted to the Samson, allowing the Group to maintain strong and prudent liquidity for day-to-day operations and business development.

With an international operation, Samson is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and Vietnamese Dong. Although the majority of the total revenue is denominated in U.S. dollars, a substantial portion of cost of sales is paid in Renminbi and part of the sales is denominated in U.K. Pound Sterling. The exchange rates of Vietnamese Dong and Renminbi have fluctuated substantially in recent years and may continue to fluctuate in the foreseeable future.

The Group's current assets have decreased by 13.9% to US$357.2 million from US$415.0 million as at 31 December 2019; the Group's current liabilities have decreased by 16.7% to US$206.0 million from US$247.5 million as at 31 December 2019. The current ratio (current assets/current liabilities) is 1.7 times (31 December 2019: 1.7 times).

## PLEDGE OF ASSETS

As at 31 December 2020, certain of the Group's property, plant and equipments, investment properties, other intangible assets, inventories, trade and other receivables and bank deposits with an aggregate carrying amount of US$185.0 million (31 December 2019: US$162.7 million) have been pledged to banks to secure the general banking facilities granted to the Group.

## CAPITAL EXPENDITURE

Capital expenditures for the year ended 31 December 2020 amounted to US$7.7 million compared to US$34.1 million in 2019. Capital expenditure was mainly incurred for the purpose of upgrading and renovation of plant and machinery in the U.S. and the expansion of new production lines in the U.S. and Vietnam.

## MATERIAL ACQUISITIONS AND DISPOSALS OF THE GROUP

### (i) Acquisition of a subsidiary

On 16 July 2019, the Group acquired a 70% interest in Jolly State International Limited and its subsidiary, namely Timber Industries Co., Ltd. (collectively "Timber") from an independent third party at a cash consideration of US$32,550,000. Timber is engaged in the manufacture and sales of furniture and home accessories. The acquisition was made as the transfer of production line to South East Asia. The purchase consideration for the acquisition was in the form of cash, with US$9,765,000 paid on 16 July 2019 and the remaining US$6,510,000 and US$16,275,000 paid on 2 August 2019 and 29 October 2019, respectively.

On 3 August 2020, the Group entered into a share transfer agreement with an independent third party to acquire 30% of the equity interest of Timber, at a total cash consideration of US$13,950,000. As a result of the acquisition, the Group owns 100% of the equity interest of Timber. The acquisition was completed on 3 August 2020. The carrying amount of the non-controlling interest in Timber on the date of acquisition was US$7,163,000. The Group recognised a decrease in non-controlling interest of US$7,163,000 and a decrease in equity attributable to owners of the Company of US$6,787,000. Details of this transaction are disclosed in the Company's announcement dated 3 August 2020.

### (ii) Disposal of an investment in the Sub-Fund

On 18 December 2019, the Group disposed of part of its investment in the Sub-Fund set up by UBP made under the mandate agreement. The principal amount of such investment being disposed was US$69,500,000 and the consideration for the Disposal was US$70,036,540. The Company recognized a gain of US$536,540 from the Disposal. Details of this transaction are disclosed in the Company's announcement dated 16 September 2020.

## OUTLOOK

The strong recovery of the U.S. housing market remains a source of optimism for the furniture industry in general. The Fed's zero interest rate policy is expected to continue, which allows housing starts and existing home sales, along with the F&HF demand to recover from the impact of the COVID-19 pandemic. Social distancing has also stimulated higher furniture demand due to increased time at home. Looking forward to 2021, the order pipeline has filled into the third quarter of the year and the market demand continues to be strong.

However, global shortage of international containers has challenged the entire industry on its ability to satisfy demand. Samson adopted timely measures through active cooperation with shipping companies to ensure container availability as well as the introduction of cutting edge data-driven management systems to optimize overall capacity. In addition, the Group has refocused its marketing strategy by shifting to more active, online-centric approaches in order to reach a wider customer base. This new strategy breaks the restrictions of traditional offline sales and reduces fixed cost effectively. With increased production capacity in Vietnam and a diversification of route to market, Samson is well positioned to maintain its competitive edge and continues to increase its market share in the U.S., making 2021 a very promising year for us.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

## EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2020, the Group employed approximately 6,600 (31 December 2019: 8,200) full-time employees in the PRC, the U.S., Taiwan, Bangladesh, Indonesia and Vietnam. For the year ended 31 December 2020, the total remuneration of employees (including the remuneration of the Company's directors) was approximately US$101.6 million (31 December 2019: US$114.7 million).

The Company believes that the ability to grow as a successful business depends on the quality of our management and employees. The Company is committed to recruiting, training and retaining skilled and experienced employees throughout our operations globally to better serve our customers. The Company intends to do this through our remuneration packages, including discretionary bonuses and share option scheme, as well as an emphasis on employee training. The emolument of the employees of the Group is determined on the basis of their merit, qualifications and competence. The emoluments of the directors and senior management of the Company are decided by the Company's board of directors with the recommendation of the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

## EXECUTIVE DIRECTORS

**Shan Huei KUO**, also known as Samuel Kuo, aged 65, is an Executive Director of the Company and Chairman of the Board since 11 July 2005, Chairman of the Nomination Committee and Chief Executive Officer of Lacquer Craft Manufacturing Co., Ltd. (Zhejiang) ("Lacquer Craft"). Mr. Kuo is a director of various subsidiaries of the Company. Mr. Kuo is one of the founders of our business and has been one of the principal managers responsible for our business and corporate strategy, marketing and production operations and expansion strategies. Mr. Kuo has more than 30 years of experience in the furniture business in Taiwan, the PRC and the U.S.. Mr. Kuo is also the former Chairman of the Taiwan Businessmen's Association Dongguan. Mr. Kuo served two years in the military in Taiwan after obtaining a Bachelor of Arts degree in Economics Development from Tamkang University in 1978.

Mr. Kuo is the husband of Ms. Yi-Mei LIU, Executive Director of the Company and Deputy Chairman of the Board. Mr. Kuo and Ms. Liu are the controlling and substantial shareholders of the Company.

Mr. Kuo is also a director of Advent Group Limited and Magnificent Capital Holding Limited, the substantial and controlling shareholders of the Company.

**Yi-Mei LIU**, also known as Grace Liu, aged 63, is an Executive Director of the Company and the Deputy Chairman of the Board since 11 July 2005. She is also a director of all subsidiaries of the Company. Ms. Liu, together with her husband, Mr. Shan Huei KUO, Executive Director of the Company and Chairman of the Board, are founders of our business. Ms. Liu has over 30 years of experience in the furniture business and she has been closely involved in executing the corporate strategy and daily operations of our Group. In addition to her general management role, she oversees the financial control, cash management and human resources operations of our business. Ms. Liu obtained a Bachelor of Arts degree in English Literature from Suzhou University in 1979.

Ms. Liu and Mr. Kuo are the controlling and substantial shareholders of the Company.

Ms. Liu is also a director of Advent Group Limited and Magnificent Capital Holding Limited, the substantial and controlling shareholders of the Company.

**Mohamad AMINOZZAKERI**, also known as Mohamad Amini, aged 60, is an Executive Director of the Company since 24 October 2005. Mr. Aminozzakeri is also a director of Houson International Limited and WG Debt Collections (UK) Limited, members of the Group and President of Lacquer Craft and has been with our Group since May 1995. Prior to becoming President, he held senior management positions in Lacquer Craft both in manufacturing and sales and marketing, and was formerly the executive Vice-President of Lacquer Craft. Mr. Aminozzakeri owned and operated furniture retail stores in California and Arizona for 6 years before then. Mr. Aminozzakeri has over 33 years of experience in the furniture industry and obtained a Bachelor of Science degree in Mechanical Engineering from California State University in Long Beach in 1983.

## NON-EXECUTIVE DIRECTOR

**Sheng Hsiung PAN**, also known as William Pan, aged 65, is a Non-executive Director of the Company since 24 October 2005 and a member of the Audit Committee and Remuneration Committee of the Company. He is the Chief Executive Officer of Tai-Chuan Wooden MFG Co., Ltd, a cue manufacturer. Mr. Pan has over 30 years of experience in sales, marketing, manufacturing, and product development in the cue industry and sales and marketing in billiard cue and related accessories. Mr. Pan obtained a Bachelor of Arts degree in Economics Development from Tamkang University in 1979.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ming-Jian KUO**, also known as Andrew Kuo, aged 59, is an Independent Non-executive Director of the Company since 24 October 2005, the Chairman of the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Kuo is currently the Chairman of Cathay United Bank Co., Ltd. and Chairman of Cathay United Bank (China) Limited. Mr. Kuo is a Non-executive Director of Far East Horizon Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a director of Long Chen Paper Co., Ltd., a company listed on

Taiwan Stock Exchange Corporation. He also served as a Director of Cathy Financial Holding Co., Ltd. (a company listed on Taiwan Stock Exchange Corporation). Mr. Kuo was the Chief Executive Officer and a partner of Zoyi Capital Ltd. respectively from January 2013 to June 2017 and from June 2017 to December 2018. Mr. Kuo was the Vice Chairman (in charge of Greater China private equity investment business) and the Senior Advisor of The Blackstone Group (HK) Limited respectively from October 2007 to January 2013 and from January 2013 to March 2018. He was appointed Managing Director of H&Q Asia Pacific ("H&Q") in September 2005. Before joining H&Q, Mr. Kuo was the Senior Country Officer and Head of Investment Bank of JPMorgan Chase in Hong Kong and has more than 15 years of experience in the corporate finance industry. Since the merger of JPMorgan and Jardine Fleming in 2000, Mr. Kuo had been responsible for the firm's banking business and all investment banking activities in Taiwan. Mr. Kuo was also Vice Chairman of the Greater China Operating Committee of JPMorgan Chase, and since April 2005 he had been responsible for JPMorgan's Financial Sponsor Industry of Asia, ex-Japan. Mr. Kuo had also been Managing Director of the heritage Chase Manhattan Bank since October 1998. Prior to joining JPMorgan Chase, Mr. Kuo worked at Citibank Taipei for more than nine years, last as Head of the Corporate Banking Group responsible for client management. Prior to this, Mr. Kuo was head of the Merchant Banking Group in charge of investment banking and capital market products. He previously worked at Citibank New York, focusing on strategic products, and had experience in Treasury Marketing and Foreign Exchange Trading for six years at Citibank Taipei. He was also the Chief Trader and Head of FX for Citibank from 1993 to 1995. Mr. Kuo retired as a member of the Youth Presidents' Organization and became a member of Taiwan Mergers & Acquisitions and Private Equity Council both in December 2013. Mr. Kuo obtained a Bachelor degree with a major in Business Administration from Fu-Jen Catholic University in 1983 and Master of Business Administration degree from City University of New York in 1989.

**Siu Ki LAU**, also known as Kevin Lau, aged 62, is an Independent Non-executive Director of the Company since 24 October 2005. He is the Chairman of the Audit Committee of the Company. With over 35 years of experience in corporate finance, financial advisory and management, accounting and auditing, Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and The Hong Kong Institute of Certified Public Accountants. He served as a member of the world council of ACCA from 2002 to 2011. Mr. Lau also served on the executive committee of the Hong Kong branch of ACCA ("ACCA Hong Kong") from 1995 to 2011, and was the chairman of ACCA Hong Kong in 2000/2001. Mr. Lau also serves as an Independent Non-executive Director of six other listed companies in Hong Kong: Binhai Investment Company Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, FIH Mobile Limited, TCL Electronics Holdings Limited and IVD Medical Holding Limited. He also serves as Company Secretary of Hung Fook Tong Group Holdings Limited, Yeebo (International Holdings) Limited and Expert Systems Holdings Limited, companies listed in Hong Kong. In addition, he also served as an Independent Non-executive Director of China Medical & HealthCare Group Limited, a company listed in Hong Kong, from 3 June 2004 to 6 December 2018. Mr. Lau graduated from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1981.

**Sui-Yu WU**, also known as SY Wu, aged 62, is an Independent Non-executive Director of the Company since 15 December 2008 and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Wu has been practising law for over 30 years, and is the founding partner of Wu & Partners, Attorneys-at-Law, a firm based in Taipei, Taiwan which he founded in 2004. He has been a member of the Taipei Bar Association since 1983. His practice focuses on international economic law and WTO-related practices, cross-border commercial transactions and disputes, and mergers & acquisitions. Before that, Mr. Wu was a senior partner of Lee, Tsai & Partners from 2000 to 2004, the managing partner of Perkins Coie, Taipei Office from 1997 to 2000, and was an Of Counsel of Perkins Coie during 1996 to 1997. Prior to Perkins Coie, Mr. Wu had been with Lee & Li, Attorneys-at-Law since 1981, and was a visiting attorney at Van Bael & Bellis (Brussels, Belgium) and Nishimura & Partners (Tokyo, Japan) in 1988 and 1989 respectively. In addition to Taiwan, Mr. Wu has been licensed to practise law in New York State since 1990, and has been a member of the American Bar Association and International Bar Association since 1991. He was the Chair of International Trade Committee of the Inter-Pacific Bar Association from 1999 to 2001, and a director of Taipei Bar Association from 1993 to 1996. On the academic track, he was an associate professor at the Soochow University Law School from 1996 to 2005, and Institute of Law for Science and Technology, Tsing Hua University Law School from 2002 to 2005. Mr. Wu received a SJD degree and an LLM degree from the University of Michigan Law School, and an LLB degree from the Law Department of National Taiwan University in 1980.

## SENIOR MANAGEMENT

### Samson Marketing

**Larry CRYAN**, aged 65, is Vice President of Operations of Samson Marketing since July 2009 and has been with our Group since July 1999. Mr. Cryan has previously held the positions of Vice President of Operations of Legacy Classic, Corporate Manager of Administration with Hyundai Furniture and also Credit Manager at Ladd Furniture. Mr. Cryan has over 29 years of experience in the furniture industry. Mr. Cryan was awarded a Bachelor of Arts degree in History from the University of Greensboro in 1977.

**Earl R. WANG**, aged 57, is Vice President of Mass Merchandise Division (d.b.a. Samson International) of Samson Marketing. Mr. Wang has previously held the positions of President of Legacy Classic Kids and has been with our Group since December 2011. Prior to joining our Group Mr. Wang previously held the position of Sr. Vice President of Merchandising at LEA/American Drew/ Hammary. With more than 20 years' experience in the furniture industry, Mr. Wang has held various management positions in product development and merchandising as well as working for Universal Furniture Mass Merchandise Division and Riverside Furniture. Mr. Wang received a Bachelor of Science Degree in Business Administration from Illinois Wesleyan University, Bloomington, IL in 1986.

### Universal Furniture

**Jeffrey R. SCHEFFER**, aged 65, is President and Chief Executive Officer of Universal Furniture. Mr. Scheffer joined our Group in December 2008 and came to us from Stanley Furniture where he was President and Chief Executive Officer. During Mr. Scheffer's 34 years' career in the furniture industry, he has also held the top executive position of American Drew and executive positions with Hyundai Furniture and Carter Industries. Mr. Scheffer was also Vice President-Sales at Universal Furniture from 1992-1996. He obtained a Bachelor of Science degree in Business from Miami University in 1978.

**Tsuan-Chien CHANG**, also known as Jeffery Chang, aged 57, is Vice President and Chief Financial Officer of Universal Furniture who joined the Group in December of 2008. Prior to joining our Group, Mr. Chang held Controller and Vice President of Operation with Huntington Furniture Industries and as a General Manager at William's Imports. Mr. Chang has more than 20 years of experience in the furniture industry. Mr. Chang received a Bachelor of Science degree in Accountancy in 1993 and a Master degree in Business Administration from California State University, Fresno in 1995.

### Legacy Classic

**Donald A. ESSENBERG**, aged 66, is President and Chief Executive Officer of Legacy Classic. He transferred from Universal Furniture, where he first began in 2009. Mr. Essenberg has held senior sales and merchandising positions with Broyhill Furniture, Berkline, Bernhardt Furniture and Magnussen Home. He has over 30 years of experience in the furniture industry. Mr. Essenberg received a Bachelor of Business Administration with a double major in management and marketing from Appalachian State University in 1977.

**Chen-Kun SHIH**, aged 50, is Vice President and Chief Financial Officer of Legacy Classic Furniture, Craftmaster Furniture and Grand Manor Furniture. Prior to his current position, Mr. Shih held the same position at Craftmaster Furniture and has more than 17 years of related working experience in Taiwan, China and the U.S.. Mr. Shih began his career at Ernst & Young. He obtained a Bachelor degree in Accounting from the National Chung Hsing University in 1993, and was awarded a Master degree in Business Administration in Finance from the State University of New York at Buffalo in May 1999. Mr. Shih is a Certified Internal Auditor and Certified Public Accountant of the U.S.

**Gerald E. SAGERDAHL**, aged 70, is Executive Vice President of Sales of Legacy Classic and has been with our Group since March 1999. Mr. Sagerdahl previously held the positions of Vice President at Master Design, Rachlin Furniture and GranTree Furniture Inc. and Sales Manager at Ronald A. Rosberg Corporation. Mr. Sagerdahl has more than 37 years of experience in the furniture industry. Mr. Sagerdahl obtained a Bachelor of Arts degree in Computer Science from College of San Mateo, California in 1973.

## Craftmaster Furniture, Inc. ("Craftmaster Furniture")

**Roy R. CALCAGNE**, aged 63, is President and Chief Executive Officer of Craftmaster Furniture and has been with our Group since August 2003. Prior to joining our Group, Mr. Calcagne was Vice President of Merchandising at Broyhill Furniture Industry. He has previously worked for Joan Fabrics Corporation as Vice President of Sales and Macy's department store as Merchandise Manager and Upholstery Buyer. Mr. Calcagne has over 27 years of experience in the furniture industry. Mr. Calcagne was awarded a Bachelor of Science degree in Marketing from Fairleigh Dickinson University in 1981.

**Kevin MANN**, aged 56, is Vice President of Operations of Craftmaster Furniture. Prior to joining Craftmaster Furniture, Mr. Mann was Director of Manufacturing of Clayton Marcus Furniture Inc. and also held positions as Plant Manager and Director of Engineering. Mr. Mann started his career at Bassett Upholstery working as an Engineer. Mr. Mann was awarded a Bachelor of Science degree in Industrial Education Technology from Western Carolina University in 1987.

**Roy C. BEARDEN**, aged 64, is Vice President of Manufacturing of Craftmaster Furniture. Prior to joining Craftmaster Furniture, Mr. Bearden was General Manager of Jackson Furniture Ind. Inc. and also held positions as Plant Manager with England Home Furnishings, Inc. and Levi Strauss & Company. Mr. Bearden has 20 years of experience in the furniture industry. Mr. Bearden was awarded a Bachelor of Science degree in Business Management from Arkansas State University in 1980.

## Lacquercraft Hospitality

**Noel L. CHITWOOD**, age 62, is President and Chief Executive Officer of Lacquercraft Hospitality and has been with the Group since April, 2010. Mr. Chitwood came to our group from contract furniture producer American of Martinsville where he served as President for 9 years of his tenure with the company following a 2 year period as Vice President of Sales & Marketing. Prior to entering the contract furniture industry, Mr. Chitwood enjoyed a successful 19 year career in the Banking sector specializing in commercial lending. Mr. Chitwood received a Bachelor of Science degree in Finance from Virginia Tech in 1980 and he also completed the post-graduate Stonier Graduate School of Banking program at the University of Delaware in 1996.

## Baker Interiors Group

**Mike JOLLY**, age 62, is the President of Baker Interiors Group, Ltd. Jolly served in various executive positions at Bernhardt, where he was vice president of residential casegoods operations. Mr. Jolly also worked at Thomasville Furniture, where he was senior vice president of supply chain and operations as well as vice president of general production and sourcing manager. Mr. Jolly received a Bachelor of Science degree in Industry Engineering from North Carolina State University in 1979 and has completed additional executive management certificate at Toftrees Armstrong as well as six Sigma Green Belt Certificate. Mr. Jolly was the winner of 2017 ASFD Pinnacle Award in Occasional Tables category.

**Ming-Der JUAN**, also known as Oscar Juan, aged 47, is Vice President and Chief Financial Officer of Baker Interiors Group, Ltd. Prior to his current position, Mr. Juan held the same position at American Wire Research and has more than 18 years of related working experience in Taiwan, West Africa, India and the U.S.. Mr. Juan began his career at Group IMSA where he served as lead internal auditor responsible for Sarbanes-Oxley compliance review and risk management. Prior to AWR, Mr. Juan served as a controller at Apach Group, India, from 2010 to 2016 responsible for all finance and administrative functions. Mr. Juan obtained a Master degree in Business Administration from Dallas Baptist University in December 2002.

## Grand Manor Furniture, Inc.

**Michael MOORE**, age 67, is President and Chief Executive Officer of Grand Manor Furniture and has been with the group since the May 2016 acquisition of the company. Mr. Moore brings almost 40 years of experience with some of the leading providers to the hospitality industry. Senior management positions with American of Martinsville, Sealy, Shelby Williams, Charter, and Flexsteel makes him uniquely suited to lead Grand Manor's hospitality focused business. Mr. Moore received a Bachelor of Science degree in Business from the University of North Carolina in 1975 and has completed additional management seminars at Duke University's Fuqua School of Business, the University of Pennsylvania's Wharton School of Business, and the Institute for International Studies & Training in Tokyo.

## Lacquer Craft

**Yue-Jane HSIEH**, also known as Irene Hsieh, aged 50, is Senior Vice President of Finance of the Group and has been with our Group since June 2002. Ms. Hsieh's areas of responsibility include accounts, company secretarial duties and acting as the special assistant to our Chairman, Mr. Kuo. Prior to becoming Special Assistant to the Chairman, Ms. Hsieh was Accounting Manager at Lacquer Craft (Dongguan) from June 2003 to July 2004. Ms. Hsieh previously worked in investment banking at Sinopac Securities and Yuanta Core Pacific Securities and as an auditor at PricewaterhouseCoopers and Ernst & Young Taiwan. Ms. Hsieh has more than three years of experience in auditing, more than five years of experience in finance and more than twelve years of experience in financial and treasury. Ms. Hsieh obtained a Bachelor of Science degree in Accounting from Tunghai University in June 1993.

The Board is committed to maintaining high corporate governance standards. The Company has applied the principles of and confirms that it has complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange during the year ended 31 December 2020, save for certain deviations from the code provisions which are explained in the relevant paragraphs in this corporate governance report.

The Company has in place a corporate governance framework and has established a set of policies and procedures based on the CG Code. Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

## BOARD OF DIRECTORS

The Board is responsible for setting the Group's strategic goals, providing leadership to put them into effect, supervising the management of the business, controlling the Group, promoting the success of the Group, setting appropriate policies to manage risks and reporting to shareholders on their stewardship. Matters reserved to the Board for its decision are those affecting the Group's overall strategic policies, financial control, and the shareholders of the Company.

The Board has delegated the day-to-day responsibilities to the Chief Executive Officers/Presidents of the Group and their teams and specific responsibilities to the Remuneration Committee, Audit Committee and Nomination Committee.

The Chairman of the Board is Mr. Shan Huei KUO. The day-to-day management of the business is delegated to the Chief Executive Officers/Presidents, assisted by the senior management, of the Company's principal subsidiaries. The Chief Executive Officers of Lacquer Craft, Universal Furniture, Legacy Classic Furniture, Craftmaster Furniture, Baker Interiors Group, LacquerCraft Hospitality and Grand Manor Furniture are Mr. Shan Huei KUO, Mr. Jeffrey R. SCHEFFER, Mr. Donald A. ESSENBERG, Mr. Roy R. CALCAGNE, Mr. Mike JOLLY, Mr. Noel L. CHITWOOD and Mr. Michael MOORE, respectively. The President of Lacquer Craft is Mr. Mohamad AMINOZZAKERI.

Though Mr. Shan Huei KUO is the Chairman of the Board and also the Chief Executive Officer of Lacquer Craft, the Group does not intend to separate these two functions as both the Board and senior management of the Group have significantly benefited from the leadership, support and experience of Mr. Shan Huei KUO.

The primary role of the Chairman is to provide leadership for the Board. He ensures that all directors are properly briefed on issues arising at board meetings and all directors receive adequate information, which is complete and reliable, in a timely manner and encourages all directors to make a full and active contribution to the Company's affairs.

The primary responsibilities of Chief Executive Officers/Presidents comprise the day-to-day management of the business, the implementation of major strategies and initiatives adopted by the Board, the development and formulation of business plans, budgets, strategies, business and financial objectives for consideration by the Board, and the establishment and maintenance of proper internal controls and systems.

The Board believes that the existing roles between the Chairman and the Chief Executive Officers/Presidents provides the Group with strong leadership, ensures prompt and efficient implementation of decisions and best promotes the interests of shareholders.

As at 31 December 2020, the Board comprised seven directors, including three Executive Directors, namely Mr. Shan Huei KUO (Chairman), Ms. Yi-Mei LIU (Deputy Chairman) and Mr. Mohamad AMINOZZAKERI, one Non-executive Director, namely Mr. Sheng Hsiung PAN and three Independent Non-executive Directors, namely Mr. Ming-Jian KUO, Mr. Siu Ki LAU and Mr. Sui-Yu WU, with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Biographical details of directors are set out on pages 10 to 12 of this annual report. The list of directors (by category) is also disclosed in all corporate communications issued by the Company.

Mr. Shan Huei KUO and Ms. Yi-Mei LIU, Executive Directors, are husband and wife. Save as herein disclosed, none of the directors or Chief Executive Officers/Presidents are related.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

During the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors written annual confirmation of their independence pursuant to the Listing Rules and the Company considers that each of them is independent in accordance with the Listing Rules and unrelated in every aspect including financial, business, or family.

The Company has already arranged for appropriate insurance cover to protect its directors from possible legal action against them.

## APPOINTMENT AND RE-ELECTION AND REMOVAL OF DIRECTORS

The procedure and process of appointment, re-election and removal of directors are laid down in the Company's articles of association which provide that all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill casual vacancy shall hold office until the next following general meeting of the Company and for new director appointed as an addition to the Board until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

Each of the Non-executive Directors is engaged on a service contract for a term of three years and shall be subject to retirement by rotation at least once every three years.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own "Code for Securities Transactions by Directors and Employees" (the "Company's Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern the securities transactions of the directors and relevant employees.

Having made specific enquiry, all directors have confirmed that they have complied with the Model Code and the Company's Code throughout the year ended 31 December 2020.

No incident of non-compliance of the Company's Code by the relevant employees who are likely to possess inside information of the Company was noted by the Company.

## COMMITTEES

The Remuneration Committee and the Audit Committee were established on 24 October 2005 and the Nomination Committee was established on 20 March 2012. The terms of reference of the Remuneration Committee, Audit Committee and Nomination Committee are posted on the Company's website (www.samsonholding.com) and the Stock Exchange's website (www.hkexnews.hk). The composition of the Remuneration Committee, Audit Committee and Nomination Committee are as follows:

| **Remuneration Committee** | **Audit Committee** | **Nomination Committee** |
|---|---|---|
| Mr. Ming-Jian KUO *(Chairman)* | Mr. Siu Ki LAU *(Chairman)* | Mr. Shan Huei KUO *(Chairman)* |
| Mr. Sheng Hsiung PAN | Mr. Sheng Hsiung PAN | Mr. Ming-Jian KUO |
| Mr. Sui-Yu WU | Mr. Sui-Yu WU | Mr. Sui-Yu WU |

### Remuneration Committee

The Remuneration Committee is primarily responsible for making recommendations to the Board on the Company's policy and structure for all remuneration packages of all directors and senior management and on the establishment of a formal and transparent procedure for developing such remuneration policy to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration. It reviews and makes recommendation to the Board on the remuneration packages of all directors (including Executive Directors) and senior management with reference to corporate goals and objectives resolved by the Board from time to time.

One Remuneration Committee meeting was held during the year to review the remuneration policy for and the remuneration packages of all directors and senior management of the Group.

Details of the remuneration of the senior management by band are set out in note 9 to the financial statements for the year ended 31 December 2020.

### Audit Committee

The Audit Committee is primarily responsible for monitoring integrity of financial statements, annual reports and accounts as well as half-year reports, reviewing significant financial reporting judgments and the Group's financial controls, internal control and risk management systems as well as effectiveness of the internal audit function, overseeing the relationship with the external auditors, including making recommendations to the Board on the appointment, reappointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors, and reviewing arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee members have substantial experience in management, corporate finance, financial advisory and management, accounting and auditing.

During the year, the Audit Committee met twice to discharge its responsibilities and review and discuss the interim and annual financial results and approve the remuneration and terms of engagement of the external auditors. In addition, the Audit Committee has reviewed the financial reporting system, risk management and internal control systems as well as the internal audit function of the Group and was satisfied with the effectiveness of the Group's risk management and internal controls systems. The Audit Committee also met once with the external auditors in the absence of the Company's management to discuss matters arising from the annual audit for year 2019.

## Nomination Committee

The Nomination Committee is responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors and Board succession, with a view to appoint to the Board individuals with the relevant experience and capabilities to maintain and improve competitiveness of the Company. The Nomination Committee formulates the policy, review the size, structure and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and assess the independence of the Independent Non-executive Directors in accordance with the criteria prescribed under the Listing Rules.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy and Director and Senior Management Succession Plan that are necessary to complement the corporate strategy and achieve Board diversity as well as succession planning, where appropriate, before making recommendation to the Board.

One Nomination Committee meeting was held in 2020 to review the independence of the Independent Non-executive Directors and consider the qualifications of the retiring directors standing for re-election at the annual general meeting as well as review the structure, size and composition and effectiveness of the Board and the committees and the implementation and effectiveness of the Board Diversity Policy.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

## Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to achieve diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

### Board Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy and Director and Senior Management Succession Plan which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and where applicable, senior management and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;

- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

- Diversity in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and

- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2020, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. 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.

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

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the senior management of the Group ("Senior Management"). The Board 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 Board, through the Audit Committee, conducts reviews of the effectiveness of such systems at least annually, covering all material controls including financial, operational and compliance controls.

The Group has formulated and adopted Risk Management Policy in providing directions in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritises 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.

The handling and dissemination of inside information of the Company are strictly controlled to preserve the confidentiality, including but not limited to the following ways:

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;

2. Remind employees who are in possession of inside information to be fully conversant with their obligations to preserve the confidentiality;

3. Ensure appropriate confidentiality agreements are in place when the Company enters into significant negotiations or dealings with third party(ies); and

4. Inside information is handled and communicated by designated persons.

The Board and the senior management of the Company review the safety measures regularly to ensure that the Company's inside information is properly handled and disseminated.

In addition, the Group has engaged an independent professional advisor to review the risk management and internal control systems, as well as the internal audit functions of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. It examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the senior management of the Company. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remedial actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board, through the Audit Committee, 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 in relation to result of risk management and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems were effective during the year.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's Code, and the Company's compliance with the CG Code and disclosure in the corporate governance report. The Board is also satisfied that the directors have contributed sufficient time in performance of their responsibilities as directors of the Company.

## ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The following meetings of the Company were held during the year:

| | **Number of meetings held** |
|---|---|
| Board | 5 |
| Audit Committee | 2 |
| Remuneration Committee | 1 |
| Nomination Committee | 1 |
| Annual General Meeting | 1 |

Individual attendance of each director is as follows:

| | **No. of meetings attended/held during the tenure of directorship** | | | | |
|---|---|---|---|---|---|
| **Directors** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **Annual General Meeting** |
| *Executive Directors* | | | | | |
| Mr. Shan Huei KUO *(Chairman)* | 5/5 | N/A | N/A | 1/1 | 1/1 |
| Ms. Yi-Mei LIU *(Deputy Chairman)* | 5/5 | N/A | N/A | N/A | 1/1 |
| Mr. Mohamad AMINOZZAKERI | 5/5 | N/A | N/A | N/A | 1/1 |
| *Non-executive Director* | | | | | |
| Mr. Sheng Hsiung PAN | 5/5 | 2/2 | 1/1 | N/A | 1/1 |
| *Independent Non-executive Directors* | | | | | |
| Mr. Ming-Jian KUO | 5/5 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Siu Ki LAU | 5/5 | 2/2 | N/A | N/A | 1/1 |
| Mr. Sui-Yu WU | 5/5 | 2/2 | 1/1 | 1/1 | 1/1 |

Apart from regular Board meetings, a meeting between the Chairman of the Board and the Non-executive Directors (including Independent Non-executive Directors) of the Company was held during the year.

## CONTINUING PROFESSIONAL DEVELOPMENT

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure the he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

All Directors are encouraged to participate on continuous professional development to develop and refresh their knowledge and skills. The Company has continuously provided relevant training materials to all the Directors. All Directors participated in courses relating to roles, functions and duties of a listed company director or further enhancement of their professional development by the way of attending training courses or reading relevant materials. All Directors have provided the Company their training records for the year under review.

## PRACTICES AND CONDUCT OF MEETINGS

Notice of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

For regular Board meetings and committee meetings, the Board has used its best endeavour to send Board papers together with all appropriate information to all directors at least 3 days before the regular Board meetings or committee meetings to keep the directors apprised of the latest developments and financial positions of the Company and to enable them to make informed decisions.

The Company's articles of association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such director or any of his associates has a material interest and this provision has always been complied with.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the Independent Auditors' Report on pages 56 to 60.

## AUDITORS' REMUNERATION

During the year, the remuneration paid to the external auditors of the Group in respect of audit services and non-audit services amounted to approximately US$673,000 and US$231,000 respectively. The non-audit services mainly consist of professional advisory on taxation (US$151,000) and review of interim financial information (US$80,000).

## COMPANY SECRETARY

Mr. Kwong Cho SHEUNG of JPG Secretarial Services Limited, external service provider, has been engaged as the Company Secretary of the Company. Mr. Sheung confirmed that he has received not less than 15 hours professional training during the Year Under Review. Its primary contact person at the Company is Ms. Yue-Jane HSIEH, Irene, assistant to the Chairman of the Company.

## SHAREHOLDERS' RIGHTS

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for demanding a poll has been included in circulars accompanying notice convening a general meeting and such procedure has been read out by the chairman of the general meeting.

To safeguard the interests and rights of shareholders, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors. All resolutions proposed at the shareholders' meetings are voted by poll pursuant to the Listing Rules. The poll results are also posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.samsonholding.com) immediately after the relevant shareholders' meetings.

### Putting Forward Proposals at General Meetings

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its shareholders. The Company shall provide shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable shareholders to make an informed decision on the proposed resolution(s).

There are no provisions in the Company's articles of association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the below paragraph.

As regards proposing a person for election as a director of the Company, please refer to the procedures posted on the Company's website (www.samsonholding.com).

### Convening an Extraordinary General Meeting by Shareholders

Pursuant to article 79 of the Company's articles of association, general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event that the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

### Putting Forward Enquiries to the Board

The Company has disclosed all necessary information to the shareholders in compliance with Listing Rules. Updated and key information of the Group is also available on the Company's website (www.samsonholding.com). The Company also replies the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

*Note:* The Company will not normally deal with verbal or anonymous enquiries.

### Contact details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 13/F, No. 200, Sec.4, Wen Shin Rd., Taichung, 404 Taiwan R.O.C
(For the attention of the Chief Investor Relations Officer)

Email: investors@lacquercraft.com

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee, Audit Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

### Articles of Association

During the year, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is available on the Company's website (www.samsonholding.com) and the Stock Exchange's website (www.hkexnews.hk).

### Policies relating to Shareholders

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

## INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

Samson Holding Limited (the "Company") together with its subsidiaries (the "Group" or "we") are pleased to present the fifth Environmental, Social and Governance Report (the "ESG Report") for the financial year ended 31 December 2020 ("FY2020"). The ESG Report not only elaborates our commitments and strategies on corporate social responsibility, but also summarises the Group's Environmental, Social and Governance ("ESG") initiatives, plans and performance in sustainable development.

Established in 1995, we are a furniture manufacturing and wholesale company whose products cover a wide range of furniture for homes, offices and hotels. Our vision is to become a global leader in the furniture industry through delivering quality furniture at affordable prices and providing caring customer service so as to meet customers' demands.

With the belief that sustainability extends beyond mere business success, it is our mission to continue to build a sustainable business by manufacturing and marketing premium furniture for a better living so that long-term values can be created for both our customers and shareholders. The Group believes sustainability is the key to achieving continuous success, therefore we have integrated this key concept into our business strategy. To pursue a successful and sustainable business model, the Group recognises the importance of integrating ESG aspects into our risk management system. We adhere to the ESG management direction in accordance with the concept of sustainable development and are committed to progressing effectively and responsibly towards ESG affairs.

### The ESG Governance Structure

The Group conducts a top-down management approach regarding its ESG issues. The board of directors (the "Board") oversees and sets out ESG strategies for the Group. The Board is also responsible for ensuring the effectiveness of the Group's risk management and internal control mechanisms. To develop a systematic management approach for ESG issues, the Group has arranged designated personnel from various departments to manage the Group's ESG matters as a working group. The working group is responsible for collecting relevant information on the ESG aspects for the preparation of the ESG Report. It periodically reports to the Board, assists in identifying and assessing the Group's ESG risk, and evaluates the implementation and effectiveness of the Group's internal control system. It also examines and reviews the Group's ESG performance against ESG-related goals and targets, including environmental, labour practices, and other ESG aspects.

## REPORTING SCOPE

This ESG Report covers the Group's headquarters in Taiwan and its subsidiaries, including Lacquer Craft Manufacturing Co., Ltd. in the People's Republic of China (the "PRC"), Craftmaster Furniture, Inc. in the United States ("U.S.") as well as Timber Industries Co., Ltd. in Vietnam. The Group will continue to access the major ESG aspects of different businesses and extend the scope of disclosures when and where applicable.

## REPORTING FRAMEWORK

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Board has acknowledged its responsibility to oversee the Group's sustainable development and review the truthfulness, accuracy and completeness of the ESG Report.

Information relating to the Group's corporate governance practices has been set out in the Corporate Governance Report on pages 15 to 24 of this annual report.

## REPORTING PERIOD

The ESG Report specifies the ESG activities, challenges and measures being taken during the financial year ended 31 December 2020.

## STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. To understand and address their key concerns, we have maintained close communication with our key stakeholders. Through ongoing communication, we have collected their views and opinions, which help us identify ESG-related risks and formulate our sustainability strategies. We will continue to increase the involvement of stakeholders via constructive conversation to chart a course for long-term prosperity. The Group's communication channels with the key stakeholders and their respective expectations are as follows:

| Stakeholders | Expectations | Communication Channels |
|---|---|---|
| Investors and shareholders | • Compliant operation<br>• Economic performance<br>• Business strategies and performance<br>• Corporate governance system | • Annual general meetings and other shareholder meetings<br>• Financial reports<br>• Announcements and circulars<br>• Company website |
| Customers | • Product and service quality<br>• Protection of data privacy<br>• Business integrity | • Customer satisfaction survey<br>• Customer service manager<br>• Company website, hotline or email<br>• Financial reports |
| Employees | • Employees' health and safety<br>• Development and training<br>• Remuneration and benefits<br>• Equal opportunities | • Training and orientation<br>• Company activities<br>• Performance reviews<br>• Employee handbook<br>• Opinion box<br>• Complaint channels |
| Suppliers | • Fair and open procurement<br>• Business ethics and reputation | • Procurement process<br>• On-site visits<br>• Supplier audit<br>• Supplier management meeting |
| Regulatory bodies and government authorities | • Payment of tax<br>• Compliant operation | • Compliance advisor<br>• On-site inspections<br>• Legal advisor |
| Media, community, non-governmental organisations | • Transparent information disclosure<br>• Giving back to society<br>• Environmental protection<br>• Compliant operation | • Company website<br>• ESG reports<br>• Community activities<br>• Media channels |

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

## MATERIALITY ASSESSMENT

The Group's management and staff in major functions are involved in the preparation of the ESG Report. To further identify and prioritise material ESG topics, we have conducted a materiality assessment through an online survey consisting of rating and open-ended questions covering areas on environmental protection, community investment, operational practices and employment. The following diagram illustrates the steps of the materiality assessment process:

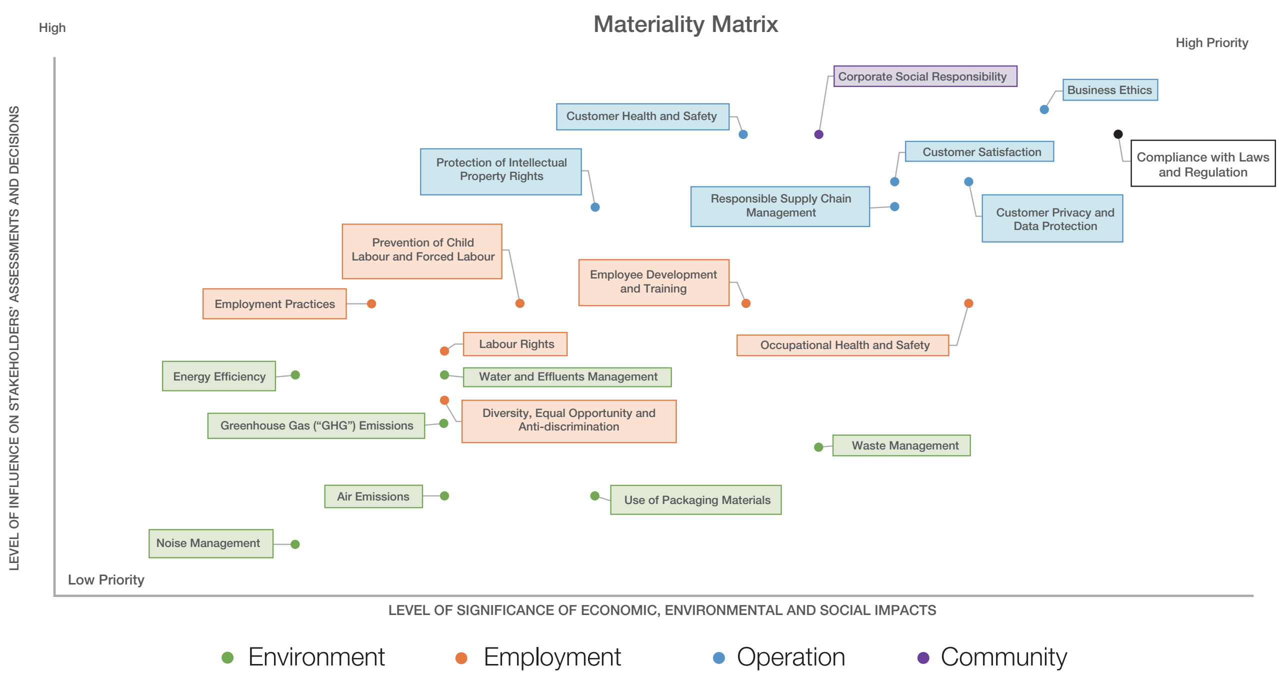
1. **Identification:** Identify a list of material topics by benchmarking against policies, industry standards, and corporate development strategies.

2. **Engagement:** Conduct materiality assessment in the form of a survey and invite stakeholders to assess the importance of each topic.

3. **Prioritisation:** The material topics are analysed and prioritised based on the survey results.

4. **Validation:** Stakeholders' opinions and the materiality assessment results are reviewed and discussed with the management, thus determining the focus of disclosure and the direction for improving ESG performance in the future.

The following matrix is a summary of the Group's material ESG issues.




During FY2020, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

## CONTACT US

We treasure your feedback and comments on our sustainability performances. You can provide valuable advice of the ESG Report or our sustainability performances by email at investors@lacquercraft.com.

## A. ENVIRONMENTAL

### A1. Emissions

As a corporation principally engaged in furniture production, we recognise our responsibilities towards the potential negative environmental impacts associated with our business activities, and we strive to nurture and strengthen our employees' awareness of environmental protection in their daily work processes.

The Group has also integrated environmental consideration into its decision-making process and embraced the responsibilities to create an environmentally sustainable business. We have formulated an Environmental and Emergency Response Manual for our operations in the U.S. to prevent the occurrence of accidents and deal with any incidents that will potentially bring adverse impacts to the environment.

In our daily operation, we focus on cleaner production by investing in mitigation technologies, upgrading high-efficient machinery, implementing environmental protection initiatives and cultivating a green culture within the Group. We strive to achieve energy saving, usage reduction, pollution reduction and efficiency enhancement. In the long run, we will continue to enhance our environmental management strategies in monitoring and minimising the environmental impacts brought by our businesses regularly.

During FY2020, the Group was not aware of any material non-compliance with environment-related laws and regulations, including but not limited to the Environmental Protection Administration of Taiwan, the Environmental Protection Law of the People's Republic of China, the National Environmental Policy Act of the U.S., and the Law on Environmental Protection (55/2014/QH13) of Vietnam that would have a significant impact on the Group.

**Air Emissions**

The Group's major business in furniture production inevitably generate air emissions from processes such as woodworking, polishing and painting. To monitor the potential environmental impacts of our operations and to ensure that the corresponding emission levels are in accordance with the legal requirements, relevant emission permits were obtained at our manufacturing sites and regular inspections on the quality of the emitted air were conducted. Air emissions generated from business operations of the Group mainly include volatile organic compounds ("VOCs") and dust from our manufacturing processes, as well as exhaust gas such as nitrogen oxides ("NOx"), sulphur oxides ("SOx") and particular matter ("PM") from the use of vehicles.

| Types of Exhaust Gas | Unit | FY2020 | FY2019 | FY2018 |
|---|---|---|---|---|
| NOx | kg | 1,701.23 | 802.89 | 1,219.06 |
| SOx | kg | 2.73 | 0.65 | 1.39 |
| PM | kg | 122.11 | 57.75 | 120.41 |

We are committed to controlling our air emissions as we believe that this will not only reduce our environmental footprints, but also provide a safe and healthy workplace for our employees. Our ventilation system and in-house treatment facilities are regularly inspected to ensure their effectiveness. Under abnormal circumstances, the operation will be suspended until inspection and maintenance are carried out. Initiatives on equipment upgrade, process modification and pollutant treatment are implemented:

- Boiler modification to replace heavy oil with natural gas;
- Spray booth modification to reduce unorganised organic gas emissions;
- Baghouse filter and activated carbon filter to significantly reduce the emissions of air pollutants;
- Change of paint formula from oil-based to water-based or UV-based;
- Dust removal system to remove dust generated from production lines;
- Reformulation of finishing materials, resulting in a reduction of 3,000 lbs of VOCs than the previous year at our U.S. operation.

**GHG Emissions**

In view of global warming and climate change, we endeavour to mitigate GHG emission by adopting energy efficiency measures as stated in the section "Use of Resources" in aspect A2. The major sources of GHG emissions of the Group were from fuel consumed by vehicles and stationary machinery (Scope 1), purchased electricity (Scope 2) and business air travel (Scope 3).

During FY2020, the amount of the Group's total GHG emissions intensity decreased by approximately 50% when compared to FY2019 which was resulted from the temporarily suspension of the Group's operation for five weeks in response to COVID-19. Looking ahead, we will continue to look for opportunities to cut our carbon footprints.

| Indicator[1] | Unit | FY2020 | FY2019 | FY2018 |
|---|---|---|---|---|
| Scope 1 – Direct GHG emissions | $tCO_2e$ | 457.89 | 526.99 | 1,138.69 |
| Scope 2 – Energy indirect GHG emissions | $tCO_2e$ | 8,493.94 | 14,936.03 | 28,662.13 |
| Scope 3 – Other indirect GHG emissions | $tCO_2e$ | 9.49 | 110.19 | 44.44 |
| **Total GHG emissions (Scope 1, 2 and 3)** | $tCO_2e$ | 8,961.32 | 15,573.21 | 29,845.26 |
| **Total GHG emissions intensity** | $tCO_2e$/USD'000 | 0.02[2] | 0.04 | 0.06 |

Note:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and are based on, including but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development; "Emissions Factors from Cross-Sector Tools" published by the Greenhouse Gas Protocol; "2006 IPCC Guidelines for National Greenhouse Gas Inventories" published by IPCC; "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5); "How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs" issued by HKEX; the "List of Grid Emission Factors" published by the Institute for Global Environmental Strategies; the latest emission factors of China's regional power grid basis; the latest grid emission factor of the U.S.; and the latest grid emission factor of Taiwan.

2. During FY2020, the Group's total revenue is 397,582,138.00 USD. This data will also be used for calculating other intensity data.

**Waste Management**

Different from the end-of-pipe approach, we actively reduce our waste generation at source through better product design, raw material selection, process optimisation and production controls. Reduction at source not only lowers our waste generation, but also increases material utilisation rate, enhances production efficiency, and lowers unnecessary production costs due to wastage.

To minimise our impacts on the environment, the Group strictly manages the handling of wastes and formulated specific handling methods for non-hazardous and hazardous wastes.

*Non-hazardous Wastes*

The Group has formulated the Non-hazardous Management Plan to govern the managing procedures for domestic waste and non-hazardous industrial waste. Wastes should be properly stored, categorized, recycled or disposed of at source by the waste generating units according to the Non-hazardous Management Plan. The waste area should be inspected weekly by responsible personnel. Only licensed and qualified waste collectors are appointed for further handling and disposal. In addition, we strive to recycle or reuse our waste as far as possible to achieve a 75% reduction in landfill costs in our operation in the U.S.

During FY2020, the Group's non-hazardous waste disposal intensity decreased by approximately 87% when compared to FY2019. In particular, the reduction of wood, cotton material and domestic waste was mainly due to the temporarily suspension of operations for five weeks in response to COVID-19 as well as the drop in orders during FY2020, whereas the increase in the disposal of metal was due to the demolition of workshops in the Group's PRC operation.

| **Types of Non-hazardous Waste[3]** | **Unit** | **FY2020** | **FY2019** | **FY2018** |
|---|---|---|---|---|
| Wood | tonnes | 788.45 | 8,843.78 | 17,369.83 |
| Metal | tonnes | 619.72 | 245.16 | 195.04 |
| Cotton material | tonnes | 11.84 | 81.20 | 125.50 |
| Domestic waste and others | tonnes | 120.23 | 602.36 | 302.74 |
| **Total non-hazardous waste** | tonnes | 1,540.24 | 9,772.50 | 17,993.11 |
| **Total non-hazardous waste intensity** | tonnes/USD'000 | 0.004 | 0.03 | 0.04 |

Note:

3. Figures disclosed have excluded the waste disposal performance of Timber Industries Co., Ltd. in Vietnam due to the unavailability of data. The Group will further expand relevant disclosure when the data collection system of Timber Industries Co., Ltd. in Vietnam is more refined and mature.

*Hazardous Wastes*

For hazardous waste, the Group has established the Hazardous Waste Management Plan to safeguard the health and safety of our employees, as well as the environment. Detailed procedures on handling hazardous waste are outlined to ensure proper storage, transfer, labelling and disposal. Licensed waste collectors are assigned to collect, transfer and treat our hazardous waste. To reduce the amount of hazardous waste, we are committed to optimising the manufacturing process, strengthening management work and providing training to employees. Emergency plans are also formulated in the Environmental and Emergency Response Manual for our operation in the U.S. to prevent and deal with any spills or leaks of hazardous material. In our U.S. factory, we have taken measures to reduce our hazardous waste through reformulation of our finishing materials to more low solids.

During FY2020, the temporarily suspension of the Group's operation for five weeks in response to COVID-19 had resulted to the decreased in hazardous waste disposal intensity by approximately 80% when compared to FY2019.

| Types of Hazardous Waste[4] | Unit | FY2020 | FY2019 | FY2018 |
|---|---|---|---|---|
| Chemical waste | tonnes | 83.43 | 290.18 | 701.75 |
| Others | tonnes | 80.99 | 397.72 | 275.57 |
| **Total hazardous waste** | tonnes | 164.42 | 687.90 | 977.32 |
| **Total hazardous waste intensity** | tonnes/USD'000 | 0.0004 | 0.002 | 0.002 |

Note:

4. Figures disclosed have excluded the waste disposal performance of Timber Industries Co., Ltd. in Vietnam due to the unavailability of data. The Group will further expand relevant disclosure when the data collection system of Timber Industries Co., Ltd. in Vietnam is more refined and mature.

## A2. Use of Resources

The Group endeavours to minimise the negative environmental impacts of our business operations as an on-going commitment to corporate sustainability. We put efforts on strengthening our employees' environmental awareness by providing various training and incentive programmes to promote resource conservation. We continuously uphold and promote the principle of effective use of resources and continue with initiatives to introduce resource efficiency and eco-friendly measures to the Group's operations.

**Energy Efficiency**

The Group strives to optimise the use of energy across business operation and thus reducing corresponding GHG emissions. To understand our consumption pattern, we have established an energy management system with programmable controllers to systematically measure and record our energy consumption data. The major types of energy consumed are electricity for daily operations and fuels for stationary and mobile sources.

During FY2020, the temporarily suspension of the Group's operation for five weeks in response to COVID-19 had resulted to the decreased in the Group's total energy consumption intensity by approximately 20% when compared to FY2019.

| Types of Energy | Unit | FY2020 | FY2019 | FY2018 |
|---|---|---|---|---|
| **Direct energy consumption[5]** | **MWh** | **2,799.27** | **2,413.03** | **5,171.04** |
| Natural gas | MWh | 611.20 | 1,119.24 | 2,329.35 |
| Diesel oil | MWh | 1,572.18 | 1,047.15 | 2,574.96 |
| Propane | MWh | 361.26 | 23.81 | – |
| Unleaded petrol | MWh | 238.11 | 182.69 | 232.10 |
| Liquefied petroleum gas ("LPG") | MWh | 16.52 | 40.14 | 34.63 |
| **Indirect energy consumption** | **MWh** | **13,376.60** | **21,507.36** | **36,893.57** |
| Electricity | MWh | 13,376.60 | 21,507.36 | 36,893.57 |
| Total energy consumption | kWh | 16,175.87 | 23,920.39 | 42,064.61 |
| Total energy consumption intensity | kWh/USD'000 | 0.04 | 0.05 | 0.09 |

Note：

5. Actual direct energy consumptions are as follows:

- Natural gas: 59,033.80 $m^3$ (FY2020); 107,013.62 $m^3$ (FY2019); 222,715.34 $m^3$ (FY2018)
- Diesel oil: 146,888.58 litres (FY2020); 97,834.49 litres (FY 2019); 240,578.07 litres (FY2018)
- Propane: 13,380 gallons (FY2020); 882.00 gallons (FY2019); 0 gallons (FY2018)
- Unleaded petrol: 24,569.54 litres (FY2020); 18,850.46 litres (FY2019); 23,949.00 litres (FY2018)
- LPG: 2,273.67 litres (FY2020); 5,525.61 litres (FY2019); 4,767.35 litres (FY2018)

Apart from monitoring, we are committed to promoting a green environment by introducing environmentally friendly business practices, educating our employees to enhance their awareness on environmental protection and complying with relevant environmental laws and regulations. Our energy-savings practices are summarised as below:

*Lighting*

- Replace traditional bulbs with energy-efficient LEDs;
- Adopt motion and light sensors on fixtures to automatically turn them off when no one is in the area and to dim when there is ambient daylight; and
- Turn off unnecessary lighting during non-operation hours.

*Air-conditioning*

- Adjust temperature according to weather;
- Maintain the indoor temperature at moderate level; and
- Set thermostats to automatic energy-saving programme during off-schedule hours.

*Electrical appliances and machineries*

- Turn off all electrical appliances before leaving the office;
- Post energy saving reminders next to switches;
- Switch to low-energy-consumption sleep mode when not in use;
- Install high-volume low-speed ("HVLS") fans to eliminate less energy-efficient fans;
- Upgrade air compressors to variable speed compressors to adjust; and
- Reduce power consumption.

**Water and Effluents Management**

To reduce our water consumption, we have implemented effective water management with measures such as monitoring our water use and inspecting water pipes regularly. The underground fire pipe network has been changed to a fully exposed pipe network to prevent water leakage. While greywater is reused to maximise utilisation. Besides, the Group is dedicated to cultivating a water conservation culture among employees. We have been strengthening our water-saving promotion, posting water-saving reminders in prominent places near water taps, and guiding employees to use water reasonably.

During FY2020, the Group's total water consumption intensity has increased by approximately 5% when compared to FY2019 and we did not encounter any issues in sourcing water that is fit for purpose.

| Indicator | Unit | FY2020 | FY2019 | FY2018 |
|---|---|---|---|---|
| Freshwater | $m^3$ | 175,399.00 | 148,283.08 | 262,872.26 |
| Intensity | $m^3$/USD'000 | 0.44 | 0.42 | 0.54 |

Regarding water discharge, the main effluent is the wastewater from the spray process and domestic use. Rainwater and sewage are diverted to avoid pollution to water bodies. Discharge permits are obtained prior to discharge and wastewater is treated by in-house facility to meet quality standards. During FY2020, the Group had discharged a total of 162,619.00 cubic meter of water.

**Use of Packaging Materials**

Our operation involves the use of packaging materials for containment and protection of products. In order to optimise our way of packaging, we have a Bill of Materials for each production item which designates specifically which material is the most suitable and efficient for the package, with the aim to minimise the amount of packaging material used. The types and amounts of the major packaging materials that we have used are plastic and carton box. During FY2020, the Group's packaging material consumption performances were as follows:

| Types of Packaging Materials | Unit | FY2020 | FY2019 | FY2018 |
|---|---|---|---|---|
| Plastic | tonnes | 772.55 | 446.75 | 8,085.02 |
| Carton box | tonnes | 2,591.42 | 2,127.28 | 1,535.99 |
| **Total packaging material consumption** | tonnes | 3,363.97 | 2,574.03 | 9,621.01 |
| **Total packaging material consumption intensity** | tonnes/USD'000 | 0.01 | 0.01 | 0.02 |

**Paper Consumption**

As a responsible corporate, the Group values paper saving and regularly monitors the consumption of office paper. A paperless office is promoted to employees by encouraging the use of e-communication channels such as the intranet to reduce unnecessary paper use. For unavoidable paper printing, the Group encourages employees to use double-sided printing. Reminders on paper reusing are also posted around office. During FY2020, the Group had consumed a total of 22.75 tonnes of paper and recycled 29.9 tonnes of paper.

## A3. The Environment and Natural Resources

As a responsible corporate, we are devoted to achieving sustainable development for generating long-term values for the community and our stakeholders. We spend efforts in mitigating our potential environmental impacts and pursue the best industrial practices to reduce natural resource consumption and develop effective environmental management. We went through environmental impact assessment to evaluate the environmental risks of our business operation, and continuously adopt preventive measures to reduce potential risks, and ensure compliance with relevant laws and regulations.

**Noise Management**

Noise is inevitably generated from vehicles and machineries at our manufacturing facilities. We are committed to strictly adhering to noise level standards according to the relevant laws and regulations by carrying out monthly noise level inspection. In order to reduce the noise level and nuisance to the surroundings, we have adopted the following measures:

- Conduct regular maintenances to ensure the equipment is in good condition;
- Phrase out noise-generating old machines;
- Introduce advanced low-noise automation facilities;
- Relocate noise-generating processes to the middle section of the factory to add insulation; and
- Take noise generation into account in engineering design and equipment selection.

# B. SOCIAL

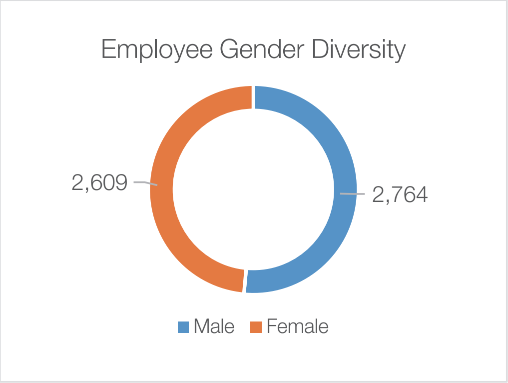
## B1. Employment

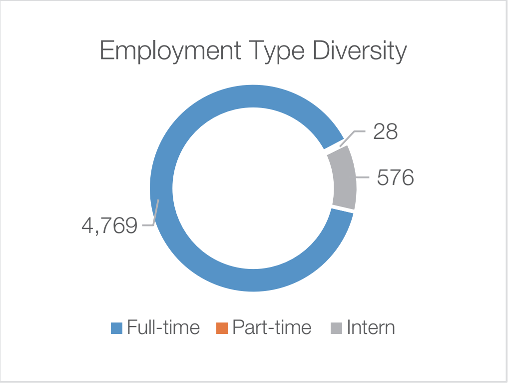
Employees are fundamental to the continuous success of the Group. Thus, the Group has adopted a people-oriented management philosophy to attract, develop and retain employees, hence developing mutual trust and building a close relationship with its employees. Meanwhile, the Group respects and protects the rights of employees, safeguards employees' occupational health and safety, ensures sufficient resources for career development, and creates a comfortable and harmonious work environment.

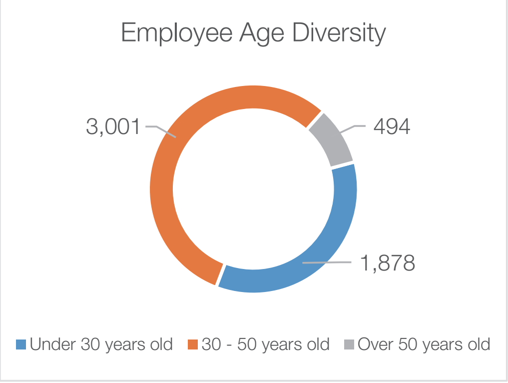
The Group has formally documented relevant employment policies as the Employee Handbook, covering recruitment, promotion and dismissal, remuneration and benefits, diversity and equal opportunities, etc. We review these policies and our employment practices periodically to ensure the continuous improvements of our employment standards.

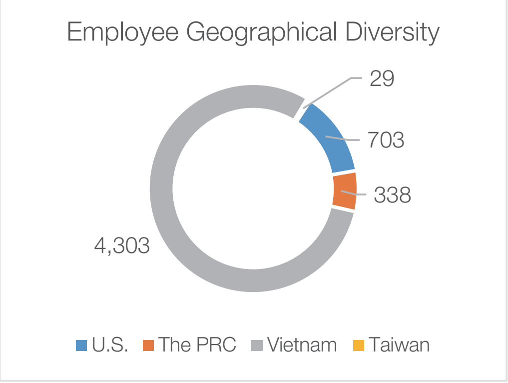
During FY2020, the Group was not aware of any material non-compliance with employment-related laws and regulations, including but not limited to the Labour Standards Act of Taiwan, the Labour Law of the People's Republic of China, the Fair Labour Standards Act and the Americans with Disabilities Act of the U.S., as well as the Labour Code (10/2012/QH13) and the Law on Social Insurance (58/2014/QH13) of Vietnam that would have a significant impact on the Group.

As at the year ended 31 December 2020, the Group had a total of 5,373 employees in respect of the reporting scope. The following graphs show the age, gender, employment type and geographical diversity of employees of the Group.



**Employment Practices**

*Recruitment and Promotion*

The Group abides by an open, fair and just principle and considers candidates based on their merit and qualifications in the recruitment process. Prospective job applicants should complete an employment application form, followed by initial screening by the Human Resources Administrator and follow-up interview by respective departmental supervisor to ensure candidates' skills and abilities match the position. Besides, the Group has developed a series of sound employment rules and regulations and made clear provisions of the rights and obligations of employees as specified in the Employee Handbook, including remuneration, working hours and rest periods, welfare and benefits, to name but a few.

Moreover, the Group offers promotion and development opportunities for outstanding employees. Employees are subject to regular, quarterly as well as annual appraisals to realize their potential and weaknesses. Employees with great performance will be subject to promotion while employees found incapable of taking on the duties will be subjected to internal transfer.

*Compensation and Dismissal*

The Employee Handbook clearly defines the conditions under which employees will be compensated and situations where employees will not be compensated. Moreover, scenarios, such as immediate dismissal due to provision of false information or intended concealment of facts, under which employees have to compensate the Group are described precisely in the Employee Handbook.

In addition, the Group does not tolerate the dismissal of employees under any unreasonable basis. In case of misconduct or contravention of the expression or implied terms and conditions of employment, employees are subject to warnings, misconduct records, demotion and wage cut or dismissal, depending on the severity of the misconduct and breach of the terms and conditions of employment as stated in the Employee Handbook.

*Employee Relationships*

Maintaining ongoing communication is essential to create long-term relationships with our employees. Therefore, we have set up various communication channels, such as hotline, email, WeChat and suggestion box for our employees to voice out their opinions, suggestions and complaints to the management. These communication channels also serve as an opportunity for us to understand our employees' needs and concerns.

**Labour Rights**

*Working Hours and Rest Periods*

The Group has set up internal policies to strictly control employees' working hours and rest periods. Meanwhile, the attendance system of the Group ensures the compliance with relevant local laws and regulations. For employees who have to work overtime, an advance notice will be issued whenever possible and approval from department manager is needed, with additional overtime pays provided.

In addition to the basic paid annual leaves and statutory holidays stipulated by the local governments, which are also clearly stated in the Employee Handbook, employees are also entitled to extra leave benefits, such as marriage leave, maternity leave, compassionate leave, etc.

*Other Benefits and Welfare*

We strictly comply with relevant national laws and regulations and strive to provide all employees with benefits they should be entitled to. For the sake of increasing its employees' sense of belonging and providing them with better work experiences, the Group has offered various benefits and welfare for its employees. Apart from bonuses which depend on the work efficiency of its employees, the Group has also provided its employees with several insurance schemes in accordance with the local laws and regulations, such as social insurance, life insurance, health and dental insurance, worker's compensation insurance, etc. Furthermore, the Group will annually review and adjust the pay scale of its employees based on the provisions of the labour laws, contribution of the employees and the level of work completion.

**Diversity, Equal Opportunity and Anti-discrimination**

We are committed to creating and maintaining an inclusive and collaborative workplace culture in which all can thrive by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions. Thus, all employees are assured of equal opportunity in all Human Resources practices during their employment with the Group. Any form of discrimination, physical and verbal harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation are stringently prohibited. Should any employee believe that there is a violation of the equal opportunity policy, he/she should advise and report to the Human Resources Director. In the meantime, any employee found to have acted in violation of the equal opportunity policy shall be subject to appropriate disciplinary action, including the termination of the employment contract.

## B2. Health and Safety

The Group highly values employees' health and safety, and is always committed to providing employees a healthy, safe and comfortable working environment. We endeavour to eliminate potential occupational health and safety hazards and implement safety management measures in all aspects to ensure employees' health and safety during work.

During FY2020, there were no reported cases of work-related fatalities and the Group was not aware of any material non-compliance with health and safety related laws and regulations, including but not limited to the Occupational Health and Safety Act of Taiwan, the Production Safety Law of the People's Republic of China, the Occupational Safety and Health Act of 1970 of the U.S., and the Law on Occupational Safety and Health (84/2015/QH13) of Vietnam that would have a significant impact on the Group.

**Occupational Health and Safety**

To pursue an injury-free working environment, the Group has set up an Occupational Health and Safety Management System which contains regulations to govern use of all machineries, equipment and danger signs. Specifically, the Group identifies and clearly defines the potential risk level and corresponding operational procedures for employees who are exposed to noise, paint and dust. Moreover, the Group organises periodic trainings for its employees on the correct procedures for operating machinery and equipment, and keeping themselves safe in case of fires or explosions.

For its operation in the PRC, the Group has carried out the Occupational Hazardous Agents Test and Assessment, and has received the Certification of Occupational Health Service issued by State Administration of Work Safety. As such, the potential risk factors for each position and the corresponding preventive measures are up-to-standard. Recommended corrective methods are also identified and adopted.

For its operation in U.S., employees who may be exposed to hazardous energy will receive training before assignment to ensure they fully understand the Energy Control Policy and acquire the necessary skills to apply, use, and remove energy controls. The contents of the training include not only the requirements of the OSHA standard for The Control of Hazardous Energy (Lockout/Tagout), but also the purpose and use of energy-control, recognition of hazardous energy sources, the types and magnitude of energy at workplace, and the methods necessary for isolating and controlling energy, etc. In addition, employees who are frequently exposed to chemicals are required to enrol the Hazardous Communication Program ("HCP") under their respective supervisor.

Besides, the Group is committed to comprehensively creating a clean and tidy working environment by prohibiting smoking, drugs and alcohols in the workplace. Also, the Group makes every effort to build a healthy and safe working environment for its employees by providing sufficient personal protection equipment for employees and conduct induction training for all new employees. Regular health checks are also provided for employees in order to figure out occupational diseases at the right time. Meanwhile, employees are required to use the protective equipment issued by the Group during work, including but not limited to masks, gloves, protective boots, safety straps, etc., for the sake of ensuring safety of the employees.

In order to prepare for any emergency situations such as fire accidents and chemical leakages, we have adopted an Emergency Contingency Plan, which clearly outlines the detailed emergency procedures to minimize employee exposure to danger and injuries. Fire drills and evacuation practices are also carried out regularly to ensure our employees are equipped with the knowledge in responding and reacting under these situations.

In response to the outbreak of the Coronavirus Disease 2019 ("COVID-19") pandemic, the Group has implemented Infectious Disease Control Plan which outlines the Group's overall response to an infectious disease. In order to ensure the plan runs smoothly in the Group, we require all managers and supervisors to be familiar with the details of the plan and be ready to answer questions from employees. Apart from providing face masks and taking body temperature, the Group also strictly enforces social distancing to prevent congregating in the operations during breaks or lunch times. In addition, to reduce the transmission of the virus in the community and in the workplace, the Group reminds its employees of the importance of staying home when feeling sick, frequently washing hands with soap and avoiding public places.

## B3. Development and Training

It is our aim to bring out the best in employees which drives the growth of the Group as we believe that talents build the future of the Group. Thus, we are committed to nurturing our talents by providing diversified learning channels. Guidelines on education and training management are clearly provided for the sake of fully empowering our employees with the knowledge and skills required to excel in their professional fields as well as motivating employees to further self-learning, thereby creating a talent pool which can contribute to the continuous success of the Group.

**Employee Development and Training**

The Group provides a series of internal training programmes to address the training needs of every departments, positions and employees. All employees will be provided with induction training, which cover topics such as safe production, fire safety, corporate culture and vision in order to help new employees to familiarize themselves with our corporate culture and working environment. The Group also provides on-the-job training relevant to employees' particular position. Besides, employees are encouraged to pursue additional education and training on their own to better qualify themselves for their current positions and future opportunities.

Besides, employees who may be exposed to hazardous energy and chemicals are required to attend additional orientations and training to familiarise themselves with the use of hazardous energy and chemicals. For details regarding the occupational health and safety training, please refer to the section headed "Occupational Health and Safety".

## B4. Labour Standards

**Prevention of Child Labour and Forced Labour**

Child and forced labour are strictly prohibited during the recruitment process according to laws and regulations. The Group strictly complies with local laws and prohibits any child labour and forced labour employment. During the recruitment process, candidates have to complete an employment application from the Human Resource Department which is responsible for conducting background checks and reference checks. Moreover, the Human Resources Department holds the responsibility of ensuring the identical documents are carefully checked. If violation is involved, it will be dealt with in the light of circumstances.

During FY2020, the Group was not aware of any material non-compliance with laws and regulations related to the prevention of child labour and forced labour, including but not limited to the Labour Standards Act of Taiwan, the Labour Law of the People's Republic of China, the Fair Labour Standards Act of the U.S., and the Labour Code (10/2012/QH13) of Vietnam that would have a significant impact on the Group.

## B5. Supply Chain Management

**Responsible Supply Chain Management**

As a socially responsible enterprise, the Group places heavy emphasis on the management of potential environmental and social risks in the supply chain. We have formulated the Rules of Conduct Supplier Agreement at our U.S. operation in which it binds our suppliers and vendors to the specific minimum standards that we believe are essential, such minimum standards include but are not limited to the respect of the freedom of association and collective bargaining, provision of health and safety workplace, and minimisation of the environmental impact. Besides, the Group has established the Supplier Review Management Procedure at its PRC operation to standardize the procurement system and supplier selection process so as to effectively monitor the procurement procedures. All suppliers and vendors of the Group are evaluated carefully and are subjected to regular monitoring and assessment. During FY2020, the Group had a total of 1,110 suppliers.

*Supplier Assessment*

The Group has established a rigorous supplier selection system in selecting suppliers. The Group takes into account the market price, technological advancement and quality when selecting a supplier. Only suppliers who meet our standards will be added into the approved vendor list.

Upon qualifying as the Group's supplier, regular review is conducted to monitor their performance in areas including environment, health, safety, and labour practices. Should the supplier's performance falls below the Group's standards or breaches to local laws and regulations, the Group will terminate the supplier relationship immediately.

*Open and Fair Tendering*

In addition to the supplier selection system, the Group has formulated policies and procedures to ensure suppliers could compete in a transparent and fair way. We will not discriminate against any suppliers, and we do not allow any forms of corruption or bribery. Employees and other individuals with interest in the suppliers will not be allowed to participate in relevant procurement activities. The Group will only select suppliers who have good track record in the past and have no serious violations of business ethics.

## B6. Product Responsibility

The Group actively safeguards the quality of our products and is devoted to delivering excellent customer experience. We strive to continuously improve the quality of our products and services, and are committed to conducting business in a responsible manner and gaining greatest customer satisfaction.

During FY2020, the Group was not aware of any material non-compliance with laws and regulations concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to the Consumer Protection Act of Taiwan, Law of the People's Republic of China on the Protection of Consumer Rights and Interests, Product Quality Law of the People's Republic of China, Consumer Product Safety Act of the U.S., Consumer Product Safety Improvement Act of the U.S., and the Law on Protection of Consumer Rights (59/2010/QH12) of Vietnam that would have a significant impact on the Group.

**Product Quality**
We recognise the importance of achieving and maintaining high product quality standard to the sustainable growth of the Group. To maintain high product quality, we have established a Quality Control Unit, which is responsible for ensuring the overall quality standards and products manufactured at each production stage. We have also formulated a Non-conforming Product Management Procedures for our operation at the PRC, which provide guidelines for recalling products that do not meet our quality standards. As stated in the Non-conforming Product Management Procedures, any products that are recalled will be reviewed, analysed and handled in order to prevent the occurrence of similar events.

**Product Safety**
We ensure product safety by applying strict safety standards which are aligned with compliance standards and customer requirements. To ensure that materials of our furniture do not contain any harmful substances or chemicals, the materials provided by our suppliers are tested and assessed systematically via international testing bodies. For example, in selecting paints and powder for our furniture, our suppliers are requested to submit third-party testing reports, so as to make sure the lead content for our products does not exceed the threshold limit. Likewise, for all foam-based components, fire retardant chemicals that can be harmful to people and the environment are not employed.

If any of our products are discovered to have any safety and health issues, we will stop the related production and recall the products in accordance with the Product Recall Control Procedures. We will also conduct a comprehensive investigation in order to find out the root causes and impacts of the problems.

**Customer Satisfaction**
Feedbacks and complaints from the Group's customers are welcomed as they are the key to enhancing the Group's service. The Group has also established a set of procedures in handling customers' feedback or complaints in a professional manner. When receiving product or service-related enquiries or complaints, we will communicate with customers immediately and make corresponding responses in a timely manner. For each complaint received, we are committed to investigating the root causes and identify the areas for improvement in order to enhance the quality of the Group's service and products. All complaint cases and corresponding details are documented to reduce the possibility of re-occurrence in the future.

**Privacy Protection**
The Group attaches great importance to the protection of confidential data of our customers. We are determined to protecting customers' personal data by handling them with the highest degree of confidentiality. We have established the Code of Ethical Business Conduct to govern the collection and use of customers' data. Our employees are constantly being reminded to keep customers' personal data to the highest level of security, and they prohibited from revealing or capitalizing on any confidential matters or customer's information without prior consent. Only authorised personnel are allowed to access confidential information. Any employee who is found to have misused, unauthorized accessed to, or mishandled of confidential information will be subjected to the Discipline Policy up to and including immediate discharge.

We have also formulated a Confidentiality and Privacy Policy for our vendors and suppliers to ensure any information concerning products and services, clients or customers, sales, merchandising and marketing plans, etc. are kept confidential. A Data Privacy Addendum is also attached in the Confidentiality and Privacy Policy to outline the requirements and responsibilities of vendors and suppliers in relation to any customer information that the Group shared. Any non-conformity with the policies may result in partnership termination.

**Advertising and Labelling**

The Group emphasises the importance of proper advertising and labelling. With regard to labelling, we strictly adhere to relevant laws and regulations and attach safety labels such as tip-over warning labels and flammability warning labels on our products to keep our customers well-informed with the potential risks or hazards that may occur if the products are improperly used. Information on the materials used in the products with detailed instructions on the proper use of products are also provided for customers. Concerning advertising, we will verify all information regarding our products and business upon publication of promotion materials or product sales to prevent any false, misleading or deceptive information being publicized.

**Protection of IP Rights**

We believe our brand and IP rights are critical to the success of our Group. The Group has adopted a number of measures and policies to protect our IP rights so as to prevent any misuse or leakage of our IP. Employees are also prohibited from disclosing or exploiting any patents and trademarks to any third parties. In addition, we require our vendors to only present original designs and product ideas without conflict of other parties' rights. Vendors should also ensure they have the ability to grant us all rights (including copyrights, patents, rights of publicity and trademarks) for designs or products that they sell to us. For any infringement of our IP, we will urge infringers to cease such action, and further action will be taken if infringement continues.

## B7. Anti-corruption

We believe that a corporate culture of high integrity is the key to our continued success, therefore we emphatically affirm our zero-tolerance stance regarding corruption, fraud, bribery, extortion, and all other behaviours that severely violate professionalism and work ethics. We are committed to building a fair, open, and transparent corporate culture, and we require our staff to adhere to the principle of integrity and comply with all applicable laws in a manner that excludes considerations of personal advantage or gain.

During FY2020, there was no concluded legal case regarding corrupt practices brought against the Group or its employee. The Group was also not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Anti-corruption Act of Taiwan, the Criminal Law of the People's Republic of China, the American Anti-Corruption Act, and the Vietnam's Law on Anti-Corruption (36/2018/QH14) that would have a significant impact on the Group.

**Business Ethics**

The Group strictly adheres to a high standard of business conduct, and has established the Code of Ethical Business Conduct to define appropriate measures in handling gifts, favours, entertainments and payments received, potential conflict of interests, etc. to comply with relevant laws and regulations.

To further maintain and achieve the highest degree of openness, probity and accountability, the Group has established a whistle-blowing mechanism where employees can act appropriately, without fear of retaliation. Within the whistle-blowing mechanism, detailed reporting and investigative procedures are set out to encourage employees to report fraudulent activities anonymously and to ensure that their reports are given due regard. The Group intends to protect the whistle-blower from common concerns such as confidentiality and potential retaliation. Therefore, employees reporting in good faith under the whistle-blowing mechanism can be assured of the protection against unfair dismissal or victimization, even if the reports are subsequently proved to be unsubstantial.

## B8. Community Investment

**Corporate Social Responsibility**

The Group believes in shouldering the responsibility of contributing to society and strives to be a responsible corporate citizen. We aim to exert positive influences on the community where we operate and live by actively participating in and supporting various charitable and community activities. During FY2020, the Group has actively participated in the charity and social welfare activities, and had launched different activities to support the community.

For the operation in the U.S., a Food Drive Competition is being held to encourage employees to donate any canned food for Local Food Pantry, while a Blood Drive is also held in June 2020 to support the American Red Cross.

## THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

| Subject Areas, Aspects, General Disclosures and KPIs | Description | Section/Declaration |
|---|---|---|
| **Aspect A1: Emissions** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | Emissions – Emission Prevention and Management |
| KPI A1.1 ("comply or explain") | The types of emissions and respective emissions data. | Emissions – Exhaust Gas Emissions |
| KPI A1.2 ("comply or explain") | GHG emissions in total (in tonnes) and intensity. | Emissions – GHG Emissions |
| KPI A1.3 ("comply or explain") | Total hazardous waste produced (in tonnes) and intensity. | Emission – Waste Management (Not applicable – Explained) |
| KPI A1.4 ("comply or explain") | Total non-hazardous waste produced (in tonnes) and intensity. | Emission – Waste Management |
| KPI A1.5 ("comply or explain") | Description of reduction initiatives and results achieved. | Emissions – Emission Prevention and Management |
| KPI A1.6 ("comply or explain") | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Emission – Waste Management |
| **Aspect A2: Use of Resources** | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | Use of Resources |
| KPI A2.1 ("comply or explain") | Direct and/or indirect energy consumption by type in total and intensity. | Use of Resources – Energy Management |
| KPI A2.2 ("comply or explain") | Water consumption in total and intensity. | Use of Resources – Water Management |
| KPI A2.3 ("comply or explain") | Description of energy use efficiency initiatives and results achieved. | Use of Resources – Energy Management |

| Subject Areas, Aspects, General Disclosures and KPIs | Description | Section/Declaration |
|---|---|---|
| KPI A2.4 ("comply or explain") | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Use of Resources – Water Management |
| KPI A2.5 ("comply or explain") | Total packaging material used for finished products (in tonnes) and with reference to per unit produced. | Use of Resources – Use of Packaging Material (Not applicable – Explained) |
| **Aspect A3: The Environment and Natural Resources** | | |
| General Disclosure | Policies on minimizing the issuer's significant impact on the environment and natural resources. | Environment and Natural Resources |
| KPI A3.1 ("comply or explain") | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Environment and Natural Resources – Green Operation |
| **Aspect B1: Employment** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare. | Employment |
| KPI B1.1 ("Recommended Disclosure") | Total workforce by gender, employment type, age group and geographical region. | Employment |
| **Aspect B2: Health and Safety** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | Health and Safety |
| KPI B2.1 ("Recommended Disclosure") | Number and rate of work-related fatalities. | Health and Safety |

| Subject Areas, Aspects, General Disclosures and KPIs | Description | Section/Declaration |
|---|---|---|
| KPI B2.3 ("Recommended Disclosure") | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Health and Safety |
| **Aspect B3: Development and Training** | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Development and Training |
| **Aspect B4: Labour Standards** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Labour Standards |
| KPI B4.1 ("Recommended Disclosure") | Description of measures to review employment practices to avoid child and forced labour. | Labour Standards |
| KPI B4.2 ("Recommended Disclosure") | Description of steps taken to eliminate such practices when discovered. | Labour Standards |
| **Aspect B5: Supply Chain Management** | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Supply Chain Management |
| KPI B5.2 ("Recommended Disclosure") | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Supply Chain Management |
| **Aspect B6: Product Responsibility** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | Product Responsibility |
| KPI B6.3 ("Recommended Disclosure") | Description of practices relating to observing and protecting intellectual property rights. | Product Responsibility |

| Subject Areas, Aspects, General Disclosures and KPIs | Description | Section/Declaration |
|---|---|---|
| KPI B6.4 ("Recommended Disclosure") | Description of quality assurance process and recall procedures. | Product Responsibility |
| KPI B6.5 ("Recommended Disclosure") | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Product Responsibility |
| **Aspect B7: Anti-corruption** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | Anti-corruption |
| KPI B7.1 ("Recommended Disclosure") | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Anti-corruption |
| KPI B7.2 ("Recommended Disclosure") | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Anti-corruption |
| **Aspect B8: Community Investment** | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Community Investment |

# REPORT OF THE DIRECTORS

The directors present the report of directors and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out on pages 68 to 70.

## BUSINESS REVIEW AND OUTLOOK

A review of the business and the likely future development of the Group as well as an analysis of the Group's performance for the year ended 31 December 2020 are provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on the respective pages 4 to 5 and pages 6 to 9 of this annual report which constitute part of this directors' report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 61 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

## PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent in the furniture business industry and some are from external sources. Major risks are summarised below.

(i) The primary market for sales of our products is the U.S. and a decrease in demand for residential furniture in the U.S. and/or change of U.S. economy including consumers spending, housing markets, and even severe weather could adversely affect our results of operations. Our core business is in the residential furniture in the U.S., therefore change in the industry will affect the business significantly.

(ii) The residential furniture industry is subject to fashion trends and consumer tastes, which can change rapidly.

Failure to anticipate or respond to changes in consumer tastes and fashion trends in a timely manner could result in a decrease in future sales and profits.

(iii) We compete not only with U.S. furniture companies, but also importers who source furniture from the Southeast Asia. Areas of competition include product designs, production costs, marketing programs, customer services. If we do not respond timely to our competitors, our costs may increase or the consumer demand for our products may decline and so as our revenue and profits.

(iv) The risk exists that negative macroeconomic changes, mainly in the U.S., Vietnam, and China may result in negative changes in the business environment. Slower consumer spending may result in reduced demand for our products, reduced orders from our distributors, order cancellations, higher discounts, increased inventories, lower revenue and margins. In addition, the book of accounts of the Company is prepared in U.S. Dollars, therefore changes in other currencies will also affect the revenue recognised, as well as margins and other income, etc.

(v) Majority of our products are manufactured by our own manufacturing plants. Upholstery are primarily from our operations in the U.S. Disruption in the supply of raw materials and some key components, skilled labour may cause problems in our supply chain. We have developed long-standing relationships with a number of our suppliers so as to minimise the impact from any supply disruptions and ensure that we can locate alternative suppliers of comparable quality at a reasonable price with limited impact.

(vi) While the beginning of 2020 is marked by the global spread of novel coronavirus (COVID-19) epidemic and had posed uncertainty to the current economic situation. The Company continues coordinate with different parties and takes swift actions to ensure stable operations. We also closely monitor the development of the COVID-19 situation and strictly follow the guidance of local authorities to ensure the safety and health of employees. The Company will use its best endeavors to mitigate the adverse impact of the COVID-19 outbreak on the Group.

## ENVIRONMENTAL POLICIES, PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

With a vision to become a global leader in the furniture industry, we understand our responsibility is not limited to create a better life at home, also to make the environment a better place for everyone to live in. With various environmental policies and practices established, we strive to minimise the environmental impacts of our production. Through implementing control measures, the level of air pollutants is reduced before emitting into the atmosphere to meet the government standards. We also have proper treatment procedure for managing hazardous waste. To improve resources efficiency, we reuse/recycle waste materials such as wood, and conserve energy such as installing LEDs lighting and educate employees.

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China and Vietnam while the Company itself is listed on the Stock Exchange. Our establishment and according operations shall comply with the relevant laws and regulations in the U.S., Vietnam, Mainland China and Hong Kong. During the year ended 31 December 2020 and up to the date of this report, we have complied with all the relevant laws and regulations in the above-mentioned jurisdictions.

For more details, please refer to the "Environmental, Social and Governance Report" section.

## KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has maintained a good relationship with its employees, customers and suppliers:

Employees: We recognise the importance of our employees, and strive to fulfill our responsibility by providing a fair and safe workplace for all employees, where they can develop their careers while maintaining a healthy work-life balance.

Customers: It is vital to build up the customers trust on our products and services. To do so, we strive to maintain high product quality and offer safe products to create a better home for our customers. Listening to our customers is also our priority and corresponding systems are set up to handle customers' complaints or inquiries.

Suppliers: Suppliers are the key of product success. We carefully select our suppliers and require them to satisfy certain assessment criteria which are not limited to price, skills level and quality assurance standard, and also to make sure the materials use in production do not have significant adverse impacts to the environment and surrounding communities, and are safe for our consumers. We also require them to sign a probity agreement.

For more details, please refer to the "Environmental, Social and Governance Report" section.

## FIVE YEARS OF FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 148 of this annual report.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2020, the Company's reserves available for distribution to shareholders were as follows:

| | **2020**<br>***US$'000*** | 2019<br>*US$'000* |
|---|---|---|
| Share premium | **105,972** | 105,892 |
| Contributed surplus | **80,186** | 80,186 |
| Accumulated losses | **(47,795)** | (16,377) |
| | **138,363** | 169,701 |

Under the Companies Law of the Cayman Islands, the share premium account and the contributed surplus are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 13 and 14 to the financial statements, respectively.

## SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 26 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, 11,436,000 ordinary shares were repurchased for a consideration of US$492,000 (equivalent to HK$3,855,000) and were cancelled on 11 February 2020.

| Month of repurchase | Number of ordinary shares | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$'000* |
| August 2019 | 7,282,000 | 0.350 | 0.315 | 2,373 |
| September 2019 | 3,154,000 | 0.360 | 0.325 | 1,091 |
| October 2019 | 1,000,000 | 0.395 | 0.380 | 391 |
| | 11,436,000 | | | 3,855 |

The above ordinary shares repurchased were cancelled on delivery of share certificates. The nominal value of US$572,000 of all the shares cancelled during the period was transferred from share repurchase reserve to share capital and share premium.

None of the Company's subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended.

## DIRECTORS

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

### Executive Directors

Mr. Shan Huei KUO *(Chairman)*
Ms. Yi-Mei LIU *(Deputy Chairman)*
Mr. Mohamad AMINOZZAKERI

### Non-executive Director

Mr. Sheng Hsiung PAN

### Independent Non-executive Directors

Mr. Ming-Jian KUO
Mr. Siu Ki LAU
Mr. Sui-Yu WU

In accordance with the provisions of the Company's articles of association (the "Articles"), Messrs. Shan Huei KUO, Siu Ki LAU and Sui-Yu WU will retire by rotation pursuant to article 130 of the Articles at the forthcoming annual general meeting. All the retiring directors, being eligible, will offer themselves for re-election thereat.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year ended 31 December 2020.

## SHARE OPTION SCHEME

Following the expiry on 16 November 2015 of the Company's share option scheme adopted in 2005, the Company has adopted a new share option scheme on 18 May 2016 (the "2016 Share Option Scheme") to attract and incentivise skilled and experienced personnel. The 2016 Share Option Scheme shall be valid and effective for a period of 10 years until 18 May 2026.

Details of the share options granted and outstanding under the 2016 Share Option Scheme during the year ended 31 December 2020 were as follows:

| | | | | | Number of share options | | |
|---|---|---|---|---|---|---|---|
| | Date of grant | Exercise price HK$/share | Vesting date | Exercise period | Outstanding as at 1.1.2020 | Exercised during the year | Outstanding as at 31.12.2020 |
| *Other employees:* | | | | | | | |
| In aggregate | 11.11.2016 | 0.67 | 11.11.2016 | 11.11.2016 – 10.11.2021 | 26,700,000 | – | 26,700,000 |
| Total | | | | | 26,700,000 | – | 26,700,000 |
| Exercisable at the end of the year | | | | | 26,700,000 | | 26,700,000 |
| Weighted average exercise price (HK$ per share)* | | | | | 0.67 | | 0.67 |

* The exercise price of the share options is subject to adjustment in the case of changes in the Company's share capital.

No share options were cancelled or lapsed during the year (2019: Nil).

During the year ended 31 December 2020, there was no share option granted (2019: Nil), and the Group did not recognise any share option expense (2019: Nil).

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes disclosed above, at no time during the year and at the end of the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, the interests of the directors or chief executive in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

| Name of directors | Capacity | Number of issued ordinary shares held (Long positions) | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Shan Huei KUO | Held by controlled corporations *(Note)* | 2,146,346,773 | 69.07% |
| Ms. Yi-Mei LIU | Held by controlled corporations *(Note)* | 2,146,346,773 | 69.07% |
| Mr. Mohamad AMINOZZAKERI | Beneficial owner | 10,000,000 | 0.32% |

*Note:* The 2,146,346,773 shares were held by Advent Group Limited ("Advent").

Mr. Shan Huei KUO and Ms. Yi-Mei LIU each holds 50% of the equity interest in Magnificent Capital Holding Limited which owns 70% of the issued share capital of Advent. Mr. Shan Huei KUO and Ms. Yi-Mei LIU are husband and wife. Therefore, Mr. Shan Huei KUO and Ms. Yi-Mei LIU are deemed to be interested in the shares of the Company which are owned by Advent.

Other than as disclosed above, none of the directors or chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2020.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2020, the interests of the substantial shareholders and other persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

| Name of substantial shareholders | Capacity | Number of issued ordinary shares held (Long positions) | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Magnificent Capital Holding Limited | Held by a controlled corporation | 2,146,346,773 | 69.07% |
| Advent Group Limited ("Advent") | Beneficial owner | 2,146,346,773 | 69.07% |

*Note:* Mr. Shan Huei KUO and Ms. Yi-Mei LIU each holds 50% of the equity interest in Magnificent Capital Holding Limited which owns 70% of the issued share capital of Advent. Mr. Shan Huei KUO and Ms. Yi-Mei LIU are husband and wife. Therefore, Mr. Shan Huei KUO and Ms. Yi-Mei LIU are deemed to be interested in the shares of the Company which are owned by Advent. Mr. Shan Huei KUO and Ms. Yi-Mei LIU are also the directors of Advent and Magnificent Capital Holding Limited.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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 Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

## CONNECTED TRANSACTIONS

During the year, the Group paid rental charge to Samson Global Co., Ltd. which is wholly-owned by Mr. Shan Huei KUO and Ms. Yi-Mei LIU. These related party transactions are regarded as continuing connected transactions and qualified as a "de minimis transaction" pursuant to Chapter 14A of the Listing Rules. The details of these transactions are set out in note 33 to the financial statements.

Other than as disclosed above, there were no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, entered into or subsisted at the end of the year or at any time during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's largest and five largest customers and suppliers, respectively, were as follows:

| | |
|---|---|
| – the largest customer | 9% |
| – five largest customers | 24% |
| – the largest supplier | 16% |
| – five largest suppliers | 32% |

During the year, none of the directors, their close associates nor any shareholders of the Company, which to the knowledge of the directors, owned more than 5% of the number of the Company's issued shares had an interest in any of the Group's five largest customers or suppliers.

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float throughout the year and up to the date of this report.

## DONATIONS

During the year, the Group made charitable and other donations amounting to approximately US$457,000.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout the year.

The Company has arranged for appropriate insurance cover to protect its directors from possible legal actions against them.

## EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Company that have occurred since the end of the year.

## AUDITORS

A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Shan Huei KUO**
*Chairman*

25 March 2021

# INDEPENDENT AUDITOR'S REPORT

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

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**TO THE SHAREHOLDERS OF SAMSON HOLDING LTD.**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Samson Holding Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 147, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Net realisable value of inventories* | |
| Inventories of US$124,593,000, as included in the consolidated financial statements as at 31 December 2020, was a material balance for the Group. The measurement of which required significant management judgement in determining an appropriate costing basis and assessing if their net realisable values were lower than the carrying amounts of the inventories at the year end. There were also judgements required in determining inventory excess and obsolescence provisions as these were based on forecasted inventory usage and sales.<br><br>Relevant disclosures are included in notes 3 and 19 to the consolidated financial statements for the year ended 31 December 2020. | Our procedures included:<br><br>• Evaluating the methodology and performing test of controls over the costing basis of inventories;<br><br>• Attending inventory counts to observe the physical condition of a sample of inventories selected as at year end;<br><br>• Assessing the inventory excess and obsolescence provision policy and considering management's judgement by comparing it to the historical data; and<br><br>• Assessing the net realisable values by comparing the unit prices of subsequent sales with the unit costs for significant items. |
| *Provision for expected credit losses on trade receivables* | |
| Trade receivables before provision for expected credit losses ("ECL") of US$1,775,000, as included in the consolidated financial statements as at 31 December 2020, amounted to US$62,000,000. The determination as to how much ECL is estimated and provided involved management judgement. Specific factors that management considered included the ageing of the balance, locations of customers, existence of disputes, historical payment patterns and other relevant information concerning the creditworthiness of counterparties. There were also estimations required in assessing the correlation between historical observed default rates, forecast economic conditions and ECL.<br><br>Relevant disclosures are included in notes 3 and 20 to the consolidated financial statements for the year ended 31 December 2020. | Management prepared ECL models to assist with the provision assessment. We involved our internal specialists in evaluating the ECL models and historical default rates, giving particular attention to the economic forecast.<br><br>Our procedures included:<br><br>• Ascertaining the Group's policies and procedures in the estimations of the ECL;<br><br>• Checking subsequent settlements after the year end;<br><br>• Assessing the assumptions and inputs in the ECL models by considering the historical customer payment behaviour, subsequent settlements after the year end, the creditworthiness of customers and the ageing of the trade receivables; and<br><br>• Considering the adequacy of the Group's disclosures in the consolidated financial statements about the degree of estimation involved in arriving at the provision. |

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of goodwill* | |
| Goodwill, as included in the consolidated financial statements as at 31 December 2020, amounted to US$25,793,000. The determination as to whether goodwill was impaired involved management judgement to estimate the value-in-use of the cash-generating units to which the goodwill was allocated. There were also judgements required in estimating the value-in-use by management that involve an estimate of the expected future cash flows from the cash-generating units and an appropriate discount rate to calculate the present value of the projected cash flows.<br><br>Relevant disclosures are included in notes 3 and 16 to the consolidated financial statements for the year ended 31 December 2020. | Management prepared discounted cash flow models to perform the impairment assessment. We involved our internal specialists in evaluating the discounted cash flow models, assumptions and key parameters used by management.<br><br>Our procedures included:<br><br>• Assessing the historical accuracy of the prior year's assumptions and estimates made by management, as appropriate;<br><br>• Assessing the reasonableness of management's key assumptions, including growth rates and discount rates used in the discounted cash flow models;<br><br>• Reperforming the management's sensitivity calculations; and<br><br>• Assessing the adequacy of disclosures on the impairment assessment, specifically the key assumptions that have the most significant effect on the determination of the recoverable amount of the goodwill. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS 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 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

- 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, 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 this independent auditor's report is Chung Chi Ming.

*Ernst & Young*
Certified Public Accountants
Hong Kong
25 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2020*

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **397,582** | 457,240 |
| Cost of sales | | **(302,075)** | (323,211) |
| Gross profit | | **95,507** | 134,029 |
| Other income, gains, losses and expenses | 5 | **13,629** | 9,540 |
| Distribution costs | | **(11,731)** | (16,484) |
| Sales and marketing expenses | | **(57,288)** | (71,880) |
| Administrative expenses | | **(52,459)** | (50,955) |
| Impairment of property, plant and equipment | 13 | **–** | (41,346) |
| Share of loss of an associate | | **(54)** | (12) |
| Finance costs | 7 | **(4,499)** | (8,074) |
| **LOSS BEFORE TAX** | 6 | **(16,895)** | (45,182) |
| Income tax credit/(expense) | 10 | **1,174** | (3,341) |
| **LOSS FOR THE YEAR** | | **(15,721)** | (48,523) |
| **Attributable to:** | | | |
| Owners of the parent | | **(14,007)** | (48,609) |
| Non-controlling interests | | **(1,714)** | 86 |
| | | **(15,721)** | (48,523) |
| **LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 12 | | |
| – Basic (in US cent) | | **(0.45)** | (1.56) |
| – Diluted (in US cent) | | **(0.45)** | (1.56) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

| | 2020<br>*US$'000* | 2019<br>*US$'000* |
|---|---|---|
| **LOSS FOR THE YEAR** | **(15,721)** | (48,523) |
| **OTHER COMPREHENSIVE LOSS** | | |
| *Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:* | | |
| Exchange differences on translation of foreign operations | **(2,746)** | (2,496) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | **(18,467)** | (51,019) |
| **Attributable to:** | | |
| Owners of the parent | **(16,764)** | (51,115) |
| Non-controlling interests | **(1,703)** | 96 |
| | **(18,467)** | (51,019) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2020*

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **85,062** | 87,474 |
| Investment properties | 14 | **7,234** | 7,462 |
| Right-of-use assets | 15(a) | **46,713** | 52,153 |
| Goodwill | 16 | **25,793** | 25,793 |
| Other intangible assets | 17 | **4,400** | 5,354 |
| Investment in an associate | 18 | **934** | 988 |
| Deposits for acquisition of prepaid land lease | | **36,880** | 36,880 |
| Deferred tax assets | 25 | **4,299** | 7,706 |
| Total non-current assets | | **211,315** | 223,810 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **124,593** | 140,118 |
| Trade and other receivables | 20 | **97,221** | 108,099 |
| Held-for-trading investments | 21 | **95,490** | 93,748 |
| Tax recoverable | | **3,513** | 2,170 |
| Pledged bank deposits | 22 | **10,308** | 3,942 |
| Short term bank deposits | 22 | **–** | 4,200 |
| Cash and cash equivalents | 22 | **26,047** | 62,678 |
| Total current assets | | **357,172** | 414,955 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 23 | **77,756** | 76,759 |
| Interest-bearing bank borrowings | 24 | **109,609** | 154,569 |
| Lease liabilities | 15(b) | **7,510** | 7,276 |
| Tax payable | | **11,171** | 8,895 |
| Total current liabilities | | **206,046** | 247,499 |
| **NET CURRENT ASSETS** | | **151,126** | 167,456 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **362,441** | 391,266 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2020*

| | Notes | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | 15(b) | 19,622 | 23,885 |
| Interest-bearing bank borrowings | 24 | 45,365 | 32,550 |
| Deferred tax liabilities | 25 | 2,449 | 7,409 |
| Total non-current liabilities | | 67,436 | 63,844 |
| Net assets | | 295,005 | 327,422 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 26 | 155,374 | 155,946 |
| Reserves | 28 | 139,631 | 162,610 |
| | | 295,005 | 318,556 |
| Non-controlling interests | | – | 8,866 |
| Total equity | | 295,005 | 327,422 |

**Shan Huei KUO**
*Director*

**Yi-Mei LIU**
*Director*

| | | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital US$'000 (note 26) | Share repurchase reserve US$'000 (note 26) | Share premium US$'000 | Capital redemption reserve US$'000 | Share option reserve US$'000 (note 27) | Merger reserve US$'000 (note 28) | Other reserve US$'000 (note 28) | Exchange reserve US$'000 | Retained profits US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total US$'000 |
| At 1 January 2019 | | 155,946 | – | 105,892 | 1,012 | 256 | 1,581 | – | (4,135) | 109,611 | 370,163 | – | 370,163 |
| Loss for the year | | – | – | – | – | – | – | – | – | (48,609) | (48,609) | 86 | (48,523) |
| Other comprehensive loss for the year: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | (2,506) | – | (2,506) | 10 | (2,496) |
| Total comprehensive loss for the year | | – | – | – | – | – | – | – | (2,506) | (48,609) | (51,115) | 96 | (51,019) |
| Acquisition of a subsidiary | 29(a) | – | – | – | – | – | – | – | – | – | – | 8,770 | 8,770 |
| Shares repurchased and yet to be cancelled | | – | (492) | – | – | – | – | – | – | – | (492) | – | (492) |
| At 31 December 2019 and 1 January 2020 | | 155,946 | (492)* | 105,892* | 1,012* | 256* | 1,581* | –* | (6,641)* | 61,002* | 318,556 | 8,866 | 327,422 |
| Loss for the year | | – | – | – | – | – | – | – | – | (14,007) | (14,007) | (1,714) | (15,721) |
| Other comprehensive loss for the year: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | (2,757) | – | (2,757) | 11 | (2,746) |
| Total comprehensive loss for the year | | – | – | – | – | – | – | – | (2,757) | (14,007) | (16,764) | (1,703) | (18,467) |
| Acquisition of additional interest in a subsidiary | 29(c) | – | – | – | – | – | – | (6,787) | – | – | (6,787) | (7,163) | (13,950) |
| Shares cancelled | | (572) | 492 | 80 | – | – | – | – | – | – | – | – | – |
| At 31 December 2020 | | 155,374 | – | 105,972* | 1,012* | 256* | 1,581* | (6,787)* | (9,398)* | 46,995* | 295,005 | – | 295,005 |

* These reserve accounts comprise the consolidated reserves of US$139,631,000 (2019: US$162,610,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2020*

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before tax | | **(16,895)** | (45,182) |
| Adjustments for: | | | |
| Interest expense | 7 | **4,499** | 8,074 |
| Interest income | 5 | **(2,345)** | (5,843) |
| (Gain)/loss on disposal of items of property, plant and equipment | 5 | **(1,180)** | 2,380 |
| Impairment of property, plant and equipment | 6 | **–** | 41,346 |
| Impairment of other intangible assets | 6 | **735** | 200 |
| Net gain on held-for-trading investments | 5 | **(2,008)** | (4,672) |
| Depreciation of investment properties | 6 | **228** | 228 |
| Depreciation of property, plant and equipment | 6 | **9,555** | 13,660 |
| Depreciation of right-of-use assets | 6 | **8,187** | 7,710 |
| Amortisation of other intangible assets | 6 | **219** | 238 |
| Impairment of trade receivables | 6 | **648** | 1,264 |
| Write-down of inventories to net realisable value | 6 | **3,561** | 3,547 |
| Reversal of write-down of inventories | 6 | **(5,466)** | (2,773) |
| Share of loss of an associate | 18 | **54** | 12 |
| | | **(208)** | 20,189 |
| Decrease in inventories | | **17,893** | 26 |
| Decrease in trade and other receivables | | **6,334** | 12,679 |
| Increase/(decrease) in trade and other payables | | **1,606** | (5,178) |
| Cash generated from operations | | **25,625** | 27,716 |
| PRC income tax paid | | **–** | (3,368) |
| Overseas tax refunded/(paid) | | **686** | (266) |
| Interest expenses on lease liabilities | 7 | **(1,420)** | (1,310) |
| Net cash flows from operating activities | | **24,891** | 22,772 |

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | 5 | **2,345** | 5,843 |
| Purchase of items of property, plant and equipment | | **(7,657)** | (9,172) |
| Addition in prepaid land lease payments | | **–** | (7,761) |
| Deposits for acquisition of prepaid land lease | | **–** | (21,216) |
| Proceeds from disposal of items of property, plant and equipment | | **1,717** | 11,930 |
| Purchase of held-for-trading investments | | **(1,864)** | (4,296) |
| Investment in an associate | | **–** | (1,000) |
| Proceeds from disposal of held-for-trading investments | | **2,130** | 81,090 |
| Acquisition of a subsidiary and a business unit | 29(a), 29(b) | **–** | (35,220) |
| Decrease in short term bank deposits | | **4,200** | – |
| (Increase)/decrease in pledged bank deposits | | **(6,366)** | 4,020 |
| Net cash flows (used in)/from investing activities | | **(5,495)** | 24,218 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | | **150,399** | 174,083 |
| Repayment of bank loans | | **(182,563)** | (189,917) |
| Principal portion of lease payments | 30(b) | **(6,645)** | (6,228) |
| Acquisition of additional interest in a subsidiary | 29(c) | **(13,950)** | – |
| Shares repurchased | | **–** | (492) |
| Interest paid | 7 | **(3,079)** | (6,764) |
| Net cash flows used in financing activities | | **(55,838)** | (29,318) |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(36,442)** | 17,672 |
| Cash and cash equivalents at the beginning of year | | **62,678** | 46,232 |
| Effect of foreign exchange rate changes | | **(189)** | (1,226) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 22 | **26,047** | 62,678 |

## 1. CORPORATE AND GROUP INFORMATION

Samson Holding Ltd. (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company is located at Unit 1007, 10th Floor, Haleson Building, 1 Jubilee Street, Central, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- manufacturing and sale of furniture
- trading of furniture and procurement services
- investment holding

In the opinion of the directors, the Company's immediate holding company is Advent Group Limited, which is incorporated in the British Virgin Islands ("BVI") and its ultimate holding company is Magnificent Capital Holding Limited, which is also incorporated in the BVI.

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Craftmaster Furniture, Inc. | United States ("U.S.") | US$0.01 | – | 100 | Manufacturing and sale of furniture |
| Dongguan Huanhua Home Furniture Co., Ltd. ("DHH")* | People's Republic of China ("PRC") | RMB2,000,000 | – | 100 | Trading of furniture |
| Grand Manor Furniture, Inc. | U.S. | US$4,008,000 | – | 100 | Manufacturing and sale of furniture |
| LacquerCraft Hospitality, Inc. | U.S. | US$1,000 | – | 100 | Marketing and sale of furniture |
| Universal Furniture International, Inc. | U.S. | US$0.35 | – | 100 | Marketing and sale of furniture |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Baker Interiors Group, Ltd. | U.S. | US$35,000,000 | – | 100 | Manufacturing and sale of furniture |
| Lacquer Craft Manufacturing Co., Ltd. (Zhejiang) ("LCZJ")* | PRC | US$80,000,000 | – | 100 | Manufacturing and sale of furniture |
| Legacy Classic Furniture, Inc. | U.S. | US$4,450,000 | – | 100 | Marketing and sale of furniture |
| PT Lacquercraft Industry Indonesia | Republic of Indonesia ("Indonesia") | Indonesian Rupiah 22,507,500,000 | – | 100 | Manufacturing and sale of furniture |
| Samson International Enterprises Limited | BVI/Taiwan | US$50,000 | – | 100 | Trading of furniture and procurement services |
| Samson Investment Holding Co. | U.S. | US$0.10 | – | 100 | Investment holding |
| Trendex Furniture Ind. Co., Ltd. | Bangladesh | Bangladesh Taka 400,000 | – | 100 | Manufacturing and sale of furniture |
| Uniview Trading Limited | Hong Kong | HK$1 | – | 100 | Trading of furniture |
| Kingswood Talent Limited | Hong Kong | HK$1 | – | 100 | Trading of furniture |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Jolly State International Limited | BVI | US$46,500,000 | – | 100 *(Note)* | Investment holding |
| Timber Industries Co., Ltd. | Vietnam | VND133,215,000,000 | – | 100 *(Note)* | Manufacturing and sale of furniture |
| Samson Industries Co., Ltd. | Vietnam | VND168,890,435,165 | – | 100 | Manufacturing and sale of furniture |

* LCZJ and DHH are registered as wholly-foreign-owned enterprises under PRC law.

*Note:* During the year, the Group acquired an aggregate of 30% of the equity interest of Jolly State International Limited and its subsidiary, Timber Industries Co., Ltd. from an independent third party. Upon the completion of the acquisition, Jolly State International Limited and Timber Industries Co., Ltd. had become wholly-owned subsidiaries of the Company. Further details of this acquisition are included in note 29(c) to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for held-for-trading investments which have been measured at fair value. These consolidated financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the statement of profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the statement of profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business* |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform* |
| Amendment to HKFRS 16 | *Covid-19-Related Rent Concessions* (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material* |

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the new and the revised HKFRSs are described below: (continued)

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any significant impact on the financial position and performance of the Group.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that 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. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these consolidated financial statements.

| | |
|---|---|
| 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*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKFRS 17 | *Insurance Contracts*[3, 6] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current*[3, 5] |
| 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] |
| *Annual Improvements to HKFRSs 2018-2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2] |

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in USD based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows: (continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows: (continued)

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates (continued)

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investment in associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

The Group measures its held-for-trading investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair value measurement (continued)

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

| | | |
|---|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value-in-use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Freehold land | Not depreciated |
| Buildings | 2.5% to 5% |
| Plant and machinery | 10% |
| Leasehold improvements | Over the shorter of the lease terms and 10% |
| Motor vehicles | 20% |
| Furniture, fixtures and equipment | 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line basis at 2.5% per annum to write off the cost of investment properties over their estimated useful lives.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

### Leases

The Group assesses at contract inception whether a contract is, or contains, 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

***Group as a lessee***

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold land | 33 to 47 years |
| Office and warehouse | 1 to 10 years |
| Equipment | 1 to 8 years |

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately disclosed in the consolidated statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment, laptop computers and motor vehicles that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

#### *Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under HKFRS 15 *Revenue from Contracts with Customers* in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Financial assets at amortised cost (debt instruments)***

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

***General approach***

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

***Simplified approach***

For trade receivables that do not contain a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

***Subsequent measurement of financial liabilities at amortised cost (loans and borrowings)***

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Share repurchase reserve

Own equity instruments which are repurchased and held by the Company (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

### Revenue recognition

***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

***Sale of furniture***

Revenue from sale of furniture is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the furniture.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

#### *Customer loyalty scheme income*

The Group operates a customer loyalty scheme which award credits are granted to the customers on purchasing furniture that entitle them to consume by offsetting the award credits on future purchases under the brand name of Baker. The award credits have a seven-month valid period from date of award. The obligation to provide the right to the customer is therefore a separate performance obligation.

The transaction price is allocated between the sale of furniture and the award credits on a relative stand-alone selling price basis. The stand-alone selling price of each award credit is estimated based on the right to be given when the award credits are redeemed by the customer and the likelihood of redemption, as evidenced by the Group's historical experience.

A contract liability is recognised for revenue relating to the loyalty scheme at the time of the initial sales transaction. Revenue from the loyalty scheme is recognised when the award credits are redeemed by the customer. Revenue for award credits that are not expected to be redeemed is recognised in proportion to the pattern of rights exercised by customers.

#### *Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms.

Service fee income is recognised at the point in time when the services were rendered.

#### *Other income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Contract liabilities

A contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract (i.e. transfers control of the related goods or services to the customers).

### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Other employee benefits

#### *Pension schemes*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain specific percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The Company's subsidiaries in the U.S. have established defined contribution retirement plans for their eligible employees in the U.S.. The assets of the plans are held separately from those of the Group, in funds under the control of trustees.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These consolidated financial statements are presented in United States dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into United States dollars at the weighted average exchange rates for the year.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

***Operating lease commitments – Group as lessor***

The Group has entered into commercial property leases on its investment properties. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

***Classification between investment properties and owner-occupied properties***

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Judgements (continued)

***Net realisable value of inventories***

The measurement of net realisable value of inventories required significant management judgement in determining an appropriate costing basis and assessing if net realisable value of inventories was lower than the carrying amount of the inventories at the year end. There are also judgements required in determining inventory excess and obsolescence provisions as these are based on forecast inventory usage.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

***Useful lives of other intangible assets***

As at 31 December 2020, the carrying amount of the Group's intangible assets excluding goodwill was approximately US$4,400,000 (2019: US$5,354,000). The estimated useful lives of the assets reflect management's estimate of the periods over which other intangible assets are expected to generate net cash flows for the Group based on certain assumptions including attrition of the customer base and the possibility of renewal of sales contracts.

Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in estimated useful lives and therefore amortisation expenses and impairment losses in the future years. Details of other intangible assets are set out in note 17.

***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was US$25,793,000 (2019: US$25,793,000). Further details are set out in note 16.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

***Provision for expected credit losses on trade receivables***

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., real consumer spending) are expected to deteriorate over the next year which can lead to an increased number of defaults in the trading sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20.

## 4. OPERATING SEGMENT INFORMATION

The Group's revenue arises principally from the manufacturing and sale of furniture.

For the purpose of resource allocation and performance assessment, the Group's executive directors review the operating results and financial information on a brand by brand basis. They focus on the operating results of each brand. Each brand constitutes an operating segment of the Group. As the brands share similar economic characteristics, have similar products, are produced under similar production processes and have a similar target group of customers, the Group's operating segments are aggregated into a single reportable segment and, accordingly, no separate segment information is prepared.

Segment profit before tax of US$25,068,000 (2019: US$44,355,000) represents the loss before tax earned by the single reportable segment excluding administrative expenses, other income, gains, losses and expenses, non-lease-related finance costs, impairment of property, plant and equipment and share of loss of an associate.

## 4. OPERATING SEGMENT INFORMATION (continued)

### Other segment information

Amounts regularly provided to the executive directors but not included in the measure of segment profits are as follows:

| | Reportable segment total US$'000 | Unallocated US$'000 | Total US$'000 |
|---|---|---|---|
| **2020** | | | |
| Share of loss of an associate | **–** | **54** | **54** |
| Impairment losses recognised in the statement of profit or loss, net | **1,383** | **–** | **1,383** |
| Depreciation of property, plant and equipment | **8,645** | **910** | **9,555** |
| Provision of inventories, net | **(1,905)** | **–** | **(1,905)** |
| Investment in an associate | **934** | **–** | **934** |
| Capital expenditure* | **7,657** | **–** | **7,657** |
| **2019** | | | |
| Share of loss of an associate | – | 12 | 12 |
| Impairment losses, recognised in the statement of profit or loss, net | 1,464 | 41,346 | 42,810 |
| Depreciation of property, plant and equipment | 12,797 | 863 | 13,660 |
| Provision of inventories, net | 807 | (33) | 774 |
| Investment in an associate | 988 | – | 988 |
| Capital expenditure* | 34,087 | – | 34,087 |

* Capital expenditure consists of additions to property, plant and equipment and prepaid land leases, including assets from the acquisition of a subsidiary and a business unit.

The unallocated depreciation of property, plant and equipment is in connection with corporate headquarters' property, plant and equipment, which are not included in segment information.

## 4. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

The Group's operations are mainly located in the PRC, the U.S., Bangladesh and Vietnam.

The Group's revenue from external customers by their geographical locations, and the information about its non-current assets by geographical locations, are detailed below:

| | Revenue from external customers Year ended 31 December | | Non-current assets (Note) As at 31 December | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| PRC, including Hong Kong | **7,526** | 10,575 | **65,287** | 70,687 |
| U.S. | **378,499** | 427,993 | **79,240** | 83,315 |
| Bangladesh | **–** | – | **4,140** | 4,834 |
| Vietnam | **–** | – | **57,100** | 55,744 |
| Others | **11,557** | 18,672 | **1,249** | 1,524 |
| | **397,582** | 457,240 | **207,016** | 216,104 |

*Note:* Non-current assets excluded the deferred tax assets.

### Information about a major customer

During the years ended 31 December 2020 and 2019, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

## 5. REVENUE, OTHER INCOME, GAINS, LOSSES AND EXPENSES

An analysis of revenue is as follows:

| | **2020** **US$'000** | 2019 US$'000 |
|---|---|---|
| *Revenue from contracts with customers* | | |
| Sale of furniture | **397,274** | 456,929 |
| *Revenue from other sources* | | |
| Service fee income | **308** | 311 |
| | **397,582** | 457,240 |

(i) Disaggregated revenue information

| **Segment – Furniture** | **2020** **US$'000** | 2019 US$'000 |
|---|---|---|
| **Types of goods** | | |
| Sale of furniture and total revenue from contracts with customers | **397,274** | 456,929 |
| **Geographical markets** | | |
| PRC, including Hong Kong | **7,218** | 10,264 |
| U.K. | **–** | 3,372 |
| U.S. | **378,499** | 427,993 |
| Others | **11,557** | 15,300 |
| Total revenue from contracts with customers | **397,274** | 456,929 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time and total revenue from contracts with customers | **397,274** | 456,929 |

## 5. REVENUE, OTHER INCOME, GAINS, LOSSES AND EXPENSES (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

| Segment – Furniture | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| External customers and total revenue from contracts with customers | 397,274 | 456,929 |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of goods | 20,126 | 22,717 |

(ii) Performance obligations

Information about the Group's performance obligation is summarised below:

***Sale of furniture***

The performance obligation is satisfied upon delivery of the furniture and payment is generally due within 30 to 90 days from delivery, except for several customers, where payment in advance is normally required.

## 5. REVENUE, OTHER INCOME, GAINS, LOSSES AND EXPENSES (continued)

(ii) Performance obligations (continued)

Information about the Group's performance obligation is summarised below: (continued)

***Customer loyalty scheme income***

The performance obligation is satisfied upon the customers utilising the award credits earned upon the subsequent purchase. The award credits are valid for a period of seven months, and the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Amounts expected to be recognised as revenue: | | |
| Within one year | **418** | 496 |

The remaining performance obligations are expected to be recognised within one year.

An analysis of other income, gains, losses and expenses is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Other income** | | |
| Bank interest income | **272** | 819 |
| Interest income from held-for-trading investments | **2,073** | 5,024 |
| Rental income | **2,341** | 1,370 |
| | **4,686** | 7,213 |
| **Other gains, losses and expenses** | | |
| Foreign exchange differences, net | **514** | (1,972) |
| Gain/(loss) on disposal of items of property, plant and equipment | **1,180** | (2,380) |
| Net gain on held-for-trading investments | **2,008** | 4,672 |
| Others | **5,241** | 2,007 |
| | **8,943** | 2,327 |
| | **13,629** | 9,540 |

## 6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| Cost of inventories sold | | **303,980** | 322,437 |
| Depreciation of investment properties | *14* | **228** | 228 |
| Depreciation of property, plant and equipment | *13* | **9,555** | 13,660 |
| Depreciation of right-of-use assets | *15(a)* | **8,187** | 7,710 |
| Amortisation of other intangible assets | *17* | **219** | 238 |
| Government subsidies* | | **479** | – |
| (Gain)/loss on disposal of items of property, plant and equipment | | **(1,180)** | 2,380 |
| Lease payments not included in the measurement of lease liabilities | *15(c)* | **803** | 3,918 |
| Auditor's remuneration | | **904** | 818 |
| Employee benefit expense (excluding directors' remuneration) | | | |
| Wages, salaries and allowances | | **99,547** | 111,078 |
| Retirement benefit scheme contributions | | **804** | 1,732 |
| | | **100,351** | 112,810 |
| Impairment of property, plant and equipment | *13* | **–** | 41,346 |
| Impairment of other intangible assets | *17* | **735** | 200 |
| Impairment of trade receivables | *20* | **648** | 1,264 |
| Write-down of inventories to net realisable value | | **3,561** | 3,547 |
| Reversal of write-down of inventories | | **(5,466)** | (2,773) |

* During the year ended 31 December 2020, the Group received government grants and subsidies amounting to US$479,000 in the PRC, to obtain monetary support to sustain payroll and operational expenses of the Group during the coronavirus outbreak. As at 31 December 2020, an amount of US$479,000, which did not have unfulfilled conditions or contingencies, was included in "Other income, gains, losses and expenses" in the consolidated statement of profit or loss. During the year ended 31 December 2020, the Group received a loan from the government in the U.S. of US$12,767,000, which has no reasonable assurance that it will meet the terms of forgiveness, was included in "Other payables and accruals" in the consolidated statement of financial position.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Interest on bank loans | **3,079** | 6,764 |
| Interest on lease liabilities | **1,420** | 1,310 |
| | **4,499** | 8,074 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Fees | **201** | 199 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,032** | 1,645 |
| | **1,233** | 1,844 |

In prior years, a director was granted share options in respect of his services to the Group. Further details of which are set out in note 27 to the financial statements.

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Ming-Jian KUO | **31** | 31 |
| Siu Ki LAU | **31** | 31 |
| Sui-Yu WU | **31** | 31 |
| | **93** | 93 |

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

## 8. DIRECTORS' REMUNERATION (continued)

### (b) Executive directors and a non-executive director

| | Fees US$'000 | Equity-settled share options US$'000 | Salaries, allowances and benefits in kind US$'000 | Total remuneration US$'000 |
|---|---|---|---|---|
| **2020** | | | | |
| Executive directors: | | | | |
| Shan Huei KUO | **31** | **–** | **462** | **493** |
| Yi-Mei LIU | **31** | **–** | **298** | **329** |
| Mohamad AMINOZZAKERI | **31** | **–** | **272** | **303** |
| | **93** | **–** | **1,032** | **1,125** |
| Non-executive director: | | | | |
| Sheng Hsiung PAN | **15** | **–** | **–** | **15** |
| | **108** | **–** | **1,032** | **1,140** |
| **2019** | | | | |
| Executive directors: | | | | |
| Shan Huei KUO | 31 | – | 760 | 791 |
| Yi-Mei LIU | 31 | – | 550 | 581 |
| Mohamad AMINOZZAKERI | 31 | – | 335 | 366 |
| | 93 | – | 1,645 | 1,738 |
| Non-executive director: | | | | |
| Sheng Hsiung PAN | 15 | – | – | 15 |
| | 108 | – | 1,645 | 1,753 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2019: Nil).

There were no performance related bonuses and pension scheme contributions paid to the executive directors and a non-executive director during the year (2019: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2019: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are not directors of the Company are as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Salaries, allowances and benefits in kind | **1,632** | 1,393 |
| Retirement benefit scheme contributions | **–** | – |
| | **1,632** | 1,393 |

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

| | **Number of employees** | |
|---|---|---|
| | **2020** | 2019 |
| HK$3,000,001 to HK$3,500,000 (approximately US$385,001 to US$449,000) | **–** | 1 |
| HK$3,500,001 to HK$4,000,000 (approximately US$449,001 to US$513,000) | **1** | 1 |
| HK$4,000,001 to HK$4,500,000 (approximately US$513,001 to US$577,000) | **1** | 1 |
| HK$4,500,001 to HK$5,000,000 (approximately US$577,001 to US$641,000) | **1** | – |
| | **3** | 3 |

In prior years, share options were granted to the non-director highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements.

## 10. INCOME TAX

For the Group's subsidiaries established in the U.S., income tax is calculated at the rate of 21% (2019: 21%).

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2020. Hong Kong profits tax had been provided at the rate of 16.5% on the assessable profits arising in the Hong Kong during the year ended 31 December 2019.

The applicable tax rate for the PRC subsidiaries of the Group is 25% (2019: 25%).

Taiwan Income Tax is calculated at 20% (2019: 20%) of certain subsidiaries' assessable profits.

In accordance with the relevant tax rules and regulations in Vietnam, the income tax rate applicable to the Group's subsidiaries in Vietnam is 20% (2019: 20%).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current tax: | | |
| U.S. | **(1,412)** | 99 |
| PRC | **–** | 1,048 |
| Taiwan | **1,025** | 1,383 |
| Vietnam | **–** | 195 |
| Elsewhere | **769** | 307 |
| | **382** | 3,032 |
| Deferred tax (note 25) | **(1,556)** | 309 |
| | **(1,174)** | 3,341 |

## 10. INCOME TAX (continued)

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the countries (or jurisdictions) in which the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | ***US$'000*** | **%** | *US$'000* | % |
| Loss before taxation | **(16,895)** | | (45,182) | |
| Taxation at the U.S. federal income tax rate of 21% (2019: 21%) | **(3,548)** | **21.0** | (9,489) | 21.0 |
| U.S. state income tax at other rates | **(576)** | **3.4** | 43 | (0.1) |
| Tax effect of expenses not deductible for tax purpose | **9,031** | **(53.5)** | 20,054 | (44.4) |
| Tax effect of income not taxable | **(4,856)** | **28.8** | (7,083) | 15.7 |
| Tax effect of tax losses not recognised | **672** | **(4.0)** | 714 | (1.6) |
| Effect of profits in subsidiaries operating in other jurisdictions | **(1,897)** | **11.2** | (898) | 2.0 |
| Tax (credit)/charge at the Group's effective rate | **(1,174)** | **6.9** | 3,341 | (7.4) |

## 11. DIVIDENDS

No dividend has been paid or declared during the year ended 31 December 2020 (2019: Nil).

## 12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of the basic and diluted loss per share for the year are based on:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Loss for the year and loss for the purpose of basic and diluted loss per share calculations | **(14,007)** | (48,609) |

| | **2020** | 2019 |
|---|---|---|
| | ***Number of shares*** | *Number of shares* |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculations* | **3,108,758,365** | 3,115,216,347 |

* No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land* US$'000 | Buildings US$'000 | Plant and machinery US$'000 | Leasehold improvements US$'000 | Motor vehicles US$'000 | Furniture, fixtures and equipment US$'000 | Construction in progress US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| At 1 January 2019 | 9,651 | 111,778 | 74,296 | 14,873 | 2,607 | 46,358 | 816 | 260,379 |
| Exchange realignment | 18 | (569) | (788) | (188) | 20 | (246) | 1 | (1,752) |
| Additions | 11 | 510 | 2,863 | 1,299 | 164 | 1,659 | 2,666 | 9,172 |
| Acquisition of a subsidiary and a business unit *(note 29)* | – | 22,380 | 2,162 | – | 220 | 152 | – | 24,914 |
| Transfers | – | 913 | – | 2,061 | – | 309 | (3,283) | – |
| Disposals | (44) | (10,300) | (11,946) | (14) | (483) | (353) | – | (23,140) |
| At 31 December 2019 and 1 January 2020 | 9,636 | 124,712 | 66,587 | 18,031 | 2,528 | 47,879 | 200 | 269,573 |
| Exchange realignment | (8) | 3,299 | 3,563 | 992 | 53 | 1,294 | (16) | 9,177 |
| Additions | – | 2,505 | 2,327 | 1 | 156 | 2,143 | 525 | 7,657 |
| Transfers | – | 703 | – | – | – | – | (703) | – |
| Disposals | – | (158) | (354) | (20) | (157) | (648) | – | (1,337) |
| At 31 December 2020 | **9,628** | **131,061** | **72,123** | **19,004** | **2,580** | **50,668** | **6** | **285,070** |
| Accumulated depreciation and impairment: | | | | | | | | |
| At 1 January 2019 | – | 46,323 | 50,115 | 10,587 | 1,207 | 28,839 | – | 137,071 |
| Exchange realignment | – | (304) | (534) | (139) | 15 | (186) | – | (1,148) |
| Depreciation provided for the year | – | 6,138 | 2,889 | 1,015 | 207 | 3,411 | – | 13,660 |
| Impairment charge for the year | – | 17,865 | 15,414 | 3,497 | 39 | 4,531 | – | 41,346 |
| Eliminated on disposals | – | (616) | (8,038) | (9) | (30) | (137) | – | (8,830) |
| At 31 December 2019 and 1 January 2020 | – | 69,406 | 59,846 | 14,951 | 1,438 | 36,458 | – | 182,099 |
| Exchange realignment | – | 3,299 | 3,544 | 989 | 39 | 1,283 | – | 9,154 |
| Depreciation provided for the year | – | 4,829 | 1,663 | 423 | 232 | 2,408 | – | 9,555 |
| Eliminated on disposals | – | (87) | (303) | (2) | (62) | (346) | – | (800) |
| At 31 December 2020 | **-** | **77,447** | **64,750** | **16,361** | **1,647** | **39,803** | **-** | **200,008** |
| Net carrying amount: | | | | | | | | |
| At 31 December 2020 | **9,628** | **53,614** | **7,373** | **2,643** | **933** | **10,865** | **6** | **85,062** |
| At 31 December 2019 | 9,636 | 55,306 | 6,741 | 3,080 | 1,090 | 11,421 | 200 | 87,474 |

* The freehold land is situated in the U.S. and Indonesia.

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2020, certain of the Group's property, plant and equipment with a net carrying amount of US$44,729,000 (2019: US$42,481,000) were pledged to banks to secure certain credit facilities granted to the Group (note 31).

The management of the Group performed impairment assessment on the assets located in Jiashan, the PRC, which were either operating under a less than normal capacity or became idle as at year ended 31 December 2019. The management recognised an impairment loss of US$41,346,000 during the year ended 31 December 2019 by reference to the valuation prepared by an independent external valuer. For the purpose of impairment assessment, assets have been allocated to one individual cash generating unit ("CGU") and the recoverable amount of the CGU has been determined based on the value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a ten-year period, and a discount rate of 15%. Other key assumptions for the value-in-use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimations are based on the CGU's past performance and management's expectations for the market development. No impairment was charged during the year ended 31 December 2020.

## 14. INVESTMENT PROPERTIES

| | *US$'000* |
|---|---|
| Cost: | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 12,185 |
| Accumulated depreciation: | |
| At 1 January 2019 | 4,495 |
| Provided for the year | 228 |
| At 31 December 2019 and 1 January 2020 | 4,723 |
| Provided for the year | 228 |
| At 31 December 2020 | **4,951** |
| Net carrying amount: | |
| At 31 December 2020 | **7,234** |
| At 31 December 2019 | 7,462 |

The Group's investment properties are commercial properties in the U.S. They are situated on freehold land and the building elements are depreciated on a straight-line basis at 2.5% per annum.

At 31 December 2020, the Group's investment properties with a net carrying amount of US$7,234,000 (2019: US$7,462,000) were pledged to banks to secure credit facilities granted to the Group (note 31).

## 14. INVESTMENT PROPERTIES (continued)

The fair value of the Group's investment properties at 31 December 2020 was US$12,650,000 (2019: US$12,650,000) as determined by the directors of the Company. No valuation has been performed by any independent qualified professional valuers.

### Fair value hierarchy

The fair value measurement hierarchy of the Group's investment properties is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Significant unobservable inputs: | | |
| Commercial properties *(Level 3)* | **12,650** | 12,650 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The investment properties are measured initially at cost less accumulated depreciation and provision for any impairment in value. There was no movement of fair value measurements categorised within Level 3 of the fair value hierarchy during the year.

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

| | **Valuation technique** | **Significant unobservable inputs** |
|---|---|---|
| Commercial properties | Discounted cash flow method | Estimated rental value<br>Long term vacancy rate<br>Discount rate |

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flows are estimated as gross income less vacancy costs, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted to arrive at the fair value.

## 15. LEASES

### The Group as a lessee

The Group has lease contracts for various items of property and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 10 years, and no ongoing payments will be made under the terms of these land leases. Leases of office and warehouse generally have lease terms between 1 and 10 years (2019: between 1 and 10 year), while other equipment generally have lease terms between 1 and 8 years (2019: between 1 and 8 years). Certain offices and other equipment generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | Leasehold land | Office and warehouse | Equipment | Total |
|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| As at 1 January 2019 | 3,000 | 33,904 | 2,970 | 39,874 |
| Addition through acquisition of a subsidiary (note 29) | 11,698 | – | – | 11,698 |
| Additions | 7,761 | 389 | 132 | 8,282 |
| Depreciation charge (note 6) | (311) | (6,549) | (850) | (7,710) |
| Exchange realignment | 15 | (6) | – | 9 |
| As at 31 December 2019 and 1 January 2020 | 22,163 | 27,738 | 2,252 | 52,153 |
| Additions | – | 2,538 | 74 | 2,612 |
| Depreciation charge (note 6) | (702) | (6,631) | (854) | (8,187) |
| Exchange realignment | 124 | 11 | – | 135 |
| As at 31 December 2020 | **21,585** | **23,656** | **1,472** | **46,713** |

## 15. LEASES (continued)

### The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Carrying amount at 1 January | **31,161** | 36,874 |
| Additions | **2,612** | 521 |
| Accretion of interest recognised during the year (note 7) | **1,420** | 1,310 |
| Payments | **(8,065)** | (7,538) |
| Exchange realignment | **4** | (6) |
| Carrying amount at 31 December | **27,132** | 31,161 |
| Analysed into: | | |
| Current portion | **7,510** | 7,276 |
| Non-current portion | **19,622** | 23,885 |
| | **27,132** | 31,161 |

The maturity analysis of lease liabilities was as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Analysed into: | | |
| Within one year or on demand | **7,510** | 7,276 |
| After one year but within two years | **5,568** | 6,421 |
| After two years but within three years | **4,384** | 5,193 |
| After three years but within four years | **4,128** | 4,011 |
| Over four years | **5,542** | 8,260 |
| | **27,132** | 31,161 |

## 15. LEASES (continued)

### The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| Interest on lease liabilities | **1,420** | 1,310 |
| Depreciation charge of right-of-use assets | **8,187** | 7,710 |
| Expense relating to short-term leases* | **554** | 3,631 |
| Expense relating to leases of low-value assets* | **249** | 287 |
| Total amount recognised in profit or loss | **10,410** | 12,938 |

* The expenses are included in cost of sales, distribution costs, sales and marketing expenses and administrative expenses.

(d) The total cash outflow for leases is disclosed in note 30(c) to the financial statements.

### The Group as a lessor

The Group leases its investment properties (note 14) consisting of commercial properties in the U.S. under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was US$2,341,000 (2019: US$1,370,000), details of which are included in note 5 to the financial statements.

At the end of the operating period, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| Within one year | **4,896** | 1,397 |
| After one year but within two years | **5,900** | 1,355 |
| After two years but within three years | **4,511** | 1,341 |
| After three years but within four years | **4,468** | – |
| After four years but within five years | **3,559** | – |
| | **23,334** | 4,093 |

## 16. GOODWILL

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Cost and carrying amount at 1 January | **25,793** | 13,705 |
| Acquisition of a subsidiary (note 29) | **–** | 12,088 |
| Cost and carrying amount at 31 December | **25,793** | 25,793 |

For the purposes of impairment testing, goodwill with an indefinite useful life set out in this note has been allocated to three individual cash-generating units ("CGU(s)"). The carrying amount of goodwill as at the end of the reporting period allocated to each of the CGUs is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Brand A | **11,475** | 11,475 |
| Brand C | **2,230** | 2,230 |
| Brand E | **12,088** | 12,088 |
| | **25,793** | 25,793 |

During the year, the Group further acquired 30% of equity interest in Brand E, and no goodwill was recognised (2019: US$12,088,000) (note 29(c)).

During the year, management of the Group determined that there was no impairment of its CGUs including goodwill with an indefinite useful life. The basis of the recoverable amounts of the above CGUs and the major underlying assumptions are summarised below:

The recoverable amounts of these CGUs have been determined based on a value-in-use calculation. Management believes these units have an indefinite useful life. However, for the purposes of the impairment test, the calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 13.5% to 15.0%. (2019: 12.0%) with a 3% to 8% (2019: 5% to 6%) growth rate. These CGUs' cash flows beyond the five-year period are extrapolated using a zero growth rate.

Other key assumptions for the value-in-use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimations are based on the CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these CGUs to exceed the aggregate recoverable amount of the CGUs.

## 17. OTHER INTANGIBLE ASSETS

| | Trademark Brand B US$'000 | Trademark Brand D US$'000 | Total US$'000 |
|---|---|---|---|
| Net carrying amount at 1 January 2019 | 1,192 | 4,600 | 5,792 |
| Amortisation provided during the year *(note 6)* | (238) | – | (238) |
| Impairment during the year *(note 6)* | – | (200) | (200) |
| Net carrying amount at 31 December 2019 and 1 January 2020 | 954 | 4,400 | 5,354 |
| Amortisation provided during the year *(note 6)* | (219) | – | (219) |
| Impairment during the year *(note 6)* | (735) | – | (735) |
| Net carrying amount at 31 December 2020 | **–** | **4,400** | **4,400** |

### Brand B

During the year, management had considered that trademark B, which had an estimated useful life of 14 years, was fully impaired, given the business relationship with the customer had become unlikely to continue.

### Brand D

The trademark Brand D is considered to have an indefinite useful life because it can be renewed every 10 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, and support that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the trademark is considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows in the foreseeable future. The trademark will not be amortised until its useful life is determined to be finite. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purposes of impairment testing, the trademark Brand D with an indefinite useful life set out in this note has been allocated to an individual CGU. The carrying amount of the trademark Brand D as at the end of the reporting period allocated to the CGU is as follows:

| | **2020** ***US$'000*** | 2019 *US$'000* |
|---|---|---|
| Brand D | **4,400** | 4,400 |

During the year ended 31 December 2019, management of the Group determined that there was an impairment loss of US$200,000 of its CGU containing the trademark Brand D with an indefinite useful life. The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

## 17. OTHER INTANGIBLE ASSETS (continued)

**Brand D** (continued)

The recoverable amount of this CGU has been determined based on a value-in-use calculation. For the purposes of the impairment test, the calculation uses cash flow projections based on financial budgets approved by management covering a 20-year period, and a discount rate of 17% (2019: 12.5%) with a 1% to 10% (2019: 1% to 3%) growth rate. This growth rate is based on the furniture industry growth forecasts in the U.S. and does not exceed the average long term growth rate for the furniture industry.

Other key assumptions for the value-in-use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimations are based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of this unit to exceed the recoverable amount of the CGU.

At 31 December 2020, the Group's intangible assets with a net carrying amount of US$4,400,000 (2019: US$954,000) were pledged to banks to secure credit facilities granted to the Group (note 31).

## 18. INVESTMENT IN AN ASSOCIATE

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Share of net assets | **577** | 631 |
| Goodwill on acquisition | **357** | 357 |
| | **934** | 988 |

Particulars of the Group's associate are as follows:

| **Name** | **Particulars of issued shares held** | **Place of incorporation/ registration and business** | **Percentage of ownership interest attributable to the Group** | **Principal activity** |
|---|---|---|---|---|
| H. Nicholas & CO Joint Stock Company | Ordinary shares | Vietnam | 45.5% | Manufacturing and sale of furniture |

On 1 July 2019, the Company entered into a strategic agreement with an independent third party to acquire 45.5% equity interests in H. Nicholas & CO Joint Stock Company, a company in Vietnam. Since the Group has significant influence over the board of directors of this investee, it is classified as investment in associate and accounted for using the equity method.

## 18. INVESTMENT IN AN ASSOCIATE (continued)

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

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current assets | **2,073** | 1,627 |
| Non-current assets, excluding goodwill | **811** | 863 |
| Goodwill on acquisition of the associate | **357** | 357 |
| Current liabilities | **(1,313)** | (813) |
| Non-current liabilities | **(303)** | (290) |
| Net assets | **1,625** | 1,744 |
| Net assets, excluding goodwill | **1,268** | 1,387 |

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **45.5%** | 45.5% |
| Group's share of net assets of the associate, excluding goodwill | **577** | 631 |
| Goodwill on acquisition | **357** | 357 |
| Carrying amount of the investment | **934** | 988 |
| Revenue | **3,781** | 2,248 |
| Loss and total comprehensive loss for the year/period | **(118)** | (27) |

As at 31 December 2020 and 2019, management reviewed the carrying amount of the associate. The recoverable amount of the associate is determined with reference to management's estimate of discounted future cash flows and financial position of the associate as at the end of the reporting period.

## 19. INVENTORIES

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| Raw materials | **39,330** | 36,374 |
| Work in progress | **15,188** | 20,920 |
| Finished goods | **70,075** | 82,824 |
| | **124,593** | 140,118 |

At 31 December 2020, the Group's inventories with a carrying amount of US$64,887,000 (2019: US$46,705,000) were pledged as security for the Group's credit facilities, as further detailed in note 31 to the financial statements.

## 20. TRADE AND OTHER RECEIVABLES

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| Trade receivables | **62,000** | 79,904 |
| Impairment allowance | **(1,775)** | (3,666) |
| | **60,225** | 76,238 |
| Other receivables and prepayments *(Note)* | **36,996** | 31,861 |
| | **97,221** | 108,099 |

*Note:* Other receivables and prepayments mainly include advances to suppliers, interest receivables and deposits. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2020, the probability of default applied ranged from 0.13% to 0.31% (2019: from 0.11% to 0.27%) and the loss given default was estimated to be 100% (2019: 100%). As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

## 20. TRADE AND OTHER RECEIVABLES (continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowances, is as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Within 1 month | **27,130** | 42,496 |
| 1 to 2 months | **19,399** | 13,906 |
| Over 2 months | **13,696** | 19,836 |
| | **60,225** | 76,238 |

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| At beginning of the year | **3,666** | 2,659 |
| Impairment losses recognised *(note 6)* | **648** | 1,264 |
| Amount written off as uncollectible | **(2,539)** | (257) |
| At end of year | **1,775** | 3,666 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

## 20. TRADE AND OTHER RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| | | Past due | | | |
|---|---|---|---|---|---|
| | Current | Less than 1 month | 1 to 3 months | Over 3 months | Total |
| **As at 31 December 2020** | | | | | |
| Expected credit loss rate (%) | **0.28** | **1.00** | **1.00** | **26.76** | **2.86** |
| Gross carrying amount (US$'000) | **39,858** | **12,676** | **3,871** | **5,595** | **62,000** |
| Expected credit losses (US$'000) | **112** | **127** | **39** | **1,497** | **1,775** |
| **As at 31 December 2019** | | | | | |
| Expected credit loss rate (%) | 0.38 | 0.67 | 0.67 | 28.37 | 4.59 |
| Gross carrying amount (US$'000) | 48,566 | 13,377 | 6,142 | 11,819 | 79,904 |
| Expected credit losses (US$'000) | 182 | 90 | 41 | 3,353 | 3,666 |

As at 31 December 2020, certain subsidiaries had pledged trade and other receivables of approximately US$53,880,000 (2019: US$61,156,000) to secure credit facilities granted to the Group (note 31).

## 21. HELD-FOR-TRADING INVESTMENTS

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Debt securities, at fair value: | | |
| Listed in the U.S. with average yield rate of 1.46% to 4.93% and maturity from January 2020 to September 2021 | **1,228** | 1,840 |
| Listed in Hong Kong with average yield rate of 3.14% to 3.16% and maturity from January 2020 to April 2077 | **5,032** | 4,712 |
| Listed in Singapore with average yield rate of 2.73% to 2.74% and maturity from March 2020 to September 2080 | **5,050** | 4,777 |
| Listed in other jurisdictions with average yield rate of 2.26% and maturity from March 2021 to June 2026 | **1,241** | 1,448 |
| Investment fund portfolio A, at fair value *(Note)* | **82,232** | 80,569 |
| Investment fund portfolio B, at fair value *(Note)* | **215** | 200 |
| Investment fund portfolio C, at fair value *(Note)* | **200** | 202 |
| Investment fund portfolio D, at fair value *(Note)* | **292** | – |
| | **95,490** | 93,748 |

## 21. HELD-FOR-TRADING INVESTMENTS (continued)

The above investments as at 31 December 2020 and 2019 were classified as financial assets at fair value through profit or loss as they are held for trading.

*Note:* The investment fund portfolios were mandatorily classified as financial assets at fair value through profit or loss, as their contractual cash flows were not solely payments of principal and interest. Investment fund portfolio A was a wealth management product issued by United Banicare Privée in Luxembourg. The Group acquired Investment fund portfolio A at an investment cost of US$80,500,000. During the year ended 31 December 2020, the Group received dividends of US$1,605,000 (2019: US$4,262,000) from investment fund portfolio A and the Group did not acquire or dispose of Investment fund portfolio A during the year. As at 31 December 2020, the Group holds 80,500 units (31 December 2019: 80,500 units) of Investment fund portfolio A which accounted for approximately 14.5% (31 December 2019: 12.6%) of the total assets of the Group, and the unrealised profit of Investment fund portfolio A amounted to US$1,663,000 was charged to statement of profit or loss during the year ended 31 December 2020 (2019: US$69,000). The Group holds the portfolio A for capital appreciation and has been closely monitoring the performance from time to time.

## 22. CASH AND CASH EQUIVALENTS, SHORT TERM BANK DEPOSITS AND PLEDGED BANK DEPOSITS

| | Note | **2020**<br>***US$'000*** | 2019<br>*US$'000* |
|---|---|---|---|
| Cash and bank balances | | **36,355** | 70,820 |
| Less: Time deposits with maturity more than three months but less than a year | | **–** | (4,200) |
| | | **36,355** | 66,620 |
| Less: Pledged bank deposits | *31* | **(10,308)** | (3,942) |
| Cash and cash equivalents | | **26,047** | 62,678 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$1,991,000 (2019: US$24,599,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

## 23. TRADE AND OTHER PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Trade payables: | | |
| Within 1 month | 12,517 | 13,733 |
| 1 to 2 months | 3,457 | 3,827 |
| Over 2 months | 5,879 | 6,413 |
| | 21,853 | 23,973 |
| Other payables and accruals | 55,903 | 52,786 |
| | 77,756 | 76,759 |

The trade payables are non-interest-bearing and are normally settled on 60-day credit terms.

Set out below is the breakdown of the other payables and accruals as at the end of the reporting period:

| | Notes | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|---|
| Contract liabilities | (a) | 21,687 | 20,126 |
| Other payables | (b) | 2,499 | 2,966 |
| Accruals | | 31,717 | 29,694 |
| | | 55,903 | 52,786 |

*Notes:*

(a) Details of contract liabilities as at 31 December are as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Short-term advances received from customers: | | |
| Sale of goods | 21,687 | 20,126 |
| Total contract liabilities | 21,687 | 20,126 |

Contract liabilities include short-term advances received to deliver furniture. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the increase in sales orders at the end of the year.

(b) Other payables are non-interest-bearing and have an average term of two months.

## 24. INTEREST-BEARING BANK BORROWINGS

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | *US$'000* | Effective interest rate (%) | Maturity | *US$'000* |
| **Current** | | | | | | |
| Bank loans – unsecured | 0.69 – 1.31 | 2021 | 101,252 | 2.37 – 2.91 | 2020 | 146,539 |
| Bank loans – secured | 1.85 | 2021 | 8,357 | 2.85 | 2020 | 8,030 |
| | | | 109,609 | | | 154,569 |
| **Non-current** | | | | | | |
| Bank loans – unsecured | 1.13 | 2022 | 45,365 | 2.92 | 2022 | 32,550 |
| | | | 154,974 | | | 187,119 |

| | 2020 *US$'000* | 2019 *US$'000* |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | 109,609 | 154,569 |
| In the second year | 45,365 | 32,550 |
| | 154,974 | 187,119 |

*Notes:*

(a) The Group has entered into a credit facility amounted to US$40,000,000 (2019: US$50,000,000). The credit facility was secured by certain assets of the Group and would expire in March 2021 (2019: February 2020). Details of the pledge of assets are disclosed in note 31 to the financial statements.

(b) The unsecured bank loans and the secured bank loans are denominated in US$.

## 25. DEFERRED TAX ASSETS/LIABILITIES

The following are the major deferred tax liabilities/(assets) recognised by the Group and the movements thereon during the current and prior years:

| | Accelerated tax depreciation | Others | Tax losses | Fair value adjustments arising from acquisition of a subsidiary | Right-of-use assets/ lease liabilities | Total |
|---|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| At 1 January 2019 | 4,098 | (7,190) | (3,055) | (1,067) | – | (7,214) |
| Acquisition of a subsidiary *(note 29)* | – | – | – | 6,612 | – | 6,612 |
| Exchange differences | (4) | – | – | – | – | (4) |
| Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)* | 905 | (2,637) | 1,097 | 944 | – | 309 |
| At 31 December 2019 and 1 January 2020 | 4,999 | (9,827) | (1,958) | 6,489 | – | (297) |
| Exchange differences | 3 | – | – | – | – | 3 |
| Deferred tax (credited)/charged to the statement of profit or loss during the year *(note 10)* | (3,207) | 3,176 | (738) | (295) | (492) | (1,556) |
| At 31 December 2020 | 1,795 | (6,651) | (2,696) | 6,194 | (492) | (1,850) |

Others mainly represent deferred taxes on temporary differences on allowances for trade receivables, inventories and accrued expenses.

## 25. DEFERRED TAX ASSETS/LIABILITIES (continued)

Deferred tax assets and liabilities have not been offset for the purpose of presentation in the consolidated statement of financial position as they relate to different tax authorities. The following is the analysis of the deferred taxation balances for financial reporting purposes:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| Deferred tax liabilities | 2,449 | 7,409 |
| Deferred tax assets | (4,299) | (7,706) |
| | (1,850) | (297) |

At the end of the reporting period, the Group had unused tax losses of US$34,047,000 (2019: US$33,375,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The unrecognised tax losses comprise an amount of US$27,253,000 (2019: US$24,054,000) that may be carried forward for a period of up to five years from their respective years of origination. Other losses may be carried forward indefinitely.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately US$4,773,000 (2019: US$6,654,000) as at 31 December 2020.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 26. SHARE CAPITAL AND SHARE PREMIUM

### Shares

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Authorised: | | |
| 6,000,000,000 ordinary shares of US$0.05 each | **300,000** | 300,000 |

A summary of movements in the Group's share capital and share premium account is as follows:

| | **Number of shares in issue** | **Issued share capital** | **Share premium account** | **Total** |
|---|---|---|---|---|
| | | *US$'000* | *US$'000* | *US$'000* |
| Issued and fully paid | | | | |
| At 31 December 2019 and 1 January 2020 | 3,118,909,773 | 155,946 | 105,892 | 261,838 |
| Shares cancelled | (11,436,000) | (572) | 80 | (492) |
| At 31 December 2020 | 3,107,473,773 | 155,374 | 105,972 | 261,346 |

During the year ended 31 December 2019, 11,436,000 ordinary shares were repurchased for a consideration of US$492,000 (equivalent to HK$3,855,000) and were cancelled on 11 February 2020.

| | **Number of ordinary shares** | **Price per share** | | **Aggregate consideration paid** |
|---|---|---|---|---|
| | | **Highest** | **Lowest** | |
| | | *HK$* | *HK$* | *HK$'000* |
| August 2019 | 7,282,000 | 0.350 | 0.315 | 2,373 |
| September 2019 | 3,154,000 | 0.360 | 0.325 | 1,091 |
| October 2019 | 1,000,000 | 0.395 | 0.380 | 391 |
| | 11,436,000 | | | 3,855 |

The above ordinary shares repurchased were cancelled on delivery of share certificates. The nominal value of US$572,000 of all the shares cancelled during the year was transferred from share repurchase reserve to share capital and share premium.

None of the Company's subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the consolidated financial statements.

## 27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") to attract skilled and experienced personnel, to incentivise them to remain with the Group to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company. Eligible participants of the Share Option Scheme include any employee, any management member or director of the Group and third party service providers.

On 18 May 2016, a new share option scheme (the "2016 Share Option Scheme") was approved by a resolution of the shareholders and adopted by a resolution of the board of directors of the Company.

The maximum number of shares to be issued in respect of which options may be granted under the 2016 Share Option Scheme, upon their exercise, shall not exceed 10% of the issued share capital of the Company on 18 May 2016, i.e., 304,360,977 shares. As at 31 December 2020, the Company had 26,700,000 (2019: 26,700,000) share options outstanding under the 2016 Share Option Scheme, representing approximately 0.9% of the issued share capital of the Company as at the date of this report. The exercise of the share options would, under the present capital structure of the Company, result in the issue of 26,700,000 additional ordinary shares of the Company and additional share capital of US$1,335,000 and share premium of US$947,000 (before issue expenses).

The maximum number of shares issuable under share options to each eligible participant in the 2016 Share Option Scheme within any 12-month period is limited to 1% of the issued share capital of the Company at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective close associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options to be granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective close associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of offer, upon payment of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and stated in the offer letter of the grant of options.

Subject to early termination of the 2016 Share Option Scheme in accordance with the scheme rules, the 2016 Share Option Scheme will expire on 18 May 2026.

The exercise price of share options is determinable by the directors and shall be the highest of: (i) the Stock Exchange closing price of the Company's shares on the date of grant; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares.

## 27. SHARE OPTION SCHEME (continued)

Details of the share options granted and outstanding under the 2016 Share Option Scheme during the year were as follows:

| | Date of grant | Exercise price *HK$/share* | Vesting date | Exercise period | Outstanding as at 1.1.2019, 31.12.2019, 1.1.2020 and 31.12.2020 |
|---|---|---|---|---|---|
| *Other employees:* | | | | | |
| In aggregate | 11.11.2016 | 0.67 | 11.11.2016 | 11.11.2016-10.11.2021 | 26,700,000 |
| Exercisable at the end of the year | | | | | 26,700,000 |
| Weighted average exercise price (HK$ per share)* | | | | | 0.67 |

* The exercise price of the share options is subject to adjustment in the case of changes in the Company's share capital.

No share options were cancelled or lapsed during the year (2019: Nil).

During the year ended 31 December 2020, there was no share option granted (2019: Nil), and the Group did not recognise any share option expense (2019: Nil).

At the date of approval of these financial statements, the number of share options permitted to be granted under the 2016 Share Option Scheme is 26,700,000, representing approximately 0.9% of the Company's shares in issue as at that date.

## 28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 65 of the consolidated financial statements.

### Merger reserve

The merger reserve represents the difference between the nominal value of the shares of Samson Pacific Company Limited, the intermediate holding company of certain members of the Group, and the nominal value of the shares of its holding company, Samson Worldwide Limited issued for a share swap on 31 December 2005.

### Other reserve

The other reserve represents any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interests. Details of the movements in other reserve are set out in the consolidated statement of changes in equity.

## 29. BUSINESS COMBINATIONS

(a) On 16 July 2019, the Group acquired a 70% interest in Timber from an independent third party at a cash consideration of US$32,550,000. Timber is engaged in the manufacture and sales of furniture and home accessories. The acquisition was made as the transfer of production line to South East Asia. The purchase consideration for the acquisition was in the form of cash, with US$9,765,000 paid on 16 July 2019 and the remaining US$6,510,000 and US$16,275,000 paid on 2 August 2019 and 29 October 2019, respectively.

The Group has elected to measure the non-controlling interest in Timber at the non-controlling interest's proportionate share of Timber's identifiable net assets.

The fair values of the identifiable assets and liabilities of Timber as at the date of acquisition were as follows:

| | *Notes* | **Fair value recognised on acquisition** *US$'000* |
|---|---|---|
| Property, plant and equipment | *13* | 24,146 |
| Right-of-use assets | *15* | 11,698 |
| Deferred tax liability | *25* | (6,612) |
| Total identifiable net assets at fair value | | 29,232 |
| Non-controlling interests | | (8,770) |
| | | 20,462 |
| Goodwill on acquisition | *16* | 12,088 |
| Satisfied by cash | | 32,550 |

## 29. BUSINESS COMBINATIONS (continued)

(a) (continued)

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

| | *US$'000* |
|---|---|
| Cash consideration | (32,550) |
| Net outflow of cash and cash equivalents included in cash flows used in investing activities | (32,550) |

Since the acquisition, Timber contributed US$29,099,000 to the Group's revenue and profit of US$778,000 to the consolidated loss for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year ended 31 December 2019, the revenue of the Group and the loss of the Group for the year ended 31 December 2019 would have been US$496,379,000 and US$43,088,000, respectively.

(b) On 30 September 2019, the Group acquired a business unit from an independent third party at a cash consideration of US$2,670,000. The acquisition was made to expand the Group's upholstery component. The purchase consideration was fully settled by cash of US$2,670,000 on 30 September 2019.

The fair values of the identifiable assets and liabilities as at the date of acquisition were as follows:

| | *Note* | **Fair value recognised on acquisition** *US$'000* |
|---|---|---|
| Property, plant and equipment | *13* | 768 |
| Inventories | | 1,102 |
| Trade and other receivables | | 897 |
| Other payables and accruals | | (97) |
| Total identifiable net assets at fair value | | 2,670 |
| Satisfied by cash | | 2,670 |

## 29. BUSINESS COMBINATIONS (continued)

(b) (continued)

The fair values and gross contractual amounts of the trade and other receivables as at the date of acquisition amounted to US$897,000.

An analysis of the cash flows in respect of the acquisition of the business unit is as follows:

| | *US$'000* |
|---|---|
| Cash consideration | (2,670) |
| Net outflow of cash and cash equivalents included in cash flows used in investing activities | (2,670) |

Since the acquisition, the business unit contributed US$2,533,000 to the Group's revenue and US$478,000 to the consolidated loss for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year ended 31 December 2019, the revenue of the Group and the loss of the Group for the year ended 31 December 2019 would have been US$466,206,000 and US$50,477,000, respectively.

(c) On 3 August 2020, the Group entered into a share transfer agreement with an independent third party to acquire 30% of the equity interest of Timber, at a total cash consideration of US$13,950,000. As a result of the acquisition, the Group owns 100% of the equity interest of Timber. The acquisition was completed on 3 August 2020. The carrying amount of the non-controlling interest in Timber on the date of acquisition was US$7,163,000. The Group recognised a decrease in non-controlling interest of US$7,163,000 and a decrease in equity attributable to owners of the Company of US$6,787,000.

| | **2020**<br>***US$'000*** |
|---|---|
| Carrying amount of non-controlling interest acquired | **7,163** |
| Consideration paid to a non-controlling shareholder | **(13,950)** |
| Excess of consideration recognised within equity | **(6,787)** |

## 30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of US$2,612,000 (2019: US$521,000) and US$2,612,000 (2019: US$521,000), respectively, in respect of lease arrangements for plant and equipment.

### (b) Changes in liabilities arising from financing activities

**2020**

| | **Lease liabilities** | **Bank loans** |
|---|---|---|
| | ***US$'000*** | ***US$'000*** |
| At 1 January 2020 | **31,161** | **187,119** |
| Changes from financing cash flows | **(6,645)** | **(32,164)** |
| New leases | **2,612** | **–** |
| Foreign exchange movement | **4** | **19** |
| Interest expense | **1,420** | **–** |
| Interest paid classified as operating cash flows | **(1,420)** | **–** |
| At 31 December 2020 | **27,132** | **154,974** |

**2019**

| | Lease liabilities | Bank loans |
|---|---|---|
| | *US$'000* | *US$'000* |
| At 1 January 2019 | 36,874 | 202,953 |
| Changes from financing cash flows | (6,228) | (15,834) |
| New leases | 521 | – |
| Foreign exchange movement | (6) | – |
| Interest expense | 1,310 | – |
| Interest paid classified as operating cash flows | (1,310) | – |
| At 31 December 2019 | 31,161 | 187,119 |

## 30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (c) Total cash outflow for leases

The total cash outflows for leases included in the consolidated statement of cash flows is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| With operating activities | **2,223** | 5,228 |
| With financing activities | **6,645** | 6,228 |
| | **8,868** | 11,456 |

## 31. PLEDGE OF ASSETS

At the end of the reporting period, the Group had the following assets pledged to banks to secure credit facilities granted to the Group:

| | | **2020** | 2019 |
|---|---|---|---|
| | *Notes* | ***US$'000*** | *US$'000* |
| Property, plant and equipment | *13* | **44,279** | 42,481 |
| Investment properties | *14* | **7,234** | 7,462 |
| Other intangible assets | *17* | **4,400** | 954 |
| Inventories | *19* | **64,887** | 46,705 |
| Trade and other receivables | *20* | **53,880** | 61,156 |
| Pledged bank deposits | *22* | **10,308** | 3,942 |
| | | **184,988** | 162,700 |

## 32. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted, but not provided for, in the consolidated financial statements | **3,306** | 2,119 |

## 33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

| Name of related company | Nature of transaction | *Note* | **2020** ***US$'000*** | 2019 *US$'000* |
|---|---|---|---|---|
| Samson Global Co., Ltd. | Rental paid | *(a)* | **41** | 39 |

*Note:*

(a) Samson Global Co., Ltd. is beneficially owned and jointly controlled by Mr. Shan Huei Kuo and Ms. Yi-Mei Liu, both being directors and ultimate controlling shareholders of the Company.

### Compensation of key management personnel

The remuneration of members of key management personnel (including the directors of the Company as detailed in note 8 to the consolidated financial statements) during the year was as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Short term benefits | **2,865** | 3,237 |

The remuneration of directors and key executives is determined by the Remuneration Committee of the Company having regard to the performance of the individuals and market trends.

## 34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2020**

***Financial assets***

| | Financial assets at fair value through profit or loss | Financial assets at amortised cost | Total |
|---|---|---|---|
| | Held for trading | | |
| | *US$'000* | *US$'000* | *US$'000* |
| Trade receivables | – | 60,225 | 60,225 |
| Financial assets included in prepayments and other receivables | – | 25,344 | 25,344 |
| Held-for-trading investments | 95,490 | – | 95,490 |
| Pledged bank deposits | – | 10,308 | 10,308 |
| Cash and cash equivalents | – | 26,047 | 26,047 |
| | 95,490 | 121,924 | 217,414 |

***Financial liabilities***

| | Financial liabilities at amortised cost | Total |
|---|---|---|
| | *US$'000* | *US$'000* |
| Trade payables | 21,853 | 21,853 |
| Financial liabilities included in other payables and accruals | 34,121 | 34,121 |
| Interest-bearing bank borrowings | 154,974 | 154,974 |
| Lease liabilities | 27,132 | 27,132 |
| | 238,080 | 238,080 |

## 34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

**2019**

***Financial assets***

| | Financial assets at fair value through profit or loss | Financial assets at amortised cost | Total |
|---|---|---|---|
| | Held for trading | | |
| | *US$'000* | *US$'000* | *US$'000* |
| Trade receivables | – | 76,238 | 76,238 |
| Financial assets included in prepayments and other receivables | – | 24,504 | 24,504 |
| Held-for-trading investments | 93,748 | – | 93,748 |
| Pledged bank deposits | – | 3,942 | 3,942 |
| Short term bank deposits | – | 4,200 | 4,200 |
| Cash and cash equivalents | – | 62,678 | 62,678 |
| | 93,748 | 171,562 | 265,310 |

***Financial liabilities***

| | Financial liabilities at amortised cost | Total |
|---|---|---|
| | *US$'000* | *US$'000* |
| Trade payables | 23,973 | 23,973 |
| Financial liabilities included in other payables and accruals | 32,613 | 32,613 |
| Interest-bearing bank borrowings | 187,119 | 187,119 |
| Lease liabilities | 31,161 | 31,161 |
| | 274,866 | 274,866 |

## 35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade receivables, trade payables, financial assets included in other receivables and prepayments, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the executive directors and the Audit Committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the executive directors. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Level 1 and Level 2 fair values of the held-for-trading investments are based on quoted market prices and quotes from financial institutions, respectively.

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

***Assets measured at fair value:***

| | Fair value measurement using | | |
|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Total** |
| | *US$'000* | *US$'000* | *US$'000* |
| **As at 31 December 2020** | | | |
| Held-for-trading investments | **12,551** | **82,939** | **95,490** |
| **As at 31 December 2019** | | | |
| Held-for-trading investments | 12,777 | 80,971 | 93,748 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, held-for-trading investments, pledged bank deposits, short term bank deposits, cash and cash equivalents, trade and other payables and interest-bearing bank borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 5% (2019: 6%) of the Group's sales were denominated in currencies other than the units' functional currencies, whilst approximately 81% (2019: 72%) of purchases were denominated in the units' functional currencies.

Certain operating units have foreign currency denominated purchases and, accordingly, the Group has trade and other payables denominated in foreign currencies. In addition, the Group has bank balances and bank borrowings denominated in currencies other than the functional currencies of the operating units. As a result, the Group is exposed to foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB and GBP exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

| | **Change in foreign currency rate** *%* | **Increase/(decrease) in loss before tax** *US$'000* |
|---|---|---|
| **2020** | | |
| If the US$ weakens against the RMB | **5%** | **611** |
| If the US$ strengthens against the RMB | **5%** | **(611)** |
| If the US$ weakens against the GBP | **5%** | **(172)** |
| If the US$ strengthens against the GBP | **5%** | **172** |

| | Change in foreign currency rate % | Increase/(decrease) in loss before tax *US$'000* |
|---|---|---|
| **2019** | | |
| If the US$ weakens against the RMB | 5% | (1,122) |
| If the US$ strengthens against the RMB | 5% | 1,122 |
| If the US$ weakens against the GBP | 5% | (520) |
| If the US$ strengthens against the GBP | 5% | 520 |

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

As at 31 December 2020, the credit risk of the Group which would cause a financial loss to the Group arose from counterparties failing to perform an obligation, with the maximum exposure equal to the carrying amounts of the recognised financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group sets appropriate credit limits for customers, follows up overdue debts and reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

***Maximum exposure and year-end staging***

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

**As at 31 December 2020**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | Total |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Trade receivables* | – | – | – | 62,000 | 62,000 |
| Financial assets included in prepayments and other receivables | | | | | |
| – Normal** | 25,344 | – | – | – | 25,344 |
| Pledged bank deposits | 10,308 | – | – | – | 10,308 |
| Cash and cash equivalents | 26,047 | – | – | – | 26,047 |
| | 61,699 | – | – | 62,000 | 123,699 |

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk (continued)

***Maximum exposure and year-end staging*** *(continued)*

**As at 31 December 2019**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | Total |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Trade receivables* | – | – | – | 79,904 | 79,904 |
| Financial assets included in prepayments and other receivables | | | | | |
| – Normal** | 24,504 | – | – | – | 24,504 |
| Pledged bank deposits | 3,942 | – | – | – | 3,942 |
| Short term bank deposits | 4,200 | – | – | – | 4,200 |
| Cash and cash equivalents | 62,678 | – | – | – | 62,678 |
| | 95,324 | – | – | 79,904 | 175,228 |

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

The Group is principally engaged in the furniture industry, and there was a significant concentration of credit risk geographically within the Group as 91% (2019: 90%) of the total trade receivables were from the U.S. as at 31 December 2020. The Group also has a concentration of credit risk by analysis of customer as 55% (2019: 47%) and 36% (2019: 35%) of the total trade receivables were due from the Group's five largest customers and largest customer, respectively.

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's liquidity position is monitored closely by the management of the Company.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**2020**

| | On demand or less than 3 months US$'000 | 3 to less than 12 months US$'000 | Over 1 year US$'000 | Total US$'000 |
|---|---|---|---|---|
| Trade payables | 15,974 | 5,879 | – | 21,853 |
| Other payables and accruals | 34,121 | – | – | 34,121 |
| Interest-bearing bank borrowings | 112,186 | 38,176 | 6,197 | 156,559 |
| Lease liabilities | 5,490 | 1,948 | 20,762 | 28,200 |
| | 167,771 | 46,003 | 26,959 | 240,733 |

**2019**

| | On demand or less than 3 months US$'000 | 3 to less than 12 months US$'000 | Over 1 year US$'000 | Total US$'000 |
|---|---|---|---|---|
| Trade payables | 17,560 | 6,413 | – | 23,973 |
| Other payables and accruals | 32,613 | – | – | 32,613 |
| Interest-bearing bank borrowings | 146,167 | 23,939 | 24,056 | 194,162 |
| Lease liabilities | 2,028 | 5,534 | 24,823 | 32,385 |
| | 198,368 | 35,886 | 48,879 | 283,133 |

The above amounts relating to the variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital 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 equity holders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes bank borrowings disclosed in note 24 to the consolidated financial statements, and equity attributable to the owners of the parent, comprising issued capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. 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 debt or redemption of existing debt.

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group monitors capital using a gearing ratio, which is debt divided by equity. The Group's policy is to maintain the gearing ratio at a suitably low level. Debt includes interest-bearing bank borrowings. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

| | **2020**<br>***US$'000*** | 2019<br>*US$'000* |
|---|---|---|
| Debt | **154,974** | 187,119 |
| Equity | **295,005** | 318,556 |
| Gearing ratio | **52.5%** | 58.7% |

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2020<br>US$'000 | 2019<br>US$'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **216,746** | 216,746 |
| **CURRENT ASSETS** | | |
| Due from subsidiaries | **76,802** | 107,779 |
| Other receivables | **396** | 396 |
| Cash and cash equivalents | **1,408** | 1,895 |
| Total current assets | **78,606** | 110,070 |
| **CURRENT LIABILITIES** | | |
| Other payables | **347** | 393 |
| **NET CURRENT ASSETS** | **78,259** | 109,677 |
| Net assets | **295,005** | 326,423 |
| **EQUITY** | | |
| Issued capital | **155,374** | 155,946 |
| Reserves *(Note)* | **139,631** | 170,477 |
| Total equity | **295,005** | 326,423 |

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

*Note:*

A summary of the Company's reserves is as follows:

| | Share premium US$'000 | Share repurchase reserve US$'000 | Capital redemption reserve US$'000 | Contributed surplus* US$'000 | Share option reserve US$'000 | Retained profits/ (accumulated losses) US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 105,892 | – | 1,012 | 80,186 | 256 | 26,871 | 214,217 |
| Total comprehensive loss for the year | – | – | – | – | – | (43,248) | (43,248) |
| Shares repurchased and yet to to be cancelled | – | (492) | – | – | – | – | (492) |
| At 31 December 2019 and 1 January 2020 | 105,892 | (492) | 1,012 | 80,186 | 256 | (16,377) | 170,477 |
| Total comprehensive loss for the year | – | – | – | – | – | (31,418) | (31,418) |
| Shares cancelled | 80 | 492 | – | – | – | – | 572 |
| At 31 December 2020 | 105,972 | – | 1,012 | 80,186 | 256 | (47,795) | 139,631 |

* Contributed surplus represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's shares issued in exchange therefor pursuant to a group reorganisation.

## 38. COMPARATIVE AMOUNTS

Certain comparative amounts have been re-presented to confirm to the current year's presentation.

## 39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2021.

# FIVE YEAR FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | ***US$'000*** | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| REVENUE | **397,582** | 457,240 | 478,800 | 487,541 | 434,050 |
| (Loss)/profit before impairment of property, plant and equipment | **(16,895)** | (3,836) | 20,847 | 105,611 | 11,328 |
| Impairment of property, plant and equipment | **–** | (41,346) | – | – | – |
| (Loss)/profit before taxation | **(16,895)** | (45,182) | 20,847 | 105,611 | 11,328 |
| Taxation | **1,174** | (3,341) | (2,932) | (15,549) | (4,783) |
| (Loss)/profit for the year | **(15,721)** | (48,523) | 17,915 | 90,062 | 6,545 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | ***US$'000*** | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Total assets | **568,487** | 638,765 | 665,870 | 520,002 | 561,327 |
| Total liabilities | **(273,482)** | (311,343) | (295,707) | (144,309) | (190,159) |
| Total equity | **295,005** | 327,422 | 370,163 | 375,693 | 371,168 |