samson Holding

Samson Holding Ltd.

順誠控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 531.hk)

2018 ANNUAL REPORT

* for identification purpose only

Lacquer Craft | UNIVERSAL Good. Affordable. Smart Design. | Legacy Classic Furniture | CRAFTMASTER FURNITURE Life·Home·Comfort | WILLIS & GAMBIER Furniture designed for life

smartstuff furniture for kids. | PAULA DEEN Home | kids legacy classic | Inspirations by wendy bellissimo | LACQUERCRAFT HOSPITALITY

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CORPORATE PROFILE

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

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

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

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Sheng Hsiung PAN

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Pik Yuk CHENG

AUTHORIZED REPRESENTATIVES

Ms. Yi-Mei LIU
Ms. Pik Yuk CHENG

REGISTERED OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 531

WEBSITES

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

PRINCIPAL PLACES OF BUSINESS

China:

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

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

United States of America:

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

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

1105 22nd Street SE
Hickory, NC 28602
U.S.A.

United Kingdom:

Morley Way, Peterborough
Cambridgeshire, PE2 7BW
England, U.K.

AUDITOR

Ernst & Young

PRINCIPAL BANKERS

BNP Paribas
UBP Bank
Citibank Taiwan Limited
Wells Fargo Bank
BB&T Bank

SHARE REGISTRARS AND TRANSFER OFFICES

Principal:

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

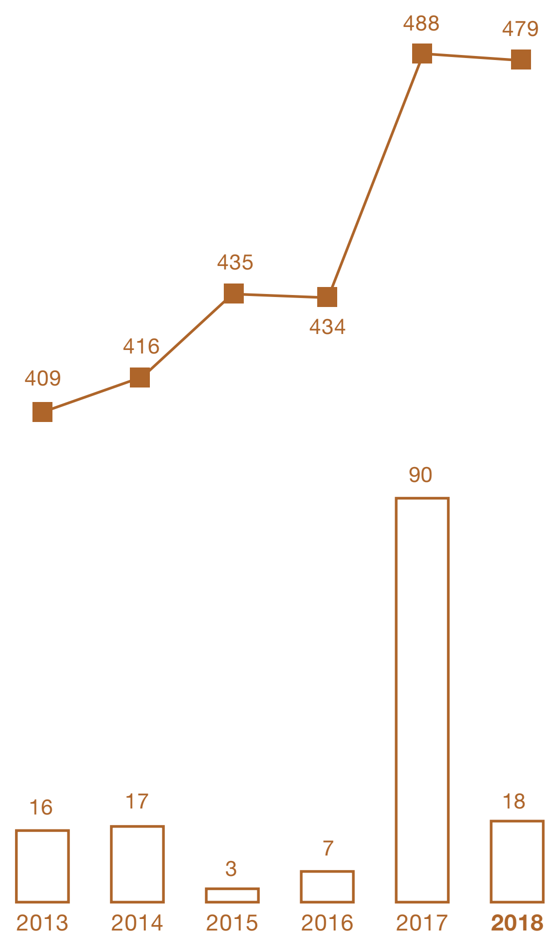
Hong Kong Branch:

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

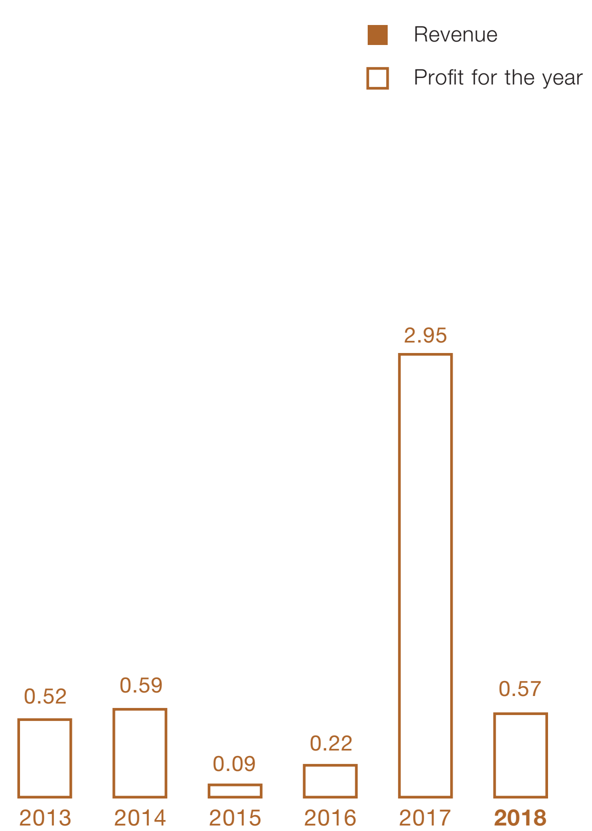
	2018 **US$'000**	2017 *US$'000*	**2018** **HK$'000***	2017 *HK$'000**
Operating results				
Revenue	**478,800**	487,541	**3,734,640**	3,802,820
Earnings before interest and tax	**24,067**	107,243	**187,723**	836,495
Profit for the year	**17,915**	90,062	**139,737**	702,484
Earnings per share *(US/HK cents)*	**0.57**	2.95	**4.45**	23.01
Financial position				
Total assets	**665,870**	520,002	**5,193,786**	4,056,016
Net current assets	**193,918**	213,088	**1,512,560**	1,662,086
Shareholders' equity	**370,163**	375,693	**2,887,271**	2,930,405

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

Revenue & Profit for the year
(US$ MN)



Earnings per share
(US cents)



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

On behalf of the board of directors (the "Board") of Samson Holding Ltd., I am pleased to present to the shareholders the annual results of the Company and its subsidiaries for the year ended 31 December 2018.

RESULTS

Our turnover was US$478.8 million in 2018, a 1.8% decrease over the year of 2017. Gross profit margin was recorded at 31.1% in 2018, with a gross profit of US$148.9 million as compared to US$163.6 million in 2017; and profit for the year of the Group was US$17.9 million, compared to a profit of US$90.1 million, which included a one-time gain on disposal of subsidiary of US$75.3 millions in 2017.

BUSINESS DEVELOPMENT AND OUTLOOK

In 2018, the U.S. economy remains solid and strong with GDP growth slightly less than 3%, which was well ahead of the 1.5% growth in 2016 and 2.3% in 2017. Overall, the U.S. economy is healthy and sound. However, 2018 was an uneasy and challenging year for the Group's business, mainly due to the continuing trade tension and tariffs war between China and the United States. In September 2018, the US Customs imposes 10% for all imported furniture made in China, while China's Tariff Commission reacted with new customs tariffs imposed on US$60 billion worth of imports from the United States. The tariffs and trade tension caused disruptions and created uncertainty to the Group's business. The management has swiftly taken immediate and aggressive actions to reduce impacts by reducing the manufacturing exposures in China. In a short span of 6 months, the Group has migrated majority of the furniture, which used to be manufactured in China, to be sourced by our manufacturing partners in Vietnam or manufactured by our own plants in Bangladesh.

The results of the newly acquired luxury furniture brands, BIG, did not meet up expectations in 2018. Delayed implementation of the upgrades in Enterprise Resource Planning ("ERP") system caused confusion in operations and inefficiency, and resulted in postponement and cancellation of lots of confirmed orders and shipments. New management has been brought in for BIG, and we expect BIG will turn on a new page to continue its legend by leading the luxury furniture brands.

Here are the progresses made on our principal strategies:

1. Focus on strengthening our market presence and brand awareness

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

2. **Focus on building Upholstery and Hospitality businesses**

   In addition to our casegoods business, upholstery and hospitality have become major growth drivers and revenue contributors over the past five years. These two businesses are complementary to our casegoods business and have provided additional synergy to our marketing channels and better clients' attractions. We currently have established strong upholstery manufacturing capacity in both U.S. and China, and our hospitality has gained sizable market shares and great reputation in the market.

3. **Focus on improving efficiencies and core competitiveness**

   As a vertically integrated company, the Group will now migrate from China-base manufacturing into standing upon solid and diverse manufacturing bases, including China, Vietnam, Indonesia, Bangladesh and United States to continue to support and expand its furniture brands in the States. Moreover, we will continue to invest significant amount of time and capital in the standardisation and automation of our manufacturing process.

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

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

APPRECIATION

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

Shan Huei KUO
Chairman
20 March 2019

BUSINESS REVIEW

Samson is now proud to be the holding company that possesses perhaps the best wholesale furniture branding portfolio in the U.S. after the successful acquisition of Baker Interiors Group, LTD. (formerly known as Kohler Interiors Group, LTD.) and its subsidiaries (collectively referred to as "BIG").

We are proud to build a fully integrated U.S. wholesale furniture branding, including Universal Furniture, Smartstuff by Universal Furniture, Paula Deen Home, Legacy Classic Furniture, Legacy Classic Kids, Wendy Bellissimo, Craftmaster Furniture, Lacquer Craft Hospitality, Willis & Gambier (United Kingdom), Universal Furniture China and Athome, backed up by Lacquer Craft Furniture with its unparalleled China manufacturing operations in Jia Shan. BIG brings in three global luxury furniture brands, namely, "Baker", "Milling Road" and "McGuire", and each with a long history of leading design, quality and craftsmanship, backed up by its advanced manufacturing plants in Hickory, North Carolina, United States.

2018 was an uneasy and challenging year for the Group's business, mainly due to the continuing trade tension and tariffs war between China and the United States. In September 2018, the US Customs imposed 10% for all imported furniture made in China, while China's Tariff Commission reacted with new customs tariffs imposed on US$60 billion worth of imports from the United States. The tariffs and trade tension caused disruptions and created uncertainty to the Group's business. The management has swiftly taken immediate and aggressive actions to reduce impacts by reducing the manufacturing exposures in China. In a short span of 6 months, the Group has migrated majority of the furniture, which used to be manufactured in China, to be sourced by our manufacturing partners in Vietnam or manufactured by our own plants in Bangladesh. Our investment in Bangladesh has started to blossom and we are planning to expand the capacity in Bangladesh for dining tables and chairs. Our upholstery manufactured in the United States continued to perform well. In essence, the Group will now be standing upon solid and diverse manufacturing bases, including China, Vietnam, Indonesia, Bangladesh and the United States to continue to support and expand its furniture brands in the States. Regardless there will be a trade deal to be signed by the China and U.S. governments in 2019, the Group will be largely immune from the outcomes.

The results of the newly acquired luxury furniture brands, BIG, did not meet up expectations in 2018. Delayed implementation of the upgrades in Enterprise Resource Planning ("ERP") system caused confusion in operations and inefficiency, and resulted in postponement and cancellation of lots of confirmed orders and shipments. New management has been brought in for BIG, and we expect BIG will turn on a new page to continue its legend by leading the luxury furniture brands.

While on the cost side and gross margins, with higher labour rates, rising raw materials cost and rigid environmental requirements in China and additional imported tariffs in the United States, the Group have achieved gross margins of 31.1% in 2018, compared with that of 33.6% in 2017.

The benefit from disposal of manufacturing plant in Dongguan China in 2017 were reflected in the Group's lower administrative expenses in 2018. The Group also did a large scale of downsizing for its manufacturing operations in Jia Shan China in late 2018 to migrate furniture manufacturing to Vietnam and Bangladesh.

The furniture and home furnishings (F&HF) industry in the U.S. is experiencing new dynamics as the non-traditional channels, especially e-commerce, will continue to reshape the industry. With clear strategy to invest in Enterprise Resource Planning ("ERP") system and product design, the Group will continue to focus on expanding its business and profit margins by benefiting from the growth of non-traditional channels including e-commerce, designer channels, model home and hospitality, while reducing its reliance on lower-margins business.

FINANCIAL REVIEW

Net sales for the year was US$478.8 million compared to US$487.5 million in 2017, a decrease of US$8.7 million or 1.8%. The decrease in net sales was attributable to the uncertainty and trend of Sino-US trade war, which has brought uncertainties to the sales, and less contribution from newly acquired luxury brands in 2018.

Gross profit for the year was US$148.9 million, a decrease of US$14.7 million from US$163.6 million in 2017. Gross profit margin decreased to 31.1% from 33.6% in 2017. The decrease in margin was mainly due to the impact of the higher labour rate, raising raw materials cost and rigid environmental requirements in China.

Compared with US$143.7 million in 2017, total operating expenses were recorded at US$140.7 million in 2018. The decreased in operating expenses was mainly attributable to our effective cost control measures and reduced operating expenses from the disposal of subsidiary in 2017.

The profit for this year decreased to US$17.9 million from US$90.1 million in 2017. Net profit margin decreased to 3.7% from 18.5% in 2017. In 2018, there was a one-time gain on disposal of a prepaid land lease of US$11.5 million, while there was a one-time gain on disposal of a subsidiary of US$75.3 million in 2017. The decrease in profit was mainly in line with the decrease of sales.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the Group's cash and cash equivalents decreased by US$22.2 million to US$46.2 million from US$68.4 million as at 31 December 2017, and short term bank deposits increased by US$4.2 million compared with no short term bank deposit as at 31 December 2017. Interest-bearing bank borrowings increased from US$43.6 million as at 31 December 2017 to US$203.0 million as at 31 December 2018. The gearing ratio (total bank borrowings/shareholders' equity) increased to 54.8% as at 31 December 2018 from 11.6% as at 31 December 2017. The Group's cash position remains healthy and the Group possesses sufficient cash and available banking facilities to meet working capital requirements and further enable us to expand through acquisitions with confidence.

Cash and cash equivalents held by the Group are mainly denominated in U.S. dollars, Renminbi, U.K. Pound Sterling and Hong Kong dollars. As at 31 December 2018, interest-bearing bank borrowings of US$203.0 million (31 December 2017: US$39.0 million) bore interest at floating rates and fixed rate ranging from 2.9% to 3.6% respectively and no long term bank borrowing (31 December 2017: US$4.6 million).

Our sources of liquidity include cash and cash equivalents, short term bank deposits, cash from operations and general banking facilities granted to the Group. The Group maintains strong and prudent liquidity for day-to-day operations and business development.

As a result of our international operations, we are exposed to foreign exchange risk arising from various currency exposures primarily with respect to Renminbi and U.K. Pound Sterling. Although the majority of our total revenues is denominated in U.S. dollars, a substantial portion of our cost of sales is paid in Renminbi and part of the sales are denominated in U.K. Pound Sterling. The exchange rates of U.K. Pound Sterling and Renminbi to U.S. dollars have fluctuated substantially in recent years and may continue to fluctuate in the future. In order to manage the risks arising from fluctuations in foreign currency exchange rates, we entered into forward foreign currency contracts to help manage currency exposures associated with certain sales and cost of sales. Most of the forward exchange contracts have generally ranged from one to twelve months in maturity whereas all foreign currency exchange contracts are recognised in the balance sheet at fair values. As at 31 December 2018, no outstanding forward exchange contracts (31 December 2017: US$242.6 million).

The Group's current assets increased by 39.5% to US$488.4 million compared to US$350.1 million as at 31 December 2017 and the Group's current liabilities increased to US$294.5 million from US$137.0 million as at 31 December 2017. The current ratio (current assets/current liabilities) is 1.7 times (31 December 2017: 2.6 times).

PLEDGE OF ASSETS

As at 31 December 2018, certain of the Group's property, plant and equipments, investment properties, other intangibles, inventories, trade and other receivables and bank deposits with carrying value of US$175.4 million (31 December 2017: US$167.3 million) have been pledged to banks to secure the general banking facilities granted to the Group.

CAPITAL EXPENDITURE

Capital expenditures for the year ended 31 December 2018 amounted to US$24.6 million compared to US$50.5 million in 2017. Capital expenditure was mainly incurred for the purpose of upgrading and renovation of plant and machinery in the U.S. and expansion in Vietnam.

OUTLOOK

The U.S. economy remains solid and strong with GDP growth slightly less than 3%, which was well ahead of the 1.5% growth in 2016 and 2.3% in 2017. Overall, the U.S. economy is healthy. Consumer confidence is the highest since 2000, unemployment is the lowest in 17 years, and the U.S. has added jobs every month for more than 7 years. With most of its business concentrated in the United States, the Group is expecting to benefit from the strong economy.

2019 will be a new page for the group, as the group has diversified its manufacturing bases from China to mainly Vietnam and Bangladesh. We expect high margins will be achieved once the migration completed. The strong foundation we have built across our business models over the years has positioned us well to capitalise on continuing improvements in the economy. We believe our strong capital, our management, category expansion, diversified customer base, growing distribution channels and continuing operational efficiency will be winning factors for the recovery cycle.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2018, the Group employed approximately 6,400 (31 December 2017: 7,700) full-time employees in the PRC, the U.S., the U.K., Taiwan, Bangladesh and Indonesia. For the year ended 31 December 2018, the total remuneration of employees (including the remuneration of the Company's directors) was approximately US$129.4 million (31 December 2017: US$131.6 million).

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

EXECUTIVE DIRECTORS

Shan Huei KUO, also known as Samuel Kuo, aged 63, is an Executive Director of the Company and Chairman of the Board since 11 July 2005, Chairman of the Nomination Committee and Chief Executive Officer of Lacquer Craft Manufacturing Co., Ltd. (Zhejiang) ("Lacquer Craft"). Mr. Kuo is a director of various subsidiaries of the Company. Mr. Kuo is one of the founders of our business and has been one of the principal managers responsible for our business and corporate strategy, marketing and production operations and expansion strategies. Mr. Kuo has more than 30 years of experience in the furniture business in Taiwan, the PRC and the U.S.. Mr. Kuo is also the former Chairman of the Taiwan Businessmen's Association Dongguan. Mr. Kuo served two years in the military in Taiwan after obtaining a Bachelor of Arts degree in Economics Development from Tamkang University in 1978.

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

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

Yi-Mei LIU, also known as Grace Liu, aged 61, is an Executive Director of the Company and the Deputy Chairman of the Board since 11 July 2005. She is also a director of all subsidiaries of the Company. Ms. Liu, together with her husband, Mr. Shan Huei KUO, Executive Director of the Company and Chairman of the Board, are founders of our business. Ms. Liu has over 30 years of experience in the furniture business and she has been closely involved in executing the corporate strategy and daily operations of our Group. In addition to her general management role, she oversees the financial control, cash management and human resources operations of our business. Ms. Liu obtained a Bachelor of Arts degree in English Literature from Suzhou University in 1979.

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

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

Mohamad AMINOZZAKERI, also known as Mohamad Amini, aged 58, is an Executive Director of the Company since 24 October 2005. Mr. Aminozzakeri is also a director of Houson International Limited and Willis Gambier (UK) Limited, members of the Group and President of Lacquer Craft and has been with our Group since May 1995. Prior to becoming President, he held senior management positions in Lacquer Craft both in manufacturing and sales and marketing, and was formerly the executive Vice-President of Lacquer Craft. Mr. Aminozzakeri owned and operated furniture retail stores in California and Arizona for 6 years before then. Mr. Aminozzakeri has over 31 years of experience in the furniture industry and obtained a Bachelor of Science degree in Mechanical Engineering from California State University in Long Beach in 1983.

NON-EXECUTIVE DIRECTOR

Sheng Hsiung PAN, also known as William Pan, aged 63, is a Non-executive Director of the Company since 24 October 2005 and a member of the Audit Committee and Remuneration Committee of the Company. He is the Chief Executive Officer of Tai-Chuan Wooden MFG Co., Ltd, a cue manufacturer. Mr. Pan has over 30 years of experience in sales, marketing, manufacturing, and product development in the cue industry and sales and marketing in billiard cue and related accessories. Mr. Pan obtained a Bachelor of Arts degree in Economics Development from Tamkang University in 1979.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ming-Jian KUO, also known as Andrew Kuo, aged 57, is an Independent Non-executive Director of the Company since 24 October 2005, the Chairman of the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Kuo is currently the Chairman of Cathay United Bank Co., Ltd. He is a Non-executive Director of Far East Horizon Limited, a company listed on the Main Board of the Stock Exchange and a director of Long Chen Paper Co., Ltd., a company listed on Taiwan Stock Exchange Corporation. He also served as a Director of Cathy Financial Holding Co., Ltd. (a company listed on Taiwan Stock Exchange Corporation). Mr. Kuo was the Chief Executive Officer and a partner of Zoyi Capital Ltd. respectively from January 2013 to June 2017 and from June 2017 to December 2018. Mr. Kuo was the Vice Chairman (in charge of Greater China private equity investment business) and the Senior Advisor of The Blackstone Group (HK) Limited respectively from October 2007 to January 2013 and from January 2013 to March 2018. He was appointed Managing Director of H&Q Asia Pacific ("H&Q") in September 2005. Before joining H&Q, Mr. Kuo was the Senior Country Officer and Head of Investment Bank of JPMorgan Chase in Hong Kong and has more than 15 years of experience in the corporate finance industry. Since the merger of JPMorgan and Jardine Fleming in 2000, Mr. Kuo had been responsible for the firm's banking business and all investment banking activities in Taiwan. Mr. Kuo was also Vice Chairman of the Greater China Operating Committee of JPMorgan Chase, and since April 2005 he had been responsible for JPMorgan's Financial Sponsor Industry of Asia, ex-Japan. Mr. Kuo had also been Managing Director of the heritage Chase Manhattan Bank since October 1998. Prior to joining JPMorgan Chase, Mr. Kuo worked at Citibank Taipei for more than nine years, last as Head of the Corporate Banking Group responsible for client management. Prior to this, Mr. Kuo was head of the Merchant Banking Group in charge of investment banking and capital market products. He previously worked at Citibank New York, focusing on strategic products, and had experience in Treasury Marketing and Foreign Exchange Trading for six years at Citibank Taipei. He was also the Chief Trader and Head of FX for Citibank from 1993 to 1995. Mr. Kuo retired as a member of the Youth Presidents' Organization and became a member of Taiwan Mergers & Acquisitions and Private Equity Council both in December 2013. Mr. Kuo obtained a Bachelor degree with a major in Business Administration from Fu-Jen Catholic University in 1983 and Master of Business Administration degree from City University of New York in 1989.

Siu Ki LAU, also known as Kevin Lau, aged 60, is an Independent Non-executive Director of the Company since 24 October 2005. He is the Chairman of the Audit Committee of the Company. With over 35 years of experience in corporate finance, financial advisory and management, accounting and auditing, Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and The Hong Kong Institute of Certified Public Accountants. He served as a member of the world council of ACCA from 2002 to 2011. Mr. Lau also served on the executive committee of the Hong Kong branch of ACCA ("ACCA Hong Kong") from 1995 to 2011, and was the chairman of ACCA Hong Kong in 2000/2001. Mr. Lau also serves as an Independent Non-executive Director of five other listed companies in Hong Kong: Binhai Investment Company Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, FIH Mobile Limited and TCL Electronics Holdings Limited (formerly known as "TCL Multimedia Technology Holdings Limited"). He also serves as Company Secretary of Hung Fook Tong Group Holdings Limited, Yeebo (International Holdings) Limited and Expert Systems Holdings Limited, companies listed in Hong Kong. In addition, he also served as an Independent Supervisor of Beijing Capital International Airport Co., Ltd., a company listed in Hong Kong, from 30 June 2014 to 28 June 2017 and an Independent Non-executive Director of UKF (Holdings) Limited, a company listed in Hong Kong, from 16 March 2015 to 15 March 2016, TCL Communication Technology Holdings Limited from 23 April 2004 till its withdrawal of listing on the Main Board of The Stock Exchange of Hong Kong Limited on 30 September 2016 and China Medical & HealthCare Group Limited, a company listed in Hong Kong, from 3 June 2004 to 6 December 2018. Mr. Lau graduated from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1981.

Sui-Yu WU, also known as SY Wu, aged 60, is an Independent Non-executive Director of the Company since 15 December 2008 and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Wu has been practising law for over 30 years, and is the founding partner of Wu & Partners, Attorneys-at-Law, a firm based in Taipei, Taiwan which he founded in 2004. He has been a member of the Taipei Bar Association since 1983. His practice focuses on international economic law and WTO-related practices, cross-border commercial transactions and disputes, and mergers & acquisitions. Before that, Mr. Wu was a senior partner of Lee, Tsai & Partners from 2000 to 2004, the managing partner of Perkins Coie, Taipei Office from 1997 to 2000, and was an Of Counsel of Perkins Coie during 1996 to 1997. Prior to Perkins Coie, Mr. Wu had been with Lee & Li, Attorneys-at-Law since 1981, and was a visiting attorney at Van Bael & Bellis (Brussels, Belgium) and Nishimura & Partners (Tokyo, Japan) in 1988 and 1989 respectively. In addition to Taiwan, Mr. Wu has been licensed to practise law in New York State since 1990, and has been a member of the American Bar Association and International Bar Association since 1991. He was the Chair of International Trade Committee of the Inter-Pacific Bar Association from 1999 to 2001, and a director of Taipei Bar Association from 1993 to 1996. On the academic track, he was an associate professor at the Soochow University Law School from 1996 to 2005, and Institute of Law for Science and Technology, Tsin Hua University Law School from 2002 to 2005. Mr. Wu received a SJD degree and an LLM degree from the University of Michigan Law School, and an LLB degree from the Law Department of National Taiwan University in 1980.

SENIOR MANAGEMENT

Samson Marketing

Larry CRYAN, aged 63, is Vice President of Operations of Samson Marketing since July 2009 and has been with our Group since July 1999. Mr. Cryan has previously held the positions of Vice President of Operations of Legacy Classic, Corporate Manager of Administration with Hyundai Furniture and also Credit Manager at Ladd Furniture. Mr. Cryan has over 28 years of experience in the furniture industry. Mr. Cryan was awarded a Bachelor of Arts degree in History from the University of Greensboro in 1977.

Earl R. WANG, aged 55, is Vice President of Mass Merchandise Division (d.b.a. Samson International) of Samson Marketing. Mr. Wang has previously held the positions of President of Legacy Classic Kids and has been with our Group since December 2011. Prior to joining our Group Mr. Wang previously held the position of Sr. Vice President of Merchandising at LEA/American Drew/Hammary. With more than 20 years' experience in the furniture industry, Mr. Wang has held various management positions in product development and merchandising as well as working for Universal Furniture Mass Merchandise Division and Riverside Furniture. Mr. Wang received a Bachelor of Science Degree in Business Administration from Illinois Wesleyan University, Bloomington, IL in 1986.

Universal Furniture

Jeffrey R. SCHEFFER, aged 63, is President and Chief Executive Officer of Universal Furniture. Mr. Scheffer joined our Group in December 2008 and came to us from Stanley Furniture where he was President and Chief Executive Officer. During Mr. Scheffer's 32 years' career in the furniture industry, he has also held the top executive position of American Drew and executive positions with Hyundai Furniture and Carter Industries. Mr. Scheffer was also Vice President-Sales at Universal Furniture from 1992-1996. He obtained a Bachelor of Science degree in Business from Miami University in 1978.

Tsuan-Chien CHANG, also known as Jeffery Chang, aged 55, is Vice President and Chief Financial Officer of Universal Furniture who joined the Group in December of 2008. Prior to joining our Group, Mr. Chang held Controller and Vice President of Operation with Huntington Furniture Industries and as a General Manager at William's Imports. Mr. Chang has more than 20 years of experience in the furniture industry. Mr. Chang received a Bachelor of Science degree in Accountancy in 1993 and a Master degree in Business Administration from California State University, Fresno in 1995.

Legacy Classic

Donald A. ESSENBERG, aged 64, is President and Chief Executive Officer of Legacy Classic. He transferred from Universal Furniture, where he first began in 2009. Mr. Essenberg has held senior sales and merchandising positions with Broyhill Furniture, Berkline, Bernhardt Furniture and Magnussen Home. He has over 30 years of experience in the furniture industry. Mr. Essenberg received a Bachelor of Business Administration with a double major in management and marketing from Appalachian State University in 1977.

Chen-Kun SHIH, aged 48, is Vice President and Chief Financial Officer of Legacy Classic Furniture, Craftmaster Furniture and Grand Manor Furniture. Prior to his current position, Mr. Shih held the same position at Craftmaster Furniture and has more than 16 years of related working experience in Taiwan, China and the U.S.. Mr. Shih began his career at Ernst & Young. He obtained a Bachelor degree in Accounting from the National Chung Hsing University in 1993, and was awarded a Master degree in Business Administration in Finance from the State

University of New York at Buffalo in May 1999. Mr. Shih is a Certified Internal Auditor and Certified Public Accountant of the U.S.

Gerald E. SAGERDAHL, aged 68, is Executive Vice President of Sales of Legacy Classic and has been with our Group since March 1999. Mr. Sagerdahl previously held the positions of Vice President at Master Design, Rachlin Furniture and GranTree Furniture Inc. and Sales Manager at Ronald A. Rosberg Corporation. Mr. Sagerdahl has more than 35 years of experience in the furniture industry. Mr. Sagerdahl obtained a Bachelor of Arts degree in Computer Science from College of San Mateo, California in 1973.

Craftmaster Furniture, Inc. ("Craftmaster Furniture")

Roy R. CALCAGNE, aged 61, is President and Chief Executive Officer of Craftmaster Furniture and has been with our Group since August 2003. Prior to joining our Group, Mr. Calcagne was Vice President of Merchandising at Broyhill Furniture Industry. He has previously worked for Joan Fabrics Corporation as Vice President of Sales and Macy's department store as Merchandise Manager and Upholstery Buyer. Mr. Calcagne has over 26 years of experience in the furniture industry. Mr. Calcagne was awarded a Bachelor of Science degree in Marketing from Fairleigh Dickinson University in 1981.

Alex A. REEVES, aged 55, is Vice President of Sales and Merchandising for Craftmaster Furniture since joining our Group in July 2008. Previously, Mr. Reeves was Vice President of Sales of Hickory Hill, a division of Norwalk Furniture Corp., for 11 years. Prior to this, he was Chief Operating Officer of Precedent Furniture and earlier a sales representative of Leathercraft. Mr. Reeves has over 25 years of experience in the furniture industry. Mr. Reeves was awarded a Bachelor of Arts degree in Economics from Wake Forest University in 1986.

Kevin MANN, aged 54, is Vice President of Operations of Craftmaster Furniture. Prior to joining Craftmaster Furniture, Mr. Mann was Director of Manufacturing of Clayton Marcus Furniture Inc. and also held positions as Plant Manager and Director of Engineering. Mr. Mann started his career at Bassett Upholstery working as an Engineer. Mr. Mann was awarded a Bachelor of Science degree in Industrial Education Technology from Western Carolina University in 1987.

Roy C. BEARDEN, aged 62, is Vice President of Manufacturing of Craftmaster Furniture. Prior to joining Craftmaster Furniture, Mr. Bearden was General Manager of Jackson Furniture Ind. Inc. and also held positions as Plant Manager with England Home Furnishings, Inc. and Levi Strauss & Company. Mr. Bearden has 18 years of experience in the furniture industry. Mr. Bearden was awarded a Bachelor of Science degree in Business Management from Arkansas State University in 1980.

Lacquercraft Hospitality

Noel L. CHITWOOD, age 60, is President and Chief Executive Officer of Lacquercraft Hospitality and has been with the Group since April, 2010. Mr. Chitwood came to our group from contract furniture producer American of Martinsville where he served as President for 9 years of his tenure with the company following a 2 year period as Vice President of Sales & Marketing. Prior to entering the contract furniture industry, Mr. Chitwood enjoyed a successful 18 year career in the Banking sector specializing in commercial lending. Mr. Chitwood received a Bachelor of Science degree in Finance from Virginia Tech in 1980 and he also completed the post-graduate Stonier Graduate School of Banking program at the University of Delaware in 1996.

Baker Interiors Group

Mike JOLLY, age 60, is the President of Baker Interiors Group, Ltd. Jolly served in various executive positions at Bernhardt, where he was vice president of residential casegoods operations. Mr. Jolly also worked at Thomasville Furniture, where he was senior vice president of supply chain and operations as well as vice president of general production and sourcing manager. Mr. Jolly received a Bachelor of Science degree in Industry Engineering from North Carolina State University in 1979 and has completed additional executive management certificate at Toftrees Armstrong as well as six Sigma Green Belt Certificate. Mr. Jolly was the winner of 2017 ASFD Pinnacle Award in Occasional Tables category.

Ming-Der JUAN, also known as Oscar Juan, aged 45, is Vice President and Chief Financial Officer of Baker Interiors Group, Ltd. Prior to his current position, Mr. Juan held the same position at American Wire Research and has more than 18 years of related working experience in Taiwan, West Africa, India and the U.S.. Mr. Juan began his career at Grupo IMSA where he served as lead internal auditor responsible for Sarbanes-Oxley compliance review and risk management. Prior to AWR, Mr. Juan served as a controller at Apach Group, India, from 2010 to 2016 responsible for all finance and administrative functions. Mr. Juan obtained a Master degree in Business Administration from Dallas Baptist University in December 2002.

Grand Manor Furniture, Inc.

Michael MOORE, age 65, is President and Chief Executive Officer of Grand Manor Furniture and has been with the group since the May 2016 acquisition of the company. Mr. Moore brings almost 40 years of experience with some of the leading providers to the hospitality industry. Senior management positions with American of Martinsville, Sealy, Shelby Williams, Charter, and Flexsteel makes him uniquely suited to lead Grand Manor's hospitality focused business. Mr. Moore received a Bachelor of Science degree in Business from the University of North Carolina in 1975 and has completed additional management seminars at Duke University's Fuqua School of Business, the University of Pennsylvania's Wharton School of Business, and the Institute for International Studies & Training in Tokyo.

Willis Gambier (UK) Limited

David A. LANE, aged 55, is Managing Director of Willis Gambier and joined our Group in November 2008. Prior to this, Mr. Lane spent 8 years as Operations Director at Mark Webster Furniture in both manufacturing and outsourcing furniture for the U.K. domestic market. Mr. Lane previously spent 16 years in Martins International, a textile company, in both manufacturing and in key retail account management. Mr. Lane has 26 years' experience in the procurement and supply of products to the U.K. market place.

Shing-Huei LI, also known as Elliott Li, aged 48, is Finance Director of Willis Gambier and has been with our Group since December 2006. Prior to his current position, Mr. Li was previously Vice President and Chief Financial Officer of Legacy Classic Furniture. Prior to joining our Group, Mr. Li held various financial management positions at Guardian Life Insurance and AT&T in the U.S. as well as sales positions 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, Washington DC in 1999.

Kevin L STEVENS, aged 56, is Sales Director of Willis Gambier and joined our Group in July 2013. Prior to this, Mr. Stevens spent 3 years as Key account Manager at Westbridge Furniture Designs and helped set up and establish its successful arm supplying mid to top end upholstery to the domestic independent furniture market in the U.K and Ireland. Mr. Stevens had previously spent 3 years as group sales director of Alstons who supplied both upholstery and cabinet furniture to the domestic multiple and independent furniture trade within the U.K and Ireland. Mr. Stevens has 31 years experience within the U.K furniture market on both retail and manufacturing sides of the business.

Lacquer Craft

Yuang-Whang LIAO, also known as Daniel Liao, aged 49, rejoined the Company as Senior Vice President of Finance of the Company in July 2015. Mr. Liao has served as a Non-executive Director of the Company from September 2007 to July 2015. Mr. Liao was the Director of Investor Relations of the Company and Vice-President and Chief Financial Officer of the subsidiaries of the Company from September 2003 to September 2007. Mr. Liao was an Executive Director and Chief Financial Officer of China LotSynergy Holdings Limited from November 2007 to March 2012 and Chief Executive Officer of China Tianyi Holdings Limited from March 2012 to November 2014. Both China LotSynergy Holdings Limited and China Tianyi Holdings Limited are companies listed in Hong Kong. Prior to that, Mr. Liao held the position of Director in the Private Equity of Citibank Hong Kong. Mr. Liao previously held positions ranging from financial officer, risk analyst to Vice-President of Private Equity at Citibank, Taipei. Mr. Liao has more than 20 years of experience in banking, finance and corporate executives. Mr. Liao obtained a Bachelor of Arts degree in Management Science from National Chiao Tung University in 1991 and an M. Phil in Management from Cambridge University in 1999.

Yue-Jane HSIEH, also known as Irene Hsieh, aged 48, is Senior Vice President of Finance of the Group and has been with our Group since June 2002. Ms. Hsieh's areas of responsibility include accounts, company secretarial duties and acting as the special assistant to our Chairman, Mr. Kuo. Prior to becoming Special Assistant to the Chairman, Ms. Hsieh was Accounting Manager at Lacquer Craft (Dongguan) from June 2003 to July 2004. Ms. Hsieh previously worked in investment banking at Sinopac Securities and Yuanta Core Pacific Securities and as an auditor at PricewaterhouseCoopers and Ernst & Young Taiwan. Ms. Hsieh has more than three years of experience in auditing, more than five years of experience in finance and more than twelve years of experience in financial and treasury. Ms. Hsieh obtained a Bachelor of Science degree in Accounting from Tunghai University in June 1993.

The Board is committed to maintaining high corporate governance standards. The Company has applied the principles of and confirms that it has complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the year ended 31 December 2018, save for certain deviations from the code provisions which are explained in the relevant paragraphs in this corporate governance report.

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

As at 31 December 2018, the Board comprised seven directors, including three Executive Directors, namely Mr. Shan Huei KUO (Chairman), Ms. Yi-Mei LIU (Deputy Chairman) and Mr. Mohamad AMINOZZAKERI, one Non-executive Director, namely Mr. Sheng Hsiung PAN and three Independent Non-executive Directors, namely Mr. Ming-Jian KUO, Mr. Siu Ki LAU and Mr. Sui-Yu WU, with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Biographical details of directors are set out on pages 9 to 11 of this annual report. The list of directors (by category) is also disclosed in all corporate communications issued by the Company.

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

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

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

APPOINTMENT AND RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry, all directors have confirmed that they have complied with the Model Code and the Company's Code throughout the year ended 31 December 2018.

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

COMMITTEES

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

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

Remuneration Committee

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

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

Details of the remuneration of the senior management by band are set out in note 9 to the consolidated financial statements for the year ended 31 December 2018.

Audit Committee

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

During the year, the Audit Committee met twice to discharge its responsibilities and review and discuss the interim and annual financial results and approve the remuneration and terms of engagement of the external auditors. In addition, the Audit Committee has reviewed the financial reporting system, risk management and internal control systems as well as the internal audit function of the Group and was satisfied with the effectiveness of the Group's risk management and internal controls systems. The Audit Committee also met once with the external auditors in the absence of the Company's management to discuss matters arising from the annual audit for year 2017.

Nomination Committee

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

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

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

One Nomination Committee meeting was held in 2018 to review the independence of the Independent Non-executive Directors and consider the qualifications of the retiring directors standing for re-election at the annual general meeting as well as review the structure, size and composition and effectiveness of the Board and the committees and the implementation and effectiveness of the Board Diversity Policy.

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

Board Diversity Policy

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

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

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

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

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

Board Nomination Policy

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

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

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

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2018, there was no change in the composition of the Board.

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

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the senior management of the Group ("Senior Management"). The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. The Board, through the Audit Committee, conducts reviews of the effectiveness of such systems at least annually, covering all material controls including financial, operational and compliance controls.

The Group has formulated and adopted Risk Management Policy in providing directions in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritises the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

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

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

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

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

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

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

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

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board, through the Audit Committee, had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk management and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems were effective during the year.

CORPORATE GOVERNANCE FUNCTIONS

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

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

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

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

	Number of meetings held
Board	4
Audit Committee	2
Remuneration Committee	1
Nomination Committee	1
Annual General Meeting	1

Individual attendance of each director is as follows:

	No. of meetings attended/held during the tenure of directorship				
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Mr. Shan Huei KUO *(Chairman)*	3/4	N/A	N/A	1/1	1/1
Ms. Yi-Mei LIU *(Deputy Chairman)*	4/4	N/A	N/A	N/A	1/1
Mr. Mohamad AMINOZZAKERI	4/4	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Sheng Hsiung PAN	3/4	2/2	1/1	N/A	1/1
Independent Non-executive Directors					
Mr. Ming-Jian KUO	3/4	N/A	1/1	1/1	0/1
Mr. Siu Ki LAU	4/4	2/2	N/A	N/A	1/1
Mr. Sui-Yu WU	4/4	2/2	1/1	1/1	1/1

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

CONTINUING PROFESSIONAL DEVELOPMENT

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

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

PRACTICES AND CONDUCT OF MEETINGS

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

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

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the Independent Auditors' Report on pages 49 to 53.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the external auditors of the Group in respect of audit services and non-audit services amounted to approximately US$652,000 and US$194,000 respectively. The non-audit services mainly consist of professional advisory on taxation (US$110,000) and review of interim financial information (US$84,000).

COMPANY SECRETARY

Ms. Pik Yuk CHENG, Patsy of Tricor Services Limited, external service provider, has been engaged as the Company Secretary of the Company. Its primary contact person at the Company is Ms. Yue-Jane HSIEH, Irene, assistant to the Chairman of the Company.

SHAREHOLDERS' RIGHTS

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

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

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

Putting Forward Proposals at General Meetings

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

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

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

Convening an Extraordinary General Meeting by Shareholders

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

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

Putting Forward Enquiries to the Board

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

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

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

Contact details

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

Address: China Timber Industry City Development Area, No. 2 Taicheng Road, Jia Shan County, Zhejiang Province, China, 314100
(For the attention of the Chief Investor Relations Officer)

Email: investors@lacquercraft.com

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

Articles of Association

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

Policies relating to Shareholders

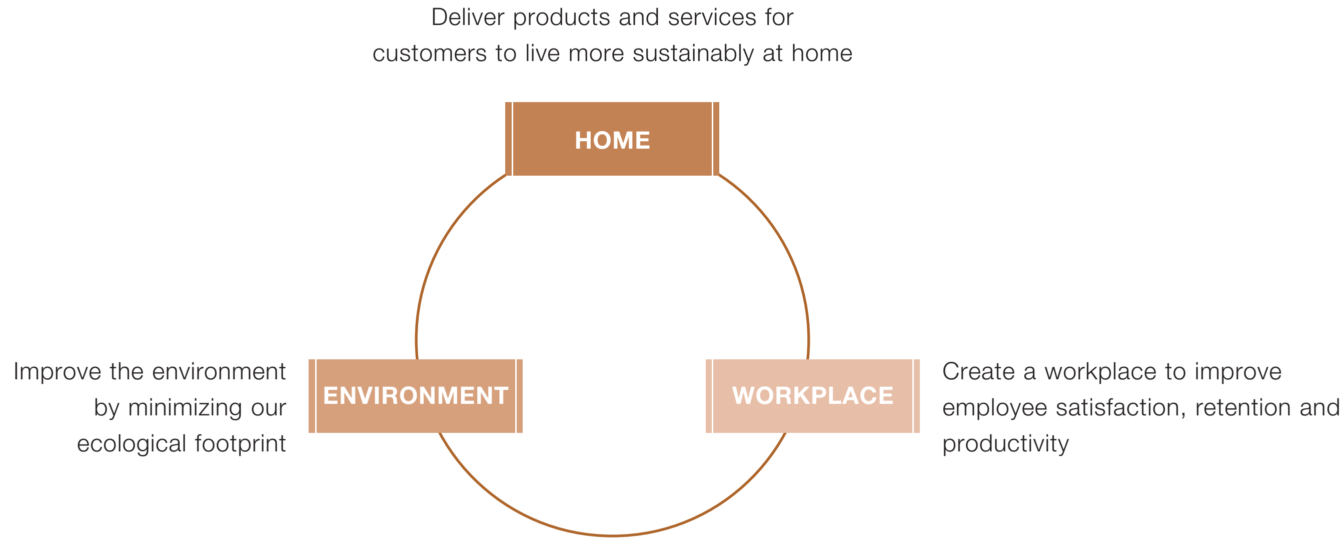
The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

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

About this report

Samson Holding Limited (the "Company") is delighted to publish its third environmental, social and governance ("ESG") report, summarizing our performance in creating values for our customers, our supply chain, our people, the environment and the community. It demonstrates the continual efforts and commitments in disclosing the material ESG issues of the Company, and our manufacturing operations in China and the U.S. (collectively, the "Group") over the financial year of 2018 (the "Reporting Period" or "FY2018").

Since our establishment in 1995, the Group has always strived to be a global leader in the furniture industry. With the belief that sustainability extends beyond mere business success, it is the Group's mission to create long-term value for our customers and stakeholders, in order to build a sustainable business. In essence, we wish to build a sustainable living space, both inside homes and the workplace, as well as the environment outside. Our sustainability approach is guided by three core areas:



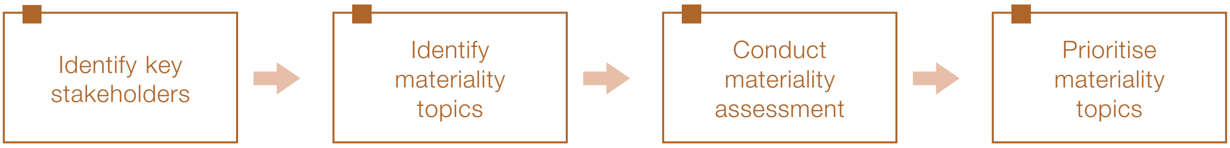
Reporting Standard

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

Contact & Feedback

Your feedback is valuable for us to review our sustainability strategies. Please contact us through email at investors@lacquercraft.com.

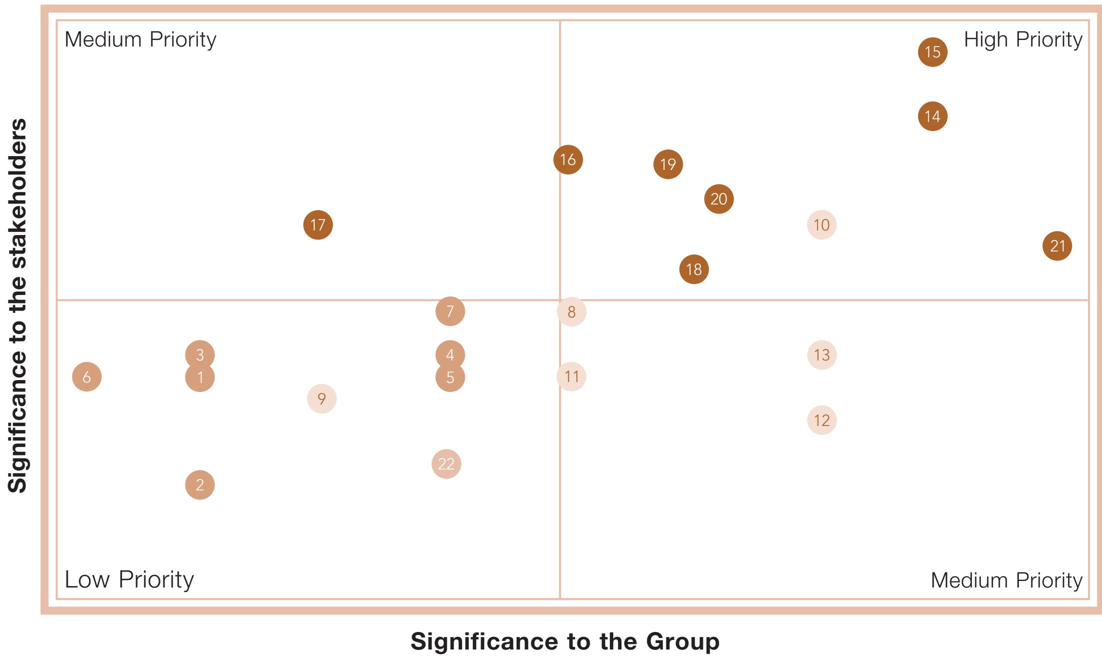
STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT



Acknowledging the importance of stakeholders in shaping our sustainability policies and strategies, we actively communicate with them to understand their concerns and expectations. We identify key stakeholders to the Group and engage them via various channels in order to listen their voices.

To further identify and prioritise material ESG topics, we have conducted an online questionnaire. It consists of 22 rating questions, covering areas on operational practices, employment practices, environmental protection and community involvement. Both internal and external stakeholders are invited to determine their corresponding significance to the Group and to themselves. The materiality matrix below is plotted according to the results. The topics within the upper right quadrant of the matrix are identified as the material topics to both stakeholders and the Group.

Materiality Assessment Matrix



High Priority		Medium Priority		Low Priority	
10	Occupational health and safety	8	Labour right	1	Air emission
14	Customer satisfaction	11	Employee development	2	Greenhouse gas emission
15	Product quality and safety	12	Child labour	3	Hazardous waste generation
16	Product and service labelling	13	Forced labour	4	Non-hazardous waste generation
18	Intellectual property	17	Marketing communications	5	Energy use
19	Customer privacy			6	Water use
20	Supply chain management			7	Use of materials
21	Ethical business			9	Diversity and equal opportunity
				22	Community support

We prioritised those ESG topics into 3 categories: high, medium and low according to the results for better strategic planning and resource allocation. Looking ahead, we will strengthen our commitments to pursue corporate sustainability.

OUR OPERATION

As a global leader in the furniture industry, our goal is to deliver products which enhance better living. To achieve this goal, we are totally committed to conducting business in a responsible manner and gaining greatest customer satisfaction.

Product Responsibility& Safety

Across our products and services, whether it is our original equipment manufacturing business or brand-led business, we want our customers to see how we put qualities into practices. We consistently work to improve customer satisfaction by offering quality and safe products to create a better quality of life at home. Through strict quality standards and regular inspections at different stages of our production, we minimise the number of defects in our products. At our Jiashan site, products that are not meeting our quality standards will be returned to the quality control unit according to the Non-Conforming Product Management Procedures. The product will then be reviewed, analysed and handled in order to prevent occurrence of similar events.

We also make sure that only safe materials are used for production by applying strict safety standards which are aligned with compliance standards and customer requirements. Our Product Safety Team is responsible for identifying and evaluating any safety hazards, as well as controlling the risks. Upon assessment, corresponding controlling measures are developed for each hazard.

Understanding the importance of clear labelling, we keep our customers well informed of the potential risks or hazards that may occur if the products are improperly used. In line with the relevant laws and regulations, safety labels such as tip-over warning label and flammability warning label, are attached on all applicable products. Information on the materials used in the products is also provided, with detailed instructions on the proper usage of the products.

When enquiry or complaint from customers is received, we are committed to investigating the issue and making corresponding responses in a timely manner. Product recall will be carried out if the product is associated with health and safety risks according to our Product Recall Control Procedures.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to health and safety, advertising and labelling matters of products and services.

Business Conduct

We strive to uphold the highest ethical standard when conducting business. At the same time, we also require our staff to adhere to the principle of integrity and comply with all applicable laws in a manner that excludes considerations of personal advantage or gain. Employees are strictly prohibited from participating in any forms of forgery, bribery, corruption, abuse of authority, or any other forms of misconduct, as clearly stated in the Employee Handbook.

Whistle-blowing mechanism is also in place for employees to report any suspicious activities or violations. Staff are welcomed to report anonymously through the suggestion box and we promise to handle the issue timely and fairly.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to bribery, extortion, fraud and money laundering.

Intellectual Property & Customer Privacy

We fully respect intellectual property rights ("IPR") within the Group. Being the producer for our own brands, as well as for other companies, we fully appreciate the designs are undoubtedly one of the most valuable assets of the Group. Therefore, the Group is committed to preventing the leakage of IPR of the Group, as well as third parties.

Regarding our customers' privacy, we have formulated a strict policy of confidentiality, where employees are reminded to keep customers' personal data to the highest level of security by not disclosing to any external parties without prior consent. Only authorised personnel are allowed to access and handle confidential information. We also apply the same standard to our suppliers in order to uphold the same standard of security, where non-conformity may result in partner ship termination.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to IPR, privacy matters of products and services.

Supply Chain Management

We place high emphasis on the quality and performance of our suppliers such that we have developed and implemented an assessment system to ensure that their products and services are up to our expectations. We select our suppliers with emphasis on pricing, quality, delivery time and workforce. Only suppliers who meet our standards will be added into the approved vendor list. Regular review is also conducted to monitor their performance.

Aiming to create a more empowered and equitable supply chain, our U.S. site binds the suppliers' behaviour via the Rules of Conduct Supplier Agreement. It sets out minimum standardisation labor and environmental conditions for suppliers to follow as so to ensure our values are aligned. For instance, our suppliers are required to reduce waste, use resource responsibly and advance the welfare of workers. Honesty and integrity are also upheld in our partnerships.

To further ensure that the materials for our furniture do not contain any harmful substances or chemicals, the materials provided by our suppliers are tested and assessed systematically via international testing bodies. For example, in selecting paints and powder for our furniture, our suppliers are requested to submit third-party testing reports, so as to make sure the lead content for our products does not exceed the threshold limit. Likewise, for all foam based components, fire retardant chemicals that can be harmful to people and the environment are not employed.

OUR PEOPLE

Recognising employees are the foundation of quality furniture we produced, we strive to foster a harmonious corporate culture and maintain a fair and safe workplace for all employees.

Employment Practices

To maintain a motivating working environment, we implement rigorous human resource policies to control and deal with matters related to employment. Not only do we comply strictly with all applicable labor laws and regulations, but we also always seek to reward our employees having regards to the performance and market trends. Our staff are remunerated with competitive wages, fixed working hours, comprehensive insurance coverage and mandatory provident fund. In addition to statutory holidays, all employees are entitled to paid leaves such as annual leave, marriage leave, funeral leave, sick leave, work injury leave and maternity leave.

As an equal opportunity employer, we strive to create a workplace that is free from discrimination. We grant fair and equal opportunities solely based on qualifications, experiences and abilities. We will not take unfair and differentiated treatment due to differences on the ground of nationality, age, gender, sexual orientation, gender identity, ethnicity, disability, pregnancy, political inclination, and/or other forms of difference that is unrelated to the job requirements.

Additionally, child and forced labour are strictly prohibited within the Group. Candidates' identity documents are checked before employment to ensure they are above the statutory working age. The same practice is also extended to our supply chain.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, child and forced labor.

Occupational Health & Safety

We are committed to maintaining a safe and healthy workplace for our employees. We regularly monitor our workplace regarding safety hazards so that we can minimise the hazards and devise corresponding mitigating measures where necessary. For instance, daily safety assembly and twice-a-week safety inspections are conducted at our Jiashan site by the Safety Production Management Committee. In addition, regular occupational health checkups are provided to assess staff's health status and third-party hazard assessments are carried out. Through these processes, we are able to better identify the potential risks in a systematic manner, making sure that we have taken sufficient precautions and mitigating measures to achieve the highest safety standards.

Corresponding mitigating and preventive measures have been deployed to reduce the level of risks and potential harm to employees. Sufficient protection equipment, such as masks and ear plugs, is provided for employees to protect themselves. To make sure all employees are familiar with our safe production policy, all new staff will go through the induction training, which covers topics such as the use of machinery and fire safety. Our regular training also covers other topics such as safety hazards and corresponding mitigating measures, to ensure employees are aware and conduct their works in the safest manner. Besides, promotional events are regularly arranged to strengthen our staff's safety awareness. For example, our U.S. site has organised a health fair and a fundraising event for employees with health issues.

With all the precautionary and mitigation measures in place, we recognise that accidents may still happen. In order to prepare for any emergency situations such as fire accidents, chemical leakage, we have established the Emergency Contingency Plan, clearly outlining the detailed emergency procedures, to minimise employee exposure to danger and injury. Fire drills and evacuation practices are also carried out from time to time so as to make sure our employees know how to respond and react under these situations.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.

Training & Development

We understand learning opportunities are curial to employees' development as well as the Group's long-term success. Therefore, we are committed to offering various training opportunities to address the training needs of every department, position and employee, to ensure that they have the technical skills for their job and to develop their potentials continuously. For all new employees, induction training, covering topics such as our quality policy, safe production, fire safety, corporate culture and vision, is conducted on their first day of work to help them quickly adapt to the new working environment. Apart from on-the-job training, in order to drive for continuous development, special training courses are arranged in FY2018, on various topics such as cardiopulmonary resuscitation, first aid, traffic safety, anti-fraud, computer competency and foreign language.

Employee Relationships

Communication is essential to maintain a long-term relationship. We are willing to listen to our people and therefore various communication channels are set up for them to voice out their opinions and suggestions to the management. It is also an opportunity to let us understand their needs and concerns. Employees are welcomed to express their opinions or even complaints via hotline, email or suggestion box.

Apart from regular communication, we recognise that work-life balance is also crucial to keep our employees physically and psychologically healthy. In FY2018, recreational and team-bonding activities such as annual dinner, Dragon Boat Festival parent-child activity, Mid-Autumn Celebration and basketball competition are held, to strengthen their sense of belonging towards the Group.

2018 Annual Dinner

Singing Competition

Basketball Competition

Mid-Autumn Celebration

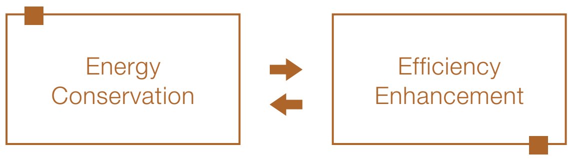
OUR ENVIRONMENT

To minimise our impacts on the environment due to production activities, we strive to achieve cleaner production by investing in mitigation technologies and implementing environmental protection initiatives. We take into account of the environment in every stage of the product life-cycle, from planning, raw material sourcing, production to final disposal.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, generation of waste and use of resources.

Use of Resources

The Group strives to use our resources in a sustainable way by two key approaches: conserving energy and enhancing resource efficiency. Recognising it is the joint responsibility of all of us to protect the environment, we put efforts on strengthening our employees' environmental awareness. Various training and incentive programmes are organised to promote the culture of resource conservation.



Our main types of energy consumed are electricity for daily operations and fuels for stationary and mobile sources. Cleaner energy is also utilised such that 14% of the electricity purchased is generated from photovoltaic power. The annual consumption data of the Group in FY2018 areas follows:

Type of Resources	Unit	FY2018	FY2017[1]
Electricity	kWh	36,893,572.00	43,001,242.64
Intensity	kWh/USD'000	76.00	86.78
Natural gas	m^3	222,715.34	564,590.42
Intensity	m^3/USD'000	0.46	1.14
Diesel oil	litres	240,578.07	254,878.31
Intensity	litres/USD'000	0.50	0.51
Propane	gallon	–	1,112.90
Intensity	gallon/USD'000	–	0.002
Unleaded petrol	litres	23,949.00	34,133.46
Intensity	litres/USD'000	0.05	0.07
Liquefied petroleum gas	gallon	1,259.40	–
Intensity	gallon/USD'000	0.003	

[1]FY2017 stands for the period from 1 January 2017 to 31 December 2017

With the aim to reduce our consumption and the associated carbon footprints, we have implemented various initiatives in our office and factories:

Lighting

- replace traditional bulbs with energy-efficient TB bulbs or LEDs
- adopt motion-sensor control to automatically turn off lighting when no one is in the areas
- use natural light as much as possible
- turn off unnecessary lighting during non-operation hours

Air-conditioning

- adjust temperature according to weather
- maintain the indoor temperature at moderate level

Electrical appliances

- turn off all electrical appliances before leaving the office
- post energy saving reminders next to switches
- switch to low-energy-consumption sleep mode when not in use

Our water usage is closely monitored for effective water management. Water pipes are regularly inspected to prevent water leakage. In case of leakage, maintenance will be conducted timely. In our operation, greywater is reused as much as possible to reduce water consumption as well as discharge. We also strive to promote a water-saving culture among employees such that reminders are posted near water taps.

Wastewater from the spray process and domestic use is the main source of our water discharge. Rainwater and sewage are diverted to avoid pollution to water bodies. Relevant permits are obtained before discharge and wastewater is treated by in-house facility to meet quality standards.

In FY2018, we consumed a total of 262,872.26 m^3 of freshwater with an intensity of 0.54 m^3/USD'000 and there was no issue in sourcing water.

Type of Resources	**Unit**	**FY2018**	**FY2017**
Freshwater	m^3	262,872.26	498,151.40
Intensity	m^3/USD'000	0.54	1.01

Our operation involves the use of packaging materials for containment and protection of products. The types and amounts of the major packaging materials that we have utilised in FY2018 are summarised as follows:

Packaging Material	**Unit**	**FY2018**	**FY2017**
Plastic	tonnes	8,085.02	288.99
Carton box	tonnes	1,535.99	836.22
Other	tonnes	–	8,683.30
Total	tonnes	9,621.01	9,808.51
Intensity	tonnes/USD'000	0.02	0.02

In our office, employees are greatly encouraged to be "paperless" by making use of electronic communication channels and to reuse paper as much as possible. In FY2018, a total of 9.29 tonnes of paper[2] was consumed.

Waste Management

To minimise our impacts to the environment, waste generated is separated into non-hazardous and hazardous waste for different management approaches. For non-hazardous waste such as domestic waste and non-hazardous industrial waste, we exercise separation at source to facilitate further disposal or recycling according to our Non-Hazardous Management Plan. Licensed waste collectors are appointed for further disposal. In addition, we also recycle or reuse our waste where possible to turn them into valuables. For instance, wood scrap generated is sold to external woodcraft manufacturers as raw materials and 60% of waste produced at our U.S. factory are recycled. In FY2018, the Group has generated a total of 17,993.11 tonnes of non-hazardous waste, with an intensity of 0.04 tonnes/USD'000.

Non-Hazardous Waste	**Unit**	**FY2018**	**FY2017**
Wood	tonnes	17,369.83	8,713.94
Metal	tonnes	195.04	316.11
Cotton material	tonnes	125.50	105.67
Domestic waste	tonnes	302.74	199.62
Other	tonnes	–	821.17
Total	tonnes	17,993.11	10,156.51
Intensity	tonnes/USD'000	0.04	0.02

[2] Office paper consumption data only cover Jiashan factory.

For hazardous waste, our factories have the Hazardous Waste Management Plan in place to safeguard the health and safety of our employees, as well as the environment. Detailed procedures on handling hazardous waste are outlined to ensure proper storage, transfer, labeling and disposal. Only licensed waste collectors are assigned to collect, transfer and treat our hazardous waste. To reduce the amount of hazardous waste generated, we are committed to polishing the manufacturing process, strengthening management work and providing training to employees. Emergency plans are also formulated for employees to follow in case of chemical leakage. In FY2018, the Group has generated a total of 977.32 tonnes of hazardous waste, with an intensity of 0.002 tonnes/USD'000.

Hazardous Waste	**Unit**	**FY2018**	**FY2017**
Chemical waste	tonnes	701.75	340.37
Domestic waste	tonnes	–	0.89
Other	tonnes	275.57	0.03
Total	tonnes	977.32	341.29
Intensity	tonnes/USD'000	0.002	0.001

Air & Greenhouse Gas Emissions

Our operation principally engages in furniture production which inevitably generate air emissions from processes such as woodworking, polishing and painting. Nevertheless, it is our responsibility to obtain relevant emission permits and to ensure all of our air emissions comply with relevant standards. The key sources of air emissions of the Group are volatile organic compounds and dust from our manufacturing processes, as well as exhausts such as nitrogen oxides ("NO_x"), sulphur oxides ("SO_x") and particular matter ("PM") from the use of company vehicles. The annual emissions[3] of the Group are as follows:

Air Emission	**Unit**	**FY2018**
NO_x	kg	1,219.06
SO_x	kg	1.39
PM	kg	120.41

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

[3] Data on air emissions from vehicle exhausts are not available for FY2017.

- Boiler modification to replace heavy oil by natural gas
- Spray booth modification to reduce unorganised organic gas emissions
- Baghouse filter and activated carbon filter to significantly reduce the emissions of air pollutants
- Change of paint formula such that >60% of paint will be switched from oil-based to water-based or UV-based before 2020
- Dust removal system to remove dust generated from production lines

Regarding the Group's greenhouse gas ("GHG") emissions, the consumption of fuels and electricity are the major contributors. In FY2018, the Group has emitted 29,845.26 tCO_2e of GHG, with an intensity of 0.06 tCO_2e/USD'000. We will continue to look for opportunities to cut our carbon footprints.

Greenhouse Gas Emission[4]	**Unit**	**FY2018**	**FY2017**
Scope 1[5] – Direct GHG emissions	tCO_2e	1,138.69	1,832.96
Scope 2[6] – Energy indirect GHG emissions	tCO_2e	28,662.13	30,102.82
Scope 3[7] – Other indirect GHG emissions	tCO_2e	44.44	–
Total GHG emissions	tCO_2e	29,845.26	31,935.78
GHG Intensity	tCO_2e/USD'000	0.06	0.06

Noise Generation

During our production, noise is generated from the use of machineries such as sawing and shearing machine. Nevertheless, we strictly ensure the noise level is below the statutory standards. Following measures are carried out to reduce nuisance to the surrounding environment:

- Phase out noise-generating old machines
- Introduce advanced low-noise automation facilities
- Relocate noise-generating processes to the middle section of the factory to add insulation
- Take noise generation into account in engineering design and equipment selection

Green Production

We take pride in sourcing materials used in our products and processes to preserve health for our customers and our environment. Our U.S. site adopts the "Earthcare Inside" programme throughout the production line for sofas, loveseats, chairs. Environmentally friendly components are embedded such as seat cushions from soy-based preserve foam, springs forged from recycled steel, webbing woven with 100% recycled yarn and back cushion fibers fashioned from recycled content.

[4] The GHG emission is calculated based on the "How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEx and international standards such as ISO 14064 and GHG Protocol.

[5] Scope 1 represents direct GHG emissions generated by the use of fuels for stationary and mobile sources.

[6] Scope 2 represents energy indirect GHG emissions generated by the use of electricity.

[7] Scope 3 represents other indirect GHG emissions generated by business air travel. In FY2018, we include scope 3 GHG emissions in our reporting boundary.

OUR COMMUNITY

As a responsible enterprise, we have sponsored and donated to various organisations and events over the years. To help the community and contribute to the well-being of it, our efforts in supporting our community have been recognised by the Charity Award in Jiashan County in FY2018. Looking ahead, we will continue to contribute and give back our community.

Elderly Visit

Blood Donation

HKEx ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
Aspect A Environmental			
A1 Emission	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes.	– Boiler Dust Removal and Management System – Non-Hazardous Waste Management Plan – Hazardous Waste Management Plan	OUR ENVIRONMENT –Waste Management, Air & Greenhouse Gas Emissions
KPI A1.1	The types of emissions and respective emissions data.	N/A	OUR ENVIRONMENT – Air & Greenhouse Gas Emissions
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A	OUR ENVIRONMENT – Air & Greenhouse Gas Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A	OUR ENVIRONMENT – Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A	OUR ENVIRONMENT – Waste Management
KPI A1.5	Description of measures to mitigate emissions and results achieved.	– Boiler Dust Removal and Management System	OUR ENVIRONMENT – Air & Greenhouse Gas Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	– Non-Hazardous Waste Management Plan – Hazardous Waste Management Plan	OUR ENVIRONMENT – Waste Management

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials.	– Employee Handbook – Energy-Saving Management System	OUR ENVIRONMENT – Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	N/A	OUR ENVIRONMENT – Use of Resources
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	N/A	OUR ENVIRONMENT – Use of Resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	– Employee Handbook – Energy-Saving Management System	OUR ENVIRONMENT – Use of Resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	N/A	OUR ENVIRONMENT – Use of Resources
KPI A2.5	Total packaging material used for finished products (in tonnes), and, if applicable, with reference to per unit produced.	N/A	OUR ENVIRONMENT – Use of Resources
A3 The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	– Emergency Contingency Plan	OUR ENVIRONMENT – Use of Resources, Green Production
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	N/A	OUR ENVIRONMENT – Use of Resources, Green Production

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
Aspect B Social			
B1 Employment	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	– Employee Handbook – Recruitment Management Procedures	OUR PEOPLE – Employment Practices, Employee Relationships
B2 Health and Safety	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	– Employee Handbook – Occupational Health & Safety Policy – Emergency Contingency Plan	OUR PEOPLE – Occupational Health & Safety
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	– Employee Handbook	OUR PEOPLE – Training & Development
B4 Labor Standard	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	– Employee Handbook – Recruitment Management Procedures	OUR PEOPLE – Employment Practices
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	– Craftmaster Supplier Rules of Conduct – Supplier Management Procedures	OUR OPERATION –Supply Chain Management

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
B6 Product Responsibility	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Employee Handbook – Non-Conforming Product Management Procedures – Product Recall Control Procedures – Hazard Identification and Risk Assessment Procedures	OUR OPERATION – Product Responsibility & Safety, Intellectual Property & Customer Privacy
B7 Anti-corruption	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	– Employee Handbook – Code of Ethical Business Conduct	OUR OPERATION – Business Conduct
B8 Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	N/A	OUR COMMUNITY

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out on pages 61 to 62.

BUSINESS REVIEW AND OUTLOOK

A review of the business and the likely future development of the Group as well as an analysis of the Group's performance for the year ended 31 December 2018 are provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on the respective pages 4 to 5 and pages 6 to 8 of this annual report which constitute part of this directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 54 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

(vi) The continuing trade tension and tariffs war between China and the United States has brought broad and profound impacts to many industries including furniture. In September 2018, the U.S. Customs imposes 10% for all imported furniture made in China, while China's Tariff Commission reacted with new customs tariffs imposed on US$60 billion worth of imports from the United States. The tariffs and trade tension caused disruptions and created uncertainty to the Group's business.

ENVIRONMENTAL POLICIES, PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

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

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our establishment and according operations shall comply with the relevant laws and regulations in the U.S., United Kingdom, mainland China and Hong Kong. During the year ended 31 December 2018 and up to the date of this report, we have complied with all the relevant laws and regulations in the above-mentioned jurisdictions.

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

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

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

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

FIVE YEARS OF FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 136 of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to shareholders were as follows:

	2018	2017
	US$'000	*US$'000*
Share premium	**105,892**	105,863
Contributed surplus	**80,186**	80,186
Retained profits/(Accumulated losses)	**26,871**	290
	212,949	186,339

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

SHARE CAPITAL

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

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.

DIRECTORS

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

Executive Directors

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

Non-executive Director

Mr. Sheng Hsiung PAN

Independent Non-executive Directors

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

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

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year ended 31 December 2018.

SHARE OPTION SCHEME

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

Details of the share options granted and outstanding under the 2016 Share Option Scheme during the year ended 31 December 2018 were as follows:

	Date of grant	Exercise price HK$/share	Vesting date	Exercise period	Number of share options: Outstanding as at 1.1.2017	Granted during the year	Exercised during the year	Outstanding as at 31.12.2017	Exercised during the year	Outstanding as at 31.12.2018
Director:										
Mr. Mohamad AMINOZZAKERI	6.7.2017	0.66	6.7.2017	6.7.2017 – 5.7.2022	–	10,000,000	(10,000,000)	–	–	–
					–	10,000,000	(10,000,000)	–	–	–
Other employees:										
In aggregate	11.11.2016	0.67	11.11.2016	11.11.2016 – 10.11.2021	42,000,000	–	(14,650,000)	27,350,000	(650,000)	26,700,000
	6.7.2017	0.66	6.7.2017	6.7.2017 – 5.7.2022	–	50,000,000	(50,000,000)	–	–	–
					42,000,000	50,000,000	(64,650,000)	27,350,000	(650,000)	26,700,000
Total					42,000,000	60,000,000	(74,650,000)	27,350,000	(650,000)	26,700,000
Exercisable at the end of the year					42,000,000			27,350,000		26,700,000
Weighted average exercise price (HK$ per share)*					0.67			0.67		0.67

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

No share options were cancelled or lapsed during the year (2017:Nil).

During the year ended 31 December 2018, there was no share option granted (fair value of the share options granted during the year ended 31 December 2017: HK$3,863,000, HK$0.06 each), and the Group did not recognise any share option expense (2017: US$495,000).

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests of the directors or chief executive in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of directors	**Capacity**	**Number of issued ordinary shares held (Long positions)**	**Percentage of the issued share capital of the Company**
Mr. Shan Huei KUO	Held by controlled corporations *(Note)*	2,146,346,773	68.82%
Ms. Yi-Mei LIU	Held by controlled corporations *(Note)*	2,146,346,773	68.82%
Mr. Mohamad AMINOZZAKERI	Beneficial owner	10,000,000	0.32%

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

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

Other than as disclosed above, none of the directors or chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2018.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, the interests of the substantial shareholders and other persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholders	**Capacity**	**Number of issued ordinary shares held (Long positions)**	**Percentage of the issued share capital of the Company**
Magnificent Capital Holding Limited	Held by a controlled corporation	2,146,346,773	68.82%
Advent Group Limited ("Advent")	Beneficial owner	2,146,346,773	68.82%

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

CONNECTED TRANSACTIONS

During the year, the Group paid rental charge to Samson Global Co., Ltd. which is wholly-owned by Mr. Shan Huei KUO and Ms. Yi-Mei LIU. These related party transactions are regarded as continuing connected transactions and qualified as a "de minimis transaction" pursuant to Chapter 14A of the Listing Rules. The details of these transactions are set out in note 35 to the consolidated financial statements.

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

MAJOR CUSTOMERS AND SUPPLIERS

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

– the largest customer	7%
– five largest customers	17%
– the largest supplier	6%
– five largest suppliers	21%

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately US$431,000.

PERMITTED INDEMNITY PROVISION

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

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITORS

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

On behalf of the Board

Shan Huei KUO
Chairman

20 March 2019

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

OPINION

We have audited the consolidated financial statements of Samson Holding Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 135, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Net realisable value of inventories	
Inventories of US$140,422,000, as included in the consolidated financial statements as at 31 December 2018, was a material balance for the Group. The measurement of which required significant management judgement in determining an appropriate costing basis and assessing if their net realisable values were lower than the carrying amounts of the inventories at the year end. There were also judgements required in determining inventory excess and obsolescence provisions as these were based on forecasted inventory usage and sales. Relevant disclosures are included in notes 3 and 18 to the consolidated financial statements for the year ended 31 December 2018.	Our procedures in relation to the valuation of inventories included: • Evaluating the methodology and performed test of controls over the costing basis of inventories with the assistance from our internal specialists; • Attending inventory counts to observe the physical condition of a sample of inventories selected as at year end; • Assessing the inventory excess and obsolescence provision policy and considered management's judgement by comparing it to the historical data; and • Assessing the net realisable values by comparing the unit prices of subsequent sales with the unit costs for significant items.
Provision for expected credit losses on trade receivables	
Trade receivables before provision for expected credit losses of US$2,659,000, as included in the consolidated financial statements as at 31 December 2018, amounted to US$85,014,000. The determination as to how much expected credit losses is estimated and provided involved management judgement. Specific factors that management considered included the ageing of the balance, locations of customers, existence of disputes, recent historical payment patterns, subsequent settlements and other relevant information concerning the creditworthiness of counterparties. There were also estimations required in assessing the correlation between historical observed default rates, forecast economic conditions and expected credit losses. Relevant disclosures are included in notes 3 and 19 to the consolidated financial statements for the year ended 31 December 2018.	Management prepared expected credit loss models to assist with the provision assessment. We involved our internal specialists in evaluating the expected credit loss model and historical default rates, giving particular attention to the estimated economic conditions forecast. Our procedures included: • Documenting the Group's policies and procedures in the estimations of the expected credit losses; • Checking subsequent settlements after the year end; • Assessing the assumptions and inputs in the ECL model by considering the historical customer payment behaviour, subsequent settlements after the year end, the creditworthiness of customers and the ageing of the trade receivables; and • Considering the adequacy of the Group's disclosures in the consolidated financial statements about the degree of estimation involved in arriving at the provision.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
Goodwill, as included in the consolidated financial statements as at 31 December 2018, amounted to US$13,705,000. The determination as to whether goodwill is impaired involved management judgement to estimate the value-in-use of the cash-generating units to which the goodwill is allocated. There were also judgements required in estimating the value-in-use by the management that include estimate of the expected future cash flows from cash-generating units and appropriate discount rate to calculate the present value on the projected cash flows. Relevant disclosures are included in notes 3 and 16 to the consolidated financial statements for the year ended 31 December 2018.	Management prepared discounted cash flow models to perform with the impairment assessment. We involved our internal specialists in evaluating the discounted cash flow models, and assumptions and key parameters used by management. Our procedures included: • Testing the assumptions used in the discounted cash flow models; • Reperforming the management's sensitivity calculations; and • Assessing the adequacy of disclosures on the impairment testing, specifically the key assumptions that have the most significant effect on the determination of the recoverable amount of the goodwill.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam, Wai Ming, Ada.

Ernst & Young
Certified Public Accountants
Hong Kong
20 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
REVENUE	5	478,800	487,541
Cost of sales		(329,936)	(323,921)
Gross profit		148,864	163,620
Other income, gains, losses and expenses	5	15,933	87,372
Distribution costs		(20,002)	(17,592)
Sales and marketing expenses		(76,784)	(66,450)
Administrative expenses		(43,944)	(59,707)
Finance costs	7	(3,220)	(1,632)
PROFIT BEFORE TAX	6	20,847	105,611
Income tax expense	10	(2,932)	(15,549)
PROFIT FOR THE YEAR		17,915	90,062
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic (in US cents)		0.57	2.95
– Diluted (in US cents)		0.57	2.93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
PROFIT FOR THE YEAR	**17,915**	90,062
OTHER COMPREHENSIVE (LOSS)/INCOME:		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(9,594)**	3,177
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(9,594)**	3,177
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**8,321**	93,239

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 US$'000	2017 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**123,308**	128,961
Investment properties	14	**7,690**	7,918
Prepaid land lease payments	15	**2,872**	3,861
Deposits for acquisition of prepaid land lease		**15,664**	–
Goodwill	16	**13,705**	13,705
Other intangible assets	17	**5,792**	6,030
Deferred tax assets	25	**8,422**	9,431
Total non-current assets		**177,453**	169,906
CURRENT ASSETS			
Inventories	18	**140,422**	124,489
Trade and other receivables	19	**121,465**	106,738
Prepaid land lease payments	15	**128**	145
Held-for-trading investments	20	**165,870**	41,808
Derivative financial instruments	21	**–**	342
Tax recoverable		**2,138**	2,390
Pledged bank deposits	22	**7,962**	5,779
Short term bank deposits	22	**4,200**	–
Cash and cash equivalents	22	**46,232**	68,405
Total current assets		**488,417**	350,096
CURRENT LIABILITIES			
Trade and other payables	23	**80,607**	86,236
Derivative financial instruments	21	**–**	716
Interest-bearing bank borrowings	24	**202,953**	39,029
Tax payable		**10,939**	11,027
Total current liabilities		**294,499**	137,008
NET CURRENT ASSETS		**193,918**	213,088
TOTAL ASSETS LESS CURRENT LIABILITIES		**371,371**	382,994

continued/...

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 US$'000	2017 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**371,371**	382,994
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**–**	4,566
Deferred tax liabilities	25	**1,208**	2,735
Total non-current liabilities		**1,208**	7,301
Net assets		**370,163**	375,693
EQUITY			
Issued capital	26	**155,946**	155,913
Reserves	28	**214,217**	219,780
Total equity		**370,163**	375,693

Shan Huei KUO
Director

Yi-Mei LIU
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Issued capital US$'000 (note 26)	Share premium US$'000	Capital redemption reserve US$'000	Share option reserve US$'000 (note 27)	Merger reserve US$'000 (note 28)	Statutory reserve US$'000 (note 28)	Exchange reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2017		152,180	185,388	1,012	402	1,581	1,174	13,890	15,541	371,168
Profit for the year		–	–	–	–	–	–	–	90,062	90,062
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations		–	–	–	–	–	–	3,177	–	3,177
Total comprehensive income for the year		–	–	–	–	–	–	3,177	90,062	93,239
Dividend recognised as distribution		–	(82,761)	–	–	–	–	–	–	(82,761)
Issue of shares	26	3,733	3,236	–	(635)	–	–	–	–	6,334
Disposal of a subsidiary	30	–	–	–	–	–	(1,174)	(11,608)	–	(12,782)
Equity-settled share options arrangements		–	–	–	495	–	–	–	–	495
At 31 December 2017 and 1 January 2018		155,913	105,863*	1,012*	262*	1,581*	–*	5,459*	105,603*	375,693
Profit for the year		–	–	–	–	–	–	–	17,915	17,915
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(9,594)	–	(9,594)
Total comprehensive income for the year		–	–	–	–	–	–	(9,594)	17,915	8,321
Dividend recognised as distribution		–	–	–	–	–	–	–	(13,907)	(13,907)
Issue of shares	26	33	29	–	(6)	–	–	–	–	56
At 31 December 2018		155,946	105,892*	1,012*	256*	1,581*	–*	(4,135)*	109,611*	370,163

* These reserve accounts comprise the consolidated reserves of US$214,217,000 (2017: US$219,780,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**20,847**	105,611
Adjustments for:			
Interest expense	7	**3,220**	1,632
Interest income	5	**(533)**	(996)
Loss on disposal of items of property, plant and equipment	5	**493**	974
Gain on disposal of items of prepaid land lease	5	**(11,487)**	–
Gain on bargain purchase	5	**–**	(2,980)
Gain on disposal of a subsidiary	5	**–**	(75,301)
Net (gain)/loss on derivative financial instruments	5	**(1,855)**	1,863
Net loss/(gain) on held-for-trading investments	5	**1,419**	(3,528)
Depreciation of investment properties	6	**228**	228
Depreciation of items of property, plant and equipment	6	**13,122**	12,173
Amortisation of prepaid land lease payments	6	**132**	275
Amortisation of an intangible asset	6	**238**	239
Impairment of trade receivables	6	**291**	967
Provision for inventories	6	**2,577**	3,624
Reversal of inventory provision	6	**(1,041)**	(1,810)
Equity-settled share options expense		**–**	495
		27,651	43,466
Increase in inventories		**(20,844)**	(8,983)
Increase in trade and other receivables		**(4,452)**	(2,260)
(Decrease)/increase in trade and other payables		**(4,194)**	15,777
Increase/(decrease) in derivative financial instruments		**1,481**	(8,156)
Cash (used in)/generated from operations		**(358)**	39,844
PRC income tax paid		**(1,516)**	(7,018)
Overseas tax paid		**(1,479)**	(2,913)
Net cash flows (used in)/from operating activities		**(3,353)**	29,913

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Net cash flows (used in)/from operating activities		**(3,353)**	29,913
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**533**	996
Purchase of items of property, plant and equipment		**(24,572)**	(18,642)
Deposits for acquisition of prepaid land lease		**(15,664)**	–
Proceeds from disposal of items of property, plant and equipment		**13,489**	8,075
Purchase of held-for-trading investments		**(166,339)**	(37,637)
Proceeds from held-for-trading investments		**40,858**	96,312
Acquisition of a subsidiary	29	**–**	(35,000)
Disposal of a subsidiary	30	**–**	71,460
(Increase)/decrease in short term bank deposits		**(4,200)**	1,500
Increase in pledged bank deposits		**(2,183)**	(4,771)
Net cash flows (used in)/from investing activities		**(158,078)**	82,293
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**56**	6,334
New bank loans		**202,953**	38,772
Repayment of bank loans		**(43,495)**	(105,901)
Dividends paid		**(13,907)**	(82,761)
Interest paid	7	**(3,220)**	(1,632)
Net cash flows from/(used in) financing activities		**142,387**	(145,188)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(19,044)**	(32,982)
Cash and cash equivalents at the beginning of year		**68,405**	106,598
Effect of foreign exchange rate changes		**(3,129)**	(5,211)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	22	**46,232**	68,405

1. CORPORATE AND GROUP INFORMATION

Samson Holding Ltd. (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

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

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Craftmaster Furniture, Inc.	United States ("U.S.")	US$0.01	–	100	Manufacturing and sale of furniture
Dongguan Huanhua Home Furniture Co., Ltd. ("DHH")*	People's Republic of China ("PRC")	RMB2,000,000	–	100	Trading of furniture
Grand Manor Furniture, Inc.	U.S.	US$4,008,000	–	100	Manufacturing and sale of furniture
Lacquer Craft Hospitality, Inc.	U.S.	US$1,000	–	100	Marketing and sale of furniture
Universal Furniture International, Inc.	U.S.	US$0.35	–	100	Marketing and sale of furniture
Baker Interiors Group, Ltd.	U.S.	US$35,000,000	–	100	Manufacturing and sale of furniture
Baker Interiors Furniture Company	U.S.	US$106,134,000	–	100	Manufacturing and sale of furniture

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
P.T. Artcraft (Indonesia)	Indonesia	US$2,457,000	–	100	Manufacturing of furniture
Baker of Europe S.N.C.,	France	US$12,641,000	–	100	Sale of furniture
Lacquer Craft Manufacturing Co., Ltd. (Zhejiang) ("LCZJ")*	PRC	US$80,000,000	–	100	Manufacturing and sale of furniture
Legacy Classic Furniture, Inc.	U.S.	US$4,450,000	–	100	Marketing and sale of furniture
PT Lacquercraft Industry Indonesia	Indonesia	Indonesian Rupiah 22,507,500,000	–	100	Manufacturing and sale of furniture
Samson International Enterprises Limited	BVI/Taiwan	US$50,000	–	100	Trading of furniture and procurement services
Samson Investment Holding Co.	U.S.	US$0.10	–	100	Investment holding
Smart Field Mega Trade Limited#	Hong Kong	HK$2	–	100	Investment holding
Trendex Furniture Ind. Co., Ltd.	Bangladesh	Bangladesh Taka 400,000	–	100	Manufacturing and sale of furniture
Vincent (HK) Group Limited#	Hong Kong	HK$2	–	100	Investment holding
Wealthy Bright (HK) Limited#	Hong Kong	HK$2	–	100	Investment holding
Willis Gambier (UK) Limited	United Kingdom ("U.K.")	£1	–	100	Trading of furniture

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

These entities were incorporated during the year.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

Other than as explained below regarding the impact of HKFRS 9, the adoption of the above new and revised standards has had no significant financial effect on these consolidated financial statements.

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The adoption of HKFRS 9 on the opening balance as at 1 January 2018 has had no significant impact on the Group's financial statements. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Impairment

There is no material difference between the aggregate opening impairment allowances under HKAS 39 and ECL allowances under HKFRS 9, as the Group had provided sufficient allowance during the year ended 31 December 2017. Further details are disclosed in note 19 to the consolidated financial statements.

Impact on reserves and retained profits

There is no significant impact of transition to HKFRS 9 on the Group's reserves and retained profits.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailments or Settlements*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

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

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

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of US$38,543,000 and lease liabilities of US$38,543,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

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

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

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Related parties

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

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

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

or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

Intangible assets (other than goodwill)

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

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

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

***Initial recognition and measurement** (continued)*

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under HKFRS 15 *Revenue from Contracts* with Customers in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Not with standing the criteria for debt instruments to be classified at amortised cost as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, and loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through the statement of profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other income, gains, losses and expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” (applicable before 1 January 2018) below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets at fair value through profit or loss *(continued)*

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income, gains, losses and expenses in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(continued)*

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

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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

General approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

General approach *(continued)*

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

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

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

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

Simplified approach

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

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost *(continued)*

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings and payables, as appropriate.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

Derivative financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group has derivative financial instruments, such as foreign currency forward contracts and foreign currency options. The Group's derivative financial instruments are neither designated nor qualified as hedging instruments. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at the end of reporting period, with the resulting gain or loss recognised in the statement of profit or loss immediately. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers *(continued)*

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

Sales of furniture

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

Customer loyalty scheme income

The Group operated a customer loyalty scheme from 1 January 2018 through which award credits are granted to the customers on purchasing furniture that entitle them to consume by offsetting the award credits on future purchases under the brand name of Baker. These award credits provide a right to consume by offsetting the award credits to customers that they would not receive without future purchases and consumptions under the brand name of Baker. The award credits have a seven-month valid period after the grant of award credits. The promise to provide the right to the customer is therefore a separate performance obligation.

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

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

Revenue from other sources

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

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

Other income

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when services are provided;

(c) rental income, on a time proportion basis over the lease terms;

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

(e) dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Net realisable value of inventories

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

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives of other intangible assets

As at 31 December 2018, the carrying amount of the Group's intangible assets excluding goodwill was approximately US$5,792,000 (2017: US$6,030,000). The estimated useful lives of the assets reflect the management's estimate of the periods over which the other intangible assets are expected to generate net cash flows for the Group based on certain assumptions including attrition of the customer base and the possibility of renewal of sales contract.

In the prior year, the Group re-assessed the useful life of an intangible asset with the then carrying value of approximately US$1,430,000 as its useful life was changed from an indefinite life to a definite life of 14 years. The change in accounting estimate has been accounted for prospectively during the current year. Further details are set out in note 17.

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was US$13,705,000 (2017: US$13,705,000). Further details are set out in note 16.

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

Segment profit before tax of US$52,078,000 (2017: US$79,578,000) represents the profit before tax earned by the single reportable segment excluding administrative expenses, other income, gains, losses and expenses and finance costs.

Other segment information

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

	Reportable segment total *US$'000*	Unallocated *US$'000*	Total *US$'000*
2018			
Depreciation of property, plant and equipment	**12,307**	**815**	**13,122**
Provision of inventories, net	**1,507**	**29**	**1,536**
Capital expenditure*	**24,572**	**–**	**24,572**
2017			
Depreciation of property, plant and equipment	11,262	911	12,173
Provision of inventories, net	1,814	–	1,814
Capital expenditure*	50,546	–	50,546

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

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

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

	Revenue from external customers Year ended 31 December		Non-current assets *(Note)* As at 31 December	
	2018	2017	**2018**	2017
	US$'000	*US$'000*	***US$'000***	*US$'000*
PRC, including Hong Kong	**12,555**	11,788	**68,498**	49,783
U.K.	**10,755**	12,207	**–**	1,358
U.S.	**439,553**	446,642	**94,565**	93,008
Bangladesh	**–**	–	**4,369**	4,860
Others	**15,937**	16,904	**1,599**	11,466
	478,800	487,541	**169,031**	160,475

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

Information about a major customer

During the years ended 31 December 2018 and 2017, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

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

An analysis of revenue is as follows:

	2018 US$'000	2017 US$'000
Revenue from contract with customers		
Sales of furniture	478,492	487,274
Revenue from other sources		
Service fee income	308	267
	478,800	487,541

Revenue from contract with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Furniture US$'000
Types of goods or services	
Sales of furniture	478,492
Total revenue from contracts with customers	478,492
Geographical markets	
U.S.	439,553
Europe	13,653
Middle East	4,784
Asia	20,263
Indonesia	239
Total revenue from contracts with customers	478,492
Timing of revenue recognition	
Goods transferred at a point in time	478,492
Total revenue from contracts with customers	478,492

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

Revenue from contract with customers (continued)

(i) Disaggregated revenue information (continued)

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

For the year ended 31 December 2018

Segments	Furniture *US$'000*
Revenue from contracts with customers	
External customers	478,492
Total revenue from contracts with customers	478,492

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

	2018 *US$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of goods	22,718

(ii) Performance obligations

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

Sales of furniture

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

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

Revenue from contract with customers (continued)

(ii) Performance obligations (continued)

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

Customer loyalty scheme income

The performance obligation is satisfied upon the customers utilising the award credits granted upon the subsequent purchase. The customer loyalty scheme is for a period of 7 months, and the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	US$'000
Within one year	**483**

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

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

	Notes	**2018** ***US$'000***	2017 *US$'000*
Other income			
Bank interest income		**533**	996
Rental income		**1,289**	1,256
		1,822	2,252
Other gains, losses and expenses			
Foreign exchange difference, net		**141**	3,660
Loss on disposal of items of property, plant and equipment		**(493)**	(974)
Gain on disposal of items of prepaid land lease		**11,487**	–
Net gain/(loss) on derivative financial instruments		**1,855**	(1,863)
Net (loss)/gain on held-for-trading investments		**(1,419)**	3,528
Gain on disposal of a subsidiary	*30*	**–**	75,301
Gain on bargain purchase	*29*	**–**	2,980
Others		**2,540**	2,488
		14,111	85,120
		15,933	87,372

6. PROFIT BEFORE TAX

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

	Notes	2018 US$'000	2017 US$'000
Employee benefits expense (excluding directors' remuneration) *(note 8)*			
Wages, salaries and allowances		**125,903**	125,964
Equity-settled share options expense		**–**	413
Retirement benefit scheme contributions		**3,505**	3,111
		129,408	129,488
Provision for inventories		**2,577**	3,624
Reversal of inventory provision		**(1,041)**	(1,810)
Auditors' remuneration		**846**	745
Cost of inventories sold		**328,400**	322,107
Depreciation of investment properties	*14*	**228**	228
Depreciation of items of property, plant and equipment	*13*	**13,122**	12,173
Amortisation of prepaid land lease payments	*15*	**132**	275
Amortisation of an intangible asset	*17*	**238**	239
Impairment of trade receivables	*19*	**291**	967
Minimum lease payments under operating leases		**10,450**	8,243

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 US$'000	2017 US$'000
Interest on bank loans	**3,220**	1,632

8. DIRECTORS' REMUNERATION

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

	2018	2017
	US$'000	*US$'000*
Fees	**199**	200
Other emoluments:		
Salaries, allowances and benefits in kind	**1,651**	1,804
Equity-settled share options	**–**	82
	1,850	2,086

In prior years, a director was granted share options in respect of his services to the Group. Further details of which are set out in note 27 to the consolidated financial statements. The fair value of such options, which had been recognised in the statement of profit or loss, was determined as at the date of grant and the amount included in consolidated financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2018	2017
	US$'000	*US$'000*
Ming-Jian KUO	**31**	31
Siu Ki LAU	**31**	31
Sui-Yu WU	**31**	31
	93	93

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees	Equity-settled share options	Salaries, allowances and benefits in kind	Total remuneration
	US$'000	*US$'000*	*US$'000*	*US$'000*
2018				
Executive directors:				
Shan Huei KUO	**31**	**–**	**762**	**793**
Yi-Mei LIU	**31**	**–**	**553**	**584**
Mohamad AMINOZZAKERI	**31**	**–**	**335**	**366**
	93	**–**	**1,650**	**1,743**
Non-executive director:				
Sheng Hsiung PAN	**15**	**–**	**–**	**15**
	108	**–**	**1,650**	**1,758**
2017				
Executive directors:				
Shan Huei KUO	31	–	833	864
Yi-Mei LIU	31	–	598	629
Mohamad AMINOZZAKERI	31	82	373	486
	93	82	1,804	1,979
Non-executive director:				
Sheng Hsiung PAN	15	–	–	15
	108	82	1,804	1,994

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

There were no performance related bonuses and pension scheme contributions paid to the executive directors and non-executive directors during the year (2017: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: two) highest paid employees who are not directors of the Group are as follows:

	2018	2017
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**1,633**	1,095
Retirement benefit scheme contributions	**–**	–
	1,633	1,095

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

	Number of employees	
	2018	2017
HK$3,500,001 to HK$4,000,000 (approximately US$447,001 to US$510,000)	**2**	1
HK$4,500,001 to HK$5,000,000 (approximately US$510,001 to US$638,000)	**–**	1
HK$5,500,001 to HK$6,000,000 (approximately US$702,001 to US$766,000)	**1**	–
	3	2

In prior years, share options were granted to the non-director highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the consolidated financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

For the Group's subsidiaries established in the U.S., income tax is calculated at the rate of 21% (2017: 34%).

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2018	2017
	US$'000	*US$'000*
Current tax:		
U.S.	**1,003**	2,906
Elsewhere	**2,442**	1,312
Under provision in prior years	**–**	7,207
	3,445	11,425
Deferred tax *(note 25)*	**(513)**	4,124
	2,932	15,549

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

	2018		2017	
	US$'000	**%**	*US$'000*	%
Profit before taxation	**20,847**		105,611	
Taxation at the U.S. federal income tax rate of 21% (2017: 34%)	**4,379**	**21.0**	35,908	34.0
U.S. state income tax at other rates	**239**	**1.2**	889	0.8
Adjustments in respect of current tax of previous periods	**–**	**–**	7,207	6.8
Tax effect of expenses not deductible for tax purpose	**1,706**	**8.2**	4,873	3.9
Tax effect of income not taxable	**(3,656)**	**(17.5)**	(28,948)	(27.4)
Utilisation of previously unrecognised tax losses	**–**	**–**	(2,764)	(2.6)
Tax effect of tax losses not recognised	**275**	**1.3**	264	0.2
Effect of profits in subsidiaries operating in other jurisdictions	**(11)**	**(0.1)**	(1,880)	(1.8)
Tax charge at the Group's effective rate	**2,932**	**14.1**	15,549	14.6

Details of the deferred taxation are set out in note 25. Pursuant to the enactment of Tax Reform on 22 December 2017, the Group recorded a non-cash deferred tax benefit of US$4,124,000 to remeasure the net deferred tax asset to adjust for the reduction in the corporate federal income tax rate from 34% to 21% which became effective on 1 January 2018.

11. DIVIDENDS

	Notes	2018 US$'000	2017 US$'000
Interim – Nil (2017: HK$0.035) per share	*(a)*	–	13,635
Final – HK$0.035 per share for 2017 (2017: RMB0.03 per share for 2016)	*(b)*	13,907	13,249
Special – Nil (2017: HK$0.14 per share during the year)	*(c)*	–	55,877
		13,907	82,761

Notes:

(a) An interim dividend in respect of the six months ended 30 June 2017 of HK$0.035 per ordinary share amounting to approximately HK$106.5 million was declared by the Board of Directors of the Company. The interim dividend has been distributed out of the Company's share premium upon the Extraordinary General Meeting held on 28 September 2017.

The Board of Directors of the Company resolved not to declare any interim dividend in respect of the six months ended 30 June 2018.

(b) A final dividend in respect of 2016 of RMB0.03 per ordinary share amounting to approximately RMB91.3 million was declared at the Annual General Meeting of the Company on 26 May 2017. The final dividend has been distributed out of the Company's share premium.

A final dividend in respect of 2017 of HK$0.035 per ordinary share amounting to approximately HK$109.1 million was declared at the Annual General Meeting of the Company on 8 May 2018. The final dividend has been distributed out of the Company's retained earnings.

The Board of Directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2018.

(c) A special dividend of HK$0.14 per ordinary share, amounting to approximately HK$436.5 million was declared by the directors of the Company and approved at the Board meeting of the Company on 27 October 2017. The special dividend has been distributed out of the Company's share premium.

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

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

	2018	2017
	US$'000	*US$'000*
Profit for the year and earnings for the purpose of basic and diluted earnings per share	**17,915**	90,062

	2018	2017
	Number of shares	*Number of shares*
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**3,118,659,773**	3,056,977,218
Effect of dilutive potential ordinary shares:		
Share options	**3,365,537**	12,184,459
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**3,122,025,310**	3,069,161,677

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land* US$'000	Buildings US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Furniture, fixture and equipment US$'000	Construction in progress US$'000	Total US$'000
Cost:								
At 1 January 2017	12,932	115,341	87,999	13,343	2,611	36,393	4,145	272,764
Exchange realignment	390	4,601	4,040	869	94	1,189	80	11,263
Additions	–	3,356	6,511	790	57	3,580	4,348	18,642
Acquisition of a subsidiary *(note 29)*	4,507	15,672	–	–	–	7,009	116	27,304
Disposal of a subsidiary *(note 30)*	–	(26,752)	–	–	–	–	(18)	(26,770)
Transfers	–	2,162	1,360	–	–	4	(3,526)	–
Disposals	(47)	(2,796)	(30,837)	–	(884)	(8,290)	(756)	(43,610)
At 31 December 2017 and 1 January 2018	17,782	111,584	69,073	15,002	1,878	39,885	4,389	259,593
Exchange realignment	(222)	(2,868)	(3,355)	(753)	(34)	(987)	(1)	(8,220)
Additions	452	5,226	9,549	624	804	2,952	4,965	24,572
Transfers	–	3,120	–	–	–	5,417	(8,537)	–
Disposals	(8,361)	(5,284)	(971)	–	(41)	(909)	–	(15,566)
At 31 December 2018	**9,651**	**111,778**	**74,296**	**14,873**	**2,607**	**46,358**	**816**	**260,379**
Accumulated depreciation:								
At 1 January 2017	–	47,066	71,691	8,932	1,595	29,251	–	158,535
Exchange realignment	–	2,211	3,281	585	45	940	–	7,062
Depreciation provided for the year	–	6,332	2,499	617	211	2,514	–	12,173
Disposal of a subsidiary *(note 30)*	–	(12,574)	–	–	–	–	–	(12,574)
Eliminated on disposals	–	(1,413)	(26,318)	–	(801)	(6,032)	–	(34,564)
At 31 December 2017 and 1 January 2018	–	41,622	51,153	10,134	1,050	26,673	–	130,632
Exchange realignment	–	(1,527)	(2,335)	(530)	(21)	(686)	–	(5,099)
Depreciation provided for the year	–	6,558	2,160	983	215	3,206	–	13,122
Eliminated on disposals	–	(330)	(863)	–	(37)	(354)	–	(1,584)
At 31 December 2018	**–**	**46,323**	**50,115**	**10,587**	**1,207**	**28,839**	**–**	**137,071**
Net carrying amount:								
At 31 December 2018	**9,651**	**65,455**	**24,181**	**4,286**	**1,400**	**17,519**	**816**	**123,308**
At 31 December 2017	17,782	69,962	17,920	4,868	828	13,212	4,389	128,961

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

At 31 December 2018, certain of the Group's property, plant and equipment with a net carrying amount of US$53,107,000 (2017: US$57,730,000) were pledged to banks to secure certain credit facilities granted to the Group (note 32).

14. INVESTMENT PROPERTIES

	US$'000
Cost:	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	12,185
Accumulated depreciation:	
At 1 January 2017	4,039
Provided for the year	228
At 31 December 2017 and 1 January 2018	4,267
Provided for the year	228
At 31 December 2018	**4,495**
Net carrying amount:	
At 31 December 2018	**7,690**
At 31 December 2017	7,918

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

At 31 December 2018, all of the Group's investment properties were pledged to banks to secure credit facilities granted to the Group (note 32).

The fair value of the Group's investment properties at 31 December 2018 was US$12,650,000 (2017: US$12,650,000) as determined by the directors of the Company. No valuation has been performed by any independent qualified professional valuers.

Fair value hierarchy

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

	2018	2017
	US$'000	*US$'000*
Significant unobservable inputs:		
Commercial properties (Level 3)	**12,650**	12,650

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

14. INVESTMENT PROPERTIES (continued)

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

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

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

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

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

15. PREPAID LAND LEASE PAYMENTS

	2018 ***US$'000***	2017 *US$'000*
Carrying amount at 1 January	**4,006**	9,224
Disposal of a subsidiary *(note 30)*	**–**	(5,431)
Disposal	**(673)**	–
Exchange realignment	**(201)**	488
Recognised during the year *(note 6)*	**(132)**	(275)
Carrying amount at 31 December	**3,000**	4,006
Current portion	**(128)**	(145)
Non-current portion	**2,872**	3,861

16. GOODWILL

	US$'000
Cost and carrying amount at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	13,705

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

	2018	2017
	US$'000	*US$'000*
Brand A	**11,475**	11,475
Brand C	**2,230**	2,230
	13,705	13,705

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

The recoverable amounts of these CGUs have been determined based on a value-in-use calculation. Management believes this unit has an indefinite useful life. However, for the purposes of the impairment test, the calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14.0% (2017: 14.5%) with an 8% to 10% (2017: 8% to 10%) growth rate. This growth rate is based on the furniture industry growth forecasts in the U.S. and does not exceed the average long term growth rate for the furniture industry. These CGUs' cash flows beyond the five-year period are extrapolated using a zero growth rate.

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

17. OTHER INTANGIBLE ASSETS

	Trademark Brand B US$'000	Trademark Brand D US$'000	Total US$'000
Cost and carrying amount at 1 January 2017	1,669	–	1,669
Amortisation provided during the year *(note 6)*	(239)	–	(239)
Acquisition of a subsidiary *(note 29)*	–	4,600	4,600
Cost and carrying amount at 31 December 2017 and 1 January 2018	1,430	4,600	6,030
Amortisation provided during the year *(note 6)*	(238)	–	(238)
Cost and carrying amount at 31 December 2018	**1,192**	**4,600**	**5,792**

Prior to the re-assessment of the useful life of the trademark Brand B at a cost of US$1,669,000 during the year, the trademark Brand B had an indefinite useful life because it can be renewed every 10 years at minimal cost. During the year ended 31 December 2017, the Group re-assessed the useful life of the trademark Brand B with the then carrying value of approximately US$1,430,000 as its estimated useful life was changed from an indefinite life to a definite life of 14 years, because the Group, after the re-assessment, considers that the business relationship with the customer becomes unlikely to continue indefinitely. The change in accounting estimate has been accounted for prospectively during that year.

During the year ended 31 December 2017, the Group acquired the trademark Brand D through the acquisition of a subsidiary, which is considered to have an indefinite useful life because it can be renewed every 10 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, and support that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the trademark is considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows in the foreseeable future. The trademark will not be amortised until its useful life is determined to be finite. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired.

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

	2018 US$'000	2017 US$'000
Brand D	**4,600**	4,600

During the year, management of the Group determined that there was no impairment of its CGU containing the trademark Brand D with an indefinite useful life. The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

17. OTHER INTANGIBLE ASSETS (continued)

The recoverable amount of this CGU has been determined based on a value-in-use calculation. Management believes this CGU has an indefinite useful life. However, for the purposes of the impairment test, the calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14% (2017: 20%) with a 5% to 10% (2017: 5% to 10%) growth rate. This growth rate is based on the furniture industry growth forecasts in the U.S. and does not exceed the average long term growth rate for the furniture industry. This CGU's cash flows beyond the five-year period are extrapolated using a zero growth rate.

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

At 31 December 2018, the Group's intangible assets with a net carrying amount of US$1,192,000 (2017: US$1,430,000) were pledged to banks to secure credit facilities granted to the Group (note 32).

18. INVENTORIES

	2018 ***US$'000***	2017 *US$'000*
Raw materials	**31,537**	40,381
Work in progress	**25,986**	16,447
Finished goods	**82,899**	67,661
	140,422	124,489

At 31 December 2018, the Group's inventories with a carrying amount of US$38,533,000 (2017: US$29,838,000) were pledged as security for the Group's credit facilities, as further detailed in note 32 to the consolidated financial statements.

19. TRADE AND OTHER RECEIVABLES

	2018	2017
	US$'000	*US$'000*
Trade receivables	**85,014**	80,783
Impairment allowance	**(2,659)**	(2,967)
	82,355	77,816
Other receivables and prepayments *(Note)*	**39,110**	28,922
	121,465	106,738

Note: Other receivables and prepayments mainly include advances to suppliers, interest receivables and deposits. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied ranged from 0.12% to 0.27% and the loss given default was estimated to be 100%.

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

	2018	2017
	US$'000	*US$'000*
Within 1 month	**39,526**	48,863
1 to 2 months	**25,073**	14,594
Over 2 months	**17,756**	14,359
	82,355	77,816

19. TRADE AND OTHER RECEIVABLES (continued)

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

	2018 US$'000	2017 US$'000
At beginning of year	**2,967**	2,155
Effect of adoption of HKFRS 9	**–**	–
At the beginning of the year	**2,967**	2,155
Impairment losses recognised *(note 6)*	**291**	967
Amount written off as uncollectible	**(599)**	(155)
At end of year	**2,659**	2,967

Impairment under HKFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate *(%)*	**2.85**	**2.85**	**2.85**	**4.78**	**3.13**
Gross carrying amount *(US$'000)*	**44,526**	**19,114**	**9,259**	**12,115**	**85,014**
Expected credit losses *(US$'000)*	**1,271**	**545**	**264**	**579**	**2,659**

19. TRADE AND OTHER RECEIVABLES (continued)

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables with a carrying amount of US$2,967,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments.

The ageing analysis of the trade receivables as at 31 December 2017 that are were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *US$'000*
Neither past due nor impaired	63,457
Less than 3 months past due	14,359
	77,816

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

As at 31 December 2018, certain subsidiaries had pledged trade and other receivables of approximately US$66,896,000 (2017: US$64,616,000) to secure credit facilities granted to the Group (note 32).

20. HELD-FOR-TRADING INVESTMENTS

	2018	2017
	US$'000	*US$'000*
Debt securities, at fair value:		
Listed in the U.S. with average yield rate of 3.00% to 4.93% and maturity from January 2018 to November 2021	**7,199**	7,289
Listed in Hong Kong with average yield rate of 3.51% to 3.79% and maturity from May 2018 to April 2077	**5,796**	15,724
Listed in Singapore with average yield rate of 4.24% to 4.38% and maturity from March 2020 to November 2027	**3,262**	11,665
Listed in the U.K. with average yield rate of 5.03% and maturity at January 2022	**–**	647
Listed in other jurisdictions with average yield rate of 4.30% to 4.44% and maturity from March 2021 to November 2041	**2,908**	6,483
Investment fund portfolio, at fair value *(Note)*	**146,705**	–
	165,870	41,808

The above investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they are held for trading.

Note: The above investment fund portfolio at 31 December 2018 was a wealth management product issued by United Bancaire Privée in Luxembourg. It was mandatorily classified as financial assets at fair value through profit or loss, as its contractual cash flow was not solely payments of principal and interest.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets	**Liabilities**	Assets	Liabilities
	US$'000	***US$'000***	*US$'000*	*US$'000*
Forward currency contracts	**–**	**–**	342	626
Foreign currency option contracts	**–**	**–**	–	90
	–	**–**	342	716

As at 31 December 2018, the Group had not entered into forward currency contracts and foreign currency option contracts which are not designated for hedge purposes and are measured at fair value through profit or loss. There were no changes in the fair values of non-hedging currency derivatives (2017: US$374,000) charged to the statement of profit or loss during the year.

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

	Note	2018 US$'000	2017 US$'000
Cash and bank balances		**58,394**	74,184
Less: Time deposits with maturity more than three months but less than a year		**(4,200)**	–
		54,194	74,184
Less: Pledged bank deposits:			
Pledged for bank loans	*32*	**(7,962)**	(5,779)
Cash and cash equivalents		**46,232**	68,405

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$8,516,000 (2017: US$13,233,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND OTHER PAYABLES

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

	2018 US$'000	2017 US$'000
Trade payables:		
Within 1 month	**10,836**	16,910
1 to 2 months	**4,433**	5,542
Over 2 months	**7,358**	3,456
	22,627	25,908
Other payables and accruals *(Note)*	**57,980**	60,328
	80,607	86,236

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

Note: Other payables and contract liabilities and accruals mainly include accrued salaries and bonuses, accrued transportation expenses and receipts in advance. The other payables are non-interest-bearing and have no fixed terms of repayment.

23. TRADE AND OTHER PAYABLES (continued)

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

	Notes	**2018** **US$'000**	2017 US$'000
Receipts in advance		**–**	22,718
Contract liabilities	*(a)*	**22,717**	–
Other payables	*(b)*	**5,054**	3,860
Accruals		**30,209**	33,750
		57,980	60,328

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 **US$'000**	1 January 2018 US$'000
Short-term advances received from customers		
Sales of goods	**22,717**	22,718
Total contract liabilities	**22,717**	22,718

Contract liabilities include short-term advances received to deliver furniture. The decrease in contract liabilities in 2018 was mainly due to the net effect of decrease in short-term advances received from customers in relation to the sales of goods at the end of the year, and the new customer loyalty scheme with unutilised award credits amounting to US$483,000, which were granted to customers on purchasing furniture that entitle them to utilise by offsetting the award credits against future purchases under the brand name of Baker.

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

24. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000
Current						
Bank loans – unsecured	2.90 – 3.60	2019	202,953	1.73 – 2.10	2018	33,540
Bank loans – secured			–	1.60 – 2.39	2018	5,489
			202,953			39,029
Non-current						
Bank loans – secured			–	1.60	2034	4,566
			–			4,566
			202,953			43,595

	2018 US$'000	2017 US$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	202,953	39,029
In the second year	–	262
In the third to fifth years, inclusive	–	811
Beyond five years	–	3,493
	202,953	43,595

Notes:

(a) During the year ended 31 December 2017, the Group entered into a credit facility amounted to US$50,000,000. The credit facility was secured by certain assets of the Group and will expire in February 2020. Details of the pledge of assets are disclosed in note 32 to the consolidated financial statements.

(b) The unsecured bank loans and the secured bank loans are denominated in US$ and New Taiwan Dollars ("TWD"), respectively.

25. DEFERRED TAX ASSETS/LIABILITIES

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

	Accelerated tax depreciation *US$'000*	**Others** *US$'000*	**Fair value adjustments arising from acquisition of a subsidiary** *US$'000*	**Total** *US$'000*
At 1 January 2017	1,615	(5,156)	–	(3,541)
Exchange differences	(8)	–	–	(8)
Acquisition of a subsidiary *(note 29)*	–	(3,197)	(4,074)	(7,271)
Deferred tax charged to the statement of profit or loss during the year *(note 10)*	862	3,262	–	4,124
At 31 December 2017 and 1 January 2018	2,469	(5,091)	(4,074)	(6,696)
Exchange differences	(5)	–	–	(5)
Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)*	1,634	(5,154)	3,007	(513)
At 31 December 2018	4,098	(10,245)	(1,067)	(7,214)

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

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

	2018 ***US$'000***	2017 *US$'000*
Deferred tax liabilities	**1,208**	2,735
Deferred tax assets	**(8,422)**	(9,431)
	(7,214)	(6,696)

25. DEFERRED TAX ASSETS/LIABILITIES (continued)

At the end of the reporting period, the Group had unused tax losses of US$32,661,000 (2017: US$32,386,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The unrecognised tax losses comprise an amount of US$22,031,000 (2017: US$21,567,000) that may be carried forward for a period of five years from their respective years of origination. Other losses may be carried forward indefinitely.

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

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately US$8,213,000 (2017: US$7,732,000) as at 31 December 2018.

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

26. SHARE CAPITAL AND SHARE PREMIUM

Shares

	2018 ***US$'000***	2017 *US$'000*
Authorised:		
6,000,000,000 ordinary shares of US$0.05 each	**300,000**	300,000

26. SHARE CAPITAL AND SHARE PREMIUM (continued)

Shares (continued)

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

	Number of shares in issue	Issued share capital US$'000	Share premium account US$'000	Total US$'000
Issued and fully paid				
At 31 December 2016 and 1 January 2017	3,043,609,773	152,180	185,388	337,568
Share options exercised *(Note (a))*	14,650,000	733	665	1,398
Share options exercised *(Note (b))*	60,000,000	3,000	2,571	5,571
	3,118,259,773	155,913	188,624	344,537
Dividend recognised as distribution	–	–	(82,761)	(82,761)
At 31 December 2017 and 1 January 2018	3,118,259,773	155,913	105,863	261,776
Share options exercised *(Note (a))*	650,000	33	29	62
At 31 December 2018	3,118,909,773	155,946	105,892	261,838

(a) During the year, the subscription rights attaching to 650,000 (2017: 14,650,000) share options were exercised at the subscription price of HK$0.67 per share (note 27), resulting in the issue of 650,000 (2017: 14,650,000) shares for a total cash consideration, before expenses, of US$62,000 (2017: US$1,398,000). An amount of US$6,000 (2017: US$140,000) was transferred from the share option reserve to share capital and share premium account upon the exercise of the share options.

(b) During the year ended 31 December 2017, the subscription rights attaching to 60,000,000 share options were exercised at the subscription price of HK$0.66 per share (note 27), resulting in the issue of 60,000,000 shares for a total cash consideration, before expenses, of US$5,571,000. An amount of US$495,000 was transferred from the share option reserve to share capital and share premium account upon the exercise of the share options.

Share options

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

27. SHARE OPTION SCHEME

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

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

The maximum number of shares to be issued in respect of which options may be granted under the 2016 Share Option Scheme, upon their exercise, shall not exceed 10% of the issued share capital of the Company on 18 May 2016, i.e. 304,360,977 shares. As at 31 December 2018, the Company had 26,700,000 (2017: 27,350,000) share options outstanding under the 2016 Share Option Scheme, representing approximately 0.9% of the issued share capital of the Company as at the date this report.

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

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

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

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

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

27. SHARE OPTION SCHEME (continued)

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

	Date of grant	Exercised price HK$/share	Vesting date	Exercise period	Number of share options: Outstanding as at 1.1.2017	Granted during the year	Exercised during the year	Outstanding as at 31.12.2017	Exercise during the year	Outstanding as at 31.12.2018
Director:										
Mr. Mohamad AMINOZZAKERI	6.7.2017	0.66	6.7.2017	6.7.2017-5.7.2022	–	10,000,000	(10,000,000)	–	–	–
					–	10,000,000	(10,000,000)	–	–	–
Other employees:										
In aggregate	11.11.2016	0.67	11.11.2016	11.11.2016-10.11.2021	42,000,000	–	(14,650,000)	27,350,000	(650,000)	26,700,000
	6.7.2017	0.66	6.7.2017	6.7.2017-5.7.2022	–	50,000,000	(50,000,000)	–	–	–
					42,000,000	50,000,000	(64,650,000)	27,350,000	(650,000)	26,700,000
Total					42,000,000	60,000,000	(74,650,000)	27,350,000	(650,000)	26,700,000
Exercisable at the end of the year					42,000,000			27,350,000		26,700,000
Weighted average exercise price (HK$ per share)*					0.67			0.67		0.67

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

No share options were cancelled or lapsed during the year (2017: Nil).

During the year ended 31 December 2018, there was no share option granted (fair value of the share options granted during the year ended 31 December 2017: HK$3,863,000, HK$0.06 each), and the Group did not recognise any share option expense (2017: US$495,000).

27. SHARE OPTION SCHEME (continued)

The fair value of equity-settled share options granted during the year ended 31 December 2017 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2017
Dividend yield (%)	10.88
Expected volatility (%)	34.35
Historical volatility (%)	34.34
Risk-free interest rate (%)	0.88
Expected life of options (year)	5
Weighted average share price (HK$ per share)	1.03

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the date of approval of these consolidated financial statements, the Company had 26,700,000 share options outstanding under the 2016 Share Option Scheme, which represented approximately 0.9% of the Company's issued share capital as at that date. The exercise of the share options would, under the present capital structure of the Company, result in the issue of 26,700,000 additional ordinary shares of the Company and additional share capital of US$2,282,000 (before issue expenses).

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 58 of the consolidated financial statements.

Merger reserve

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

Statutory reserve

Pursuant to the relevant regulations applicable to foreign investment enterprises established in the PRC, LCDG was required to transfer a certain percentage of its profit after taxation to the statutory reserve in accordance with generally accepted accounting principles in the PRC until the reserve balance reaches 50% of its registered capital. The balances of the statutory reserve cannot be reduced except where approval is obtained from the relevant PRC authority to set off accumulated losses or increase capital. LCDG was disposed of in November 2017 and there was no statutory reserve as at 31 December 2018.

29. BUSINESS COMBINATION

On 28 February 2017, the Group acquired a 100% interest in Baker Interiors Group, LTD. (formerly known as "Kohler Interiors Group, LTD.") and its subsidiaries (collectively referred to as "BIG") at a consideration of US$35,000,000. BIG is engaged in the manufacture and sale of a range of casual and luxury lifestyle furniture and home accessories. The acquisition was made as part of the Group's strategy to expand its business into the high-end furniture market. The purchase consideration was fully settled by cash of US$35,000,000 on 28 February 2017.

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

	Notes	**Fair value recognised on acquisition** *US$'000*
Property, plant and equipment	*13*	27,304
Intangible assets (trademark)	*17*	4,600
Deferred tax assets		7,271
Inventories		11,862
Trade and other receivables		5,505
Trade payables		(2,256)
Other payables and accruals		(16,306)
Total identifiable net assets at fair value		37,980
Gain on bargain purchase recognised in other income, gains, losses and expenses in the consolidated statement of profit or loss	*5*	(2,980)
Satisfied by cash		35,000

The fair values and gross contractual amounts of the trade and other receivables as at the date of acquisition amounted to US$5,505,000.

The Group incurred acquisition expenses of US$338,000 for this acquisition. These acquisition expenses have been expensed and included in other expenses in the consolidated statement of profit or loss.

29. BUSINESS COMBINATION (continued)

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

	US$'000
Cash consideration	(35,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(35,000)

30. DISPOSAL OF A SUBSIDIARY

On 1 September 2017, (i) Samson Pacific Company Limited ("SPC"), an indirect wholly-owned subsidiary of the Company; and (ii) New Success (HK) Limited ("New Success"), a company wholly-owned by Auson Group, being a company wholly-owned by Mr. Shan Huei Kuo and Ms. Yi-Mei Liu, the executive directors and controlling shareholders of the Company, entered into a shares transfer agreement, pursuant to which SPC agreed to sell and New Success agreed to acquire the entire issued share capital of Lacquer Craft Manufacturing Co., Ltd. (Dongguan) ("LCDG").

The transaction was completed on 27 November 2017 at a total consideration of approximately US$72,215,000. Upon completion, LCDG ceased to be a subsidiary of the Company and its financial results, assets and liabilities were ceased to be consolidated with those of the Group.

Upon completion of the transaction, the Group recorded gain on disposal of a subsidiary of approximately US$75,301,000. The gain was mainly derived from (i) the premium of the consideration of US$72,215,000 over the net assets of LCDG recorded as at 27 November 2017 of US$9,696,000; and (ii) the exchange and the other reserves that were released as a result of the disposal for the amount of approximately US$12,782,000.

This constitutes a connected transaction under The Rules Governing the Listing of Securities on the Stock Exchange and details of the transaction were set out in the announcements of the Company dated 1 September 2017 and 27 November 2017, and the circular of the Company dated 17 October 2017.

30. DISPOSAL OF A SUBSIDIARY (continued)

Details of the aggregate net liabilities of LCDG disposed of in year ended 31 December 2017 and their financial impacts are summarised below:

	Notes	2017 *US$'000*
Net liabilities disposed of:		
Property, plant and equipment	*13*	14,196
Prepaid land lease payments	*15*	5,431
Cash and bank balances		755
Trade and other receivables		1,685
Trade payables		(2,290)
Other creditors and accruals		(8,008)
Tax payable		(2,073)
		9,696
Statutory reserve		(1,174)
Exchange fluctuation reserve		(11,608)
		(3,086)
Gain on disposal of a subsidiary	*5*	75,301
		72,215
Satisfied by:		
Cash		72,215

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017 *US$'000*
Cash consideration	72,215
Cash and bank balances disposed of	(755)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	71,460

The gain on the disposal of a subsidiary was included in revenue, other income, gains, losses and expenses (note 5) in the consolidated statement of profit or loss.

31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group disposed certain prepaid land lease, of which sales proceeds of approximately US$12,160,000 have not been received at the reporting period and have been recorded in other receivables (note 19).

(b) Changes in liabilities arising from financing activities

	Bank loans *US$'000*
At 1 January 2017	110,357
Changes from financing cash flows:	
Proceeds from new bank loans	38,771
Repayment of bank loans	(105,901)
Exchange realignment	368
At 31 December 2017 and 1 January 2018	**43,595**
Changes from financing cash flows:	
Proceeds from new bank loans	**202,953**
Repayment of bank loans	**(43,495)**
Exchange realignment	**(100)**
At 31 December 2018	**202,953**

32. PLEDGE OF ASSETS

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

	Notes	**2018** ***US$'000***	2017 *US$'000*
Property, plant and equipment	*13*	**53,107**	57,730
Investment properties	*14*	**7,690**	7,918
Other intangible assets	*17*	**1,192**	1,430
Inventories	*18*	**38,533**	29,838
Trade and other receivables	*19*	**66,896**	64,616
Pledged bank deposits	*22*	**7,962**	5,779
		175,380	167,311

33. OPERATING LEASE ARRANGEMENTS

(a) As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	US$'000	*US$'000*
Within one year	**8,591**	8,665
In the second to fifth years, inclusive	**23,379**	18,831
Over five years	**11,718**	3,630
	43,688	31,126

Operating lease payments represent rentals payable by the Group for its factories, staff quarters, equipment and showrooms. Lease terms range from one to ten years. Operating lease payments also include a rental payable by the Group for its leasehold interest in land and buildings with a remaining lease term of 4 (2017: 5) years.

(b) As lessor

Property rental income earned from the lease of a warehouse facility during the year was US$1,289,000 (2017: US$1,254,000). The warehouse facility held has committed tenants for the next 4 (2017: 5) years.

At the end of the reporting period, the Group had contracts with tenants and sub-lessees for the following future minimum lease payments under non-cancellable operating leases:

	2018	2017
	US$'000	*US$'000*
Within one year	**1,324**	1,275
In the second to fifth years, inclusive	**3,975**	3,920
Over five years	**–**	1,341
	5,299	6,536

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2018 US$'000	2017 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted, but not provided for, in the consolidated financial statements	29,221	8,331

35. RELATED PARTY TRANSACTIONS

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

Name of related company	Nature of transaction	*Notes*	2018 US$'000	2017 US$'000
Samson Global Co., Ltd.	Rental paid	*(a)*	40	39
New Success (HK) Limited	Gain on disposal of a subsidiary	*(b)*	–	75,301

Notes:

(a) Samson Global Co., Ltd. is beneficially owned and jointly controlled by Mr. Shan Huei Kuo and Ms. Yi-Mei Liu, both being directors and ultimate controlling shareholders of the Company.

(b) During the year ended 31 December 2017, the Group disposed a subsidiary, LCDG, to New Success (HK) Limited, a connected person, at a consideration of approximately US$72,215,000. Further details of the transaction are included in note 30 to the consolidated financial statements and the announcements of the Company dated 1 September 2017 and 27 November 2017, and the circular of the Company dated 17 October 2017.

35. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of members of key management personnel (including the directors of the Company as detailed in note 8 to the consolidated financial statements) during the year was as follows:

	2018	2017
	US$'000	*US$'000*
Short term benefits	**3,483**	3,181
Retirement benefit scheme contributions	**–**	–
	3,483	3,181

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

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss		
	Held for trading	**Financial assets at amortised cost**	**Total**
	US$'000	***US$'000***	***US$'000***
Trade receivables	**–**	**82,355**	**82,355**
Financial assets included in prepayments and other receivables	**–**	**31,341**	**31,341**
Held-for-trading investments	**165,870**	**–**	**165,870**
Pledged bank deposits	**–**	**7,962**	**7,962**
Short term bank deposits	**–**	**4,200**	**4,200**
Cash and cash equivalents	**–**	**46,232**	**46,232**
	165,870	**172,090**	**337,960**

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2018 (continued)

Financial liabilities

	Financial liabilities at amortised cost US$'000	Total US$'000
Trade payables	22,627	22,627
Financial liabilities included in other payables and accruals	33,056	33,056
Interest-bearing bank borrowings	202,953	202,953
	258,636	258,636

2017

Financial assets

	Financial assets at fair value through profit or loss		
	Held for trading US$'000	Loans and receivables US$'000	Total US$'000
Trade receivables	–	77,816	77,816
Financial assets included in prepayments and other receivables	–	18,739	18,739
Held-for-trading investments	41,808	–	41,808
Derivative financial instruments	342	–	342
Pledged bank deposits	–	5,779	5,779
Cash and cash equivalents	–	68,405	68,405
	42,150	170,739	212,889

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2017 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Held for trading	Financial liabilities at amortised cost	Total
	US$'000	*US$'000*	*US$'000*
Trade payables	–	25,908	25,908
Financial liabilities included in other payables and accruals	–	54,730	54,730
Derivative financial instruments	716	–	716
Interest-bearing bank borrowings	–	43,595	43,595
	716	124,233	124,949

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade receivables, trade payables, financial assets included in other receivables and prepayments, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the executive directors and the Audit Committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the executive directors. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Level 1 and Level 2 fair values of the held-for-trading investments are based on quoted market prices and quotes from financial institutions, respectively.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Total
	US$'000	*US$'000*	*US$'000*
As at 31 December 2018			
Held-for-trading investments	**19,165**	**146,705**	**165,870**
	19,165	**146,705**	**165,870**
As at 31 December 2017			
Held-for-trading investments	41,808	–	41,808
Derivatives financial instruments	–	342	342
	41,808	342	42,150

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: (continued)

Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2) *US$'000*
As at 31 December 2017	
Derivative financial instruments	716

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, held-for-trading investments, derivative financial instruments, pledged bank deposits, short term bank deposits, cash and cash equivalents, trade and other payables and interest-bearing bank borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 8% (2017: 8%) of the Group's sales were denominated in currencies other than the units' functional currencies, whilst approximately 55% (2017: 52%) of purchases were denominated in the units' functional currencies.

Certain operating units have foreign currency denominated purchases and, accordingly, the Group has trade and other payables denominated in foreign currencies. In addition, the Group has bank balances and bank borrowings denominated in currencies other than the functional currencies of the operating units. As a result, the Group is exposed to foreign currency risk.

The Group has entered into forward currency contracts and foreign currency option contracts to manage its foreign currency exposure.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB and GBP exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in foreign currency rate	Increase/ (decrease) in profit before tax
	%	*US$'000*
2018		
If the US$ weakens against the RMB	**5%**	**(604)**
If the US$ strengthens against the RMB	**5%**	**604**
If the US$ weakens against the GBP	**5%**	**358**
If the US$ strengthens against the GBP	**5%**	**(358)**
2017		
If the US$ weakens against the RMB	5%	1,697
If the US$ strengthens against the RMB	5%	(1,697)
If the US$ weakens against the GBP	5%	377
If the US$ strengthens against the GBP	5%	(377)

Credit risk

As at 31 December 2018, the credit risk of the Group which would cause a financial loss to the Group arose from counterparties failing to perform an obligation, with the maximum exposure equal to the carrying amounts of the recognised financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group sets appropriate credit limits for customers, follows up overdue debts and reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed held-for-trading investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Trade receivables*	–	–	–	82,355	82,355
Financial assets included in prepayments and other receivables					
– Normal**	31,341	–	–	–	31,341
Held-for-trading investments	165,870	–	–	–	165,870
Pledged bank deposits	7,962	–	–	–	7,962
Short term bank deposits	4,200	–	–	–	4,200
Cash and cash equivalents	46,232	–	–	–	46,232
	255,605	–	–	82,355	337,960

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure and year-end staging as at 31 December 2017

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with good reputation.

In addition, the credit risk on held-for-trading investments is limited as management manages this exposure by maintaining a portfolio of investments with different risk profiles and listed in different stock exchange markets.

The Group is principally engaged in the furniture industry, and there was a significant concentration of credit risk within the Group as 86% (2017: 88%) of the total trade receivables were from the U.S. as at 31 December 2018. The Group also has a concentration of credit risk by customers as 42% (2017: 50%) and 23% (2017: 24%) of the total trade receivables were due from the Group's five largest customers and largest customer, respectively.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's liquidity position is monitored closely by the management of the Company.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand or less than 3 months *US$'000*	**3 to less than 12 months** *US$'000*	**Over 1 year** *US$'000*	**Total** *US$'000*
2018				
Interest-bearing bank borrowings	**205,108**	**4,373**	**–**	**209,481**
Trade payables	**15,269**	**7,358**	**–**	**22,627**
Other payables and accruals	**57,980**	**–**	**–**	**57,980**
	278,357	**11,731**	**–**	**290,088**

	On demand or less than 3 months *US$'000*	3 to less than 12 months *US$'000*	Over 1 year *US$'000*	Total *US$'000*
2017				
Interest-bearing bank borrowings	16,750	22,610	5,148	44,508
Trade payables	22,452	3,456	–	25,908
Other payables and accruals	60,328	–	–	60,328
Derivative financial instruments	–	586	130	716
	99,530	26,652	5,278	131,460

The above amounts relating to the variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes bank borrowings disclosed in note 24 to the consolidated financial statements, and equity attributable to the owners of the parent, comprising issued capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or redemption of existing debt.

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group monitors capital using a gearing ratio, which is debt divided by equity. The Group's policy is to maintain the gearing ratio at a suitably low level. Debt includes interest-bearing bank borrowings. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2018 ***US$'000***	2017 *US$'000*
Debt	**202,953**	43,595
Equity	**370,163**	375,693
Gearing ratio	**54.8%**	11.6%

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 *US$'000*	2017 *US$'000*
NON-CURRENT ASSET		
Investments in subsidiaries	216,746	216,746
CURRENT ASSETS		
Due from subsidiaries	151,500	197,171
Other receivables	396	1,418
Cash and cash equivalents	1,906	772
Total current assets	153,802	199,361
CURRENT LIABILITIES		
Other payables	371	353
Due to subsidiaries	14	72,228
Total current liabilities	385	72,581
NET CURRENT ASSETS	153,417	126,780
TOTAL ASSETS LESS CURRENT LIABILITIES	370,163	343,526
EQUITY		
Issued capital	155,946	155,913
Reserves *(Note)*	214,217	187,613
Total equity	370,163	343,526

Shan Huei KUO
Director

Yi-Mei LIU
Director

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium US$'000	Capital redemption reserve US$'000	Contributed surplus US$'000	Share option reserve US$'000	(Accumulated losses)/ retained profits US$'000	Total US$'000
At 1 January 2017	185,388	1,012	80,186	402	(58,243)	208,745
Total comprehensive income for the year	–	–	–	–	58,533	58,533
Dividend recognised as distribution	(82,761)	–	–	–	–	(82,761)
Issue of new shares	3,236	–	–	(635)	–	2,601
Equity-settled share options arrangements	–	–	–	495	–	495
At 31 December 2017 and 1 January 2018	105,863	1,012	80,186	262	290	187,613
Total comprehensive income for the year	–	–	–	–	40,488	40,488
Dividend recognised as distribution	–	–	–	–	(13,907)	(13,907)
Issue of new shares	29	–	–	(6)	–	23
At 31 December 2018	105,892	1,012	80,186	256	26,871	214,217

* Contributed surplus represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's shares issued in exchange therefor pursuant to a group reorganisation.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 20 March 2019.

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
REVENUE	**478,800**	487,541	434,050	435,146	415,799
Profit before impairment loss of an available-for-sale investment	**20,847**	105,611	11,328	7,055	22,211
Impairment loss on an available-for-sale investment	**–**	–	–	–	–
Profit before taxation	**20,847**	105,611	11,328	7,055	22,211
Taxation	**(2,932)**	(15,549)	(4,783)	(4,214)	(4,715)
Profit for the year	**17,915**	90,062	6,545	2,841	17,496

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Total assets	**665,870**	520,002	561,327	625,066	775,497
Total liabilities	**(295,707)**	(144,309)	(190,159)	(195,920)	(286,929)
Total equity	**370,163**	375,693	371,168	429,146	488,568