# 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 2006*

* for identification purpose only

# Contents



# Corporate Profile

Samson Holding Ltd. is one of the leading wholesalers in the U.S. residential furniture industry. We distinguish ourselves in our industry through our vertically-integrated U.S. wholesaler and Chinese manufacturer business model. This business model provides us with the competitive advantage of large-scale and cost-effective manufacturing facilities in China to support our U.S. branded products business. Our vertically-integrated business model is further enhanced by our comprehensive logistics and delivery capabilities that provide our customers with the flexibility to mix different furniture collections in their respective shipments.

We produce and market a wide range of high quality residential furniture at mid to high price points for the U.S. wholesale market under our own brand names, "Universal Furniture", "Legacy Classic" and "Craftmaster". We are committed to offering quality furniture with a high degree of perceived value at attractive prices, combined with comprehensive customer service. In addition to our powerful and trusted brands, our manufacturing division in China, operating under the name of Lacquer Craft, is the preferred original equipment manufacturer to many leading furniture brands and private label retailers in the North America and the rest of the world.

# 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

Ms. Huei-Chu HUANG
Mr. Ming-Jian KUO
Mr. Siu Ki LAU

## Audit Committee

Mr. Siu Ki LAU *(Chairman)*
Ms. Huei-Chu HUANG
Mr. Sheng Hsiung PAN

## Remuneration Committee

Mr. Ming-Jian KUO *(Chairman)*
Ms. Huei-Chu HUANG
Mr. Sheng Hsiung PAN

## Company Secretary

Ms. Pik Yuk CHENG

## Authorized Representatives

Ms. Yi-Mei LIU
Ms. Pik Yuk CHENG

## Registered Office

Scotia Centre, 4th Floor
P. O. Box 2804, George Town
Grand Cayman, KY1-1112
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/

## Principal Places of Business

### China:

Jian She Road, Jin Ju Village
Daling Shan Town, Dongguan City
Guang Dong Province
China, 523830

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

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

### United States of America:

6530 Judge Adams Road, Suite 106
Whitsett, NC 27377
USA

4190 Eagle Hill Drive
High Point, NC 27265
USA

221 Craftmaster Road
Hiddenite, NC 28636
USA

## Auditors

Deloitte Touche Tohmatsu

## Principal Bankers

Bank SinoPac
Chinatrust Commercial Bank
Fubon Bank (Hong Kong) Limited
Wachovia Bank, National Association

## Share Registrars and Transfer Offices

### Principal:

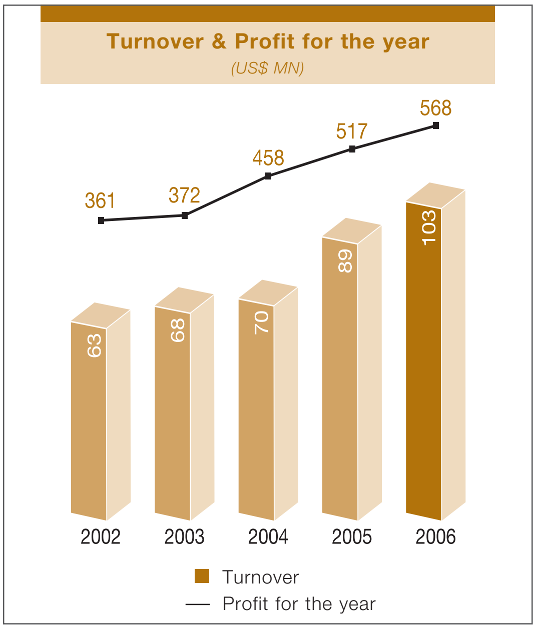
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town, Grand Cayman
Cayman Islands

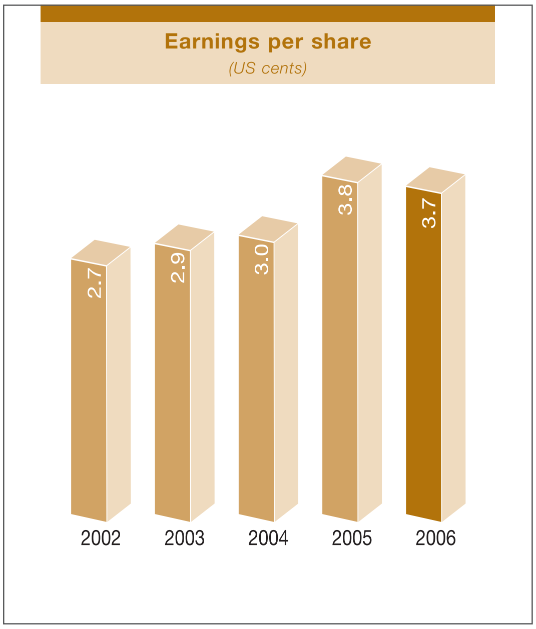
### Hong Kong Branch:

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

# Financial Highlights

| | **2006 US$'000** | 2005 US$'000 | **2006 HK$'000*** | 2005 HK$'000* |
|---|---|---|---|---|
| **Operating results** | | | | |
| Turnover | **568,415** | 517,039 | **4,433,637** | 4,032,904 |
| Earnings before interest and tax | **107,843** | 99,246 | **841,175** | 774,119 |
| Profit for the year | **103,052** | 89,032 | **803,806** | 694,450 |
| Earnings per share *(US/HK cents)* | **3.7** | 3.8 | **28.9** | 29.6 |
| **Financial position** | | | | |
| Total assets | **552,095** | 447,730 | **4,306,341** | 3,492,294 |
| Net current assets | **237,233** | 242,377 | **1,850,417** | 1,890,541 |
| Shareholders' equity | **439,311** | 368,646 | **3,426,626** | 2,875,439 |
| Return on equity** (%) | **25.5%** | 35.2% | **25.5%** | 35.2% |




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

** profit for the year/average shareholders' equity

# 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 of Samson Holding Ltd. (the "Company"), I am pleased to present to the shareholders the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

## Results

We managed to maintain a good growth in turnover and recorded profit amid a challenging year in the U.S. residential furniture industry.

Turnover and profit for the year of the Group hit a record high for the fifth consecutive year. Turnover was approximately US$568.4 million, an increase of approximately 10% or US$51.4 million compared with 2005. Profit for the year was approximately US$103.1 million, an increase of approximately 16% or US$14.1 million compared with 2005.

## Dividend

The Board has recommended the payment of a final dividend for the year ended 31 December 2006 of HK$0.058 per share. Including the interim dividend of HK$0.058 per share paid to the shareholders in October 2006, the total dividend payout and the dividend payout ratio for the year 2006 will be HK$0.116 and 40% respectively.

## Business Development and Outlook

The year 2006 was the biggest decline in new privately owned housing units started in 15 years in the U.S. Sluggish demands, increase in raw material costs, and aggressive competitions from China and Vietnam have raised lots of burdens on operating margins. Increasing negative news from importers and retailers experiencing considerable financial stress is becoming commonly read. We expect consolidation in the residential furniture industry will accelerate in 2007 since the industry-wide slowdown does not appear to be over in the U.S.

We believe the Company's unique business model provides a solid foundation to outperform the industry performance during the consolidation. Through our vertically-integrated U.S. wholesaler and Chinese manufacturer business model, the Company is well positioned to gain market shares with the competitive advantage of large-scale and cost-effective manufacturing facilities in China to support our U.S. branded-products business. In 2006, we have successfully acquired and included Craftmaster brand in our upholstery brands portfolio and have been excluded from the U.S. Antidumping Duty Order on Wooden Bedroom Furniture since November 2006. These achievements clearly demonstrated our strategy 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 by increasing our market share in both our branded and original equipment manufacturer ("OEM") businesses.

# Chairman's Statement (Cont'd)

## *The progress made on our principal strategies:*

### 1. Growing the market share of our branded business by expanding our product offerings and raising brand awareness

Our vertically-integrated business model provides us with a key competitive advantage to increase the sales of furniture under our Universal Furniture, Legacy Classic and Craftmaster brands.

We gained increasing market shares in youth and upholstery product markets. Our youth collection has been widely recognized by our customers because of our quality, value and service. The growth in upholstery was mainly attributable to Craftmaster which is well-regarded throughout the industry with a reputation for quality and service and offers for endless special order options to fulfill each customer's decor desire.

Universal Furniture has partnered with Meredith Corporation, publisher of Better Homes and Gardens, to produce and launch a full line of furniture bearing the name of America's premier monthly magazine – *Better Homes and Gardens*. The combined support and expertise we will get from Better Homes and Gardens and Meredith Corporation will be a tremendous leg up and will allow us to target product at the female consumers as never before.

### 2. Increasing and diversifying our OEM business

We are delivering outstanding product quality and logistic services to our OEM customers and there is increasing number of U.S. furniture companies to outsource production to Asia and other regions. As a result, our OEM business recorded a strong growth in last year. We now become one of the best manufacturing suppliers of premium residential furniture brands.

### 3. Expanding capacity in a timely and cost-effective manner

We are expanding our production and warehouse capacity at both our Jiashan and Dongguan facilities by building additional production lines and warehouses on existing available land at these facilities.

The second automated warehouse and an additional production line at our Jiashan plant were put into operation in late 2006 and now, we are capable to handle approximately 4,000 standard 40-foot containers, probably one of the largest automated warehouses for furniture manufacturing company in China.

We will complete other additional production lines on needed basis with reference to demand and market conditions.

### 4. Growing through value-accretive acquisition strategies

We are well positioned to take advantage of any acquisition opportunities by leveraging our previous experience in successfully acquiring and integrating Universal Furniture.

In May 2006, we acquired Craftmaster brand. The purchase of assets establishes the U.S. upholstery manufacturing facility for the Group, supplementing the Group's successful fully assembled imported upholstery program. The integration of Craftmaster is faster than we expected. We expect synergy will come out in the next 12 to 18 months.

# Chairman's Statement (Cont'd)

We will take the advantage of the soft market environment and the consolidation of the U.S. furniture market to choose and implement suitable acquisition to strengthen our leading position in the U.S. and global furniture industry. However, we select our targets with prudence to ensure that they match with our culture and can create the greatest value to the shareholders.

### 5. Improving operational efficiency and rationalizing costs

We continue to leverage our economies of scale and actively cooperate with our major raw materials and finished goods suppliers to increase our procurement efficiencies and improve our supply chain management. We believe that these efforts will further facilitate timely delivery of raw materials and outsourced products at reduced prices and will assist us in more effectively monitoring and controlling our inventory levels. We intend to continue refining our distribution and logistics operations to minimize delivery times and increase flexibility of shipments.

We also seek to shorten product development time and streamline our production process by continuing the close collaboration between our engineering and design teams, thus further improving efficiency and reducing costs. We aim to improve our engineering expertise through in-house development activities, discussions with external consultants and other development programs.

### 6. Recruiting and training skilled personnel to enhance our team

We believe that the ability to grow as a successful business depends on the quality of our management and employees. We are committed to recruiting, training and retaining skilled and experienced people throughout our operations globally to better serve our customers.

## Shareholders' Value and Corporate Governance

The management is committed to continuously creating shareholders' value. The Company puts great emphasis on manageable growth and cost reduction to generate strong cash flow and earning to invest in the future. The superior financial results and shareholders' value will be achieved without compromising integrity and business ethics. By working with the Board and external advisers, the Company will continue to promote transparency and enhance corporate governance.

## Appreciation

Finally, I would like to take this opportunity to express my gratitude to my fellow directors, management and employees for their contributions and dedication to the development of the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continued supports.

**Shan Huei KUO**
*Chairman*
4 April 2007

# Management Discussion and Analysis

## Business Review

### Turnover and Profit

To overcome the market challenges and competitions in last year, we committed to delivering excellent value for our customers by offering more product categories and enhancing the logistics services and inventory management. Turnover was approximately US$568.4 million, an increase of US$51.4 million from US$517.0 million compared with 2005. We weathered the softening U.S. economic environment and maintained the sales growth through organic growth and acquisition.

Gross profit margin decreased to 32.4% from 34.2% in 2005, mainly due to the change in product mix and increase in production costs.

Total operating expenses increased to US$84.4 million from US$81.5 million in 2005. The increase was primarily due to an increase in one-off legal and professional fee for handling the appeal on the U.S. Antidumping Duty Order.

Profit for the year increased to US$103.1 million from US$89.0 million in 2005. Net profit margin increased to 18.1% from 17.2% in 2005.

### Acquisition

During the year, Craftmaster Furniture, Inc., a wholly-owned subsidiary of the Company, acquired the net operating assets of Craftmaster Furniture Corporation. The purchase of assets establishes the U.S. upholstery manufacturing facility for the Group, supplementing the Group's successful fully assembled imported upholstery program under Universal Furniture International, Inc. With the Group's expertise in sourcing upholstery products in China, the Group has the ability to enhance the upholstery product line by taking advantage of the benefits that China offers to U.S. upholstery manufacturing. The Group will also benefit from the acquisition by providing the Group's upholstery division with expanded special order capabilities through the acquired facilities.

### Liquidity, Financial Resources and Capital Structure

As at 31 December 2006, the Group's cash and cash equivalents was US$135.6 million (31 December 2005: US$110.6 million), the bank borrowing was US$46.9 million (31 December 2005: nil) and the gearing ratio (total bank borrowings/shareholders' equity) was 10.7% (31 December 2005: nil).

Cash and cash equivalents held by the Group are mainly denominated in United States dollars, Renminbi and Hong Kong dollars. The bank borrowings are denominated in United States dollars, carry interest at floating rates and are repayable within five years.

Our sources of liquidity include cash and cash equivalents, cash from operations and general banking facilities granted to the Group. The Group intends to maintain strong and prudent liquidity for day-to-day operations and business development.

As substantially all of our turnover and most of our cost of sales are denominated in US dollars, we have not had any material foreign exchange gains or losses in connection with our operations.

The Group's current assets increased 8.9% to US$348.8 million compared with US$320.3 million in 2005 and the Group's current liabilities increased 43.3% to US$111.6 million compared with US$77.9 million in 2005.

The current ratio (current assets/current liabilities) was 3.1 times (2005: 4.1 times).

# Management Discussion and Analysis (Cont'd)

### Pledge of Assets

As at 31 December 2006, the Group's inventories of approximately US$10.8 million (2005: US$10.8 million) and trade and other receivables of approximately US$52.8 million (2005: US$57.0 million) had been pledged to banks to secure the general banking facilities granted to the Group.

### Capital Expenditure

Capital expenditures increased to US$65.2 million from US$19.1 million in 2005 comprised of the purchase of property, plant and equipment. The increase was mainly due to the expansion of our production and warehouse capacity at our Dongguan and Jiashan facilities during the year 2006.

### Dividends

The Board has recommended the payment of a final dividend for the year ended 31 December 2006 of HK$0.058 per share.

## Employees and Emolument Policy

As at 31 December 2006, the Group employed approximately 13,700 full-time employees in China, U.S. and Taiwan.

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 people 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 on the basis of their merit, qualifications and competence. The emoluments of the directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

# Biographical Details of Directors and Senior Management

## Executive Directors

**Shan Huei KUO**, also known as Samuel Kuo, aged 51, is an Executive Director, Chairman of our board of directors and Chief Executive Officer of Lacquer Craft Mfg. Co., Ltd (Dongguan) ("Lacquer Craft (Dongguan)") and Lacquer Craft Mfg. Co., Ltd (Zhejiang) ("Lacquer Craft (Zhejiang)") (hereinafter collectively referred to as "Lacquer Craft"). 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 21 years of experience in the furniture business in Taiwan, the PRC and the USA. Mr. Kuo is also the Chairman of the Taiwan Businessmen's Association Dongguan, which has over 3,400 members. 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.

**Yi-Mei LIU**, also known as Grace Liu, aged 49, is an Executive Director and our Deputy Chairman. Ms. Liu is, together with her husband, Mr. Shan Huei Kuo, one of the founders of our business. Ms. Liu has over 21 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.

**Mohamad AMINOZZAKERI**, also known as Mohamad Amini, aged 46, is 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. Amini owned and operated furniture retail stores in California and Arizona for 6 years before that. Mr. Amini has over 21 years of experience in the furniture industry. Mr. Amini 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 51, is the Chief Executive Officer of Tai-Chuan Wooden MFG Co., Ltd, a cue manufacturer. Mr. Pan has over 19 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

**Huei-Chu HUANG**, also known as Laura Huang, aged 51. Ms. Huang has over 18 years of experience in corporate finance, financial advisory and management and capital markets, with an extensive track record of executing international offerings for Taiwanese companies. Ms. Huang is Executive Vice President and Head of Investment Banking at China Development Financial Holding Corporation, Taiwan since January 2006. Prior to this, Ms. Huang was Managing Director and the Head of Taiwan Investment Banking at Merrill Lynch from 2002 to 2005. Prior to joining Merrill Lynch, Ms. Huang spent six years as Global Head of Corporate Finance at Barits Securities, Taiwan where Ms. Huang was in charge of all capital markets transactions, with a focus on Taiwan, China and Hong Kong. Previously, Ms. Huang spent 8 years as Senior Vice President in the Capital Markets/International Department of Grand Cathay Securities, responsible for capital markets business. Ms. Huang received a Master of Business Administration degree from the University of Missouri and a Bachelor of Business Administration degree from Fu Jen Catholic University, Taipei, Taiwan.

# Biographical Details of Directors and Senior Management (Cont'd)

**Ming-Jian KUO**, also known as Andrew Kuo, aged 45, 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 16 years of experience in the corporate finance industry. Since the merger of JPMorgan and Jardine Fleming in 2000, Mr. Kuo has been responsible for the firm's banking business and all investment banking activities in Taiwan. Mr. Kuo is also Vice Chairman of the Greater China Operating Committee of JPMorgan Chase, and since April 2005 he has been responsible for JPMorgan's Financial Sponsor Industry of Asia, ex-Japan. Mr. Kuo has 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 is a member of the Youth Presidents' Organization and the Advisory Committee of the Hong Kong Monetary Authority. Mr. Kuo obtained a Bachelor degree with a major in Business Administration from Fu-Jen Catholic University in 1983 and an Master of Business Administration degree from City University of New York in 1989.

**Siu Ki LAU**, also known as Kevin Lau, aged 48. With over 25 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. Mr. Lau is also a consultant to the corporate finance division of PCP CPA Limited, a medium-sized certified public accountants firm in Hong Kong. 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. Mr. Lau has been elected as a member of the world council of ACCA since 2002. Mr. Lau has also served on the executive committee of the Hong Kong branch of ACCA (ACCA Hong Kong) since 1995, and was the chairman of ACCA Hong Kong in 2000/2001. Mr. Lau also serves as an independent non-executive director of nine other listed companies in Hong Kong. Mr. Lau graduated from The Hong Kong Polytechnic in 1981.

## Senior Management

### Samson Marketing

**Kevin M. O'CONNOR**, aged 61, is President and Chief Executive Officer of Samson Marketing. Mr. O'Connor has been with our Group since March 1999, and prior to his current position, he was previously President/CEO of Legacy Classic Furniture, Inc. ("Legacy Classic"). Before joining our Group, Mr. O'Connor held the top executive position of Master Design Furniture, Inc. and Hyundai Furniture, and also held senior management positions at Lea Industries, Burlington Furniture and Ethan Allen Furniture. Mr. O'Connor has over 35 years of experience in the furniture industry. Mr. O'Connor obtained a Bachelor of Arts degree in Psychology from Seton Hall University in 1968 and a Master of Science Degree in Business Administration from Columbia University in 1978.

**Chou-Li HSU**, also known as Victor Hsu, aged 40, is Vice-President and Chief Financial Officer of Samson Marketing, and also serves as Corporate Secretary of our member companies in the US. Prior to his current position, Mr. Hsu was previously VP and CFO of Universal Furniture International Inc. ("Universal Furniture"), and held senior positions at Legacy Classic and Lacquer Craft since June 1998. Mr. Hsu has more than 13 years of related working experiences in Taiwan, Hong Kong, China and US. Mr. Hsu obtained a Bachelor of Science degree in Industrial Engineering from the National Tsing-Hwa University in 1989 and was awarded a Master's degree in Business Administration in Finance from the University of Illinois at Urbana– Champaign in May 1994.

# Biographical Details of Directors and Senior Management (Cont'd)

**Richard M. MIHALIK**, aged 64, is Vice-President and Chief Operating Officer of Samson Marketing. Prior to his current position, he was previously Vice President of Operations of Legacy Classic and has been with our Group since March 1999. Mr. Mihalik previously held senior management positions at companies such as Master Design Furniture, Inc., Cardinal Tables of California, Inc., B.P. John Furniture Co. and Hyundai Furniture Co. Inc. Mr. Mihalik has over 30 years of experience in the furniture industry. He obtained a Bachelor of Arts degree in Education from Seton Hall University in 1969.

## Universal Furniture

**Randolph V. CHRISLEY**, aged 59, is President and Chief Executive Officer of Universal Furniture and has been with our Group since November 2001. Prior to becoming Chief Executive Officer, he was Universal Furniture's Senior Vice-President of Sales and Marketing. Mr. Chrisley was previously Senior Vice-President of Sales at Pulaski Furniture Corporation, where he held management positions from 1970. Mr. Chrisley has over 30 years of experience in the furniture industry. Mr. Chrisley received a Bachelor of Science degree in Business Administration from Virginia Tech in 1970.

**Yao-Yu CHIEN**, also known as Eric Chien, aged 40, is Vice President and Chief Financial Officer of Universal Furniture, and prior to his current position, he was previously CFO of Legacy Classic and has been with our Group since July 2001. Prior to joining our Group, he was Vice-President of Corporate/Personal Banking at ABN AMRO Bank, Taichung, Taiwan. He has also worked for Credit Agricole Indosuez and the Taiwan International Securities Corporation. Mr. Chien has more than 13 years of experience in finance. Mr. Chien received a Bachelor of Arts degree in Cooperative Economics from the National Chung Hsing University, Taipei in 1989 and a Master's degree in Business Administration from the University of Southern California in 1994.

**Stephen B. GILES**, aged 45, is Senior Vice-President of Merchandising of Universal Furniture and has been with our Group since October 2001. Before joining our Group, Mr. Giles was Vice-President of Merchandise at Lane Furniture Company. Mr. Giles has previously held management positions at Henredon Furniture Industries, Century Furniture Industries and Lane Furniture Company. Mr. Giles has over 15 years of experience in the furniture industry. Mr. Giles received a Bachelor of Science degree in Physics from Davidson College in 1984 and obtained a Master's degree in Business Administration from the Executive Program from Wake Forest University in 1999.

**Roy R. CALCAGNE**, aged 48, is Senior Vice-President and General Manager of the Upholstery Division of Universal Furniture and has been with our Group since August 2003. Prior to joining our Group, Mr. Calcagne was Vice-President of Merchandise at Broyhill Furniture Industry. He has previously worked for Joan Fabrics Corporation, Macy's Department Store, Route 46 Furniture Store, Contemporary Furniture Bambergers Division and Route 22 Furniture Store, holding positions ranging from sales representative and assistant buyer to management positions. Mr. Calcagne has over 20 years of experience in the furniture industry. Mr. Calcagne was awarded a Bachelor of Science degree in Marketing from Fairleigh Dickinson University in 1981.

**D. Michael DRAUGHAN**, aged 51, is Vice-President and General Manager of the Mass Merchandise Division of Universal Furniture and has been with our Group since April 2004. Prior to becoming Vice-President and General Manager of the Mass Merchandise Division of Universal Furniture, Mr. Draughan was a lead sales representative of Universal Furniture in northern and central Florida. Mr. Draughan previously held senior management positions at Rockford Furniture, Lea Industries, and Mid-Atlantic Freight. Mr. Draughan has over 12 years of experience in the furniture industry, and over 10 years of experience in freight industry.

# Biographical Details of Directors and Senior Management (Cont'd)

**John B. CARPER**, aged 56, is Vice President of Operations of Universal Furniture and has been with our Group since August 2001. Prior to becoming Vice-President of Operations, Mr. Carper was Director of Information Technology and Supply Chain Director at Universal Furniture. Mr. Carper was previously Director of Applications Development at Universal Furniture Limited (prior to our acquisition of Universal Furniture) and held various management positions at Western Forge Corp. and Sears, Roebuck and Co.. Mr. Carper has more than 17 years of experience in management. Mr. Carper holds an MBA in Production Management from the University of Colorado and a Bachelor of Science degree majoring in Marketing from the University of Utah.

### Legacy Classic

**Donald Lee BOONE**, aged 44, is President of Legacy Classic and has been with our Group since June 2003. Prior to this, Mr. Boone held positions including General Manager of the Youth Division of Legacy Classic (Legacy Classic Kids), Vice – President of Sales at Lea Industries and Vice-President of National Accounts at Universal Furniture. Mr. Boone has more than 16 years of experience in the furniture industry. Mr. Boone was awarded a Bachelor of Science degree in Engineering with a Minor in Economics from West Point University in May 1984.

**Shing-Huei LI**, also known as Elliott Li, aged 36, is Vice-President and Chief Financial Officer of Legacy Classic and has been with our Group since December 2006. Prior to joining our Group, Mr. Li held financial management positions at Guardian Life Insurance and AT&T in the U.S., as well as a sales position at Evergreen Marine in Taiwan. Mr. Li received a Bachelor of Arts degree in International Trade from Fu-Jen Catholic University, Taipei in 1993 and a Master degree in Business Administration from Georgetown University in 1999.

**Gerald E. SAGERDAHL**, aged 56, is Executive Vice-President of Sales of Legacy Classic and has been with our Group since March 1999. Mr. Sagerdahl has 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 31 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.

**Michael H. HARRIS**, aged 42, is Vice-President of Sales of Legacy Classic and has been with our Group since October 2006. Mr. Harris has previously held the positions of President and Partner at Kevin Charles Fine Furniture, Sales Manager for Palliser Furniture, and worked as an Independent Manufacturer's Representative. Mr. Harris has more than 19 years of experience in the furniture industry. Mr. Harris obtained a Bachelor of Arts degree in Economics from University of North Carolina at Chapel Hill in 1987.

**Christopher Scott SMITH**, aged 39, is Vice-President of Merchandising of Legacy Classic and has been with our Group since September 2003. Prior to this, Mr. Smith had held the position of Vice-President of Sales at Drexel Heritage Furniture. Mr. Smith previously held sales and marketing management positions at Davis Furniture, Lexington Furniture and Singer Furniture. Mr. Smith has more than 11 years of experience in the furniture industry. Mr. Smith was awarded a Bachelor of Arts degree in Accounting from North Carolina State University in May 1990.

# Biographical Details of Directors and Senior Management (Cont'd)

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

**T. Steven LACKEY**, aged 61, is Chief Executive Officer of Craftmaster and has been with our Group since May 2006. Mr. Lackey has over 38 years experience in the furniture industry. He began his career with Deville Furniture in 1969 as Plant Manager for the Hallmark Furniture division of Deville. In 1972, he established Craftmaster Furniture Corporation and served as Vice President of Manufacturing, Marketing and Sales. In 1986, he became president and served in that capacity until he was appointed Chief Operating Officer in 1997. In 2003, he became Chief Executor Officer while still serving as President. Mr. Lackey received a Bachelors of Science degree in Social Studies from Appalachian State University in Boone, NC in 1968.

**Roy R. CALCAGNE**, is President of Craftmaster and is also Senior Vice-President and General Manager of the Upholstery Division of Universal Furniture.

**Chen-Kun Shih**, also known as Anderson Shih, aged 36, is Vice President and Chief Financial Officer of Craftmaster since July 2006. Prior to his current position, Mr. Shih has more than 10 years of related working experiences in Taiwan, China and US. 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 became a Certified Internal Auditor in 2000 and also passed the Certified Public Accountants examination of the United States in 2006.

**Tom Little**, aged 45, is Vice President of Sales for Craftmaster and has been with our Group since May 2006. Mr. Little has over 20 years of experience in the furniture industry. Mr. Little worked with Craftmaster Furniture Corporation in Sales Management and Marketing prior to our acquisition. Prior to joining Craftmaster Furniture Corporation in 1994, Mr. Little worked previously with Acacia Furniture and Bassett Upholstery in both Sales Management and as a Sales Representative in the state of Florida. Mr. Little received a Bachelor of Science degree in Marketing from Radford University in 1982.

**Kevin P. TOLBERT**, aged 46, is Senior Vice-President and Chief Operating Officer of Craftmaster and has been with our Group since May 2006. Mr. Tolbert was Vice-President of Finance and Chief Financial Officer of Craftmaster Furniture Corporation prior to our acquisition. Mr. Tolbert has held previous management positions with John S. Barnes Corporation, Vickers, Inc., Kewaunee Scientific Equipment Corporation, and served as audit staff at Touche Ross & Co. Mr. Tolbert has more than 15 years of experience in the furniture industry. Mr. Tolbert was awarded a Bachelor of Science degree in Accounting from the University of North Carolina at Charlotte in May 1982 and obtained a Master of Business Administration degree from the University of North Carolina at Charlotte in May 1990. Mr. Tolbert became a Certified Public Accountant in 1984.

## Lacquer Craft

**En-Kwang YANG**, also known as Bob Yang, aged 59, is Executive Vice-President of Lacquer Craft and has been with our Group since September 1999. Prior to becoming Executive Vice-President, Mr. Yang was Vice – President of Manufacturing of Lacquer Craft. Mr. Yang previously held management positions at Mississippi Plant of Master Design Furniture Company Limited, Johnson Wood Working Manufacturing Company, Shin Shin Wood Working Manufacturing Company Limited and Wood Working Plant of East-West High Way Forest Development. Mr. Yang obtained a Bachelor of Science degree in Forestry from the National Taiwan University in June 1969.

# Biographical Details of Directors and Senior Management (Cont'd)

**Chi Yin LIN**, also known as Anderson Lin, aged 42, is Vice President of Manufacturing for Lacquer Craft (Dongguan) and has been with our Group since October 1995. Prior to joining our Group, Mr. Lin held positions in production control, furniture drawing and manufacturing at various furniture companies. Mr. Lin has over 20 years of experience in furniture manufacturing. Mr. Lin obtained a Diploma in Mechanical Engineering from the Industrial College of Nan Yang in 1984.

**Yuang-Whang LIAO**, also known as Daniel Liao, aged 37, is Vice-President and Chief Financial Officer of Lacquer Craft and has been with our Group since September 2003. Mr. Liao is also the Group's Director of Investor Relations. Prior to joining our Group, Mr. Liao held the position of Director in the Private Equity of Citibank Hong Kong. Mr. Liao previously held positions ranging from financial officer and risk analyst to Vice – President of Private Equity at Citibank, Taipei. Mr. Liao has more than 11 years of experience in banking and finance. Mr. Liao obtained a Bachelor of Arts degree in Management Science from National Chiao Tung University in May 1991 and an M. Phil in Management from Cambridge University in 1999.

**Yue-Jane HSIEH**, also known as Irene Hsieh, aged 36, is Special Assistant to the Chairman 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. Shan Huei 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 three years of experience in accounting. Ms. Hsieh obtained a Bachelor of Science degree in Accounting from Tunghai University in June 1993.

## Company Secretary

**Pik Yuk CHENG**, also known as Patsy Cheng, aged 49, was appointed the company secretary of our Company on 24 October 2005. Ms. Cheng is a Corporate Services Director of Tricor Services Limited. Prior to joining the Tricor Group in 2000, she was the departmental manager of the corporate secretarial and share registration department of Deloitte Touche Tohmatsu, and provided corporate secretarial and statutory compliance services to their clients. Ms. Cheng has worked in the corporate secretarial departments of a number of international accounting firms and has over 20 years of experience in the company secretarial field. She has been providing corporate secretarial support services to many listed clients. Ms. Cheng is a Fellow Member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms. Cheng graduated from The Hong Kong Polytechnic in 1980.

## Qualified Accountant

**Wai Man CHEUNG**, also known as Anthony Cheung, aged 31, is our qualified accountant and has been with our Group since November 2005. Prior to joining our Company, Mr. Cheung was a manager at Deloitte Touche Tohmatsu. Mr. Cheung has over 8 years of experience in auditing and accounting. Mr. Cheung graduated with a Bachelor of Arts (Honours) in Accountancy from The Hong Kong Polytechnic University in 1998 and is a member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

# Corporate Governance Report

The Board is committed to maintaining the highest standards of corporate governance. The Board believes that good corporate governance assists the Board and management to pursue objectives that are in the interests of the organization and its stakeholders, facilitates effective monitoring and encourages the Company to use its resources more efficiently.

The Company has complied with the Code on Corporate Governance Practices ("Code") as set out in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year.

## Board of Directors

The Board is responsible for setting the Group's strategic aims, providing the 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 shareholders. The Board meets regularly and at least four times a year.

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

The Chairman of the Company 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, Samson Marketing, Universal Furniture and Craftmaster are Mr. Shan Huei Kuo, Mr. Kevin M. O'Connor, Mr. Randolph V. Chrisley and T. Steven Lackey respectively. The Presidents of Lacquer Craft and Legacy Classic are Mr. Mohamad Aminozzakeri and Mr. Donald Lee Boone respectively. The Board believes that the existing segregation of the 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.

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.

During the year, the Board met six times to discharge its responsibilities including approval of interim/annual results and review of the Group's strategic business direction and financial performance. The Board also reviewed the Group's internal control system and was satisfied with its effectiveness.

As at 31 December 2006, the Board comprised seven directors, including the Chairman, the Deputy Chairman, one Executive Director, one Non-executive Director and three Independent Non-executive Directors. Biographical details of directors are set out on pages 9 to 10.

# Corporate Governance Report (Cont'd)

The term of appointment of Non-executive Directors are disclosed in the section headed "Directors' Service Contracts" in the Directors' Report.

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

## Directors' Securities Transactions

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

All directors have confirmed that they have complied with the Model Code during the year. The Company has also adopted procedures on terms no less exacting than the Model Code in respect of the securities transactions of the relevant employees, who are likely to be in possession of unpublished price-sensitive information of the Group.

## Committees

The Remuneration Committee and the Audit Committee were established on 24 October 2005. The terms of reference of the Remuneration Committee and the Audit Committee are posted on the Company's website (www.samsonholding.com) and are made available on request. The composition of the Remuneration Committee and the Audit Committee are as follows:

| Remuneration Committee | Audit Committee |
|---|---|
| Mr. Ming-Jian KUO *(Chairman)* | Mr. Siu Ki LAU *(Chairman)* |
| Ms. Huei-Chu HUANG | Ms. Huei-Chu HUANG |
| Mr. Sheng Hsiung PAN | Mr. Sheng Hsiung PAN |

The Remuneration Committee is primarily responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of the directors and senior management and on the establishment of a formal and transparent procedure for developing such remuneration policy, determining the specific remuneration packages of all Executive Directors and senior management and to make recommendations to the Board of the remuneration of Non-executive Directors and reviewing and approving any performance-based remuneration offered by the Group with reference to corporate goals and objectives resolved by the Board from time to time.

During the year, the Remuneration Committee reviewed the remuneration of executive directors and senior management as well as recommended the granting of share options to employees.

The Audit Committee is primarily responsible for monitoring integrity of financial statements, annual reports and accounts, half-year reports and reviewing significant financial reporting judgments and the Group's financial controls, internal control and risk management systems and 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. The Audit Committee members have substantial experience in management, corporate finance, financial advisory and management, accounting and auditing.

During the year, the Audit Committee discharged its responsibilities: reviewed and discussed the financial results and approved the remuneration and terms of engagement of the external auditors. In addition, the Audit Committee has reviewed and is satisfied with the effectiveness of the Group's internal controls system.

# Corporate Governance Report (Cont'd)

During the year, the Group paid to external auditors for the services below:

| | *US$'000* |
|---|---:|
| Audit | 719 |
| Taxation | 70 |
| Others | 13 |

The Company has not established a Nomination Committee. The Board considers a balance of skills and experience for the requirements of the business and character of candidates for directorship on the Board and has power at any time and from time to time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the Board. No director has been appointed by the directors either to fill a casual vacancy, or as an addition to the Board during the year.

## Board and Committee Attendance

| | **Number of meetings held** |
|---|---:|
| Board | 6 |
| Remuneration Committee | 2 |
| Audit Committee | 2 |

Individual attendance of each director is as follows:

| | **No. of meetings attended/held** | | |
|---|---:|---:|---:|
| **Directors** | **Board** | **Remuneration Committee** | **Audit Committee** |
| *Executive Directors* | | | |
| Mr. Shan Huei KUO *(Chairman)* | 6/6 | – | – |
| Ms. Yi-Mei LIU *(Deputy Chairman)* | 6/6 | – | – |
| Mr. Mohamad AMINOZZAKERI | 5/6 | – | – |
| *Non-executive Director* | | | |
| Mr. Sheng Hsiung PAN | 4/6 | 2/2 | 1/2 |
| *Independent Non-executive Directors* | | | |
| Ms. Huei-Chu HUANG | 5/6 | 2/2 | 2/2 |
| Mr. Ming-Jian KUO | 5/6 | 2/2 | – |
| Mr. Siu Ki LAU | 5/6 | – | 2/2 |

## 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 auditors about their reporting responsibilities in the independent auditors' report on the financial statements is set out on pages 24 and 25.

# Directors' Report

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

## Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

## Results and Appropriations

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 26.

An interim dividend of HK$0.058 per share amounting to HK$160,080,000 (equivalent to approximately US$20,600,000) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK$0.058 per share for the year ended 31 December 2006 to the shareholders whose names appear on the register of members on 1 June 2007, amounting to HK$160,080,000 (equivalent to approximately US$20,523,000), and the retention of the remaining profit for the year.

## 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 64 of the annual report.

## Distributable Reserves of the Company

As at 31 December 2006, the Company's reserves available for distribution to shareholders were as follows:

| | *US$'000* |
|---|---|
| Share premium | 135,570 |
| Contributed surplus | 80,186 |
| Accumulated profit | 20,600 |
| | 236,356 |

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

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

# Directors' Report (Cont'd)

## 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

Ms. Huei-Chu HUANG
Mr. Ming-Jian KUO
Mr. Siu Ki LAU

In accordance with the provisions of the Company's Articles of Association, Messrs. Yi-Mei Liu, Sheng Hsiung Pan and Huei-Chu Huang retire by rotation at the forthcoming annual general meeting. All the retiring directors, being eligible, offer themselves for re-election.

## Directors' Service Contracts

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

# Directors' Report (Cont'd)

## Share Option Scheme

The Company adopted a share option scheme on 24 October 2005 (the "Share Option Scheme"). During the year, an aggregate of 10 million share options were granted, representing approximately 0.36% of the issued share capital of the Company. Particulars of the Company's share option scheme are set out in note 28 to the consolidated financial statements.

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

| | Date of Grant *(dd.mm.yy)* | Exercise Price *(HK$)* | Vesting Date *(dd.mm.yy)* | Exercise Period *(dd.mm.yy)* | Number of Share Options: As at 1.1.2006 | Granted during the year | Lapsed during the year | As at 31.12.2006 |
|---|---|---|---|---|---|---|---|---|
| *Director:* | | | | | | | | |
| Mr. Mohamad AMINOZZAKERI | 6.2.2006 | 4.2 | 6.2.2007 | 6.2.2007 – 16.11.2015 | – | 83,333 | – | 83,333 |
| | | | 6.2.2008 | 6.2.2008 – 16.11.2015 | – | 83,333 | – | 83,333 |
| | | | 6.2.2009 | 6.2.2009 – 16.11.2015 | – | 83,334 | – | 83,334 |
| | | | | | – | 250,000 | – | 250,000 |
| *Other employees:* | | | | | | | | |
| In aggregate | 6.2.2006 | 4.2 | 6.2.2007 | 6.2.2007 – 16.11.2015 | – | 3,250,000 | (95,000) | 3,155,000 |
| | | | 6.2.2008 | 6.2.2008 – 16.11.2015 | – | 3,250,000 | (95,000) | 3,155,000 |
| | | | 6.2.2009 | 6.2.2009 – 16.11.2015 | – | 3,250,000 | (95,000) | 3,155,000 |
| | | | | | – | 9,750,000 | (285,000) | 9,465,000 |
| Total | | | | | – | 10,000,000 | (285,000) | 9,715,000 |

## Arrangement to Purchase Shares or Debentures

Other than the Company's share option scheme disclosed above, at no time during 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 by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

# Directors' Report (Cont'd)

## Directors' Interests in Shares and Underlying Shares

As at 31 December 2006, the interests of the directors and their associates 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 ("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:

### (1) Shares of the Company

*Long positions:*

| Name of director | Capacity | Number of issued ordinary shares held | Shareholding percentage |
|---|---|---|---|
| Mr. Shan Huei Kuo | Held by controlled corporation *(note)* | 1,966,500,000 | 71.25% |
| Ms. Yi-Mei Liu | Held by controlled corporation *(note)* | 1,966,500,000 | 71.25% |

*Note:* Comprised of 1,842,500,000 shares held by Advent Group Limited ("Advent") and 124,000,000 shares held by Elite Management Global Limited ("Elite Management"). The shares of the Company held by Elite Management are attributable to Advent as a result of a shareholders' agreement between Advent and the individual shareholders of Elite Management, pursuant to which Advent has the right of first refusal to acquire such shareholders' shares in the event they wish to transfer their shareholdings to a third party or their employment with the Group is terminated.

Mr. Shan Huei Kuo and Ms. Yi-Mei Liu each holds 50% of the equity interest in Magnificent Capital Holding Limited ("Magnificent"). Magnificent owns 70% of the issued share capital of Advent. Therefore, Mr. Shan Huei Kuo and Ms. Yi-Mei Liu are deemed or taken to be interested in the shares of the Company which are owned by Advent and Elite Management.

Mr. Shan Huei Kuo and Ms. Yi-Mei Liu are husband and wife.

### (2) Share options of the Company

The interests of the directors of the Company in the share options of the Company are detailed in "Share Option Scheme" above.

Other than as disclosed above, none of the directors nor their associates 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 2006.

# Directors' Report (Cont'd)

## Substantial Shareholders

Other than the interests disclosed above in respect of certain directors, who are also substantial shareholders, of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31 December 2006.

## Connected Transactions

During the year, the Group paid Uson Enterprises Limited ("Uson") US$1,490,000 for its transportation logistics services. The charge is based on the cost incurred by Uson plus a fixed annual service fee. Uson is wholly-owned by Mr. Shan Huei Kuo and Ms. Yi-Mei Liu, directors of the Company.

Pursuant to Chapter 14A.38 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the board of directors has engaged the auditors of the Company to perform certain agreed upon procedures in respect of the above continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The Independent Non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, on terms no less favourable to the Company than terms available from independent third parties, in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole and have not exceeded the cap disclosed in the prospectus of the Company.

During the year, the Group purchased hardware from and paid rental to Samson Global Co. Ltd. which is wholly-owned by Mr. Shan Huei Kuo and Ms. Yi-Mei Liu, directors of the Company. These transactions are regarded as connected transaction and qualified as a "de minimis transaction" pursuant to Chapter 14A of the Listing Rules. The details of the transaction are set out in note 36 to the consolidated financial statements.

Other than as disclosed above, no contracts of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## 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 | 12% |
| – five largest customers | 35% |
| – the largest supplier | 10% |
| – five largest suppliers | 34% |

# Directors' Report (Cont'd)

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, 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 as at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

## Donations

During the year, the Group made charitable and other donations amounting to approximately US$172,000.

## Auditors

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

On behalf of the Board

**Shan Huei KUO**
*Chairman*
The People's Republic of China
4 April 2007

# Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Samson Holding Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 63, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report (Cont'd)

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
4 April 2007

# Consolidated Income Statement

*For the year ended 31 December 2006*

| | Notes | 2006 US$'000 | 2005 US$'000 |
|---|---|---|---|
| Turnover | | **568,415** | 517,039 |
| Cost of sales | | **(384,464)** | (340,061) |
| Gross profit | | **183,951** | 176,978 |
| Other income | | **8,256** | 3,737 |
| Distribution costs | | **(20,460)** | (22,845) |
| Sales and marketing expenses | | **(31,815)** | (34,291) |
| Administrative expenses | | **(32,089)** | (24,333) |
| Finance costs | 6 | **(1,637)** | (2,133) |
| Profit before taxation | | **106,206** | 97,113 |
| Taxation | 7 | **(3,154)** | (8,081) |
| Profit for the year | 8 | **103,052** | 89,032 |
| Dividend | 10 | **40,150** | 18,000 |
| Earnings per share, in US$ – Basic | 11 | **0.037** | 0.038 |

# Consolidated Balance Sheet

*At 31 December 2006*

| | Notes | 2006 US$'000 | 2005 US$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | **174,661** | 112,785 |
| Lease premium for land – non-current portion | 13 | **11,379** | 11,144 |
| Goodwill | 14 | **11,475** | – |
| Cash surrender value of life insurance | 16 | **572** | 431 |
| Club debenture | 17 | **25** | 33 |
| Deferred tax assets | 26 | **5,154** | 3,075 |
| | | **203,266** | 127,468 |
| CURRENT ASSETS | | | |
| Inventories | 18 | **98,441** | 82,808 |
| Trade and other receivables | 19 | **112,727** | 126,610 |
| Lease premium for land – current portion | 13 | **266** | 255 |
| Tax recoverable | | **1,817** | – |
| Cash and cash equivalents | 20 | **135,578** | 110,589 |
| | | **348,829** | 320,262 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 21 | **62,868** | 73,399 |
| Amount due to a related company | 22 | **–** | 8 |
| Tax payable | | **1,807** | 4,478 |
| Derivative financial instruments | 23 | **48** | – |
| Bank borrowings – due within one year | 24 | **46,873** | – |
| | | **111,596** | 77,885 |
| NET CURRENT ASSETS | | **237,233** | 242,377 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **440,499** | 369,845 |

# Consolidated Balance Sheet (Cont'd)

*At 31 December 2006*

| | Notes | 2006 US$'000 | 2005 US$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred compensation | 25 | **672** | 531 |
| Deferred tax liabilities | 26 | **516** | 668 |
| | | **1,188** | 1,199 |
| | | **439,311** | 368,646 |
| CAPITAL AND RESERVES | | | |
| Share capital | 27 | **138,000** | 138,000 |
| Reserves | | **301,311** | 230,646 |
| | | **439,311** | 368,646 |

The financial statements on pages 26 to 63 were approved and authorized for issue by the Board of Directors on 4 April 2007 and are signed on its behalf by:

**Shan Huei KUO**
*Director*

**Mohamad AMINOZZAKERI**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2006*

| | Share capital US$'000 | Share premium US$'000 | Share option reserve US$'000 | Merger reserve US$'000 (Note 29) | Statutory reserve US$'000 (Note 30) | Exchange reserve US$'000 | Hedging reserve US$'000 | Accumulated profits US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2005 | 115,000 | – | – | 1,581 | 532 | 594 | (31) | 18,989 | 136,665 |
| Exchange differences on translation of foreign operations | – | – | – | – | – | 2,348 | – | – | 2,348 |
| Transfer to profit or loss on cash flow hedges | – | – | – | – | – | – | 31 | – | 31 |
| Income recognized directly in equity | – | – | – | – | – | 2,348 | 31 | – | 2,379 |
| Profit for the year | – | – | – | – | – | – | – | 89,032 | 89,032 |
| Total recognized income for the year | – | – | – | – | – | 2,348 | 31 | 89,032 | 91,411 |
| Issue of shares at premium through initial public offer | 23,000 | 140,079 | – | – | – | – | – | – | 163,079 |
| Transaction costs attributable to issue of new shares | – | (4,509) | – | – | – | – | – | – | (4,509) |
| Dividend paid | – | – | – | – | – | – | – | (18,000) | (18,000) |
| Transfer to statutory reserve | – | – | – | – | 215 | – | – | (215) | – |
| At 31 December 2005 and 1 January 2006 | 138,000 | 135,570 | – | 1,581 | 747 | 2,942 | – | 89,806 | 368,646 |
| Exchange differences on translation of foreign operations recognized directly in equity | **-** | **-** | **-** | **-** | **-** | **7,333** | **-** | **-** | **7,333** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **103,052** | **103,052** |
| Total recognized income for the year | **-** | **-** | **-** | **-** | **-** | **7,333** | **-** | **103,052** | **110,385** |
| Recognition of equity-settled share-based payments | **-** | **-** | **430** | **-** | **-** | **-** | **-** | **-** | **430** |
| Dividend paid | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(40,150)** | **(40,150)** |
| Transfer to statutory reserve | **-** | **-** | **-** | **-** | **388** | **-** | **-** | **(388)** | **-** |
| At 31 December 2006 | **138,000** | **135,570** | **430** | **1,581** | **1,135** | **10,275** | **-** | **152,320** | **439,311** |

# Consolidated Cash Flow Statement

*For the year ended 31 December 2006*

| | Note | 2006 US$'000 | 2005 US$'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit before taxation | | **106,206** | 97,113 |
| Adjustments for: | | | |
| Impairment loss on trade receivables | | **1,752** | 604 |
| (Reversal of) allowance for inventories | | **(729)** | 83 |
| Interest income | | **(3,639)** | (1,277) |
| Interest expense | | **1,637** | 2,133 |
| Depreciation of property, plant and equipment | | **11,427** | 11,102 |
| Release of lease premium for land | | **243** | 225 |
| Amortization of club debenture | | **8** | 7 |
| Loss (gain) on disposal of property, plant and equipment | | **132** | (200) |
| Loss on disposal of lease premium for land | | **–** | 451 |
| Listing expenses charged to income statement | | **–** | 1,400 |
| Share-based payment expense | | **430** | – |
| Loss on changes in fair value of derivative financial instruments | | **48** | – |
| Operating cash flows before working capital changes | | **117,515** | 111,641 |
| Decrease in investments held for trading | | **–** | 2,540 |
| (Increase) decrease in inventories | | **(10,831)** | 532 |
| Decrease (increase) in trade and other receivables | | **12,780** | (43,203) |
| (Decrease) increase in trade and other payables | | **(9,474)** | 22,358 |
| Cash generated from operations | | **109,990** | 93,868 |
| PRC Foreign Enterprise Income Tax paid | | **(735)** | (541) |
| Overseas tax paid | | **(9,161)** | (6,184) |
| NET CASH FROM OPERATING ACTIVITIES | | **100,094** | 87,143 |
| INVESTING ACTIVITIES | | | |
| Interest received | | **3,639** | 1,277 |
| Proceeds from disposal of property, plant and equipment | | **75** | 1,032 |
| Purchase of property, plant and equipment | | **(65,168)** | (19,115) |
| Acquisition of business | 31 | **(19,375)** | – |
| Payments for lease premium for land | | **(99)** | (1,938) |
| Decrease in loans receivable | | **–** | 1,600 |
| Proceeds from disposal of lease premium for land | | **–** | 724 |
| Decrease in restricted bank balances | | **–** | 15 |
| NET CASH USED IN INVESTING ACTIVITIES | | **(80,928)** | (16,405) |

# Consolidated Cash Flow Statement (Cont'd)

*For the year ended 31 December 2006*

| | 2006 US$'000 | 2005 US$'000 |
|---|---|---|
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | **79,793** | 141,392 |
| Repayment of bank borrowings | **(32,920)** | (185,526) |
| Dividend paid | **(40,150)** | (98,875) |
| Interest paid | **(1,637)** | (2,133) |
| Repayment to related companies | **(8)** | (1,085) |
| Repayment to directors | **–** | (12,696) |
| Net proceeds from issue of shares | **–** | 157,170 |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | **5,078** | (1,753) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | **24,244** | 68,985 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **110,589** | 41,532 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **745** | 72 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by | **135,578** | 110,589 |
| Bank balances and cash | **120,387** | 48,695 |
| Deposits placed in a financial institution | **15,191** | 61,894 |
| | **135,578** | 110,589 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2006*

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability in the Cayman Islands under the Companies Law (2005 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The consolidated financial statements are presented in United States dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding. Particulars of the principal activities of its subsidiaries are set out in note 38.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

### Accounting standards not yet effective

The Group has not early applied the following new standards, amendment and interpretations issued by the HKICPA that have been issued but are not yet effective. The directors of the Company anticipate that the application of following standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### Accounting standards not yet effective (continued)

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKFRS 7 | Financial Instruments Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) – INT 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3] |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2[4] |
| HK(IFRIC) – INT 9 | Reassessment of Embedded Derivatives[5] |
| HK(IFRIC) – INT 10 | Interim Financial Reporting and Impairment[6] |
| HK(IFRIC) – INT 11 | HKFRS 2 – Group and Treasury Share Transactions[7] |
| HK(IFRIC) – INT 12 | Service Concession Arrangements[8] |

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations

The acquisition of subsidiaries and business are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers for the year in the course of the ordinary activities.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sale of goods are recognized when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a business, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

### Share-based payment transactions

***Share options granted to employees of the Company***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to accumulated profits.

### Property, plant and equipment

Property, plant and equipment other than freehold land and construction in progress are stated at cost less accumulated depreciation and accumulated impairment loss.

Freehold land is stated at cost less accumulated impairment loss.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

### Club debenture

Club debenture is measured initially at purchase cost less accumulated amortization and accumulated impairment losses. Amortization is on a straight line basis over its estimated useful life.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its intangible and tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the intangible or tangible asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

### Borrowing costs

All borrowing costs are recognized as and included in finance costs in the consolidated income statement in the period in which they are incurred.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other year and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in United States dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payables under operating leases are charged to profit or loss on a straight line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease terms on a straight line basis.

### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

### Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### *Financial assets*

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets** (continued)*

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and deposits placed in a financial institution) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Financial liabilities*

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

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derivative financial instruments and hedging***

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Derecognition***

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances, deposits placed in a financial institution, trade and other receivables, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. 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 on a timely and effective manner.

### Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (See Note 24 for details of these borrowings). Its is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In addition, the Group has concentration of credit risk by certain major customers with a balance of US$52,631,000. In order to minimise the credit risk, management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date 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.

The credit risk on liquid funds is limited because the counterparties are banks and financial institution with high credit-ratings assigned by international credit-rating agencies.

### Equity price risk

During the year, the Group was involved in trading equity securities which exposed the Group to equity price risk. The Group has delegated a team to be responsible for closely monitoring the fluctuating of the price so as to minimize the price risk exposure. The Group has disposed of the equity securities before year end.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 5. SEGMENTAL INFORMATION

### Business and geographical segments

The Group is principally engaged in the manufacturing and trading of furniture and over 90% of the Group's sales are made to customers in the United States of America (the "U.S."). Accordingly, no business and geographical segment information is presented.

The Group's operations are located in the PRC, Taiwan and the U.S..

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by geographical area in which the assets are located.

| | Carrying amount of segment assets | | Addition to property, plant and equipment | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| The PRC | **263,214** | 256,933 | **49,473** | 18,377 |
| Taiwan | **107,678** | 39,226 | **42** | – |
| The U.S. | **174,232** | 148,496 | **20,849** | 738 |
| | **545,124** | 444,655 | **70,364** | 19,115 |

## 6. FINANCE COSTS

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Interest on bank borrowings wholly repayable within five years | **1,637** | 2,133 |

## 7. TAXATION

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Tax charge represents: | | |
| PRC Foreign Enterprise Income Tax ("FEIT") | **595** | 291 |
| U.S. income tax | **4,786** | 9,561 |
| Taiwan income tax | **4** | 67 |
| Deferred tax credit *(note 26)* | **(2,231)** | (1,838) |
| | **3,154** | 8,081 |

No provision of Hong Kong Profits Tax has been made as the Group's profit neither arises in, nor is derived from, Hong Kong during both years.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 7. TAXATION (continued)

Pursuant to the relevant laws and regulations in the PRC, Lacquer Craft Mfg. Co., Ltd. (Dongguan) ("LCDG") and Lacquer Craft Mfg. Co., Ltd. (Zhejiang) ("LCZJ"), subsidiaries of the Company, are entitled to the exemptions from the FEIT for two years starting from its first profit-making year and to a 50% relief from the FEIT for the following three years. After offsetting the accumulated tax losses, LCZJ has not yet entered into its first profit-making year in 2006. Accordingly, no provision for the FEIT has been made on LCZJ. LCDG's first profit-making year was the year ended 31 December 2000. Accordingly, LCDG is subject to a 50% relief from the FEIT for each of the three years ended 31 December 2004. For the year ended 31 December 2006, LCDG still remained entitled to 50% relief from the FEIT as all of its sales were exported according to the relevant laws and regulations in the PRC. Applying this 50% relief, the income tax rate applicable to LCDG for the year ended 31 December 2006 was 12%.

U.S. income tax charge comprises federal income tax calculated at 34% and state income tax calculated at various rates on the estimated assessable profits of subsidiaries of the Company which were incorporated in the U.S..

Taiwan income tax is calculated at 25% of the deemed assessable profits of the branch of Samson International Enterprises Limited, a subsidiary of the Company, established in Taiwan.

The tax charge for the year based on the income tax rate which most of the Group's profit was assessed, can be reconciled to the profit before taxation per the consolidated income statements as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Profit before taxation | **106,206** | 97,113 |
| Taxation at the U.S. federal income tax rate of 34% | **36,110** | 33,018 |
| U.S. state income tax at various rates | **278** | 661 |
| Tax effect of income not taxable for tax purpose | **(1,699)** | (1,591) |
| Tax effect of expenses not deductible for tax purpose | **2,442** | 1,976 |
| Tax effect of utilisation of tax losses previously not recognized | **(2,781)** | (2,766) |
| Effect of tax holidays granted to PRC subsidiaries | **(552)** | – |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(30,644)** | (23,217) |
| Tax charge for the year | **3,154** | 8,081 |

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 8. PROFIT FOR THE YEAR

| | 2006 US$'000 | 2005 US$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Staff costs | **59,446** | 43,357 |
| Share-based payment expense | **430** | – |
| Retirement benefit scheme contributions | **769** | 524 |
| Total staff costs including directors' remuneration *(note 9)* | **60,645** | 43,881 |
| Allowance for inventories | **–** | 83 |
| Amortization of club debenture | **8** | 7 |
| Auditors' remuneration | **802** | 599 |
| Cost of inventories recognized as an expense | **385,193** | 339,978 |
| Depreciation of property, plant and equipment | **11,427** | 11,102 |
| Impairment loss on trade receivables | **1,752** | 604 |
| Listing expenses charged to income statement | **–** | 1,400 |
| Loss on changes in fair value of derivative financial instruments | **48** | – |
| Loss on disposal of lease premium for land | **–** | 451 |
| Loss on disposal of property, plant and equipment | **132** | – |
| Release of lease premium for land | **243** | 225 |
| and after crediting: | | |
| Bank interest income | **3,639** | 1,277 |
| Gain on disposal of investments held for trading | **2,158** | 72 |
| Gain on disposal of property, plant and equipment | **–** | 200 |
| Net exchange gain | **111** | 112 |
| Reversal of allowance for inventories* | **729** | – |

* The reversal was the results of the utilisation of slow-moving inventories during the year ended 31 December 2006.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATIONS

The emoluments paid or payable to each of the directors of the Company were as follows:

### 2006

| | Shan Huei KUO *US$'000* | Yi-Mei LIU *US$'000* | Mohamad AMINOZZAKERI *US$'000* | Sheng Hsiung PAN *US$'000* | Huei-Chu HUANG *US$'000* | Ming-Jian KUO *US$'000* | Siu Ki LAU *US$'000* | Total *US$'000* |
|---|---|---|---|---|---|---|---|---|
| Fees | **31** | **31** | **31** | **15** | **31** | **31** | **31** | **201** |
| Other emoluments | | | | | | | | |
| Salaries and other benefits | **1,150** | **806** | **397** | **-** | **-** | **-** | **-** | **2,353** |
| Share-based payments | **-** | **-** | **11** | **-** | **-** | **-** | **-** | **11** |
| Total emoluments | **1,181** | **837** | **439** | **15** | **31** | **31** | **31** | **2,565** |

### 2005

| | Shan Huei KUO *US$'000* | Yi-Mei LIU *US$'000* | Mohamad AMINOZZAKERI *US$'000* | Sheng Hsiung PAN *US$'000* | Huei-Chu HUANG *US$'000* | Ming-Jian KUO *US$'000* | Siu Ki LAU *US$'000* | Total *US$'000* |
|---|---|---|---|---|---|---|---|---|
| Fees | 6 | 6 | 6 | 3 | 6 | 6 | 6 | 39 |
| Other emoluments | | | | | | | | |
| Salaries and other benefits | 1,174 | 824 | 414 | – | – | – | – | 2,412 |
| Total emoluments | 1,180 | 830 | 420 | 3 | 6 | 6 | 6 | 2,451 |

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATIONS (continued)

Of the five individuals with the highest emoluments in the Group, three (2005: three) are the directors of the Company whose emoluments are included above. The emoluments of the remaining two (2005: two) individuals are as follows:

| | **2006** **US$'000** | 2005 US$'000 |
|---|---|---|
| Basic salaries and allowances | **845** | 763 |
| Retirement benefit scheme contributions | **11** | 11 |
| Share-based payments | **29** | – |
| | **885** | 774 |

Their emoluments were within the following bands:

| | **2006** **Number of employees** | 2005 Number of employees |
|---|---|---|
| HK$2,500,001 to HK$3,000,000 | **–** | 1 |
| HK$3,000,001 to HK$3,500,000 | **2** | 1 |
| | **2** | 2 |

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## 10. DIVIDEND

| | **2006** **US$'000** | 2005 US$'000 |
|---|---|---|
| Dividends recognized as distributions during the year: | | |
| Interim, paid – HK$0.058 per share (2005: nil) | **20,600** | – |
| Final, paid – HK$0.055 per share (2005: *Note*) | **19,550** | 18,000 |
| | **40,150** | 18,000 |

The final dividend of HK$0.058 (2005: HK$0.055) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

*Note:* During the year ended 31 December 2005, Samson Worldwide Limited, a subsidiary of the Company, paid dividends of US$18,000,000 to its then shareholders before the group reorganization.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following data:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Profit for the year and earnings for the purposes of basic earnings per share | **103,052** | 89,032 |
| Weighted average number of shares for the purposes of basic earnings per share | **2,760,000,000** | 2,356,712,329 |

No diluted earnings per share has been presented because the adjusted exercise price of the share option granted as determined in accordance with HKFRS 2 "Share-based Payment" is higher than average market price of shares for year ended 31 December 2006.

The calculation of the basic earnings per share for the year ended 31 December 2005 was based on the Company's 2,300,000,000 shares deemed to have been issued on 1 January 2005 assuming the group reorganization had been completed on that date.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land | Buildings | Plant and machinery | Leasehold improvements | Motor vehicles | Furniture, fixture and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| COST | | | | | | | | |
| At 1 January 2005 | 2,932 | 43,281 | 41,128 | 4,831 | 1,121 | 18,786 | 9,078 | 121,157 |
| Exchange adjustments | – | 750 | 1,003 | 118 | 27 | 211 | 221 | 2,330 |
| Additions | – | 1,134 | 3,729 | 773 | 26 | 2,286 | 11,167 | 19,115 |
| Transfer | – | 9,638 | 1,684 | – | – | 840 | (12,162) | – |
| Disposals | – | (3,377) | (160) | – | (45) | (1,833) | – | (5,415) |
| At 31 December 2005 and 1 January 2006 | 2,932 | 51,426 | 47,384 | 5,722 | 1,129 | 20,290 | 8,304 | 137,187 |
| Exchange adjustments | – | 1,437 | 1,644 | 198 | 39 | 388 | 288 | 3,994 |
| Additions | 3,976 | 1,541 | 12,560 | 222 | 229 | 1,154 | 45,486 | 65,168 |
| Acquisition of business | 650 | 3,332 | 825 | – | 294 | 95 | – | 5,196 |
| Transfer | – | 2,725 | 3,962 | 287 | – | 1,067 | (8,041) | – |
| Disposals | – | – | (88) | – | – | (13) | (135) | (236) |
| At 31 December 2006 | **7,558** | **60,461** | **66,287** | **6,429** | **1,691** | **22,981** | **45,902** | **211,309** |
| DEPRECIATION | | | | | | | | |
| At 1 January 2005 | – | 2,812 | 7,195 | 320 | 536 | 6,643 | – | 17,506 |
| Exchange adjustments | – | 44 | 230 | 14 | 15 | 74 | – | 377 |
| Provided for the year | – | 3,645 | 3,996 | 405 | 184 | 2,872 | – | 11,102 |
| Eliminated on disposals | – | (2,792) | (44) | – | (28) | (1,719) | – | (4,583) |
| At 31 December 2005 and 1 January 2006 | – | 3,709 | 11,377 | 739 | 707 | 7,870 | – | 24,402 |
| Exchange adjustments | – | 122 | 492 | 36 | 28 | 170 | – | 848 |
| Provided for the year | – | 2,793 | 4,717 | 483 | 201 | 3,233 | – | 11,427 |
| Eliminated on disposals | – | – | (21) | – | – | (8) | – | (29) |
| At 31 December 2006 | **-** | **6,624** | **16,565** | **1,258** | **936** | **11,265** | **-** | **36,648** |
| CARRYING AMOUNTS | | | | | | | | |
| At 31 December 2006 | **7,558** | **53,837** | **49,722** | **5,171** | **755** | **11,716** | **45,902** | **174,661** |
| At 31 December 2005 | 2,932 | 47,717 | 36,007 | 4,983 | 422 | 12,420 | 8,304 | 112,785 |

The freehold land is situated in the U.S.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

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

The following rates per annum are used for the depreciation of property, plant and equipment:

| | |
|---|---|
| Buildings | 5% |
| Plant and machinery | 10% |
| Leasehold improvements | 10% |
| Motor vehicles | 20% |
| Furniture, fixture and equipment | 20% |

## 13. LEASE PREMIUM FOR LAND

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| The Group's lease premium for land under operating lease is analysed as follows: | | |
| Medium-term land use rights situated in the PRC | **11,645** | 11,399 |
| Analysed for reporting purposes as: | | |
| Current asset | **266** | 255 |
| Non-current asset | **11,379** | 11,144 |
| | **11,645** | 11,399 |

## 14. GOODWILL

| | *US$'000* |
|---|---|
| COST | |
| At 1 January 2005 and 31 December 2005 | – |
| Arising on acquisition of business | 11,475 |
| At 31 December 2006 | **11,475** |

Particulars regarding impairment testing on goodwill are disclosed in note 15.

## 15. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in note 14 has been allocated to individual cash generating units (CGUs). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2006 allocated to the unit is as follows:

| | *US$'000* |
|---|---|
| Upholstery business | 11,475 |

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 15. IMPAIRMENT TESTING ON GOODWILL (continued)

During the year ended 31 December 2006, management of the Group determined that there was no impairment of its CGU containing goodwill. The basis of the recoverable amount of the above CGU and their major underlying assumption is summarised below:

### Upholstery business

The recoverable amount of this unit has been determined based on a value in use calculation. The Group expects the upholstery business would 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 ten-year period, and a discount rate of 7.68%. The upholstery business's cash flows beyond the one-year period are extrapolated using a steady 5% growth rate for the first five years and no growth starting from the sixth year. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit'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 aggregate carrying amount of the upholstery business to exceed the aggregate recoverable amount of the upholstery business.

## 16. CASH SURRENDER VALUE OF LIFE INSURANCE

Amount under deferred compensation plan (note 25) has been invested in an insurance policy in accordance with the terms of the deferred compensation plan. The Group is the beneficiary of such investments. As at 31 December 2006, the carrying amount represents the cash surrender value of the policy and approximates its fair value.

## 17. CLUB DEBENTURE

| | **2006**<br>***US$'000*** | 2005<br>*US$'000* |
|---|---|---|
| COST | | |
| At beginning and end of the year | **40** | 40 |
| AMORTIZATION | | |
| At beginning of the year | **7** | – |
| Provided for the year | **8** | 7 |
| At end of the year | **15** | 7 |
| CARRYING AMOUNT | **25** | 33 |

The club debenture is amortized over its estimated useful life of 5 years.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 18. INVENTORIES

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Raw materials | **38,172** | 26,794 |
| Work in progress | **11,695** | 11,720 |
| Finished goods | **48,574** | 44,294 |
| | **98,441** | 82,808 |

## 19. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of 60 days to its trade customers.

The aged analysis of the Group's trade receivables net of allowance as at the balance sheet date are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Trade receivables: | | |
| 0 – 30 days | **88,184** | 95,351 |
| 31 – 60 days | **4,020** | 7,303 |
| Over 60 days | **1,716** | 1,998 |
| | **93,920** | 104,652 |
| Other receivables | **18,807** | 21,958 |
| | **112,727** | 126,610 |

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

## 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held by the Group, short-term bank deposits and deposits placed in a financial institution with an original maturity of three months or less. The directors consider that the carrying amounts of these assets approximate their fair values.

The balances of cash and cash equivalents held in the PRC of US$19,989,000 (2005: US$21,491,000) are subject to foreign exchange control.

The balances of cash and cash equivalents includes deposits placed in a financial institution amounting to US$15,191,000 (2005: US$61,894,000). The effective interest rate for the cash and cash equivalents is 3.7% (2005: 3.2%) per annum.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 21. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables as at the balance sheet date are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Trade payables: | | |
| 0 – 30 days | **19,649** | 25,111 |
| 31 – 60 days | **5,536** | 10,375 |
| Over 60 days | **6,479** | 2,067 |
| | **31,664** | 37,553 |
| Other payables | **31,204** | 35,846 |
| | **62,868** | 73,399 |

The directors consider that the carrying amounts of trade and other payables approximate their fair values.

## 22. AMOUNT DUE TO A RELATED COMPANY

| **Name of related company** | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Samson Global Co., Ltd. | **–** | 8 |
| | **–** | 8 |

The related company is beneficially owned by Mr. Shan Huei KUO and Ms. Yi-Mei LIU, both are directors of the Company.

The amount was unsecured, non-interest bearing and was fully repaid during the year.

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Foreign currency forward contract | **48** | – |

The Group entered into a variety of foreign currency forward contracts to manage of its exchange rate exposures.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2006, details of the outstanding foreign currency forward contracts to which the Group is committed is as follows:

| Notional amount | Maturity | Exchange rates |
|---|---|---|
| Sell USD5,000,000 | 22 January 2007 | RMB/USD7.8342 |
| Buy USD5,000,000 | 22 January 2007 | RMB/USD7.8420 |
| Sell USD4,000,000 | 16 February 2007 | RMB/USD7.8726 |
| Buy USD4,000,000 | 16 February 2007 | RMB/USD7.8550 |
| Sell USD3,000,000 | 16 March 2007 | RMB/USD7.8552 |
| Buy USD3,000,000 | 16 March 2007 | RMB/USD7.8353 |

There were no outstanding forward foreign exchange contracts as at 31 December 2005.

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on indicative rate provided by banks for equivalent instruments at the balance sheet date.

## 24. BANK BORROWINGS

All of the Group's borrowings were secured and denominated in the United Sates dollars.

The average effective interest rate on bank borrowings approximated 5.59% (2005: 4.44%).

The directors estimated the fair values of the Group's borrowings, by discounting their cash flows at the market rate, approximate the carrying amounts.

The Group has the following bank loans:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Revolving line of credit from Wachovia Bank, N.A. in which borrowings of up to US$25,000,000 were permitted. The loan was secured by substantially all of the assets of four subsidiaries of the Company and interest bearing at the 30 days London Interbank Offered Rate ("LIBOR") plus 0.35% | **21,873** | – |
| Term note, secured by substantially all of the assets of four subsidiaries of the Company and interest bearing at the 30 days LIBOR plus 0.25% | **25,000** | – |
| Total | **46,873** | – |

## 25. DEFERRED COMPENSATION

The Group has adopted deferred compensation plan for a key executive. Under the terms of this plan, the executive may defer a discretionary annual amount up to US$100,000 of compensation which is payable to the executive upon his retirement, death or termination of service. This amount is invested by the Group in managed investment funds (note 16). The balance is stated at fair value at the balance sheet date.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 26. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognized by the Group and movements thereon during the year:

| | Accelerated tax depreciation US$'000 | Others *(Note)* US$'000 | Total US$'000 |
|---|---|---|---|
| At 1 January 2005 | 1,044 | (1,613) | (569) |
| Charge (credit) to consolidated income statement for the year | (111) | (1,727) | (1,838) |
| At 31 December 2005 and 1 January 2006 | 933 | (3,340) | (2,407) |
| Credit to consolidated income statement for the year *(note 7)* | (168) | (2,063) | (2,231) |
| At 31 December 2006 | **765** | **(5,403)** | **(4,638)** |

*Note:* The amounts represent deferred tax on temporary differences on trade receivables, goodwill, inventories and accrued expenses.

At 31 December 2006, the Group had unused tax losses of US$2,835,000 (2005: US$11,014,000) available to offset against future profits in Lacquer Craft Mfg. Co., Ltd. ("LCZJ"). No deferred tax asset has been recognized in respect of such tax losses due to the unpredictability of future profit streams of LCZJ. Tax losses will be expired within five years from the respective balance sheet date.

Deferred tax assets and liabilities have not offset for the purpose of balance sheet presentation as they relate to different tax authorities. The following is the analysis of the deferred taxation balance for financial reporting purposes:

| | **2006** ***US$'000*** | 2005 *US$'000* |
|---|---|---|
| Deferred tax liabilities | **516** | 668 |
| Deferred tax assets | **(5,154)** | (3,075) |
| | **(4,638)** | (2,407) |

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized was US$52,975,000 (2005: US$48,875,000). No liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 27. SHARE CAPITAL

| | Notes | Number of shares | Nominal value US$'000 |
|---|---|---|---|
| Ordinary shares of US$0.05 each | | | |
| Authorized: | | | |
| On incorporation, at 31 December 2005 and 2006 | *(i)* | 6,000,000,000 | 300,000 |
| Issued and fully paid: | | | |
| At 1 January 2005 | | – | – |
| Allotted and issued on incorporation | *(ii)* | 1 | – |
| Issue of shares on group reorganization | *(iii)* | 2,299,999,999 | 115,000 |
| Issue of shares through initial public offer | *(iv)* | 460,000,000 | 23,000 |
| At 31 December 2005 and 2006 | | **2,760,000,000** | **138,000** |

The following changes in the share capital of the Company took place during the period from 11 July 2005 (date of incorporation) to 31 December 2006:

(i) The Company was incorporated with an authorized share capital of US$300,000,000 divided into 6,000,000,000 shares of US$0.05 each.

(ii) On 11 July 2005, 1 share of US$0.05 was allotted and issued.

(iii) On 24 October 2005, the Company issued 2,299,999,999 shares of US$0.05 each for a group reorganization. These new shares ranked pari passu in all respects with the then existing shares.

(iv) On 17 November 2005, the Company issued 460,000,000 shares of US$0.05 each at a price of HK$2.75 per share to the public. These new shares ranked pari passu in all respects with the then existing shares.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 28. SHARE OPTION SCHEME

On 24 October 2005, a share option scheme (the "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 "Board"). The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentives them to remain with the Group and 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 Group. The Board may, at its absolute discretion, offer any employee, management member or director of the Group and third party service providers options to subscribe for shares on the terms set out in the Share Option Scheme.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme when aggregated with the maximum number of shares in respect of which options may be granted under any other scheme involving the issue or grant of options over shares or other securities by the Group shall not exceed 10% of the issued share capital on 17 November 2005, (such 10% limit representing 276,000,000 shares).

The Share Option Scheme does not contain any minimum period(s) for which an option must be held before it can be exercised. However, at the time of grant of the options, the Board may specify any such minimum period(s) up to five years.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our shareholders is obtained. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

During the year, an aggregate of 10 million share options were granted, representing approximately 0.36% of the issued share capital of the Company.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 28. SHARE OPTION SCHEME (continued)

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

| | Date of Grant (dd.mm.yy) | Exercise Price (HK$) | Vesting Date (dd.mm.yy) | Exercise Period (dd.mm.yy) | Number of Share Options As at 1.1.2006 | Granted during the year | Lapsed during the year | As at 31.12.2006 |
|---|---|---|---|---|---|---|---|---|
| *Director:* | | | | | | | | |
| Mr. Mohamad AMINOZZAKERI | 6.2.2006 | 4.2 | 6.2.2007 | 6.2.2007–16.11.2015 | – | 83,333 | – | 83,333 |
| | | | 6.2.2008 | 6.2.2008–16.11.2015 | – | 83,333 | – | 83,333 |
| | | | 6.2.2009 | 6.2.2009–16.11.2015 | – | 83,334 | – | 83,334 |
| | | | | | – | 250,000 | – | 250,000 |
| *Other employees:* | | | | | | | | |
| In aggregate | 6.2.2006 | 4.2 | 6.2.2007 | 6.2.2007–16.11.2015 | – | 3,250,000 | (95,000) | 3,155,000 |
| | | | 6.2.2008 | 6.2.2008–16.11.2015 | – | 3,250,000 | (95,000) | 3,155,000 |
| | | | 6.2.2009 | 6.2.2009–16.11.2015 | – | 3,250,000 | (95,000) | 3,155,000 |
| | | | | | – | 9,750,000 | (285,000) | 9,465,000 |
| Total | | | | | – | 10,000,000 | (285,000) | 9,715,000 |

The exercise price of share options granted was fixed at the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant. The closing price of the shares of the Company immediately before the date of options granted on 6 February 2006 was HK$4.225.

The Company has used the Black-Scholes pricing model (the "Model") to value the share options granted during the period under review. The fair value of the share options granted on 6 February 2006 was approximately US$839,000. In current year, an amount of share option expense of US$430,000 has been recognized.

The Model is one of the commonly used models to estimate the fair value of the option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 28. SHARE OPTION SCHEME (continued)

Details of the fair values of share options determined at the date of grant using the Model with the inputs are as follows:

| Date of grant | 6 February 2006 |
|---|---|
| Closing share price as at the date of grant | HK$4.2 |
| Exercise price | HK$4.2 |
| Risk-free interest rate | 3.67% – 3.82% |
| Expected volatility *(Note)* | 31% |
| Expected life of options | 1 – 3 years |
| Expected dividend yield | 3.8% |

*Note:* Expected volatility was estimated by the annualised standard deviations of the continuously compounded rates of return on the comparable furniture companies in Hong Kong and the U.S.

## 29. MERGER RESERVE

The merger reserve represents the differences between the nominal value of the share of Samson Pacific Company Limited, the intermediate holding company of certain members of the Group, and the nominal value of its holding company, Samson Worldwide Limited's shares issued for a share swap on 31 December 2004.

## 30. STATUTORY RESERVE

Pursuant to the relevant regulations applicable to foreign investment enterprises established in the PRC, Lacquer Craft Mfg. Co., Ltd. (Dongguan) and Lacquer Craft Mfg. Co., Ltd. (Zhejiang) are required to transfer a certain percentage of their profit after taxation to the statutory reserve. The balances of the statutory reserve cannot be reduced except where approval is obtained from the relevant PRC authority to setoff accumulated losses or increase capital.

## 31. ACQUISITION OF BUSINESS

On 1 May 2006, the Group completed its acquisition of the business of upholstered residential furniture from an independent third party for a consideration of approximately US$19,154,000, which was satisfied by cash. The Company also incurred approximately US$221,000 of direct acquisition costs, which were accounted for as a part of the Company's purchase price allocation. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately US$11,475,000.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 31. ACQUISITION OF BUSINESS (continued)

The amounts of net assets acquired by the Group and the goodwill arising during the year are as follows:

| | Acquiees' carrying amount before combination | Fair value adjustments | Fair value |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| Net assets acquired: | | | |
| Property, plant and equipment | 4,345 | 851 | 5,196 |
| Inventories | 3,963 | 110 | 4,073 |
| Trade and other receivables | 649 | – | 649 |
| Trade and other payables | (2,018) | – | (2,018) |
| | 6,939 | 961 | 7,900 |
| Goodwill | | | 11,475 |
| Total consideration satisfied by: | | | |
| Cash | | | 19,375 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | | | (19,375) |

The goodwill arising on the acquisition of the business is attributable to the anticipated profitability of the Group's products in the new markets as well as and the anticipated future operating synergies from the combination with existing products. Intangible assets, including a trademark and customer list, which could not be reliably measured.

The newly acquired business during the year contributed US$314,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

## 32. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

Minimum lease payments paid under operating leases during the year:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Premises and equipment | **3,764** | 3,251 |

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 32. OPERATING LEASE ARRANGEMENTS (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Within one year | **4,176** | 2,879 |
| In the second to fifth year inclusive | **11,444** | 9,154 |
| Over five years | **–** | 436 |
| | **15,620** | 12,469 |

Operating lease payment represent rentals payable by the Group for its factories and staff quarters and equipment. Lease terms are range from one to seven years.

## 33. CAPITAL COMMITMENTS

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Capital expenditure in respect of acquisition of property, plant and equipment: | | |
| – contracted for but not provided in the financial statements | **10,163** | 9,185 |
| – authorized but not contracted for | **248** | – |

## 34. PLEDGE OF ASSETS

At the balance sheet date, the Group had the following assets pledged to banks to secure the general banking facilities granted to the Group:

| | **2006** | 2005 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Inventories | **10,784** | 10,771 |
| Trade and other receivables | **52,752** | 56,969 |
| | **63,536** | 67,740 |

## 35. RETIREMENT BENEFIT SCHEMES

In accordance with the relevant PRC rules and regulations, Lacquer Craft Mfg. Co., Ltd. (Dongguan) ("LCDG") and Lacquer Craft Mfg. Co., Ltd. (Zhejiang) ("LCZJ") are required to establish a defined contribution plan managed by the relevant local government bureau in the PRC and to make contributions for their eligible employees. The contribution borne by LCDG and LCZJ are calculated according to the rate set by the municipal government.

The Company's U.S. subsidiaries 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.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

| Name of related company | Nature of transactions | 2006 US$'000 | 2005 US$'000 |
|---|---|---|---|
| Uson Enterprises Limited | Transportation logistics service fee paid | **1,490** | 1,794 |
| Samson Global Co., Ltd. | Purchase of hardware components | **24** | 59 |
| | Rental paid | **18** | 9 |

Both companies are beneficially owned by Mr. Shan Huei KUO and Ms. Yi-Mei LIU, both are directors of the Company.

Balances with related parties are set out in note 22.

### Compensation of key management personnel

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

| | 2006 US$'000 | 2005 US$'000 |
|---|---|---|
| Short-term benefits | **3,410** | 3,225 |
| Share-based payments | **40** | – |
| | **3,450** | 3,225 |

The remuneration of directors and key executives is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 37. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2006 is as follows:

| | Note | 2006<br>US$'000 | 2005<br>US$'000 |
|---|---|---|---|
| NON-CURRENT ASSET | | | |
| Investment in a subsidiary | | **209,886** | 195,186 |
| CURRENT ASSETS | | | |
| Other receivables | | **–** | 745 |
| Amounts due from subsidiaries | | **165,315** | 181,357 |
| Cash and cash equivalents | | **59** | 48 |
| | | **165,374** | 182,150 |
| CURRENT LIABILITIES | | | |
| Other payables | | **474** | 3,721 |
| NET CURRENT ASSETS | | **164,900** | 178,429 |
| | | **374,786** | 373,615 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **138,000** | 138,000 |
| Reserves | (a) | **236,786** | 235,615 |
| | | **374,786** | 373,615 |

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 37. BALANCE SHEET OF THE COMPANY (continued)

*Note:*

**(a) Reserves of the Company**

| | Share premium US$'000 | Contributed surplus US$'000 | Share option reserve US$'000 | Accumulated profit US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Issue of shares at premium through initial public offer | 140,079 | – | – | – | 140,079 |
| Transaction costs attributable to issue of new shares | (4,509) | – | – | – | (4,509) |
| Contributed surplus arising on the group reorganization | – | 80,186 | – | – | 80,186 |
| Profit for the year | – | – | – | 19,859 | 19,859 |
| At 31 December 2005 and 1 January 2006 | 135,570 | 80,186 | – | 19,859 | 235,615 |
| Profit for the year | – | – | – | 40,891 | 40,891 |
| Recognition of equity-settled share based payments | – | – | 430 | – | 430 |
| Dividend paid | – | – | – | (40,150) | (40,150) |
| At 31 December 2006 | **135,570** | **80,186** | **430** | **20,600** | **236,786** |

Contributed surplus represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's share issued in exchange thereof pursuant to a group reorganization.

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

| Name of company | Place of incorporation/ establishment/ operation | Class of share held | Issued and fully paid share/ registered capital | Proportion of nominal value of share/ registered capital held by the Company: Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| Craftmaster Furniture Inc. | The U.S. | Ordinary | US$0.01 | – | 100% | Manufacturing and sales of furniture |
| #Lacquer Craft Mfg. Co., Ltd. (Dongguan) ("LCDG") | The PRC | Capital contribution | HK$310,913,340 | – | 100% | Manufacturing of furniture |
| #Lacquer Craft Mfg. Co., Ltd. (Zhejiang) ("LCZJ") | The PRC | Capital contribution | US$49,112,690 | – | 100% | Manufacturing of furniture |

# Notes to the Consolidated Financial Statements (Cont'd)

*For the year ended 31 December 2006*

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of company | Place of incorporation/ establishment/ operation | Class of share held | Issued and fully paid share/ registered capital | Proportion of nominal value of share/ registered capital held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| Legacy Classic Furniture Inc. | The U.S. | Ordinary | US$4,450,000 | – | 100% | Marketing and sales of furniture |
| Samson International Enterprises Limited | BVI/Taiwan | Ordinary | US$50,000 | – | 100% | Trading of furniture and procurement services |
| Samson Investment Holding Co. | The U.S. | Ordinary | US$0.10 | – | 100% | Investment holding |
| Universal Furniture International Inc. | The U.S. | Ordinary | US$0.35 | – | 100% | Marketing and sales of residential furniture |

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# LCDG and LCZJ are wholly foreign owned enterprises.

# Financial Summary

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2002 US$'000 | 2003 US$'000 | 2004 US$'000 | 2005 US$'000 | **2006 US$'000** |
| Turnover | 361,407 | 371,753 | 457,542 | 517,039 | **568,415** |
| Profit for the year | 62,759 | 67,605 | 70,070 | 89,032 | **103,052** |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2002 US$'000 | 2003 US$'000 | 2004 US$'000 | 2005 US$'000 | **2006 US$'000** |
| Total assets | 209,573 | 272,219 | 329,207 | 447,730 | **552,095** |
| Total liabilities | (103,136) | (151,271) | (192,542) | (79,084) | **(112,784)** |
| Shareholders' funds | 106,437 | 120,948 | 136,665 | 368,646 | **439,311** |

*Notes:*

1. The financial information for each of the three years ended 31 December 2004 has been prepared using the principles of merger accounting to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for the three years ended 31 December 2004, and the assets and liabilities as at 31 December 2002, 2003 and 2004 have been extracted from the Company's prospectus dated 7 November 2005.

2. The results for two years ended 31 December 2006, and the assets and liabilities as at 31 December 2005 and 2006 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 26 and 27 to 28, respectively, of the consolidated financial statements.