LY CORPORATION
LIMITED

REMAINING RESILIENT

2019
Annual Report

CORPORATE PROFILE

LY Corporation Limited and its subsidiaries (collectively the "**Group**") is one of Malaysia's leading manufacturers and exporters of wooden bedroom furniture. With an established track record of more than 40 years in the furniture industry, the Group is an established original design manufacturer ("**ODM**") principally engaged in the design and manufacturing of custom wooden bedroom furniture, and the manufacturing of custom wooden bedroom furniture which may be tailored to customers' specifications and requirements on an original equipment manufacturer ("**OEM**") basis.

In January 2019, the Group entered into original brand manufacturing via the acquisition of the assets of Cubo Sdn Bhd, which manufactures and markets furniture under the EZBO and CUBO brands.

The Group currently operates from 19 factories and warehouses, occupying a combined built-up area of approximately 1.6 million sq ft. Our products are sold mainly to overseas dealers such as furniture wholesalers and retailers who generally resell our products to end-users through their respective retail networks and domestic customers who are primarily third party agents who typically export and resell our products outside Malaysia, such as to the U.S.

LY Corporation Limited was listed on Catalist of Singapore Exchange Securities Trading Limited on 31 January 2018.

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Vision

We aspire to be a world-class wooden bedroom furniture manufacturer providing quality products for all dream homes globally.

Mission

We aim to be a world-class provider of QUALITY wooden bedroom furniture at competitive prices for our customers. We build win-win partnerships across our value chain, so that all our stakeholders will be successful together.

Remaining Resilient

Looking ahead, the operating environment is expected to remain challenging as there is still uncertainty as to how the US-China trade war and the recent COVID-19 outbreak will affect the Group's growth moving forward.

We will continue to adapt and build a strong foundation by driving new initiatives that will allow the Group to grow sustainably in the midst of volatile global economic conditions. We are confident that we can forge ahead and emerge stronger as we grow our existing business by expanding our furniture product range, and EZBO and CUBO original brand manufacturing business.

GROUP STRUCTURE

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

2019 has been another challenging year for us. With trade tensions between the United States of America ("**US**") and China persisting throughout the year, we have had to remain prudent when navigating the unpredictable global economic climate. Nevertheless, we have continued to remain steady in our operations.

The Year in Review

Despite the difficult operating conditions, the Group achieved net profit attributable to shareholders of RM3.1 million in financial year ended 31 December 2019 ("**FY2019**"). Revenue declined slightly by 6.6% to RM245.9 million, mainly due to lower demand from our US-based customers. However, this dip was partially offset by an increase in average selling price per container as a result of the strengthening of the US dollar against Malaysian Ringgit ("**RM**"). We were also heartened to see a slight pickup in business from the second half of the year, with more purchases from our customers in the US starting in July 2019.

This year, we diversified into the manufacturing of millworks products which are categorised as building materials. In the second half of 2019, we invested more than RM5.0 million in refurbishing two of our existing factories and building a production line dedicated towards the manufacturing of millwork products in Batu Pahat, Malaysia. Our first container of millwork products was shipped in January 2020.

We have also expanded into the original brand manufacturing ("**OBM**") business following our acquisition of Cubo Sdn. Bhd.'s business and assets in January 2019 through our subsidiary, Leyo Holdings Sdn. Bhd. ("**Leyo Holdings**"). Consequently, we now own the production and brand names of the EZBO easy-to-assemble and space-saving furniture line, as well as the CUBO custom-made line. During the year, we invested more than RM4.0 million in purchasing and upgrading machinery and equipment for the OBM business, and also recently moved to a new production facility located in Batu Pahat, Malaysia which has more than double the space of our previous factory. Moving forward, these enhancements will allow us to further increase our production capacity, optimise our operations, and grow our OBM business. The EZBO line, in particular, has gained traction among consumers in Japan, spurred by our marketing efforts via wholesale, retail, and online channels.

Initiatives for Growth

Moving forward, our key growth driver will be our core original design manufacturer ("**ODM**") business. Leveraging on the expertise of our subsidiary, Leyo Manufacturing Sdn. Bhd., we hope to incorporate elements of ready-to-assemble furniture into our signature wooden bedroom furniture products. Adding ready-to-assemble elements will make our bedroom furniture sets more portable and easier to assemble, and we are hopeful that this will appeal to a new customer segment of shoppers who purchase easy-to-assemble furniture online.

MESSAGE TO SHAREHOLDERS

Additionally, we are also looking to expand our ODM product offerings to include kitchen cabinets with the refurbishing of one of our existing factories and building a production line with a total investment cost of more than RM5.0 million. We expect to commence production in the third quarter of 2020. Our expansion was motivated by recent anti-dumping laws passed by the US against China-made kitchen cabinets, as we expect an opportunity to take over some of the market share previously held by China manufacturers.

We also intend to explore more avenues for growth for our OBM segment, in particular, the Asia Pacific region. We plan to intensify our marketing efforts for Japan and South Korea, with the view of expanding our customer base for our existing EZBO line, as we believe these markets are ripe with potential.

While US-China trade tensions seem to have abated slightly, the global economy has been noticeably affected by the recent COVID-19 outbreak. The current outbreak of COVID-19 has cast uncertainty to the general economic environment which may then affect our Group's short-term performance, especially on the potential disruption to our supply chain, manpower and demand from our customers.

In mid-March 2020, in adherence with the Government of Malaysia's Movement Control Order, the Group suspended our operations in Malaysia. However, upon receiving conditional approval from the Malaysian Timber Industry Board on 27 March 2020, we were able to resume operations on 30 March 2020. At this juncture, the Group is still assessing the financial impact of both the temporary suspension of operations, and the overall impact of the COVID-19 pandemic. As the effects of the pandemic are ever-evolving, we will continue to monitor the situation closely.

Meanwhile, we will remain vigilant and resilient by cautiously exploring new initiatives that will allow the Group to grow sustainably in the midst of volatile global economic conditions.

Dividend

For our shareholders, the Board of Directors ("**Board**") has recommended a first and final dividend of 0.083 Singapore cent per ordinary share, which is subject to shareholders' approval at the upcoming Annual General Meeting. This represents a dividend payout of 40.0% of our net profit attributable to shareholders.

Appreciation

On behalf of the Board, we would like to express our gratitude to our stakeholders, customers, and business partners, for their continued support. Additionally, we would also like to extend our appreciation to our fellow Board members, as well as the management team and employees at LY, for their continued dedication and commitment to the Group. As always, we remain committed towards delivering sustainable returns for our shareholders, and we thank you for your continued confidence.

Tan Kwee Chai
Executive Chairman

Tan Yong Chuan
Executive Director and Chief Executive Officer

FINANCIAL REVIEW

LY Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") recorded revenue of RM245.9 million in the financial year ended 31 December 2019 ("**FY2019**"), down 6.6% from RM263.1 million for the financial year ended 31 December 2018 ("**FY2018**"). This was mainly attributable to a decrease in the number of laden containers ("40-ft containers") sold from 5,232 40-ft containers to 4,866 40-ft containers in FY2019 as a result of lower demand from customers mainly from the United States of America ("**US**"). However, this was partially offset by a slight increase in the average selling price per container from RM50,000 to RM51,000 in FY2019 due to the strengthening of the United States Dollar ("**USD**") against Malaysian Ringgit ("**RM**"). The average movement of USD against RM strengthened by approximately 2.7% in FY2019 as compared to previous year.

Cost of sales rose by 2.4% to RM224.6 million in FY2019 from RM219.2 million a year ago mainly due to an increase in labour costs, as well as water and electricity charges.

Gross profit declined by 51.5% to RM21.3 million in FY2019. Gross profit margin fell from 16.7% to 8.7% in FY2019, mainly due to a different product mix sold during the year which resulted in a higher proportionate increase in labour costs.

Interest income grew by 9.7% to RM0.7 million arising from higher cash being placed under short term deposits in the bank account maintained in Malaysia.

Other income dropped by 56.6% to RM2.0 million as a result of the Company selling lesser boards to LP Global Resources Sdn. Bhd. to manufacture front drawers for most of our models (including lamination services) in FY2019, due to a drop in demand from the Group's customers.

Selling and administrative expenses rose by 9.0% to RM19.4 million mainly due to an increase in depreciation of property, plant and equipment, staff costs, wastage disposal costs, professional fees, service tax, and entertainment and general office expenses.

Other expense jumped by 297.7% to RM0.7 million largely due to higher net foreign exchange loss in FY2019.

As a result, the Group recorded a net profit of RM1.7 million in FY2019, compared to RM14.9 million in FY2018. The net profit attributable to the owners of the Company decreased to RM3.1 million in FY2019, compared to RM14.9 million in FY2018.

FINANCIAL POSITION

The Group's net asset value as at 31 December 2019 was RM220.4 million, which translates into a net asset value per share of RM0.45.

Non-current assets

Non-current assets increased 25.6% to RM167.3 million as at 31 December 2019 mainly due to (i) an increase in property, plant and equipment and intangible assets; and (ii) recognition of right-of-use assets following the adoption of the new lease accounting standard, SFRS (I) 16.

Property, plant and equipment increased by 17.9% to RM141.2 million mainly due to purchase of machinery and equipment (including the assets acquired from LP Global Resources Sdn. Bhd.), construction of workers' hostel, and expansion of office building.

Right-of-use assets of RM22.4 million relates to right to use leases by the Group over the respective lease period following the adoption of SFRS (I) 16. This includes a leasehold land of RM2.7 million purchased from LP Global Resources Sdn. Bhd..

Intangible assets of RM3.0 million consists of trademarks and goodwill arising from the acquisition of the business of Cubo Sdn. Bhd., including the EZBO and CUBO tradenames, in January 2019.

Current assets

Current assets fell 16.7% to RM112.3 million mainly due to a decrease in cash and cash equivalents and contract assets, which was partially offset by an increase in inventories, trade and other receivables, and prepaid operating expenses.

Contract assets comprised the right to consideration for goods produced but not yet billed as at 31 December 2019 for sale of goods. The decline in contract assets by 41.3% to RM6.3 million was mainly due to the completion of production of goods to be delivered in the first quarter of 2020.

Inventories grew by 18.0% to RM40.9 million mainly due to an increase in the Group's inventories towards the end of FY2019 to meet the anticipated orders in the following quarter.

Trade and other receivables comprised trade receivables, receivables from related parties, deposits and other receivables. Trade and other receivables rose by 14.1% to RM26.7 million largely due to higher sales towards the end of the year.

Prepaid operating expense grew by 8.3% to RM1.3 million as a result of higher expenses being paid in advance as at year end.

Current liabilities

Current liabilities rose by 35.8% to RM37.3 million mainly due to (i) an increase in loan and borrowings, trade and other payables, contract liabilities, and accrued expenses; as well as (ii) recognition of lease liabilities following the adoption of the new lease accounting standard, SFRS (I) 16.

Loans and borrowings comprised bankers' acceptance and other financing arrangements. Loans and borrowings grew by 139.0% to RM6.2 million mainly due to an increase in the usage of bankers' acceptance towards the end of the year.

Trade and other payables comprised trade payables, amount due to related parties, and other payables. Trade and other payables jumped 27.8% to RM29.1 million mainly due to higher purchase of raw materials towards the year's end, purchase of more machineries towards the year end and insurance premium payable after year end.

Contract liabilities of RM0.2 million comprised the Group's obligation to transfer goods or services to customers for which the Group has received consideration from customers as at 31 December 2019.

On adoption of SFRS(I) 16, the Group recognised lease liabilities of RM1.1 million relating to present value of future lease payments for use of underlying leases.

Accrued expenses comprised accrued operating expenses and advances from customers. Accrued expenses rose by 34.5% to RM0.7 million largely due to higher accrued expenses arising from the increase in the Group's audit fee.

Non-current liabilities

Non-current liabilities increased by 39.9% to RM21.8 million mainly due to recognition of non-current lease liabilities of RM5.4 million following the adoption of SFRS (I) 16.

CASH FLOW

The Group's cash and cash equivalents declined from RM64.7 million as at 31 December 2018 to RM36.1 million as at 31 December 2019.

In line with the decrease in revenue, the Group recorded a lower net cash flows from operating activities of RM8.8 million in FY2019 compared to RM22.9 million in FY2018.

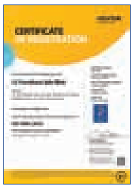
The Group recorded net cash flows used in investing activities of RM33.9 million in FY2019 mainly due to (i) purchase of new and used machineries, and motor vehicles; (ii) acquisition of right-of-use asset (leasehold land); and (iii) acquisition of businesses from Cubo Sdn Bhd, and LP Global Resources Sdn. Bhd..

Net cash flows used in financing activities was RM3.6 million in FY2019 mainly due to payment of dividends, which was partially offset by the net proceeds from borrowings.

AWARDS & ACCREDITATIONS

2019

- ISO 45001:2018 for the management system related to the manufacture of wooden furniture

2018

- ISO 9001:2015 for the management system related to the manufacture of wooden furniture

2016

- Eminent Eagle Award (2nd place)

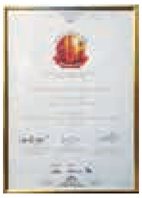


2015

- Eminent Eagle Award (no placement)

2013

- Award of Industrial Excellence in the category of Furniture Factory

2009

- Asian Furniture Leadership Award
- Corporate Social Responsibility Award

2008

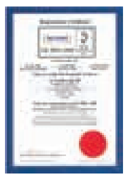
- ISO 9001:2008 for the quality management system related to the manufacture of wooden furniture
- ISO 9001:2008 for the quality management system applicable to the manufacture of wooden furniture


2006

- Best Performing Company Award 2005

2004

- ISO 9001:2000 for quality system related to manufacturing and trading of wooden made furniture



2003

- Global Top Enterprise Golden Rim Award
- Golden Bull Award for Malaysia's 100 Outstanding SMEs (2nd place)
- Enterprise 50 Award (2nd place)

2002

- Enterprise 50 Award (3rd place)
- Asia Pacific International Honesty Enterprise – Keris Award 2002

CORPORATE SOCIAL RESPONSIBILITY

At LY Corporation Limited ("**LY Corporation**"), responsible corporate citizenry is a core pillar of our business philosophy and sustainability strategy. We embrace our responsibility to our employees, shareholders, business partners and the communities in which we operate, and are committed to achieving long-term mutually sustainable relationships with our stakeholders.

Our corporate social responsibility ("**CSR**") mission took shape in 2012. Since then, we have actively played our part in caring for the community and lending a helping hand to the less privileged in society and those communities in need. We recognise the importance of encouraging our employees to play an active role in the communities of which we are a part of, and in doing so, develop their leadership potential, corporate camaraderie, community spirit and environmental awareness.

We regularly support various organisations within our community. We have made donations and held fundraising events in support of the local schools and charity bodies, some of which are applied towards the construction of school buildings. We also encourage our various stakeholders such as employees, suppliers and subcontractors to participate in blood donation events which we hold in conjunction with the local general hospital annually.

In 2019, LY Corporation and our subsidiaries continued our policy of charitable donation to support charitable causes in the communities we operate in. Some of the key projects were donations for Kelab Amal Batu Pahat, Johor and Persatuan Peniaga-Peniaga Perabut Batu Pahat, Johor.

As a regular supporter for blood donation, our annual blood donation drive was conducted on 19 June 2019 where approximately 100 of our employees generously participated to donate blood to the blood bank of a local government hospital.

Additionally, we are committed towards sustainable manufacturing and production. Some of our other key corporate initiatives include:

(a) Sustainable wood sourcing

We strive to reduce the environmental impact of our manufacturing operations by using more materials from sustainable sources, such as rubberwood from rubber trees from designated plantation land that are due for replacement, having gone past their optimal latex-producing cycle, as well as using recycled wood such as compressed moulded wood manufactured from waste wood chips.

(b) Recycling of wood waste

We recycle our wood waste as feedstock for our factory boiler to produce heat required for our production process. For example, steam generated contributes to more than 50.0% of the heating requirements for our spray painting process.

(c) Usage of environmentally-friendly materials

We are committed to the responsible use and protection of the natural environment by using materials for our production process which are environmentally-friendly. This includes water-based paint, Environmental Protection Agency's Toxic Substance Control Act Title VI (EPA TSCA Title VI)-compliant raw materials and lead-content-free coating materials.

BOARD OF DIRECTORS

Mr Tan Kwee Chai

Executive Chairman

Mr Tan Kwee Chai is one of our founders and was appointed to the Board on 20 December 2017 as an Executive Chairman. He was re-elected on 25 April 2019. He has been in the furniture manufacturing and design industry for more than 40 years. He was one of the founders of Lian Yu Furniture Co. ("**Lian Yu**") which was subsequently corporatised when LY Furniture Sdn. Bhd ("**LYFSB**") was incorporated to take over the business of Lian Yu in July 1991. Mr Tan has been a director of LYFSB since its incorporation. He is responsible for our Group's overall management and operations, including formulating our Group's strategic directions and expansion plans. He has been instrumental in our Group's growth, leading to the expansion of our business and operations.

Mr Tan is presently the honorary advisor to the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCIM), advisor to the Federation of Johor Furniture Manufacturers and Traders Association, honorary president of the Batu Pahat Chinese Chamber of Commerce and honorary president of the Batu Pahat Furniture Association.

Present directorships in listed companies (other than the Company)	Past directorships in listed companies (for last three years)
None	None

Mr Tan Yong Chuan

Executive Director and Chief Executive Officer

Mr Tan Yong Chuan was appointed to the Board on 24 October 2016 as an Executive Director and was redesignated as an Executive Director and Chief Executive Officer on 20 December 2017. He was re-elected on 23 April 2018. He joined our Group in January 2011. He is responsible for the overall management, operations and strategic planning of our Group, including overseeing the finance functions of our Group. Prior to joining our Group, he was an audit senior at Deloitte Kassim Chan, where he was involved in statutory audit engagements for both listed and non-listed companies in the fields of manufacturing, trading, services and agriculture.

He obtained a Bachelor of Commerce in Accounting from Universiti Tunku Abdul Rahman in Malaysia in 2008. He is a fellow member of the Association of Chartered Certified Accountants and a Chartered Accountant with the Malaysian Institute of Accountants.

Present directorships in listed companies (other than the Company)	Past directorships in listed companies (for last three years)
None	None

BOARD OF DIRECTORS

Ms Tan Ai Luang

Executive Director

Ms Tan Ai Luang was appointed to the Board on 20 December 2017 as an Executive Director. She was re-elected on 23 April 2018. She joined our Group in February 1999. She is responsible for the sales and marketing activities of our Group including overseeing the prototype and industrial engineering, purchasing and procurement and exporting and shipping departments. She commenced her career in October 1997 with Timberplus Creation Pte. Ltd. as a showroom manager, where she was involved in the selling of furniture to end users. In February 1999, she joined our Group as a marketing manager. Between 2005 to 2011, she set up a trading company, Mixpro Resources Sdn. Bhd., which was involved in the business of furniture trading. In July 2012, she returned to our Group as an assistant general manager, where she was responsible for the overall supervision of sales and marketing and custom and shipping functions of our Group.

She obtained a Bachelor of Arts in Communication from Universiti Kebangsaan Malaysia in 1998.

Present directorships in listed companies (other than the Company)	Past directorships in listed companies (for last three years)
None	None

Mr Lee Dah Khang

Lead Independent Director

Mr Lee Dah Khang was appointed to the Board on 20 December 2017 as an Independent Director. He was re-elected on 23 April 2018. Mr Lee is our Lead Independent Director. He has more than 20 years' experience in providing external audit, internal audit and consultancy services, and is currently a director of Yang Lee Consulting Pte Ltd, a management consulting firm which he set up since 2005. His experience in corporate risk advisory, internal audits, financial due diligence and accounting solutions extends across South East Asia, the People's Republic of China, Eastern Europe and Australia.

Mr Lee graduated with a Bachelor of Accountancy from Nanyang Technological University in June 1995. He is a Fellow Chartered Accountant of the Institute of Singapore Chartered Accountants, a Certified Internal Auditor of the Institute of Internal Auditors and a Practising Management Consultant of the Practising Management Consultant Certification Board.

Present directorships in listed companies (other than the Company)	Past directorships in listed companies (for last three years)
Memiontec Holdings Ltd	GS Holdings Limited

BOARD OF DIRECTORS

Mr Oh Seong Lye

Independent Director

Mr Oh Seong Lye was appointed to the Board on 20 December 2017 as an Independent Director and is also the Chairman of our Audit Committee. He was re-elected on 25 April 2019.

Mr Oh is a London (England) trained Chartered Accountant. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Chartered Accountant of the Malaysian Institute of Accountants, a Chartered Accountant of the Institute of Singapore Chartered Accountants and an ASEAN Chartered Professional Accountant. He holds an Executive Master of Business Administration degree from United Business Institute, a Brussels-based business school.

In 1975, after serving his 4 years' articleship with 2 London firms of Chartered Accountants and after a year of post-qualifying experience there, he returned to Malaysia and worked for SGV-Kassim Chan (a "big-eight" accounting firm) as a supervisory management consultant for 2 years and thereafter as a senior accountant for about a year for Overseas Union Bank Ltd in Kuala Lumpur. In 1978, he started his accounting practice under Terence Oh & Associates and has been in public practice up to this present time. In 1982, his firm became a member of Horwath International (from 1982 to 1992) when he became the Executive Chairman and International Liaison Partner of Horwath Malaysia (concurrently also practising under Terence Oh & Associates) and was also a Director of Horwath Asia Pacific. During that period, his firm was the external auditors and tax agents for 2 commercial Malaysian banks, several other financial institutions and insurance companies and other substantial private enterprises. He had also personally undertaken large receivership and liquidation assignments, and conducted, together with foreign partners, market and financial feasibility studies for several organisations involved in the hospitality business and tourism industry. He has therefore, vast experience in the fields of professional accountancy and corporate and business consultancy.

Mr Oh was previously a director of 2 Bursa Malaysia public listed companies and was also the founder/promoter and first Honorary Secretary of a national manufacturing association and a past Honorary Secretary-General of a national tourism-related association. He had also acted as a consultant to the Centre of Corporate Excellence, Institute of Professional Development, Open University Malaysia, for its financial services programme.

Present directorships in listed companies (other than the Company)	Past directorships in listed companies (for last three years)
Inari Amertron Berhad Insas Berhad	None

Mr Yeo Kian Wee Andy

Independent Director

Mr Yeo Kian Wee Andy was appointed to the Board on 20 December 2017 as an Independent Director. He was re-elected on 23 April 2018. Mr Yeo is presently a Partner at Eldan Law LLP. He has over 20 years of experience in legal practice.

He began his career as a trainee with the Legal Service Commission in March 1996, before becoming an assistant registrar of the Supreme Court in July 1996. He was appointed as a magistrate and a coroner in the State Courts from September 1997 to September 1998. In October 1998, he joined the Attorney-General's Chambers as a state counsel and deputy public prosecutor. He left Allen & Gledhill LLP after 18 years and is now practising with Eldan Law LLP.

Mr Yeo graduated with a Bachelor of Laws from the National University of Singapore in 1996 and was admitted as an advocate and solicitor in Singapore in 2000. He is also a non-practising solicitor of England and Wales, having been admitted to the Roll of Solicitors of England and Wales in 2010. Mr Yeo has been an accredited international mediator of the Thailand Arbitration Centre since 2016. He is also a very active volunteer in the Singapore disability sports scene.

Present directorships in listed companies (other than the Company)	Past directorships in listed companies (for last three years)
None	None

KEY MANAGEMENT

Mr Tan Kwee Lim
Chief Operating Officer

Mr Tan Kwee Lim is one of our founders and was promoted as our Chief Operating Officer since 2012. He has more than 30 years of experience working in the furniture industry. He started his career in Lian Yu Furniture Co. ("**Lian Yu**") and assisted in overseeing and managing the operational aspects of the business. After the corporatisation of Lian Yu, he was appointed as a director of LY Furniture Sdn. Bhd. ("**LYFSB**"). He is responsible for overseeing our Group's general operations, in particular, the production and procurement processes. He has been instrumental in our Group's growth, leading to the expansion of our business and operations.

Mr Boo Ngek Hee
Chief Quality Controller

Mr Boo Ngek Hee is one of our founders and was promoted as our Chief Quality Controller since 2012. He has more than 30 years of experience working in the furniture industry. He started his career in Lian Yu and assisted in overseeing and managing the operational aspects of the business. After the corporatisation of Lian Yu, he was appointed as a director of LYFSB. He is responsible for the quality control and assurance process of our Group. He has been instrumental in our Group's growth, leading to the expansion of our business and operations.

Ms Teo Gin Lian
Chief Financial Officer

Ms Teo Gin Lian joined our Group in May 2016 and was appointed as our Chief Financial Officer. She is responsible for overseeing the financial reporting and accounting as well as corporate matters of our Group. She began her career with Deloitte Kassim Chan in December 1999, and was an assistant audit manager responsible for audit and tax engagements in both listed and non-listed companies. From June 2004 to July 2005, she served as a Finance Executive in Hwang-DBS Securities Berhad, a listed company involved in the business of stockbroking. Between July 2005 to September 2011, she was attached to MIMB Investment Bank Berhad, now known as Hong Leong Investment Bank Berhad, and was involved in corporate advisory work relating to initial public offerings, mergers and acquisitions, take-overs, fund raising and capital restructuring. She subsequently joined Kuwait Finance House (Malaysia) Berhad between October 2011 and May 2014 as a senior manager overseeing corporate finance and mergers and acquisitions. From June 2014 to July 2015, she was appointed as an associate director at KAF Investment Bank Berhad involved in corporate advisory work. She obtained a Third Level Group Diploma in Accounting (London Chamber of Commerce and Industry Examinations Board) from Institut Perkim-Goon in 1997. She is a fellow member of the Association of Chartered Certified Accountants and a Chartered Accountant with the Malaysian Institute of Accountants.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Kwee Chai	- Executive Chairman
Tan Yong Chuan	- Executive Director and Chief Executive Officer
Tan Ai Luang	- Executive Director
Lee Dah Khang	- Lead Independent Director
Oh Seong Lye	- Independent Director
Yeo Kian Wee Andy	- Independent Director

AUDIT AND RISK COMMITTEE

Oh Seong Lye - Chairman
Lee Dah Khang
Yeo Kian Wee Andy

REMUNERATION COMMITTEE

Yeo Kian Wee Andy - Chairman
Lee Dah Khang
Oh Seong Lye

NOMINATING COMMITTEE

Lee Dah Khang - Chairman
Oh Seong Lye
Tan Yong Chuan

REGISTERED OFFICE ADDRESS

80 Robinson Road #02-00
Singapore 068898

Telephone: +607 455 8828
Website: http://lyfurniture.com/
Company registration number 201629154K

COMPANY SECRETARIES

Pan Mi Keay, ACIS
See Kai Li, ACIS

CONTINUING SPONSOR

UOB Kay Hian Private Limited
8 Anthony Road #01-01
Singapore 229957

PRINCIPAL BANKERS

Oversea-Chinese Banking Corporation Limited
65 Chulia Street
OCBC Centre
Singapore 049513

Standard Chartered Bank (Singapore) Limited
8 Marina Boulevard
#27-01, Marina Bay Financial Centre
Singapore 018981

INDEPENDENT AUDITORS

Ernst & Young LLP
1 Raffles Quay
North Tower Level 18
Singapore 048583
Partner-in-charge: Low Bek Teng
(Appointed since financial year ended
31 December 2016)

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
80 Robinson Road #02-00
Singapore 068898

INVESTOR RELATIONS

Waterbrooks Consultants Pte. Ltd.
Wayne Koo
Tel: +65 6100 2228
Email: wayne.koo@waterbrooks.com.sg

CORPORATE GOVERNANCE REPORT

DISCLOSURE TABLE FOR ANNUAL REPORT IN COMPLIANCE TO THE CODE OF CORPORATE GOVERNANCE 2018 AND THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") LISTING MANUAL SECTION B: RULES OF CATALIST

The Board of Directors (the "**Board**") of LY Corporation Limited (the "**Company**" and together with its subsidiaries, the "**Group**") are committed to maintaining high standards of corporate governance and places importance on maintaining sound internal controls and systems so as to ensure greater transparency, accountability and protect and enhance shareholders' interests.

This report outlines the Company's corporate governance practices for financial year ended 31 December 2019 ("**FY2019**") with specific reference to principles of the Code of Corporate Governance 2018 (the "**Code**"). The Company is also guided by the voluntary Practice Guidance which was issued to complement the Code and which sets out best practice standards for companies.

<table>
<tr><th>Principle</th><th>Code Description</th><th>Company's compliance or explanation</th></tr>
<tr><td colspan="3">BOARD MATTERS</td></tr>
<tr><td colspan="3"><u>The Board's Conduct of Affairs</u></td></tr>
<tr><td>1</td><td>The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.</td><td>
The Board oversees the effectiveness and efficiency of Management to ensure the corporate governance of the Group is committed. The Board acts in good faith and exercise independent judgement in the best interests of shareholders. A code of conduct and ethics has also been put in place by the Board to ensure proper accountability within the Company. Directors facing conflict of interest has recused himself from discussions and decisions involving the issues of conflict.
As at the date of this Annual Report, the Board has six Directors comprises the following:
<table>
<tr><th>Name of Directors</th><th>Designation</th><th>Date appointed</th><th>Date last re-elected</th></tr>
<tr><td>Mr Tan Kwee Chai</td><td>Executive Chairman</td><td>20 December 2017</td><td>25 April 2019</td></tr>
<tr><td>Mr Tan Yong Chuan</td><td>Executive Director and Chief Executive Officer ("CEO")</td><td>24 October 2016</td><td>23 April 2018</td></tr>
<tr><td>Ms Tan Ai Luang</td><td>Executive Director</td><td>20 December 2017</td><td>23 April 2018</td></tr>
<tr><td>Mr Lee Dah Khang</td><td>Lead Independent Director</td><td>20 December 2017</td><td>23 April 2018</td></tr>
<tr><td>Mr Oh Seong Lye</td><td>Independent Director</td><td>20 December 2017</td><td>25 April 2019</td></tr>
<tr><td>Mr Yeo Kian Wee Andy</td><td>Independent Director</td><td>20 December 2017</td><td>23 April 2018</td></tr>
</table>
The Board's principal functions include, inter alia, the following:

providing entrepreneurial leadership, setting strategic objectives;
reviewing and monitoring Management's performance toward achieving organisational goals, establishing a framework of prudent and effective controls which enables risk to be assessed and managed;
identifying key stakeholder groups and recognise their perceptions affecting the Company's reputation;
overseeing succession planning for management, setting corporate values and standards for the Group to ensure that the obligations to shareholders and other stakeholders are understood and met, considering sustainability issues including environmental and social factors in the Group's strategic formulation;
reviewing financial plans for investments/divestments; and
ensuring the communication with shareholders are timely, accurate and adequate.

</td></tr>
</table>

CORPORATE GOVERNANCE REPORT

<table>
<tr><th>Principle</th><th>Code Description</th><th>Company's compliance or explanation</th></tr>
<tr><td></td><td></td><td>
All Directors exercise due diligence and independent judgment in dealing with the business affairs of the Group and are obliged to act in good faith and to take objective decisions in the interest of the Group.
The Board has delegated certain functions to the various committees, namely the Audit Committee (“AC”), Nominating Committee (“NC”) and the Remuneration Committee (“RC”) (collectively, the “Board Committees”). The AC of the Company has been re-named to Audit and Risk Committee (“ARC”) with effect from the quarter ended 31 March 2019 in view of the risk management responsibility has already been assumed by the AC. Each of the Board Committee has its own written terms of reference and whose actions are reported to and monitored by the Board. The duties, authorities and responsibilities of each Board Committee are set out in their respective terms of reference. The Board accepts that while these Board Committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the Board. A summary of each committee's activities, are disclosed in this annual report.
As at the date of this Annual Report, the respective compositions of the Board Committees are as follows:
<table>
<tr><th></th><th>ARC</th><th>NC</th><th>RC</th></tr>
<tr><td>Chairman</td><td>Oh Seong Lye</td><td>Lee Dah Khang</td><td>Yeo Kian Wee Andy</td></tr>
<tr><td>Member</td><td>Lee Dah Khang</td><td>Oh Seong Lye</td><td>Oh Seong Lye</td></tr>
<tr><td>Member</td><td>Yeo Kian Wee Andy</td><td>Tan Yong Chuan</td><td>Lee Dah Khang</td></tr>
</table>
The dates of Board and Board Committee meetings will be scheduled in advance. To assist directors in planning their attendance, the Company Secretary will first consult every director before fixing the dates of these meetings. The Board will meet at least four times a year and as warranted by particular circumstances. Ad-hoc meetings will also be convened to deliberate on urgent substantive matters. The Company's constitution (“Constitution”) provides for the Board to convene meetings via telephone conferencing and electronic means in the event when Directors were unable to attend meetings in person. To enable members of the Board and its Board Committees to prepare for the meetings, agendas were circulated at least a week in advance and most materials dispatched a few days before the meetings. During FY2019, the Board conducted four meetings with full attendance.
</td></tr>
</table>

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The details of the number of meetings held for the Board and Board Committees during FY2019 and the attendance of each Director at those meetings are disclosed below:

Name of Directors	Board of Directors		Audit and Risk Committee		Nominating Committee		Remuneration Committee	
	No. of meeting		No. of meeting		No. of meeting		No. of meeting	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Tan Kwee Chai	4	4	–	–	–	–	–	–
Tan Yong Chuan	4	4	–	–	1	1	–	–
Tan Ai Luang	4	4	–	–	–	–	–	–
Lee Dah Khang	4	4	4	4	1	1	1	1
Oh Seong Lye	4	4	4	4	1	1	1	1
Yeo Kian Wee Andy	4	4	4	4	–	–	1	1

The matters which specifically require the Board's approval or guidance are those involving:

- strategies and objectives of the Group;
- material acquisition and disposal of assets/investments;
- corporate/financial restructuring and corporate exercises;
- budgets/forecasts and business plan;
- financial results announcements, annual report and audited financial statements;
- policies & procedures, delegation of authority matrix, code of conduct & business ethics; and
- material financial/funding arrangements and capital expenditures.

All newly appointed Directors will undergo an orientation programme where the Directors would be briefed on the Group's strategic direction, governance practices, business and organisation structure as well as the expected duties of a director of a listed company. To obtain a better understanding of the Group's business, the Directors will also be given the opportunity to visit the Group's operational sites and meet with key management personnel. A new Director who has no prior experience as a director of an issuer listed on the SGX-ST must also undergo mandatory training in his roles and responsibilities as prescribed by the SGX-ST.

Directors are provided with opportunities to develop and maintain their skills and knowledge at the company's expense. During the year, the external auditors, Ernst & Young LLP ("**External Auditors**"), had also briefed the ARC on changes or amendments to accounting standards. The Company has also arranged and funded certain relevant training courses for Directors to keep them up-to-date.

Formal letters of appointment will be furnished to newly-appointed Directors, upon their appointments, stating among other matters, the roles, obligations, duties and responsibilities as a member of the Board.

CORPORATE GOVERNANCE REPORT

<table>
<tr><th>Principle</th><th>Code Description</th><th>Company's compliance or explanation</th></tr>
<tr><td></td><td></td><td>
Management recognises the importance of ensuring the flow of complete, adequate and timely information to the Directors on an ongoing basis to enable them to make informed decisions to discharge their duties and responsibilities. To allow Directors sufficient time to prepare for the meetings, all Board and Board Committee papers are distributed to the Directors in advance of the meetings. Any additional material or information requested by the Directors is promptly furnished.
Management papers are circulated to the Board every quarter to keep the Board updated on the key matters concerning the Group. Employees who can provide additional insight into matters to be discussed will be present at the relevant time during the Board and Board Committee meetings. In order to keep Directors abreast of the Group's operations, the Directors are also updated on initiatives and developments on the Group's business as soon as practicable and/or possible and on an on-going basis.
The types of information provided by the Group to the Independent Directors to enable them to understand its business, the business and financial environment and the risks faced by the Group, together with its frequency, are described as follows:
<table>
<tr><th></th><th>Information</th><th>Frequency</th></tr>
<tr><td>(a)</td><td>Updates to the Group's operations and the markets in which the Group operates in</td><td>Quarterly</td></tr>
<tr><td>(b)</td><td>Quarterly and full year financial results</td><td>Quarterly</td></tr>
<tr><td>(c)</td><td>Board papers (with background or explanatory information relating to the matters brought before the Board, where necessary)</td><td>As and when relevant</td></tr>
<tr><td>(d)</td><td>Report on on-going or planned corporate activity</td><td>As and when relevant</td></tr>
<tr><td>(e)</td><td>Enterprise risk management framework, reports and Internal Auditors' report</td><td>As and when available</td></tr>
<tr><td>(f)</td><td>Research report(s)</td><td>As and when requested</td></tr>
<tr><td>(g)</td><td>Shareholding statistics</td><td>As and when requested</td></tr>
</table>
Key management personnel will also provide any additional material or information that is requested by Directors or that is necessary to enable the Board to make a balanced and informed assessment of the Group's performance, position and prospects.
All Directors have separate and independent access to the Company Secretary. The Company Secretary, or her representatives, will attend all the Board and Board Committee meetings and is responsible to ensure that the Board procedures are followed. It is the Company Secretary's responsibility to ensure that the Company complies with requirements of all applicable rules and regulations, including requirements of the Securities and Futures Act (Chapter 289) of Singapore, Constitution, Companies Act, Cap. 50 and the Catalist Rules. The Company Secretary is also responsible for ensuring the Board procedures are followed and complied and advises the Board on all governance matters.
The appointment and removal of the Company Secretary are subject to the approval of the Board.
</td></tr>
</table>

CORPORATE GOVERNANCE REPORT

<table>
<tr><th>Principle</th><th>Code Description</th><th>Company's compliance or explanation</th></tr>
<tr><td colspan="3">Board Composition and Guidance</td></tr>
<tr><td>2</td><td>The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.</td><td>The Board currently has six (6) Directors comprises three (3) Executive Directors and three (3) Independent Non-Executive Directors. The current members of the Board and their membership on the Board Committees of the Company are as follows:
<table>
<tr><th>Name of Directors</th><th>Board Membership</th><th>ARC</th><th>NC</th><th>RC</th></tr>
<tr><td>Tan Kwee Chai</td><td>Executive Chairman</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Tan Yong Chuan</td><td>Executive Director & CEO</td><td>–</td><td>Member</td><td>–</td></tr>
<tr><td>Tan Ai Luang</td><td>Executive Director</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Lee Dah Khang</td><td>Lead Independent Director</td><td>Member</td><td>Chairman</td><td>Member</td></tr>
<tr><td>Oh Seong Lye</td><td>Independent Non-Executive Director</td><td>Chairman</td><td>Member</td><td>Member</td></tr>
<tr><td>Yeo Kian Wee Andy</td><td>Independent Non-Executive Director</td><td>Member</td><td>–</td><td>Chairman</td></tr>
</table>
The NC had reviewed and the Independent Directors had also confirmed their independence in accordance with the Code during the NC meeting held on 27 February 2020 and all Independent Directors have provided their independence declaration. All the Independent Directors have no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement in the best interests of the Company.
There are no Directors who are deemed independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent.
None of the Independent Directors have served on the Board beyond nine years from the date of his appointment.
The NC is responsible for examining the size and composition of the Board and Board Committees.
The Independent Directors of the Company comprises of Mr Lee Dah Khang, Mr Oh Seong Lye and Mr Yeo Kian Wee Andy, which make up half of the Board, thus providing a pivotal role in ensuring that there is balance of power and authority. Each of the Independent Directors is considered independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The current Independent Directors bring a wide range of business and financial experience, skills and knowledge necessary for the effective stewardship of the Group. </td></tr>
</table>

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		As the Executive Chairman is part of the management team, the Board has reviewed the percentage of Independent Directors on the Board, the Board believes that the Executive Chairman has always acted and will continue to act at all times in the best interest of shareholders as a whole and will strive to protect and enhance the long-term shareholder values and the financial performance of the Group. As such, notwithstanding that the Provisions 2.2 and 2.3 of the Code are not met, the Board is of the view that it has an appropriate level of independence and diversity to enable it to make decisions in the best interests of the Group. The Board will continue to assess and evaluate the need to appoint additional non-executive independent director to meet the said provisions of the Code. To assist the NC in its annual review of the Directors' mix of skills and experiences that the Board requires to function competently and efficiently, the Directors have completed their Board of Directors Competency Matrix Form and provide additional information (if any) in their respective areas of specialisation and expertise. The NC, having conducted its reviews, was satisfied that members of the Board possess the relevant core competencies in areas such as accounting and finance, legal environment, business and management experience, and strategic planning. In particular, the Executive Directors possess good industry knowledge while the Independent Directors, who are mostly professionals in their own fields, are able to take a broader view of the Group's activities, contribute their valuable experiences and provide independent judgment during Board deliberations. The current Board composition provides a diversity of skills, experience and knowledge to the Company as follows:

Core Competencies	Number of Directors	Proportion of Board (%)
Accounting or finance	4	66.7
Business Management	6	100.0
Legal or corporate experience	3	50.0
Relevant industry knowledge or experience	5	83.3
Strategic planning experience	6	100.0
Customer based experience or knowledge	3	50.0

The Board has taken the following steps to maintain or enhance its balance and diversity:

- Review by the NC at least once a year to assess if the existing attributes and core competencies of the Board are complementary and enhance the efficacy of the Board; and
- Evaluation by the Directors at least once a year of the skill sets the other Directors possess, with a view to understanding the range of expertise which is lacking by the Board.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The NC will consider the results of these exercises in its recommendation for the appointment of new Directors and/or the re-appointment of incumbent Directors. The Board, particularly the independent directors, which are Non-Executive Directors, must be kept well informed of the Group's business and be knowledgeable about the industry the Group operates in. To ensure that the independent directors are well supported by accurate, complete and timely information, they have unrestricted access to Management, and have sufficient time and resources to discharge their oversight functions effectively. This enables the Non-Executive Directors to constructively challenge and help develop proposals on strategy and also review the performance of Management in meeting agreed goals and objectives, and extend guidance to Management. The Non-Executive Directors' objective judgement on corporate affairs and collective experience and knowledge are invaluable to the Group and allows for the useful exchange of ideas and views. The Independent Directors do discuss and/or meet on a need-basis without the presence of the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of the Executive Directors. The Independent Directors had met and discussed with the external and internal auditors without the presence of key management personnel in FY2019.
Chairman and Chief Executive Officer		
3	There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.	The Company has a clear division of responsibilities at each level of the Company, with the Executive Chairman and the CEO having separate roles to ensure an appropriate balance of power, increased accountability and a greater capacity of the Board for independent decision-making. The division of responsibilities between the Chairman and the CEO is also clearly established in the Constitution of the Company. The Chairman manages the business of the Board whilst the CEO and his management team translate the Board's decisions into executive action. The CEO has executive responsibilities for the Group's businesses and is accountable to the Board. The Chairman, Mr Tan Kwee Chai is the father of the CEO, Mr Tan Yong Chuan. The CEO takes a leading role in developing the businesses of the Group and manages the day-to-day operations with the assistance of key management personnel. He also oversees the execution of the business and corporate strategy decisions made by the Board. The Chairman is responsible for the management of the Board. He leads the Board, encourages Board's interaction with Management, facilitates effective contribution of Independent Directors, encourages constructive relations among the Directors, and promotes corporate governance.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		Notwithstanding that the Chairman and CEO are immediate family members, the Board is satisfied that there is sufficient transparency and accountability in view of the distinction of responsibilities and the strong independent element on the Board. As Mr Tan Kwee Chai is the Executive Chairman, Mr Lee Dah Khang is appointed as the Lead Independent Director, complying with Provision 3.3 of the Code, who is available to shareholders where they have concerns and for which contact through the normal channels of communication with the Chairman or Management are inappropriate or inadequate. Led by the Lead Independent Director, the Independent Directors will meet in the absence of the other Directors as and when circumstances warrant.
Board Membership		
4	The Board has a formal and transparent process for the appointment and reappointment of directors, taking into account the need for progressive renewal of the Board.	The NC comprises Mr Lee Dah Khang, Mr Oh Seong Lye and Mr Tan Yong Chuan. The Chairman of the NC is Mr Lee Dah Khang. The NC, which meets at least once a year, carries out its duties in accordance with a set of written Terms of Reference which includes, mainly, the following: (a) reviewing and recommending the nomination or re-nomination of the Directors having regard to the Director's contribution and performance; (b) determining on an annual basis, and as and when circumstances require, whether or not a Director is independent; (c) deciding whether or not a Director is able to, and has been, adequately carrying out his duties as a director; (d) reviewing and approving any new employment of related persons and the proposed terms of their employment; (e) developing a process for the evaluation of the performance of the Board, its committees and the Directors and proposing objective performance criteria, as approved by the Board that allows comparison with its industry peers, and addressing how the Board has enhanced long-term shareholders' value; (f) reviewing succession plans for Directors and key executives; and (g) reviewing training and professional development programmes for the Board. During FY2019, the NC held one scheduled meeting with full attendance.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The key responsibilities of the NC include making recommendations to the Board on relevant matters such as the process for evaluating the performance of the Board and each Director as well as succession planning which form a critical part of corporate governance process for CEO and board members. It seeks to refresh the board membership as it thinks fit in an orderly and progressive manner so as to keep institutional memory intact. It also ensures compliance with the requirements of the Company's Constitution which provides that at each Annual General Meeting ("**AGM**"), one-third of the Board is required to retire and provided always that every director shall retire from office at least once every 3 years. In addition, the Directors, by the recommendation of NC, shall have the power to appoint any person to be the Director either to fill a casual vacancy or as an additional Director. All new Directors who are appointed by the Board are subject to re-election at the next AGM but shall not be taken into account in determining the numbers of Directors who are retire by rotation at such meeting. In this respect, the NC has recommended and the Board has agreed for the following Directors to retire and seek re-election at the forthcoming AGM: Pursuant to Regulation 98 of the Constitution of the Company: (a) Ms Tan Ai Luang (b) Mr Lee Dah Khang In making the recommendations, the NC considers the overall contribution and performance of the Directors. The NC member had abstained from deliberation in respect of his own nomination and assessment. The NC reviewed the independence of the Directors pursuant to Rule 406(3)(d) of the Catalist Rules and Provision 2.1 of the Code. The NC has affirmed that Mr Lee Dah Khang, Mr Oh Seong Lye and Mr Yeo Kian Wee Andy are independent and free from any relationship outlined in the Code. Each of the Independent Directors has also confirmed his independence. The NC has reviewed and made recommendation to the Board accordingly on the maximum number of listed company board appointments which any Director may hold. Based on the recommendation, the Board has determined and set the maximum number of listed company board appointments at not more than four (4) other listed companies. Currently, none of the Directors hold more than four (4) directorships in other listed companies. No person would be appointed as an Independent Director if he/she, prior to such appointment, is already holding more than 5 directorship appointments in any publicly listed company on the SGX-ST or any other international stock exchanges; and for person with full-time employment (with existing employment contract), he/she should obtain consensus from his/her employer(s) before accepting the appointment as Director and he/she should not hold more than 2 other independent directorships in any publicly listed company on the SGX-ST or international stock exchanges prior to his/her appointment.

CORPORATE GOVERNANCE REPORT

<table>
<tr><th>Principle</th><th>Code Description</th><th>Company's compliance or explanation</th></tr>
<tr><td></td><td></td><td>
The considerations in assessing the capacity of Directors include the following:

Expected and/or competing time commitments of Directors, including whether such commitment is a full-time or part-time employment capacity;
Geographical location of Directors;
Size and composition of the Board;
Nature and scope of the Group's operations and size; and
Capacity, complexity and expectations of the other listed directorships and principle commitments held.

The NC, having reviewed each Directors' other directorships and principal commitments as well as each Director's overall performance and contributions to the Board, is satisfied that all Directors have discharged their duties adequately for FY2019.
The Company currently does not have any alternate director.
The following table sets out the process for the selection and appointment of new directors:
<table>
<tr><td>1.</td><td>Determination of selection criteria</td><td>The NC, in consultation with the Board would identify the current needs of the Board in terms of expertise and skills that are required in the context of the strengths and weaknesses of the existing Board to complement and strengthen the Board.</td></tr>
<tr><td>2.</td><td>Search for suitable candidates</td><td>The NC will consider various channels in sourcing of suitable candidate(s) either through:
(a) internal promotion by way of nominating the successor via the succession plan of the Company or recommendations from Directors/substantial shareholders; or
(b) external sources through reputable human resource consultants.</td></tr>
<tr><td>3.</td><td>Assessment of shortlisted candidates</td><td>Those short-listed candidate(s) will be required to furnish their curriculum vitae stating in detail their qualification, working experience, employment history, and to complete the following prescribed Forms:
(a) Director's Declaration on Independence;
(b) Internal Guidelines for Directors Serving on Multiple Boards; and
(c) Board of Directors Competency Matrix.
The Board is also advised by the Sponsor on appointment of directors as required under Catalist Rule 226(2)(d).</td></tr>
<tr><td>4.</td><td>Appointment of director</td><td>The NC would recommend the selected candidate to the Board for consideration and approval.</td></tr>
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CORPORATE GOVERNANCE REPORT

<table>
<tr><th>Principle</th><th>Code Description</th><th>Company's compliance or explanation</th></tr>
<tr><td></td><td></td><td>The following table sets out the process for the re-election of directors:
<table><tr><td>1.</td><td>Assessment of director</td><td>a) The NC would assess the contributions and performance of the Director in accordance with the performance criteria set by the Board; and
b) The NC would also review the range of expertise, skills and attributes of current needs of the Board.</td></tr><tr><td>2.</td><td>Re-appointment of director</td><td>Subject to the NC's satisfactory assessment, the NC would recommend the proposed re-appointment of the director to the Board for its consideration and approval.</td></tr></table>
Each member of the NC will abstain from voting on any resolution and making any resolutions and/or participating in any deliberations of the NC in respect of the assessment of his performance or nomination for re-election as a Director.

The key information of the Directors, including their appointment dates and directorships held in the past 3 years, are set out on pages 8 to 10 of this Annual Report.

The shareholdings of the Directors in the Company are set out on page 42 of this Annual Report. None of the Directors hold shares in the subsidiaries of the Company.</td></tr>
<tr><td colspan="3"><u>Board Performance</u></td></tr>
<tr><td>5</td><td>The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.</td><td>The NC has set the performance criteria to evaluate the effectiveness of the Board as a whole and its Board Committees, and assessed the contributions by each Director to the effectiveness of the Board in FY2019.

This assessment will also be conducted by the NC at least once a year by way of a Board Evaluation where the Directors complete a Board Performance Evaluation questionnaire, Self-Assessment Checklist, and Board of Director's Skills Set and Competency Matrix.

Each member of the NC shall abstain from voting on any resolutions in respect of the assessment of his/her performance or re-nomination as a Director. The Board will act on the results of the performance evaluation, and in consultation with the NC, propose, where appropriate, that new members be appointed to the Board or seek the resignation of Director(s).

Objective performance criteria used to assess the performance of the Board include both quantitative and qualitative criteria.

The Board and the NC believe that the financial indicators are mainly used to measure the Management's performance and hence are less applicable to the Non-Executive Directors.</td></tr>
</table>

CORPORATE GOVERNANCE REPORT

<table>
<tr><th>Principle</th><th>Code Description</th><th>Company's compliance or explanation</th></tr>
<tr><td></td><td></td><td>The NC had conducted the Board's performance evaluation as a whole in FY2019. The performance criteria for the Board's evaluation, as determined by the NC, cover the following areas:

(a) Composition and Size;
(b) Conduct of Meeting;
(c) Effectiveness and Training Communication with Shareholders;
(d) Provision of information to the Board;
(e) Standards of Conduct;
(f) Financial performance; and
(g) Board compensation.

The Board did not engage any external consultant in the valuation process. Where relevant and when the need arises, the NC will consider such an engagement.

The evaluation of individual Director's performance is performed on an annual basis at the same time as evaluation of the performance of the Board as a whole based on its performance criteria set as above in FY2019.

For the year under review, the NC also took note of each individual Director's attendance at meetings of the Board and Board Committees as well as at general meeting(s); participation in discussions at meetings; knowledge of and contacts in the regions where the Group operates; the individual Director's functional expertise and his commitment of time to the Company. The NC was of the view that the Board has met its performance objectives and will continue to improve further to an effective Board.</td></tr>
<tr><td colspan="3">REMUNERATION MATTERS</td></tr>
<tr><td colspan="3"><u>Procedures for Developing Remuneration Policies</u></td></tr>
<tr><td>6</td><td>The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.</td><td>The RC comprises the Independent Directors, Mr Yeo Kian Wee Andy, Mr Lee Dah Khang and Mr Oh Seong Lye. The Chairman of the RC is Mr Yeo Kian Wee Andy.

The terms of reference of the RC include, inter alia, the following:

(a) offer an independent perspective in assisting the Board in the establishment of a formal and transparent procedure for developing policy on remuneration matters for the Directors and key management personnel of the Company;

(b) establish appropriate framework of remuneration policies to motivate and retain Directors and executives, and ensure that the Company is able to attract appropriate talent from the market to maximise the value for shareholders;

(c) determine specific remuneration packages for the Directors and key management personnel (or executive of equivalent rank) and any relative of a Director and/or substantial shareholder who is employed in a managerial position by the Company;

(d) review and administer the award of shares to Directors and employees under the Company's performance share plan (the "LY Performance Share Plan" or the "LYPSP");

(e) review and determine the contents of service contracts for Executive Directors and/or key management personnel; and

(f) review the appropriateness and transparency of remuneration matters for disclosure to shareholders.</td></tr>
</table>

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The RC ensures that a formal and transparent procedure is in place for fixing the remuneration packages of individual Directors and key management personnel. The recommendations of the RC are submitted for endorsement by the Board. Such frameworks are reviewed periodically to ensure that they remain competitive and relevant. All aspects of remuneration frameworks, including but not limited to directors' fees, salaries, allowances, bonuses, the awards to be granted under the performance share plan as well as other benefits-in-kind are reviewed by the RC. Each member of the RC abstains from voting on any resolutions in respect of his remuneration package. If necessary, the RC may seek expert advice outside the Company on remuneration of the Directors and key executives. The RC ensures that in the event of such advice being sought, existing relationships, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants. No remuneration consultants were engaged by the Company in FY2019. The RC has access to expert professional advice on human resource matters whenever there is a need to consult externally.
Level and Mix of Remuneration		
7	The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.	In reviewing and determining the remuneration packages of the Executive Directors and the Group's key management personnel, the RC considers the Executive Directors' and key management personnel's responsibilities, skills, expertise and contribution to the Group's performance when designing their respective remuneration packages, as so ensure that the level of remuneration is appropriate to attract, retain and motivate the Executive Directors' and key management personnel to run the Company successfully. The RC administers the Company's LYPSP, which formed part of the offer document dated 18 January 2018 ("**Offer Document**"). No awards were granted under the LYPSP in FY2019. Further details about the LYPSP are set out in the Company's Offer Document. With the recommendation of RC, the Board has approved the establishment of a new Committee for administering the LY Performance Share Plan ("**LYPSP Committee**") which consists of all the existing Chairman and members of the RC. In addition, the CEO, Mr Tan Yong Chuan has been appointed as member of the LYPSP Committee for expediency purposes. Accordingly, the LYPSP Committee comprises the following members: (a) Mr Oh Seong Lye; (b) Mr Lee Dah Khang; (c) Mr Yeo Kian Wee Andy; and (d) Mr Tan Yong Chuan.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The remunerations for the Non-Executive Directors are determined by the Board based on the effort and time spent, and the responsibilities of the Non-Executive Directors. The Directors' fees of the Non- Executive Directors are subject to approval by shareholders at each AGM. Independent Directors do not have Service Agreement with the Company and accordingly do not receive salary. They are paid Directors' fees, which are determined by the Board based on the effort, time spent and responsibilities of the Directors (including but not limited to their appointments to the various Board Committees). The Directors' fees of the Independent Directors are subject to approval by shareholders at each AGM. There are no contractual provisions to allow the Company to reclaim incentive components of the remuneration from the Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.
Disclosure on Remuneration		
8	The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.	The Company's remuneration policy is one that seeks to attract, retain and motivate talent to achieve the Company's business vision and create sustainable value for its stakeholders. The policy establishes the link between total compensation and the achievement of organisational and individual performance objectives, and is benchmarked against relevant and comparative compensation in the market. The breakdown for the remuneration of the Directors in FY2019 is as follows:

Name of Directors	Breakdown of Remuneration in Percentage (%)						Total Remuneration in Compensation Bands of $250,000
	Fees[1]	Salary[2]	Allowance	Benefits	Variable Bonus[3]	Total	
Executive Directors							
Tan Kwee Chai	–	79.0	0.6	2.4	18.0	100.0	S$250,001-S$500,000
Tan Yong Chuan	0.3	67.1	1.0	3.7	27.9	100.0	S$250,001-S$500,000
Tan Ai Luang	–	77.6	1.5	6.5	14.4	100.0	<S$250,000
Independent Directors							
Lee Dah Khang	93.8	–	6.2	–	–	100.0	<S$250,000
Oh Seong Lye	93.4	–	6.6	–	–	100.0	<S$250,000
Yeo Kian Wee Andy	93.0	–	7.0	–	–	100.0	<S$250,000

Notes:

(1) The Directors' Fees and Allowances for attending meetings to be held for FY2020 will be subject to the approval of the shareholders at the AGM.

(2) The salary amount shown is inclusive of equivalent provident fund scheme.

(3) The variable bonus amount shown is inclusive of equivalent provident fund scheme.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		Taking into consideration the highly competitive business environment, the nature of the industry and the confidentiality of the Group's remuneration policies, the Board is of the view that providing full disclosure of the remuneration of each individual director and key management personnel is not in the best interests of the Group and may adversely affect talent attraction and retention. There are no termination, retirement, post-employment benefits that may be granted to the Directors. During FY2019, the Group had six (6) top key management personnel (who are not Directors or the CEO of the Company). The breakdown for the remuneration of the Company's key management personnel (who are not Directors or CEO of the Company) during FY2019 is as follows:

Name	Position	Breakdown of Remuneration in Percentage (%)					Total Remuneration in Compensation Bands of $250,000
		Salary[1]	Allowance	Benefits-in-kind	Variable Bonus[2]	Total	
Tan Kwee Lim	Chief Operating Officer	70.8	–	3.1	26.1	100.0	<S$250,000
Boo Ngek Hee	Chief Quality Officer	76.0	–	5.2	18.8	100.0	<S$250,000
Teo Gin Lian	Chief Financial Officer ("**CFO**")	92.9	4.8	–	2.3	100.0	<S$250,000

Notes:

(1) The salary amount shown is inclusive of allowances such as fixed transport allowance and equivalent provident fund scheme.

(2) The variable bonus amount shown is inclusive of equivalent provident fund scheme.

There are no termination, retirement, post-employment benefits that may be granted to the key management personnel.

The aggregate remuneration paid to the above key management personnel (who are not Directors or CEO) in FY2019 was S$426,232.

Tan Kwee Lim and Tan Kwee Chai are brothers and his remuneration for FY2019 is disclosed in the table above.

Tan Yong Siang is the son of Tan Kwee Chai and brother of Tan Yong Chuan. His remuneration for FY2019 is disclosed in the table above.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		Save as disclosed, there is no other employee of the Group who is an immediate family member of a Director, CEO or Substantial Shareholder of the Company and whose remuneration exceeded S$100,000 during FY2019. The Company has not adopted any employee share option scheme. The remuneration received by the Executive Directors and key management personnel takes into consideration his or her individual performance and contribution towards the overall performance of the Group in FY2019. Their remuneration is made up of fixed and variable compensations. The fixed compensation consists of an annual base salary, fixed allowance and annual wage supplement. The variable compensation is determined based on the level of achievement of corporate and individual performance objectives. The performance criteria used to assess the remuneration of Executive Directors and key management personnel is based on qualitative and quantitative components: (a) Leadership (b) Teamwork (c) People development (d) Responsibilities and commitment (e) Profitability performance of the Group The RC has reviewed the performance of the Executive Directors and key management personnel based on its performance conditions and concluded that they have met the performance criteria in FY2019.
ACCOUNTABILITY AND AUDIT		
Risk Management and Internal Controls		
9	The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.	The Board is accountable to shareholders and ensures that all material information is fully disclosed in a timely manner to shareholders in compliance with statutory and regulatory requirements. The Board strives to provide its shareholders a balanced and understandable assessment of the Group's performance, position and prospects. The Board takes steps to ensure compliance with all the Group's policies, operational practices and procedures, and relevant legislative and regulatory requirements, including requirements under the Catalist Rules, where appropriate. The Independent Directors in consultation with management will request for management's consideration for the establishment of written policies for any particular matter that is deemed to be essential to form part of management control. Management provides appropriately detailed management accounts of the Group's performance on a quarterly basis to the Board to enable the Board to make a balanced and informed assessment of the Group's performance, position and prospects. As and when circumstances arise, the Board can request management to provide any necessary explanation and/or information on the management accounts of the Group.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The Board reviews the Group's business and operational activities to identify areas of significant business risk as well as the measures in place to control and mitigate these risks within the Group's policies and business strategies. The risk assessment exercise also includes identifying and assessing key risk areas of the Group such as financial, operational, compliance and information technology risks based on the feedback of the Internal and External Auditors. The Board also oversees the Management in implementing the risk management and internal controls system. The Board is also responsible for governance of risk management, and determining the Company's levels of risk tolerance and risk policies. The Board consults with the Internal and External Auditors to determine the risk tolerance level and corresponding risk policies. The risk management and internal control systems have been integrated throughout the Group and have been an essential part of its business planning and monitoring process. On quarterly basis, the Management will report to the Board on updates to the Group's risk profile, evaluation process for identified risks and mitigation process thereon as well as the results of assurance activities so as to assure that the process is operating effectively as planned. The responsibility of overseeing the Company's internal control system and policies are undertaken by the ARC with the assistance of the Internal and External Auditors. Having considered the Company's business operations as well as its existing internal control and risk management systems, the Board is of the view that a separate risk committee is not required for the time being. The Board is of the view that the Company's internal controls (including financial, operational, compliance and information technology controls) and risk management systems were adequate and effective for as of 31 December 2019 in its current business environment. The basis for the Board's view are as follows: • Assurance has been received from the CEO and CFO; • Board Committee meetings are held with the key management personnel to discuss and review the financial and operational (including compliance issues) performance of the Group. Internal control issues, where applicable, were discussed and addressed during such meetings; • Key management personnel regularly evaluates, monitors and reports to the ARC on material risks and a set of risk registers is maintained, updated and presented to the ARC at least annually; • Work performed by the Internal and External Auditors; and • Discussions were held between the ARC, Internal and External Auditors in the absence of the key management personnel to review and address any potential concerns.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The Board has obtained the assurance from the CEO and CFO that the financial records of the Group have been properly maintained and the financial statements for FY2019 give a true and fair view of the Group's operations and finances; and the assurance from the CEO and other key management personnel who are responsible that the Company's risk management systems and internal control systems are adequate and effective. Based on the internal controls established and maintained by the Group, work performed by the Internal and External Auditors, and reviews performed by the Management, various Board Committees and the Board, in concurrence with the ARC, is of the opinion that the Group's system of internal controls, which addresses the financial, operational, compliance and information technology controls and risk management systems, were adequate and effective as of 31 December 2019 in its current business environment. The Board notes that system of internal controls and risk management established by the Group provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities. The ARC has reviewed the Management's assessment and discussed with the External Auditors about the identified key audit matters (referred to in Pages 44 to 45 of this Annual Report); and how those key audit matters have been addressed by the External Auditors. Having considered the Management's assessment and the approach taken by the External Auditors and their findings, the ARC is satisfied with the basis and estimates adopted by the Group.
Audit and Risk Committee		
10	The Board has an ARC which discharges its duties objectively.	The ARC is guided by the following key terms of reference: (a) assist our Board in the discharge of its responsibilities on financial reporting matters; (b) consider the appointment or re-appointment of the External Auditors, the level of their remuneration and matters relating to the resignation or dismissal of the External Auditors, and review with the External Auditors the audit plans, their evaluation of the system of internal accounting controls, their audit reports, their management letter and our management's response before submitting the results of such review to our Board for approval; (c) consider the appointment or re-appointment of the Internal Auditors, the level of their remuneration and matters relating to the resignation or dismissal of the Internal Auditors, and review with the Internal Auditors the internal audit plans and their evaluation of the adequacy of our system internal accounting controls and accounting system before submitting the results of such review to our Board for approval prior to the incorporation of such results in our annual report (where necessary);

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Principle	Code Description	Company's compliance or explanation
		(d) review the system of internal accounting controls and procedures established by the management and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of our management where necessary); (e) review the assistance and co-operation given by our Company's officers to the Internal and External Auditors; (f) review the half yearly and annual, and quarterly if applicable, financial statements and results announcements before submission to our Board for approval, focusing in particular, on changes in accounting policies and practices, major areas of judgement, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements; (g) review and discuss with the External Auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and consider the adequacy of our management's response; (h) review and assess our Company's foreign exchange and hedging policies including whether our Company has in place adequate and appropriate hedging policies and used appropriate instruments for hedging, if applicable; (i) review transactions falling within the scope of Chapter 9 and Chapter 10 of the Catalist Rules (if any); (j) review potential conflicts of interest (if any) and set out a framework to resolve or mitigate any potential conflicts of interest; (k) review the effectiveness and adequacy of our administrative, operating, internal accounting and financial control procedures; (l) review our key financial risk areas, with a view to providing an independent oversight on our Group's financial reporting, the outcome of such review to be disclosed in the annual reports or, if the findings are material, immediately announced via SGXNET; (m) undertake such other reviews and projects as may be requested by our Board and report to our Board its findings from time to time on matters arising and requiring the attention of our ARC; (n) generally undertake such other functions and duties as may be required by statute or the Catalist Rules, and by such amendments made thereto from time to time;

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		(o) review arrangements by which our staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow-up; and (p) review our Group's compliance with such functions and duties as may be required under the relevant statutes or the Catalist Rules, including such amendments made thereto from time to time. The Board is of the view that the ARC members possess the relevant accounting or related financial management expertise to discharge their responsibilities. The members collectively have many years of experience in accounting and audit, business and financial management and law. The Board considers that the members of the ARC are appropriately qualified to discharge the responsibilities of the ARC. During the year, the Company's Internal and External Auditors were invited to attend the ARC meeting(s) and make presentations as appropriate. They also met separately with the ARC without the presence of Management. The ARC has reviewed the non-audit services provided by the External Auditors and is satisfied that the nature and extent of such services would not prejudice the independence of the External Auditors. The breakdown of the fees paid/payable to the Group's External Auditors (including its associated firms) is as follows: **External Auditor Fees for FY2019** | **S$'000** | **% of Total Fees** Audit Fees | 148 | 100.0 The External Auditors, Ernst & Young LLP, and its network firm do not provide non-audit services to the Group and therefore, the ARC is satisfied that the External Auditors remain independent. The ARC has recommended to the Board the re-appointment of Ernst & Young LLP as the External Auditors at the forthcoming AGM. To encourage proper work ethics and eradicate any internal improprieties, unethical acts, malpractices, fraudulent acts, corruption and/or criminal activities in the Group, the Company has a whistle blowing policy ("**Whistle-blowing Policy**") in place. The Whistle-blowing Policy provides the mechanism by which concerns about plausible improprieties in matters of financial reporting, etc., may be raised. An Investigation Committee ("**IC**") had been established for this purpose. In addition, a dedicated secured e-mail address at whistleblow@lyfurniture.com which allows whistle blowers to contact the IC and/or the ARC Chairman directly. The Company's Whistle-blowing policy allows not just employees but also external parties to raise concerns and offer reassurance that they will be protected from reprisals or victimization for whistle blowing in good faith.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		Assisted by the IC, the ARC addresses issues/concerns raised and arranges for investigation and/or follow-up of appropriate action. The ARC reports to the Board any issues/concerns received by it and the IC, at the ensuing Board meeting. Should the ARC or IC receive reports relating to serious offences, and/or criminal activities in the Group, they and the Board have access to the appropriate external advice where necessary. Where appropriate or required, a report shall be made to the relevant governmental authorities for further investigation/action. *Investigation Committee* The IC consists of an Executive Director, CFO and an external outsourced Human Resource Consultant. The IC is empowered to: • look into all issues/concerns relating to the Group (except for those directed specifically to or affecting any member of the IC which are dealt with by the ARC); • make the necessary reports and recommendations to the ARC or the Board for their review and further action, if deemed required by them; and • access the appropriate external advice where necessary and, where appropriate or required, report to the relevant governmental authorities for further investigation/action. The Group takes concerns with the integrity and honesty of its employees very seriously. The Whistle-blowing Policy has been established and disseminated to all employees to encourage the report of any behaviour or action that anyone reasonably believes might be suspicious, against any rules/regulations/accounting standards as well as internal policies. Whistle blowers could also email to the ARC directly and in confidentiality, and his/her identity is protected from reprisals within the limits of the law. There were no whistle-blowing reports received during FY2019. The ARC had been briefed by the External Auditors on changes or amendments to the Accounting Standards and issues which are relevant to the Group and have a direct impact on the Group's financial statements. None of the ARC members (i) is a former partner or director of the Company's existing auditing firm or auditing corporation in the previous 2 years and (ii) holds any financial interest in the auditing firm or auditing corporation. The ARC's responsibilities over the Group's internal controls and risk management are complemented by the work of the Internal Auditors.

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Principle	Code Description	Company's compliance or explanation
		The Company has outsourced its internal audit function to Baker Tilly TFW LLP ("**Internal Auditors**"). The Internal Auditors has unrestricted access to all the Company's documents, records, properties and personnel, including access to the ARC. The Internal Auditors' ultimate line of reporting is to the Chairman of the ARC. It carries out the Internal Auditor functions under the direction of the ARC and reports the findings and makes recommendations to the ARC accordingly. The Internal Auditor plans its audit work in consultation with, but independently of, the management, and its yearly plan is submitted to the ARC for review and approval prior to the beginning of the financial year. The Internal Auditor has full access to all the Company's documents, records, properties and personnel including access to the ARC. The ARC is satisfied that Internal Auditors is adequately qualified (given, inter alia, its adherence to Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors) and resourced, and has the appropriate standing in the Company to discharge its duties effectively.
SHAREHOLDER RIGHTS AND ENGAGEMENT		
Shareholder Rights and Conduct of General Meetings		
11	The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.	The Company believes in providing sufficient and regular information to its shareholders to keep the shareholders updated with the recent development of the Group. In this respect, the Board strive to provide clear, timely and fair disclosure of information via SGXNET about the Company's business developments and financial performance updates that could have a material impact on the price or value of its shares. Shareholders are encouraged to attend shareholders' meetings to stay informed of the Company's strategy and goals. Notice of the meeting is dispatched to shareholders, together with annual report or a circular, at least 14 days, or 21 days (as the case may be), before the meeting. The Board welcomes questions from shareholders who have an opportunity to raise issues either formally or informally before or at the shareholders' meetings. All shareholders are entitled to vote in accordance with the established voting rules and procedures. The Company shall conduct poll voting for all resolutions tabled at the general meetings. The rules, including the voting process, shall be explained by the scrutineers at such general meetings. A shareholder who is entitled to attend and vote may either vote in person or through the appointment of proxies. The Constitution of the Company allows an individual shareholder to appoint not more than two proxies to attend and vote on his or her behalf at the general meetings. The Company's Constitution does allow for absentia voting at general meetings of shareholders at the discretion of Directors to approve and implement such voting, subject to the security measures as may be deemed necessary or expedient. Separate resolutions are proposed on each separate issue at general meetings. Where the resolutions are "bundled", the Company explains the reasons and material implications in the notice of meeting.

CORPORATE GOVERNANCE REPORT

Principle	Code Description	Company's compliance or explanation
		The Board welcomes questions from shareholders who wish to raise issues, either informally or formally before or during the general meetings. The Chairmen of the Board and its Committees, CEO and CFO will all attend the general meetings to address issues raised by shareholders. The External Auditors and the Sponsors are also present to address any relevant queries from shareholders. Company held one shareholders' meeting in FY2019 where all directors present. The minutes of general meetings are available to shareholders upon written request. All resolutions are put to vote by poll, and their detailed results will be announced via SGXNET after the conclusion of the general meeting. Member who is a relevant intermediary may appoint more than two proxies to attend, speak and vote at the shareholders' meetings, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy. The Company does not have a fixed dividend policy. The form, frequency and amount of future dividends on the shares that the Board may recommend or declare will depend on, among other factors deemed relevant by the Board, the factors outlined below: (a) cash flow and retained earnings; (b) actual and projected business and financial performance; (c) projected levels of capital expenditure and expansion plans; (d) results of operations; (e) working capital requirements and general financing condition; and (f) restrictions on the payment of dividends imposed on the Company (if any). The Directors intend to recommend and distribute dividends of not less than 40.0% of the Group's net profits after tax attributable to shareholders in respect of the financial year ending 2020. For FY2019, the Board has recommended a tax-exempt (one-tier) dividend of 0.083 Singapore cent per ordinary share, which will be subject to the approval of shareholders at the forthcoming AGM.

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Principle	Code Description	Company's compliance or explanation
Engagement with Shareholders		
12	The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.	The Company currently does not have an investor relations policy. However, the Company has engaged an external investor relations adviser, Waterbrooks Consultants Pte. Ltd., to carry out investor relations activities. The Company strives to communicate with shareholders and the investing community through the timely release of announcements to the SGX-ST via SGXNET. Financial results of the Company and the Group were released within 45 days from the respective quarter ended and within 60 days from the full-year financial year ended during FY2019. Following the recent amendments to Rule 705 of the SGX-ST: Listing Manual Section B: Rules of Catalist ("**Amended Catalist Rules**"), the Company will not be required to carry out quarterly reporting of its financial statements. The Company has decided not to continue with quarterly reporting of the Company and the Group's financial results and will instead, announce the financial results on a half-yearly basis as required under the Amended Catalist Rules. To further enhance its communication with investors, the Company has also enhanced its website through its Investor Relations at http://investor.lyfurniture.com/ where the public can access information on the Group directly. General meetings will be the principal forum for dialogue with shareholders. Shareholders are given opportunities to participate through open discussions with the Chairman, Directors, CEO or the Management to better understand the business operations or performance of the Group.
MANAGING STAKEHOLDER RELATIONSHIPS		
Engagement with Stakeholders		
13	The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.	The Group has identified stakeholders as those who are impacted by the Group's business and operations as well as those who have a material impact on the Group's business and operations. The Company engages its stakeholders through various channels to ensure that the business interests of the Group are balanced against the needs and interests of its stakeholders. For more information on the Company's stakeholder engagement, please refer to the Company's Sustainability Report for FY2019 which is to be published by end of May 2020. The Company maintains a corporate website at http://www.lyfurniture.com to communicate and engage with stakeholders.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH APPLICABLE CATALIST RULES		
Catalist Rule	**Rule Description**	
711A and 711B	Sustainability Reporting	The Company will release its Sustainability Report for FY2019 by 31 May 2020.
712, 715 or 716	Appointment of Auditors	The Group complied with Rule 712 and Rule 715 of the Catalist Rules.
1204(8)	Material Contracts	There were no material contracts entered into by the Group involving the interests of the CEO, any Director, or controlling shareholder, which are either still subsisting at the end of FY2019 or if not then subsisting, which were entered into since the end of the previous financial year, save as follows: (a) Service agreements between the Company and the Executive Directors; and (b) Conditional asset purchase agreement dated 8 January 2019 entered into between LY Furniture Sdn Bhd (a wholly-owned subsidiary of the Company) and LP Global Resources Sdn Bhd. Please refer to the announcements released on 9 January 2019, 24 June 2019 and 31 October 2019 for more details.
1204(10)	Confirmation of Adequacy of Internal Controls	The Board, with the concurrence of the ARC, is of the opinion that the Group's internal controls and risk management systems are adequate and effective to address the financial, operational, compliance and information technology risks as of 31 December 2019 in its current business environment based on the following: • Assurance has been received from the CEO and CFO; • Board Committee meetings are held with the key management personnel to discuss and review the financial and operational (including compliance issues) performance of the Group. Internal control issues, where applicable, were discussed and addressed during such meetings; • Key management personnel regularly evaluates, monitors and reports to the ARC on material risks and a set of risk registers is maintained, updated and presented to the ARC at least annually; • Work performed by the Internal and External Auditors; and • Discussions were held between the ARC, Internal and External Auditors in the absence of the key management personnel to review and address any potential concerns. There were no material weaknesses identified by the Board or ARC in FY2019.
1204(10)(C)	ARC's comment on internal audit function	The ARC is satisfied that the Company's internal audit function is: • sufficiently independent to carry out its role; • conducted effectively as Management has provided full co-operation to enable Internal Auditors to perform its function; • adequately resourced to perform the work for the Group; and • has the appropriate standing within the Company.

CORPORATE GOVERNANCE REPORT

Catalist Rule	Rule Description	
1204(17)	Interested Person Transaction ("**IPT**")	Details of the interested person transactions for FY2019 as required pursuant to Rule 907 of the Catalist Rules of SGX-ST are as follows:

Name of Interested Person	Nature of Relationship	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
		RM'000	RM'000
Lean Shern Furniture Sdn Bhd ("**Lean Shern**")	Mr Tan Khwee Ming and Mr Tan Kwee Song, who are both brothers of Mr Tan Kwee Chai and Mr Tan Kwee Lim, each owns 50% of the issued and paid-up capital of Lean Shern and the directors of Lean Shern are Mr Tan Khwee Ming and Mr Tan Kwee Song.	NA	3,230
LP Global Resources Sdn Bhd ("**LP Global**")	Lian Yu Furniture Corporation Sdn. Bhd. ("**LYFC**")* wholly owns the issued and paid-up share capital of LP Global and the directors of LP Global are Mr Tan Kwee Chai and Mr Tan Kwee Lim. The management of LP Global are not Associates of our Directors, CEO, Executive Officers or Controlling Shareholders.	NA	6,308
Leatherworld Upholstery Sdn Bhd ("**Leatherworld**")	LYFC* owns 51.0% of the issued and paid-up share capital of Leatherworld, and the remaining 49.0% shareholding interest in Leatherworld is owned by Ms Tan Pei Wah. The directors of Leatherworld are Mr Eu Choon Sian and Ms Tan Pei Wah, who are both not related to any of our Directors, CEO, Controlling Shareholders or their Associates. None of our Directors, CEO, Executive Officers or Controlling Shareholders has an executive role in Leatherworld.	NA	3,530
Lian Yu Asset Management Sdn Bhd ("**LYAM**")	LYFC*, Mr Tan Kwee Chai and Mr Tan Kwee Lim own 60.0%, 20.0% and 20.0% of the issued and paid-up share capital of LYAM respectively. The directors of LYAM are Mr Tan Kwee Chai and Mr Tan Kwee Lim.	900	NA

** Mr Tan Kwee Chai, Mr Tan Yong Chuan, Mr Tan Kwee Lim, Mr Boo Ngek Hee, Mdm Cha Geek Ngo, Mr Tan Yong Siang and Good Champion Ltd own 37.13%, 9.23%, 19.24%, 10.01%, 4.39%, 6.00% and 14.00% of the issued and paid-up share capital of LYFC respectively. Good Champion Ltd is wholly-owned by Mr Shen Min-Hui. The directors of LYFC are Mr Tan Kwee Chai, Mr Tan Yong Chuan, Mr Tan Kwee Lim and Mr Boo Ngek Hee.*

CORPORATE GOVERNANCE REPORT

Catalist Rule	Rule Description	
		The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the ARC and the transactions are carried out on normal commercial terms and will not be prejudicial to the interest of the Company and its minority shareholders.
1204(19)	Dealing in Securities	The Company has adopted an internal policy which prohibits the Directors and officers from dealing in the securities of the Company while in possession of price-sensitive information. The Company, its Directors and officers are also discouraged from dealing in the Company's securities on short term considerations and are prohibited from dealing in the Company's securities during the period commencing two weeks before the announcement of the Group's quarterly financial results and one month before the announcement of the Group's full-year financial results, and ending on the date of the announcement of the relevant results in FY2019.
1204(21)	Non-sponsor Fees	No non-sponsor fees were paid to the Company's sponsor, UOB Kay Hian Private Limited for FY2019.
1204(22)	Use of Proceeds	Pursuant to the Company's IPO, the Company received net proceeds from the IPO of approximately RM13.0 million (the "**Net Proceeds**"). Further details can be found in the Offer Document. As at the date of this Corporate Governance Report, the status on the use of IPO proceeds as follows:

Purpose	Amount allocated (S$'000)	Amount utilised (S$'000)	Balance (S$'000)
Expanding the sales network in the PRC	1,000	(137)	863
Upgrading the machinery and equipment and acquiring new technology	5,000	(5,000)	–
Construction of additional facilities	4,000	(3,909)	91
General working capital purposes[1]	3,000	(1,700)	1,300
Total	**13,000**	**(10,746)**	**2,254**

Note:

(1) Payment of corporate and administrative expenses.

FINANCIAL CONTENTS

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of LY Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2019.

1. Opinion of the directors

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. Directors

The directors of the Company in office at the date of this statement are:

Tan Yong Chuan
Tan Kwee Chai
Tan Ai Luang
Lee Dah Khang
Oh Seong Lye
Yeo Kian Wee Andy

3. Arrangements to enable directors to acquire shares and debentures

Except as disclosed in this statement, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4. Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest			Deemed interest		
Name of director	**At the beginning of financial year**	**At the end of financial year**	**At 21 January 2020**	**At the beginning of financial year**	**At the end of financial year**	**21 January 2020**
Ordinary shares of the Company						
Tan Kwee Chai	658,500	1,414,200	1,414,200	352,305,400	352,305,400	352,305,400
Tan Ai Luang	800,000	800,000	800,000	–	–	–
Lee Dah Khang	77,000	77,000	77,000	–	–	–
Oh Seong Lye	115,000	115,000	115,000	–	–	–
Yeo Kian Wee Andy	115,000	115,000	115,000	–	–	–
Ordinary shares of the ultimate holding company- Lian Yu Holdings Pte. Ltd.						
Tan Kwee Chai	431,730	431,730	431,730	–	–	–
Tan Yong Chuan	107,336	107,336	107,336	–	–	–

By virtue of Section 7 of the Companies Act, Chapter 50, Tan Kwee Chai is deemed to have an interest in the shares held by Lian Yu Holdings Pte. Ltd. in the Company and in its subsidiaries.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

5. Share awards

On 21 December 2017, the Company adopted the LY Performance Share Plan for the granting of non-transferable share awards. The awards are settled by the physical delivery of the ordinary shares of the Company to eligible participants (including Executive Directors and Independent Directors). The LY Performance Share Plan is administrated by the Remuneration Committee of the Company.

Since the commencement of the LY Performance Share Plan till the end of the financial year, no share awards have been granted.

6. Audit and risk committee

The Audit and Risk Committee performed the functions specified in the Singapore Companies Act, Chapter 50. The functions performed are detailed in the Report on Corporate Governance.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

7. Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the board of directors:

Tan Kwee Chai
Director

Tan Yong Chuan
Director

13 April 2020

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Independent Auditor's Report to the Members of LY Corporation Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LY Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") which comprise the statements of financial position of the Group and the Company as at 31 December 2019, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the statement of financial position and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (the "SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (the "ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (the "ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Key Audit Matters (Continued)

Valuation of inventories – work-in-progress and finished goods

As of 31 December 2019, the work-in-progress and finished goods amounted to RM12,192,000 and RM496,000 respectively. Significant management estimate is required in arriving at the cost of the inventory, which is determined based on standard costing technique, in particular the estimation of direct labour and direct overheads to be apportioned to the specific inventories based on stage of completion. As such, we considered this to be a key audit matter.

Our audit procedures included, among others:

- obtained an understanding and evaluated the design and operating effectiveness of the Group's internal controls with respect to inventory costing process;

- observed the year-end inventory count performed by management and selected work-in-progress and finished goods on a sampling basis to agree the physical state of the inventories to the description of bill of materials in the accounting records;

- assessed management's budgeting and monitoring process by comparing actual costs incurred for completed customers' orders during the year to the standard costs on a sample basis;

- reviewed the standard costing on a sample basis to check that cost components of work-in-progress and finished goods are appropriate; and

- tested the standard costing by checking the actual cost components to supporting documents and testing the overhead costs capitalised in work-in-progress and finished goods.

The Group's disclosures relating to work-in-progress and finished goods are included in Note 16 to the financial statements.

Acquisition of business

On 25 January 2019, the Group's subsidiary, Leyo Holdings Sdn. Bhd. acquired equity interest in a business under the EZBO and CUBO trademarks (the "Business") for a total cash consideration of RM 4,933,000.

The acquisition of Business was accounted for using the acquisition method. The Group finalised its Purchase Price Allocation ("PPA") exercise for the acquisition as disclosed in Note 14 of the financial statements. Given the quantitative materiality of this acquisition and the significant management judgement involved in the identification and valuation of intangible assets, we considered the accounting for the acquisition to be a key audit matter.

Our audit procedures included, amongst others, reading the sale and purchase agreement to obtain an understanding of the key terms. An important element of our audit relates to the management's identification of the acquired assets, ascertaining the respective fair values based on valuation models and estimating the residual goodwill. We involved our internal specialists in reviewing the valuation methodologies used by management and the external valuation expert in the valuation of acquired assets and liabilities. We assessed the nature and basis of the valuation adjustments and whether the assumptions used in valuing the acquired intangible assets were consistent with what a market participant would use. We have also assessed the adequacy and appropriateness of the disclosures in the financial statements in Note 14 of the financial statements.

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the SSAs 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 management.

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of management's 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 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 financial statements, including the disclosures, and whether the 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 directors 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 directors 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 directors, we determine those matters that were of most significance in the audit of the 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.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Low Bek Teng.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

13 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts in Ringgit Malaysia)

	Note	2019 RM'000	2018 RM'000
Revenue	4	**245,860**	263,136
Cost of sales		**(224,573)**	(219,243)
Gross profit		**21,287**	43,893
Other items of income			
Interest income from short-term deposits		**688**	627
Other income	5	**1,980**	4,559
Other items of expense			
Selling and administrative expenses		**(19,383)**	(17,781)
Finance costs	6	**(430)**	(245)
Listing expenses		**-**	(6,794)
Other expenses	7	**(700)**	(176)
Profit before tax	8	**3,442**	24,083
Income tax expense	10	**(1,784)**	(9,162)
Profit for the year, representing total comprehensive income for the year		**1,658**	14,921
Profit/(loss) for the year, representing total comprehensive income for the year attributable to:			
Owners of the Company		**3,084**	14,921
Non-controlling interest		**(1,426)**	–
		1,658	14,921
Earnings per share attributable to owners of the Company (sen per share)			
Basic and diluted	11	**0.63**	3.05

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts in Ringgit Malaysia)

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Non-current assets					
Property, plant and equipment	12	**141,231**	119,748	**–**	–
Leasehold land	13	**–**	13,430	**–**	–
Right-of-use assets	22	**22,382**	–	**–**	–
Investment in subsidiaries	14	**–**	–	**47,886**	30,469
Intangible assets	15	**3,024**	–	**–**	–
Other receivable	17	**630**	–	**–**	–
		167,267	133,178	**47,886**	30,469
Current assets					
Inventories	16	**40,889**	34,639	**–**	–
Trade and other receivables	17	**26,697**	23,404	**4,140**	10,518
Contract assets	4(c)	**6,332**	10,784	**–**	–
Prepaid operating expense		**1,322**	1,221	**23**	61
Tax recoverable		**960**	–	**–**	–
Cash and cash equivalents	18	**36,083**	64,709	**17,731**	32,415
		112,283	134,757	**21,894**	42,994
Total assets		**279,550**	267,935	**69,780**	73,463
Current liabilities					
Loans and borrowings	19	**6,216**	2,601	**–**	–
Trade and other payables	20	**29,092**	22,755	**–**	38
Contract liabilities	4(c)	**247**	136	**–**	–
Accrued operating expenses		**678**	504	**453**	395
Lease liabilities	22	**1,112**	–	**–**	–
Tax payable		**–**	1,503	**56**	28
		37,345	27,499	**509**	461
Net current assets		**74,938**	107,258	**21,385**	42,533
Non-current liabilities					
Loans and borrowings	19	**459**	781	**–**	–
Lease liabilities	22	**5,363**	–	**–**	–
Deferred tax liabilities	21	**16,004**	14,819	**–**	–
		21,826	15,600	**–**	–
Total liabilities		**59,171**	43,099	**509**	461
Net assets		**220,379**	224,836	**69,271**	73,002
Equity attributable to owners of the Company					
Share capital	23	**66,135**	66,135	**66,135**	66,135
Merger reserve	24	**(15,234)**	(15,234)	**–**	–
Retained earnings		**170,904**	173,935	**3,136**	6,867
		221,805	224,836	**69,271**	73,002
Non-controlling interest		**(1,426)**	–	**–**	–
Net assets		**220,379**	224,836	**69,271**	73,002
Total equity and liabilities		**279,550**	267,935	**69,780**	73,463

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts in Ringgit Malaysia)

	← Attributable to owners of the Company →					
	Share capital (Note 23) RM'000	**Merger reserve (Note 24) RM'000**	**Retained earnings RM'000**	**Equity attributable to owner RM'000**	**Non-controlling interest RM'000**	**Total equity RM'000**
Group						
Opening balance at 1 January 2018	20,234	(15,234)	170,318	175,318	–	175,318
Issuance of new shares pursuant to the Initial Public Offering ("IPO")	48,387	–	–	48,387	–	48,387
Listing expenses	(2,486)	–	–	(2,486)	–	(2,486)
Profit for the year, representing total comprehensive income for the year	–	–	14,921	14,921	–	14,921
Dividend on ordinary shares, representing total distribution to owners (Note 32)	–	–	(11,304)	(11,304)	–	(11,304)
At 31 December 2018 and 1 January 2019	**66,135**	**(15,234)**	**173,935**	**224,836**	**–**	**224,836**
Profit/(loss) for the year, representing total comprehensive income for the year	**–**	**–**	**3,084**	**3,084**	**(1,426)**	**1,658**
Dividend on ordinary shares, representing total distribution to owners (Note 32)	**–**	**–**	**(6,115)**	**(6,115)**	**–**	**(6,115)**
At 31 December 2019	**66,135**	**(15,234)**	**170,904**	**221,805**	**(1,426)**	**220,379**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts in Ringgit Malaysia)

	Share capital (Note 23) RM'000	Retained earnings RM'000	Total equity RM'000
Company			
At 1 January 2018	20,234	(271)	19,963
Issuance of new shares pursuant to the IPO	48,387	–	48,387
Listing expenses	(2,486)	–	(2,486)
Profit for the year, representing total comprehensive income for the year	–	18,442	18,442
Dividend on ordinary shares, representing total distribution to owners (Note 32)	–	(11,304)	(11,304)
At 31 December 2018 and 1 January 2019	**66,135**	**6,867**	**73,002**
Profit for the year, representing total comprehensive income for the year	**–**	**2,384**	**2,384**
Dividend on ordinary shares, representing total distribution to owners (Note 32)	**–**	**(6,115)**	**(6,115)**
At 31 December 2019	**66,135**	**3,136**	**69,271**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts in Ringgit Malaysia)

	Note	2019 RM'000	2018 RM'000
Operating activities			
Profit before tax		**3,442**	24,083
Adjustments for:			
Gain on disposal of property, plant and equipment	5	**(86)**	(224)
Interest income from short-term deposits		**(688)**	(627)
Interest expense	6	**430**	245
Write-off of property, plant and equipment	7	**45**	37
Reversal of right-of-use-assets on termination of leases		**(38)**	–
Amortisation of trademarks	15	**47**	–
Depreciation of right-of-use assets	22	**1,146**	–
Amortisation of leasehold land	13	**–**	342
Depreciation of property, plant and equipment	12	**7,148**	6,068
Unrealised exchange loss		**52**	300
Listing expenses		**–**	6,794
Operating profit before working capital changes		**11,498**	37,018
Changes in working capital:			
(Increase)/decrease in inventories		**(6,250)**	2,473
(Increase)/decrease in trade and other receivables		**(4,155)**	5,123
Decrease/(increase) in contract assets		**4,452**	(4,665)
(Increase)/decrease in prepaid operating expense		**(101)**	4,543
Increase/(decrease) in trade and other payables		**5,325**	(7,870)
Increase/(decrease) in contract liabilities		**111**	(144)
Increase/(decrease) in accrued expenses		**174**	(4,305)
Cash flows from operations		**11,054**	32,173
Interest paid		**(163)**	(245)
Income taxes paid		**(2,085)**	(9,009)
Net cash flows from operating activities		**8,806**	22,919
Investing activities			
Interest income from short-term deposits received		**688**	627
Purchase of property, plant and equipment	A	**(21,621)**	(11,938)
Proceeds from disposal of property, plant and equipment		**251**	691
Acquisition of businesses	B	**(13,227)**	–
Net cash flows used in investing activities		**(33,909)**	(10,620)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts in Ringgit Malaysia)

	Note	2019 RM'000	2018 RM'000
Financing activities			
Dividends paid on ordinary shares	32	**(6,115)**	(11,304)
Proceeds from loans and borrowings		**40,621**	58,922
Repayment of obligations under finance lease		**–**	(605)
Repayment under financing arrangements		**(464)**	–
Repayment of loans and borrowings		**(36,864)**	(64,543)
Repayment of lease liabilities		**(812)**	–
Proceeds from issuance of shares		**–**	48,387
Listing expenses paid		**–**	(9,280)
Net cash flows (used in)/generated from financing activities		**(3,634)**	21,577
Net (decrease)/increase in cash and cash equivalents		**(28,737)**	33,876
Effect of exchange rate changes on cash and cash equivalent		**111**	(270)
Cash and cash equivalents at beginning of year		**64,709**	31,103
Cash and cash equivalents at end of year	18	**36,083**	64,709

Note to the consolidated statement of cash flows

A. Property, plant and equipment

	Note	2019 RM'000	2018 RM'000
Current year additions to property, plant and equipment	12	**21,621**	12,248
Less:			
Obligation under finance leases		**–**	(310)
Net cash outflow from purchase of property, plant and equipment		**21,621**	11,938

B. Acquisition of businesses

	Note	2019 RM'000	2018 RM'000
Consideration settled in cash:			
– Under the EZBO and CUBO trademarks	14(b)	**4,933**	–
– From LP Global Resources Sdn. Bhd.	14(c)	**8,294**	–
Net cash outflow from acquisition of businesses		**13,227**	–

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

1. CORPORATE INFORMATION

1.1 *The Company*

LY Corporation Limited (the "Company") was incorporated as a private limited company domiciled in Singapore on 24 October 2016. The immediate and ultimate holding company is Lian Yu Holdings Pte. Ltd., which was incorporated in Singapore. On 21 December 2017, the Company was converted into a public company limited by shares and changed its name from LY Corporation Pte. Ltd. to LY Corporation Limited. The Company was listed on the Catalist Board of Singapore Exchange Securities Trading Limited (the "SGX-ST") on 31 January 2018.

The registered office of the Company is located at 80 Robinson Road, #02-00, Singapore 068898.

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are disclosed in Note 14.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 *Basis of preparation*

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)").

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The consolidated financial statements are presented in Ringgit Malaysia ("RM") and all values in the tables are rounded to the nearest thousand (RM'000), except when otherwise indicated.

2.2 *New and amended standards and interpretations*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2019. Except for the adoption of SFRS(I) 16 Leases described below, the adoption of these new standards did not have any material effect on the financial performance or position of the Group.

SFRS(I) 16 *Leases*

SFRS(I) 16 supersedes SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives* and SIC-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 most leases on the statement of financial position.

Lessor accounting under SFRS(I) 16 is substantially unchanged from SFRS(I) 1-17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in SFRS(I) 1-17. Therefore, SFRS(I) 16 does not have an impact for leases where the Group is the lessor.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 *New and amended standards and interpretations (Continued)*

SFRS(I) 16 *Leases* (Continued)

The Group adopted SFRS(I) 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the lease liability is measured based on the remaining lease payments discounted using the incremental borrowing rate as of the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying SFRS(I) 1-17 and SFRS(I) INT 4 at the date of initial application.

The effects of adopting SFRS(I) 16 as at 1 January 2019 is as follows:

	Increase/ (decrease) RM'000
Asset	
Right-of-use assets	14,484
Leasehold land	(13,430)
At 1 January 2019	1,054
Liabilities	
Lease liabilities	1,054
At 1 January 2019	1,054

The Group has lease contracts for use of land use rights and buildings. Before the adoption of SFRS(I) 16, the Group classified its leases (as lessee) at the inception date as either a finance lease or an operating lease. The accounting policy prior to 1 January 2019 is disclosed in Note 2.18.

Upon adoption of SFRS(I) 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The accounting policy beginning on and after 1 January 2019 is disclosed in Note 2.18. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

(a) *Leases previously classified as finance leases*

On adoption of SFRS(I) 16, no gap, please ensure all SFRS(I) are consistent throughout, the Group did not apply the specific transition requirements and practical expedients which allows the Group to recognise the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under SFRS(I) 1-17).

The Group re-assessed its previously recognised finance leases under SFRS(I) 1-17 and concluded that the contracts do not contain a lease and had reclassified the previously recognised finance leases as financing arrangements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 *New and amended standards and interpretations (Continued)*

SFRS(I) 16 *Leases* (Continued)

(b) *Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for the leases were recognised based on the carrying amount as if the standard had always been applied, using the incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review;
- applied the short-term leases exemption to leases with lease term that ends within 12 months of the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

On adoption of SFRS(I) 16, the Group measures the right-of-use asset at an amount equal to lease liability. There was no prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019. Accordingly, there is no adjustment to retained earnings.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	RM'000
Operating lease commitment as at 31 December 2018	3
Less:	
Lease extension recognised as lease liability	1,106
	1,109
Weighted average incremental borrowing rate as at 1 January 2019	5%
Discounted operating lease commitments, representing lease liabilities as at 1 January 2019	1,054

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in SFRS(I) Standards	1 Jan 2020
Amendments to illustrative examples, implementation guidance and SFRS(I) practice statements	1 Jan 2020
Amendments to SFRS(I) 3: Definition of a Business	1 Jan 2020
Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: Definition of a Material	1 Jan 2020
Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: Interest Rate Benchmark Reform	1 Jan 2020
Amendments to SFRS(I) 10 & SFRS(I) 1-28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors expect that the adoption of the standards above will have no material impact on the financial statements in the period of initial application.

2.4 *Basis of consolidation*

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, other than those under common control (Note 2.4(c)) being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

(b) *Business combinations and goodwill*

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 *Basis of consolidation (Continued)*

(b) ***Business combinations and goodwill (Continued)***

The Group elects for each individual business combination, whether non-controlling interest in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another SFRS(I).

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

(c) ***Combination not involving a Business***

On 18 December 2017, the Group underwent a corporate reorganisation in preparation for its listing on the SGX-ST (the "Restructuring Exercise"). The Company subscribed for 4,500,000 shares in LY Furniture Sdn. Bhd. ("LYFSB"), amounting to 90% of the enlarged issued and paid-up share capital of LYFSB, for a consideration of RM4,500,000 which was based on RM1 for each share in LYFSB.

Concurrently, the Company entered into a sale and purchase agreement to acquire the remaining 10% of the issued and paid-up share capital in LYFSB for a consideration of RM15,995,500. The consideration was based on the unaudited net asset value of LYFSB as at 30 June 2017. The consideration was satisfied by the allotment and issue of 20,000,000 Shares in the Company. Upon completion of the acquisition of shares in LYFSB, LYFSB became a wholly-owned subsidiary of the Company.

The above Restructuring Exercise is considered to be a reorganisation without a change in beneficial shareholders. Accordingly, the Company recognises the difference between the deemed cost of acquiring LYFSB and the share capital of the subsidiary pursuant to the Restructuring Exercise as merger reserve. Although the Restructuring Exercise occurred on 18 December 2017, the consolidated financial statements present the financial position and financial performance as if the businesses have always been consolidated since the beginning of the earliest period presented. Such manner of presentation reflects the economic substance of the combining companies as a single economic enterprise, although the legal parent-subsidiary relationship was not established until after the Restructuring Exercise. Comparatives are presented as if the entities or businesses had always been combined since the date of incorporation of the entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 ***Basis of consolidation (Continued)***

(c) ***Combination not involving a Business (Continued)***

Pursuant to this:

- The assets and liabilities of the consolidated entities are reflected at their carrying amounts recorded in their respective financial statements.

- No adjustments are made to reflect the fair values on the date of consolidation, or recognise any new assets or liabilities.

- No additional goodwill is recognised as a result of the consolidation.

- Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within the equity as merger reserve.

- The statement of comprehensive income reflects the results of the consolidated entities for the full year, irrespective of when the consolidation took place.

2.5 ***Functional and foreign currency***

The financial statements are presented in Ringgit Malaysia, which is also 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.

Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.6 ***Property, plant and equipment***

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 *Property, plant and equipment (Continued)*

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold buildings	43 – 58 years
Freehold buildings	50 years
Machinery and equipment	10 years
Office equipment, furniture and fittings	10 years
Motor vehicles	8 years

Construction-in-progress is not depreciated as it is not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 *Leasehold land*

Leasehold land are initially measured at cost. Following initial recognition, leasehold land are measured at cost less accumulated amortisation and accumulated impairment losses. The leasehold land are amortised over the lease term of 39 to 58 years.

On adoption of SFRS(I) 16, the carrying amount of the leasehold land as at 1 January 2019 is reclassified to right-of-use assets.

2.8 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use 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. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss. Impairment loss relating to goodwill cannot be reversed in future period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 ***Transactions with non-controlling interests***

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.10 ***Subsidiaries***

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it 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.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.11 ***Financial instruments***

(a) ***Financial assets***

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

At initial recognition, the Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset.

Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 ***Financial instruments (Continued)***

(a) ***Financial assets (Continued)***

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

(b) ***Financial liabilities***

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On de-recognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

(c) ***Offsetting of financial instrument***

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 ***Impairment of financial assets***

The Group recognises an allowance for expected credit losses ("ECL") for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. 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 effective interest rate. 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.

ECL 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 recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a "lifetime ECL").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 *Impairment of financial assets (Continued)*

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, 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.

The Group considers a financial asset in default when contractual payments are 180 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.

2.13 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.14 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a first-in first-out basis.

- Work-in-progress and finished goods: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in first-out basis.

Where necessary, allowance is provided for damaged, obsolete and slow-moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15 *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 ***Borrowing costs***

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.17 ***Employee benefits***

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Company's subsidiaries incorporated in Malaysia make contributions to the Employees Provident Fund in Malaysia which is a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

2.18 ***Leases***

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) Group as a lessee

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

<u>Right-of-use assets</u>

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

- Leasehold land — 34 to 50 years
- Buildings — 2 to 6 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. The accounting policy for impairment is disclosed in Note 2.8.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 ***Leases (Continued)***

(a) Group as a lessee (Continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

Short-term leases and leases of low-value assets

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

(b) Group as lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. The accounting policy for rental income is set out in Note 2.19(e). Contingent rents are recognised as revenue in the period in which they are earned.

These accounting policies are applied before the initial application date of SFRS(I) 16, 1 January 2019:

(a) Group as lessee

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 ***Leases (Continued)***

(a) *Group as lessee (Continued)*

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) *Group as lessor*

The accounting policy applicable to the Group as a lessor in the comparative period was the same as under SFRS(I) 16.

2.19 ***Revenue***

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) ***Sale of goods – Original equipment manufacturer***

Revenue from made-to-order wooden furniture based on customised specifications from customers is recognised at the point in time when the manufacturing process is completed and the finished goods are packed as the Group is restricted contractually from directing the finished goods for another use and has an enforceable right to payment for the finished goods.

(b) ***Sale of goods – Original brand manufacturer***

Revenue from sale of self-assembled wooden furniture is recognised at the point in time upon delivery and when the customer obtained control of the good.

(c) ***Fulfilment services***

Revenue from fulfilment services is recognised over time as the goods are shipped to the specific location.

(d) ***Interest income***

Interest income from banks is recognised on a time-proportion basis using the effective interest method.

(e) ***Rental income***

Rental income arising from operating leases on leasehold properties is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 ***Taxes***

(a) ***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) ***Deferred tax***

Deferred tax is provided using the liability method on 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:

- Where the deferred tax liability arises from the initial recognition of goodwill or 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 taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference 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 accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only 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 future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 *Taxes (Continued)*

(c) ***Sales tax***

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

2.21 *Intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are 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 the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

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

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income.

Trademarks

The trademarks were acquired in a business combination. The useful live of the trademarks are estimated to be definite because based on the current assessment, management believes there is no affirmative decision to renew the Trademarks as at acquisition date. These trademarks were amortised on a straight-line basis over the useful life of 8.5 years.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

2.22 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 *Segment reporting*

For management purposes, the performance of the Group is monitored based on revenue by geographical segments. Management of the Company regularly review the revenue by geographical segments in order to assess the segment performance. Additional disclosures on each of these segments are shown in Note 31.

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 the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 *Judgements made in applying accounting policies*

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

(a) ***Determination of functional currency***

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices. Management concluded that the functional currency of the Company and its subsidiaries to be RM.

(b) ***Purchase price allocation for acquisition of business under CUBO and EZBO trademarks***

The Group has exercised significant judgement regarding the allocation of the purchase price to the assets and liabilities acquired for the cash generating unit, including judgement made relating to the identification of the intangible assets and, estimation of fair value of assets and liabilities of the acquired businesses, and the allocation of the resultant goodwill acquired during the purchase price allocation review. The details of valuation methodologies and key assumptions are disclosed in Note 14(b).

(c) ***Determination of lease term of contracts with extension options***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to extend the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the extension. After the commencement date, the Group reassesses the lease term whether there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to extend (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the extension option in the lease term for the lease of building because of the favourable location of such building for its operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.2 ***Key sources of estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur:

(a) ***Valuation of inventories***

The raw materials are measured based on first-in-first out basis, while work in progress inventories and finished goods are measured using the standard costing technique. Standard costing was computed based on management's best estimates of the overhead cost incurred in the production. Standard costing is subject to periodic review.

In accordance with SFRS(I) 1-2, "The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition". As such, management's estimates is involved in ensuring that the standard costing closely approximate the actual cost incurred. The carrying amount of inventories are disclosed in Note 16.

(b) ***Income taxes***

Significant judgement is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The amounts of income tax expenses and deferred tax provisions are disclosed in Note 10 and Note 21 respectively.

4. REVENUE

(a) ***Disaggregation of revenue***

	2019 RM'000	2018 RM'000
Primary geographical markets		
United States of America	**166,658**	202,905
Malaysia	**35,644**	30,719
Republic of China	**18,200**	15,337
People's Republic of China	**–**	1,734
United Arab Emirates	**5,968**	6,979
Canada	**3,036**	2,992
Hong Kong	**11,100**	–
Japan	**1,899**	–
Korea	**924**	–
Others	**2,431**	2,470
	245,860	263,136
Major product or service lines		
- Sale of goods	**240,956**	254,087
- Fulfilment services	**4,904**	9,049
	245,860	263,136
Timing of transfer of goods of services		
At a point in time	**240,956**	254,087
Over time	**4,904**	9,049
	245,860	263,136

(b) ***Judgement and methods used in estimating revenue***

Determining transaction price and amounts allocated to sale of goods and fulfilment services

The Company allocates the transaction price to the wholesale sales and fulfilment services based on their relative stand-alone selling prices. The stand-alone selling prices are determined based on estimated costs plus margin.

For the fulfilment services, revenue is recognised over time as the goods are shipped to the specific location. Management has referred to prices from logistics providers and adjusted those prices as necessary to reflect the Company's costs and margins, based on the Company's business pricing strategies and practices as analysed by different product types and different geographical areas.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4. REVENUE (CONTINUED)

(c) *Contract assets and contract liabilities*

Information about receivables, contract assets and contract liabilities from contracts with customers is disclosed as follows:

	Group	
	2019	2018
	RM'000	RM'000
Receivables from contracts with customers (Note 17)	**25,621**	15,072
Contract assets	**6,332**	10,784
Contract liabilities	**247**	136

Contract assets primarily relate to the Group's right to consideration when the manufacturing process is completed and the finished goods are packed but not yet billed at reporting date for sale of goods. Contract assets are transferred to receivables when billed.

Contract liabilities primarily relate to the Group's obligation to transfer fulfilment services over time as the goods are shipped to the specific location for which the Group has billed for receivables ahead of completion of the performance obligation.

Significant changes in contract assets and liabilities arose on reclassification of contract assets to receivables on billing, and recognising of revenue from performance obligations satisfied in previous year that was included in the contract liability balance at the beginning of the year.

(d) *Transaction price allocated to remaining performance obligation*

As permitted under SFRS(I) 15, the aggregated transaction price allocated to unsatisfied contracts of periods one year or less is not disclosed.

5. OTHER INCOME

	2019	2018
	RM'000	RM'000
Sale of materials	**139**	2,710
Sale of scrap materials	**361**	24
Gain on disposal of property, plant and equipment	**86**	224
Rental income	**635**	615
Insurance claims	**41**	18

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

6. FINANCE COSTS

	2019 RM'000	2018 RM'000
Interest expense on:		
– Bank loans	**117**	178
– Obligations under finance lease*	**–**	67
– Financing arrangements*	**46**	–
– Lease liabilities	**267**	–
	430	245

* On adoption of SFRS(I) 16, the Group re-assessed its previously recognised finance leases under SFRS(I) 1-7 and concluded that the contracts do not contain a lease and had reclassified the previously recognised obligations under finance leases as financing arrangements under Note 19.

7. OTHER EXPENSES

	2019 RM'000	2018 RM'000
Net foreign exchange loss	**655**	139
Write-off of property, plant and equipment	**45**	37
	700	176

8. PROFIT BEFORE TAX

The following amounts have been included in arriving at profit before tax:

	2019 RM'000	2018 RM'000
Audit fees:		
– auditor of the Company	**274**	273
- member firm of EY Global	**115**	115
Non-audit fees paid to auditor of the Company*	**–**	593
Amortisation of leasehold land (Note 13)	**–**	342
Amortisation of trademarks	**47**	–
Depreciation expenses:		
- property, plant and equipment (Note 12)	**7,148**	6,068
- right-of-use assets (Note 22)	**1,146**	–
Operating lease expense	**–**	553
Employee benefits expense (Note 9)	**43,791**	33,842
Sub-contractor costs	**24,903**	27,678
Freight cost and handling charges	**8,029**	7,869
Utilities expenses	**4,664**	4,028
Inventories recognised as an expense in cost of sales (Note 16)	**140,609**	136,259

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

8. PROFIT BEFORE TAX (CONTINUED)

In addition to the statutory audit fees as disclosed, the Group recognised RM593,000 as an expense for non-audit fees paid to the Auditors of the Company relating to the IPO exercise of the Company during the year ended 31 December 2018.

9. EMPLOYEE BENEFITS

	2019 RM'000	2018 RM'000
Employee benefits expense (including directors):		
Salaries and bonuses	**40,922**	31,537
Directors' fees	**507**	488
Directors' allowances	**46**	45
Employees' Provident Fund	**1,927**	1,579
Other benefits	**389**	193
	43,791	33,842

10. INCOME TAX EXPENSE

(a) ***Major components of income tax expense***

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 RM'000	2018 RM'000
Current income tax		
- Current income taxation	**1,851**	8,043
- Over provision in respect of previous years	**(1,252)**	(859)
Deferred income tax		
- Origination and reversal of temporary difference	**1,608**	170
- (Over)/under provision in respect of previous years	**(423)**	1,808
Income tax expense recognised in profit or loss	**1,784**	9,162

10. INCOME TAX EXPENSE (CONTINUED)

(b) ***Relationship between tax expense and accounting profit***

The reconciliation between income tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2019 and 2018 are as follows:

	2019 RM'000	2018 RM'000
Profit before tax	**3,442**	24,083
Tax at the domestic rates applicable to profits in the countries where the Group operates	**947**	6,369
Adjustments:		
- Non-deductible expenses	**1,605**	1,530
- Income not subject to taxation	**–**	(10)
- Deferred tax asset not recognised	**851**	280
- (Over)/under provision in respect of previous years	**(1,675)**	949
- Others	**56**	44
Income tax expense recognised in profit or loss	**1,784**	9,162

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

11. EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS calculations:

	2019 RM'000	2018 RM'000
Profit attributable to ordinary equity holders of the parent for basic earnings and adjusted for the effect of dilution	**3,084**	14,921

	2019	2018
Weighted average number of ordinary shares for basic EPS and adjusted for the effect of dilution ('000)	**489,144**	489,144
Basic and diluted EPS (sen per share)	**0.63**	3.05

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares existing during the financial years ended 31 December 2019 and 2018.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Building RM'000	Machinery and equipment RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovation RM'000	Construction-in-progress RM'000	Total RM'000
Cost								
At 1 January 2018	95	94,411	38,548	5,591	5,106	–	3,940	147,691
Additions	–	324	2,087	130	328	–	9,379	12,248
Disposals	–	–	(1,944)	(45)	(510)	–	–	(2,499)
Written off	–	–	(218)	–	–	–	–	(218)
Reclassification	–	52	2,040	–	–	–	(2,092)	–
At 31 December 2018 and 1 January 2019	95	94,787	40,513	5,676	4,924	–	11,227	157,222
Additions	–	875	5,291	877	125	168	14,285	21,621
Acquisition of businesses	–	3,280	3,663	87	190	–	–	7,220
Disposals	–	–	(3,147)	(206)	–	–	–	(3,353)
Written off	–	–	–	(39)	–	–	(27)	(66)
Reclassification	–	11,275	7,435	64	–	–	(18,774)	–
At 31 December 2019	**95**	**110,217**	**53,755**	**6,459**	**5,239**	**168**	**6,711**	**182,644**
Accumulated depreciation								
At 1 January 2018	–	10,091	18,908	2,196	2,422	–	–	33,617
Depreciation charge for the year	–	1,925	3,088	506	549	–	–	6,068
Disposals	–	–	(1,628)	(17)	(385)	–	–	(2,030)
Written off	–	–	(180)	(1)	–	–	–	(181)
At 31 December 2018 and 1 January 2019	–	12,016	20,188	2,684	2,586	–	–	37,474
Depreciation charge for the year	–	2,053	3,961	550	578	6	–	7,148
Disposals	–	–	(3,050)	(138)	–	–	–	(3,188)
Written off	–	–	–	(21)	–	–	–	(21)
At 31 December 2019	**–**	**14,069**	**21,099**	**3,075**	**3,164**	**6**	**–**	**41,413**
Net carrying amount								
At 31 December 2018	95	82,771	20,325	2,992	2,338	–	11,227	119,748
At 31 December 2019	**95**	**96,148**	**32,656**	**3,384**	**2,075**	**162**	**6,711**	**141,231**

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets held under finance lease

The Group acquired motor vehicles with an aggregate cost of RM310,000 in the year ended 31 December 2018 by means of finance leases. The cash outflow on acquisition of property, plant and equipment amounted to RM11,938,000 in the year ended 31 December 2018.

The carrying amount of motor vehicles held under finance leases at the end of the year ended 31 December 2018 were RM1,814,000.

On adoption of SFRS(I) 16, the Group re-assessed its previously recognised finance leases under SFRS(I) 1-17 and concluded that the contracts do not contain a lease and had reclassified the previously recognised finance leases as financing arrangements under Note 19.

Assets pledged as security

In addition to assets held under finance leases, the Group's buildings with a carrying amount of RM22,794,000 were pledged to secure the Group's bank borrowings (Note 19) as at 31 December 2018.

The carrying amount of motor vehicles held under financing arrangements at the end of the year ended 31 December 2019 were RM1,081,000. There was no other asset pledged as security to secure the Group's borrowings at 31 December 2019.

13. LEASEHOLD LAND

	RM'000
Cost	
At 1 January 2018 and 31 December 2018	15,159
Adoption of SFRS(I) 16 (Note 2.2)	(15,159)
At 1 January 2019 and 31 December 2019	–
Accumulated amortisation	
At 1 January 2018	1,387
Amortisation for the year	342
At 31 December 2018	1,729
Adoption of SFRS(I) 16 (Note 2.2)	(1,729)
At 1 January 2019 and 31 December 2019	–
Net carrying amount	
At 31 December 2018	13,430
At 31 December 2019	–

As at 31 December 2018, the Group has leasehold land over 13 plots of state-owned land in Malaysia where the Group's Malaysia manufacturing and storage facilities reside. The leasehold land is transferrable when consent is obtained from the state authority and have a remaining tenure of 35 to 51 years. The right to use the land over the lease term with an aggregate carrying value of RM4,080,000 are pledged to financial institutions for bank borrowings as disclosed to in Note 19.

On adoption of SFRS(I) 16, leasehold land is reclassified to land use right (included in right-of-use assets). Details of such leased assets are disclosed in Note 22.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14. INVESTMENT IN SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000
Unquoted equity shares, at cost		
At 1 January	**30,469**	20,234
Additions	**9,000**	10,235
	39,469	30,469
Amount due from subsidiary (non-trade)	**8,417**	–
At 31 December	**47,886**	30,469

The amount due from subsidiary represents part of net investment and are unsecured and interest bearing at prevailing fixed deposit rate. The weighted average effective interest rate as at 31 December 2019 for the Company was 3.28%. Settlement of the amount due is neither planned nor likely to occur in the foreseeable future and it is repayable only when cash flows of the subsidiary permits.

Composition of the Group

The Group has the following investments in subsidiaries as at the reporting periods:

Name of subsidiaries	Principal place of business	Principal activities	Proportion (%) of ownership interest 2019	2018
Held by the Company:				
LY Furniture Sdn. Bhd.[(1)]	Malaysia	Manufacturing of wooden furniture	**100**	100
Leyo Holdings Sdn. Bhd. [(1) (2)]	Malaysia	Investment holding company	**51**	100
Held through LY Furniture Sdn. Bhd				
LY Global Hub Sdn. Bhd. [(1)]	Malaysia	Trading of wooden furniture, related products and materials and providing management and support services	**100**	100
Held through Leyo Holdings Sdn. Bhd.				
Leyo Manufacturing Sdn. Bhd. [(1) (2)]	Malaysia	Manufacturing of all kinds of furniture	**51**	100

(1) Audited by a member firm of EY Global in the principal place of business.

(2) Incorporated during the financial year ended 31 December 2018.

(a) ***Incorporation of new subsidiaries***

On 23 November 2018, the Group incorporated a wholly-owned subsidiary, Leyo Holdings Sdn. Bhd. ("LHSB") with issued and paid up capital of RM1.00. On 25 January 2019, the Company further subscribed for additional 509,999 ordinary shares in the share capital of LHSB for a total subscription price of RM1,235,000.

On 3 December 2018, the Group incorporated a wholly-owned subsidiary, Leyo Manufacturing Sdn. Bhd. ("LMSB") through LHSB with issued and paid up capital of RM1.00. On 1 February 2019, the Group further subscribed for additional 768,000 ordinary shares in the share capital of LMSB through LHSB, for a total subscription price of RM1,858,000.

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(b) ***Acquisition of business under the EZBO and CUBO trademarks***

On 25 January 2019 (the "acquisition date"), the Group through its subsidiary LHSB acquired equity interest in a business under the trademarks of EZBO and CUBO (the "Business") from the Vendor, a strategic move to expand into a new business segment to manufacture original brand manufacturing furniture. Trademarks amounting to RM391,000 and deferred tax liabilities amounting to RM94,000 in relation to trademarks recognised had been determined on provisional basis as the purchase price allocation exercise ("PPA") for the acquisition of the business was not completed when the 2018 financial statements were authorised for issue.

The Group completed the PPA and had disclose the changes to the provisional amounts previously reported to reflect new information obtained about facts and circumstances that existed as of the date of acquisition date. Based on the completed PPA, the fair value of the EZBO and CUBO trademarks amount to RM432,000, an increase of RM41,000 over previously reported value. The fair value of the acquired property, plant and equipment was RM1,966,000, a decrease of RM500,000 over the previously reported value.

Consequent to the finalisation of the PPA, the Group reclassified RM41,000 of previously recognised goodwill to trademarks, as well as additional recognition of RM10,000 of deferred tax liabilities in relation to the recognition of trademarks from the acquisition of business, and reclassified RM500,000 of previously recognised property, plant and equipment to goodwill.

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

The adjusted fair values of the identifiable assets and liabilities of the acquired businesses as at the acquisition date are presented in the following table:

	As previously reported in 31.12.2018 RM'000	Fair value adjustments RM'000	Fair value as at 31.12.2019 RM'000
Property, plant and equipment	2,466	(500)	**1,966**
Trademarks	391	41	**432**
	2,857	(459)	**2,398**
Deferred tax liabilities	(94)	(10)	**(104)**
Total identifiable net assets at fair value	2,763	(469)	**2,294**
Non-controlling interest measured at the non-controlling interest's proportionate share of LHSB's net identifiable assets	–	–	**–**
Goodwill arising from acquisition	2,201	438	**2,639**
Consideration settled in cash, representing net cash outflow on acquisition of businesses	4,964	(31)	**4,933**

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(b) ***Acquisition of business under EZBO and CUBO trademarks (Continued)***

Goodwill arising from acquisition

The goodwill of RM2,639,000 comprises the value of strengthening the Group's products offering in the furniture industry, and cost reduction synergies expected to arise from the acquisition. It also includes the business, expertise and experience in the original brand manufacturing industry when he joined the Group, which has not been recognised separately and does not meet the criteria for recognition as an intangible asset under SRFS(I) 1-38. Goodwill is allocated entirely to the original brand manufacturing segment. The goodwill recognised is not deductible for income tax purposes.

Impact of the acquisition on profit or loss

From the acquisition date, the Business has contributed RM4,536,000 of revenue and RM2,277,000 loss to the Group's profit for the year. There will be no material differences to the Group's revenue and profit for the financial year ended 31 December 2019 if the business combination had taken place at the beginning of the year.

(c) ***Acquisition of business from LP Global Resources Sdn. Bhd.***

On 21 December 2017, the Company entered into a call options and right of first refusal agreement (the "Agreement") with Lian Yu Furniture Corporation Sdn. Bhd. (formerly known as LY Furniture Corporation Sdn. Bhd.) ("LYFC"). Under the Agreement, LYFC has agreed to grant the Company a call option ("Call Option") to acquire from LYFC all assets and business that it may from time to time hold in LP Global Resources Sdn. Bhd. ("LP Global").

On 9 January 2019, the Company has exercised the call option to acquire all assets and the business of LP Global (the "Business") at fair market value which has been determined by an independent appraiser for the purchase consideration. The assets acquired includes land use rights (included in right-of-use asset), property, plant and machineries. The Company has appointed LYFSB to receive the Business from LP Global. The acquisition was completed on 1 November 2019 (the "acquisition date").

The Group completed the PPA and the fair value of identifiable assets of LP Global as at acquisition date were::

	Fair value recognised on acquisition date RM'000
Property, plant and equipment	5,254
Right-of-use asset	3,040
	8,294
Consideration settled in cash, representing net cash outflow on acquisition of businesses	8,294

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(c) *Acquisition of business from LP Resources Global Sdn. Bhd. (Continued)*

Impact of the acquisition on profit or loss

There will be no material differences to the Group's revenue and profit for the financial year ended 31 December 2019 if the business combination had taken place at the beginning of the year or from acquisition date as majority of the sales were made to a fellow subsidiary.

(d) *Interest in subsidiaries with material non-controlling interest ("NCI")*

The Group has the following subsidiaries that have NCI that are material to the Group.

Name of subsidiary	Principal place of business	Proportion of ownership interest held by NCI	Loss allocated to NCI RM'000	Accumulated deficit of NCI RM'000	Dividends paid to NCI RM'000
31 December 2019					
Leyo Holdings Sdn. Bhd. and its subsidiary (collectively, "LHG")	**Malaysia**	**49%**	**1,426**	**(1,426)**	**-**

There is no restriction on the Group's ability to use or access assets and settle liabilities of the subsidiaries with material non-controlling interests.

(e) *Summarised financial information about subsidiary with material NCI*

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiary with material non-controlling interests are as follows:

Summarised statement of financial position

	LHG 2019 RM'000
Current	
Assets	**7,841**
Liabilities	**(8,217)**
Net current liabilities	**(376)**
Non-current	
Assets	**11,050**
Liabilities	**(2,587)**
Net non-current assets	**8,463**
Net assets	**8,087**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(e) ***Summarised financial information about subsidiaries with material NCI (Continued)***

Summarised statement of comprehensive income

	LHG 2019 RM'000
Revenue	**4,536**
Loss before income tax	**(3,147)**
Income tax expense	**236**
Loss after tax from continuing operations, representing total comprehensive income	**(2,911)**
Other summarised information	
Net cash flows used in operating activities	**558**

15. INTANGIBLE ASSETS

	Goodwill RM'000	Trademarks RM'000	Total RM'000
Group			
Cost			
At 1 January 2018, 31 December 2018 and 1 January 2019	**–**	**–**	**–**
Acquisition of businesses (Note 14(b))	2,639	432	3,071
At 31 December 2019	**2,639**	**432**	**3,071**
Accumulated amortisation			
At 1 January 2018, 31 December 2018 and 1 January 2019	–	–	–
Amortisation	–	47	47
At 31 December 2019	**–**	**47**	**47**
Net carrying amount			
At 1 January 2019	–	–	–
At 31 December 2019	**2,639**	**385**	**3,024**

Amortisation expense

The amortisation of trademarks is included in "Selling and Administrative expenses" line items in consolidated statement of comprehensive income.

Acquisition during the year

The trademarks were acquired through a business combination. The useful lives of the trademarks are estimated to be approximately 8.5 years based on the remaining period granted by the relevant government agencies. As at 31 December 2019, the trademarks were tested for impairment.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

15. INTANGIBLE ASSETS (CONTINUED)

Impairment testing of goodwill and trademarks

Goodwill acquired through a business and trademarks have been allocated to a cash generating unit ("CGU") which consists of LHG for impairment testing.

The carrying amounts of goodwill and trademarks allocated to the CGU are as follows:

	LHG 2019 RM'000
Goodwill	2,639
Trademarks	385
At 31 December 2019	**3,024**

The recoverable amounts of the CGU have been determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections and the forecasted growth rates used to extrapolate cash flow projections beyond the five-year period are as follows:

	LHG 2019
Pre-tax discount rates	**17%**
Growth rates	**1%**

Key assumptions used in the value in use calculations

The calculations of value-in-use for the CGU are most sensitive to the following assumptions:

Budgeted gross margins – Gross margins are based on average values achieved since the Group acquired the respective businesses. These are increased over the budget period for anticipated efficiency improvements and cost saving measures through leveraging on the Group's synergies.

Pre-tax discount rates – Discount rates represent the current market assessment of the risks specific to the CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Growth rates – The forecasted growth rates are based on published industry research and do not exceed the long-term average growth rate for the industries relevant to the CGU.

Sensitivity to changes in assumptions

With regards to the assessment of value-in-use for goodwill and trademarks of LHG, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

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16. INVENTORIES

	Group	
	2019	2018
	RM'000	RM'000
Consolidated statement of financial position:		
Raw materials	**28,201**	24,204
Work-in-progress	**12,192**	10,435
Finished goods	**496**	–
	40,889	34,639
Consolidated statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	**140,609**	136,259

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Non-current				
Other receivable				
Deposit	**630**	–	**–**	–
Current				
Trade receivables, net	**25,621**	15,072	**–**	–
Due from:				
- related parties (trade)	**–**	40	**–**	–
- related parties (non-trade)	**–**	3,560	**–**	–
- a subsidiary company (non-trade)	**–**	–	**4,140**	6,440
Loan to a subsidiary	**–**	–	**–**	4,078
Deposit	**565**	378	**–**	–
GST receivables	**–**	3,130	**–**	–
Other receivables	**511**	1,224	**–**	–
Total trade and other receivables	**27,327**	23,404	**4,140**	10,518
Add: Cash and cash equivalents (Note 18)	**36,083**	64,709	**17,731**	32,415
Less: GST receivable	**–**	(3,130)	**–**	–
Total loans and receivables	**63,410**	84,983	**21,871**	42,933

Trade receivables

Trade receivables are non-interest bearing and are generally on 7 to 30 days (2018: 7 to 30 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables denominated in foreign currency at the reporting periods are as follows:

	Group	
	2019	2018
	RM'000	RM'000
United States Dollar	**16,088**	13,014

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

Related party balances

Amounts due from a subsidiary and related parties are unsecured, non-interest bearing, repayable upon demand and are to be settled by cash.

The loan to a subsidiary as at 31 December 2018 is unsecured, bear interest of 3.35% per annum and are to be settled in cash.

Deposit (Non-current)

The non-current deposit relates to deposit paid by the Group for the purchase of a leasehold land and building. The acquisition is subjected to the approval of the state authority. The deposit will be refunded if the consent is not obtained from the state authority.

Expected credit loss

The Group recognises expected credit losses of RM50,000 (2018: RM50,000) for its trade receivables and contract assets computed based on lifetime ECL. There is no movement in the allowance for expected credit losses for the year ended 31 December 2019 and 2018.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash at banks and on hand	**36,083**	56,625	**17,731**	32,415
Short-term deposits	**–**	8,084	**–**	–
	36,083	64,709	**17,731**	32,415

Cash at banks earn interest at floating rates based on daily bank deposits rates. Short-term deposits are made for varying periods of between one day and one month, depending on the immediate cash requirements of the Group and the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rates as at 31 December 2019 for the Group was 3.46% (2018: 3.58%).

Cash and cash equivalents denominated in currency other than functional currency of each entity are as follows:

	Group	
	2019 RM'000	2018 RM'000
United States Dollar	**6,902**	14,029
Singapore Dollar	**22,603**	32,716
Renminbi	**116**	104

19. LOANS AND BORROWINGS

	Group	
	2019	**2018**
	RM'000	**RM'000**
Current:		
Bankers' acceptances	**5,894**	2,137
Obligations under finance leases (Note 26(c))*	**–**	464
Financing arrangements*	**322**	–
	6,216	2,601
Non-current:		
Obligations under finance leases (Note 26(c))*	**–**	781
Financing arrangements*	**459**	–
	459	781
Total loans and borrowings	**6,675**	3,382

* On adoption of SFRS(I) 16, the Group re-assessed its previously recognised finance leases under SFRS(1) 1-17 and concluded that the contracts do not contain a lease and had reclassified the previously recognised obligations under finance leases as financing arrangements.

Obligations under finance leases

As at 31 December 2018, these obligations are secured by a charge over the respective assets (Note 12). The average discount rate implicit in the leases 4.78% per annum.

Financing arrangements

As at 31 December 2019, the financing arrangements are secured by a charge over the respective assets (Note 12). The average discount rate implicit in the leases is 4.78% per annum.

Bankers' acceptances

The weighted average effective interest rate at the end of the reporting period were as follows:

	Group	
	2019	**2018**
Bankers' acceptance	**3.99**	4.01

As at 31 December 2018, the bankers' acceptance are secured by mortgage over certain buildings and leasehold land and ("Mortgage") joint and several guarantees provided by the directors of a subsidiary ("Guarantee"). During 31 December 2019, the Mortgage and Guarantee have been discharged and replaced by corporate guarantee provided by the Company.

A reconciliation of liabilities arising from the Group's financing activities is as follows:

			Non-cash changes	
	2018	**Cash flows**	**Others***	**2019**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Bankers' acceptances	2,137	3,757	–	**5,894**
Obligations under finance leases (Note 26(c))				
- current	464	(464)	–	**–**
- non-current	781	–	(781)	**–**
Financing arrangement				
- current	–	–	322	**322**
- non-current	–	–	459	**459**
Total	3,382	3,293	–	**6,675**

* The others column relates to reclassification of non-current portion of obligations under finance leases to financing arrangements upon adoption of SFRS(I) 16.

19. LOANS AND BORROWINGS (CONTINUED)

	2017 RM'000	Cash flows RM'000	Non-cash changes: Addition RM'000	Non-cash changes: Others# RM'000	2018 RM'000
Bankers' acceptances	–	2,137	–	–	2,137
Short-term trade financing	7,758	(7,758)	–	–	–
Obligations under finance leases (Note 26(c))					
- current	563	(605)	100	406	464
- non-current	977	–	210	(406)	781
Total	9,298	(6,226)	310	–	3,382

\# The 'others' column relates to reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time.

20. TRADE AND OTHER PAYABLES

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Trade payables	**16,535**	13,716	**–**	–
Other payables	**12,557**	8,260	**–**	38
Amount due to related parties (trade)	**–**	779	**–**	–
Total trade and other payables	**29,092**	22,755	**–**	38
Add: Accrued operating expense	**678**	504	**453**	395
Add: Loans and borrowings (Note 19)	**6,675**	3,382	**–**	–
Add: Lease liabilities (Note 22)	**6,475**	–	**–**	–
Total financial liabilities carried at amortised cost	**42,920**	26,641	**453**	433

Trade payables

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from one month to four months (2018: one month to four months).

Trade payables denominated in foreign currency as at the reporting periods are as follows:

	Group 2019 RM'000	Group 2018 RM'000
United States Dollar	**2,484**	1,432

Related party balances

Amounts due to related parties and a subsidiary are unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

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21. DEFERRED TAX

Deferred tax as at the reporting periods relate to the following:

	At 1 January 2018 RM'000	Recognised in profit or loss (Note 10) RM'000	At 31 December 2018 RM'000	Adoption of SFRS(I) 16 (Note 2.2) RM'000	At 1 January 2019 RM'000	Recognised in profit or loss (Note 10) RM'000	At 31 December 2019 RM'000
Deferred tax assets:							
Lease liabilities	–	–	–	253	253	1,301	**1,554**
Deferred tax liabilities:							
Differences in depreciation for tax purposes	(12,841)	(1,978)	(14,819)	–	(14,819)	(1,141)	**(15,960)**
Intangible assets	–	–	–	–	–	(94)	**(94)**
Right-of-use assets	–	–	–	(253)	(253)	(1,251)	**(1,504)**
Deferred tax liabilities, net	(12,841)	(1,978)	(14,819)	–	**(14,819)**	**(1,185)**	**(16,004)**

22. LEASES

Group as a lessee

The Group has lease contracts for land use rights and buildings. The Group's obligations under these leases are secured by the lessor's title to the leased assets. The Group is restricted from assigning and subleasing the leased assets. The contract includes extension option which is further discussed below.

The Group also has certain leases of office equipment with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

(a) ***Carrying amount of right-of-use assets***

	Land use rights RM'000	Buildings RM'000	Total RM'000
Cost:			
As at 1 January 2019	15,159	1,054	16,213
Acquisition of business	3,040	–	3,040
Additions for the year	–	7,127	7,127
Written off	–	(1,327)	(1,327)
As at 31 December 2019	**18,199**	**6,854**	**25,053**
Accumulated Depreciation:			
As at 1 January 2019	1,729	–	1,729
Written off	–	(204)	(204)
Depreciation	354	792	1,146
As at 31 December 2019	**2,083**	**588**	**2,671**
As at 1 January 2019	13,430	1,054	14,484
As at 31 December 2019	**16,116**	**6,266**	**22,382**

22. LEASES (CONTINUED)

Group as a lessee (Continued)

(b) *Lease liabilities*

The carrying amounts of lease liabilities and the movements during the year are disclosed as below and the maturity analysis of lease liabilities is disclosed in Note 29(b).

				Non-cash changes		
	1 January 2019 RM'000	**Additions RM'000**	**Cash flows RM'000**	**Accretion of interests RM'000**	**Other RM'000**	**31 December 2019 RM'000**
Lease liabilities						
- Current	417	7,127	(812)	267	(5,887)	**1,112**
- Non-current	637	–	–	–	4,726	**5,363**
As at 31 December 2019	**1,054**	**7,127**	**(812)**	**267**	**(1,161)**	**6,475**

The 'others' column relates to reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time amounting to RM4,726,000, and reversal of lease liability amounting to RM1,161,000 on termination of lease.

(c) *Amounts recognised in profit or loss*

	2019 RM'000
Depreciation of right-of-use assets	**1,146**
Interest expenses on lease liabilities (Note 6)	**267**
Total amount recognised in profit or loss	**1,413**

(d) *Total cash outflow*

The Group had total cash outflow for leases of RM812,000 in 2019.

(e) *Extension options*

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercise judgement in determining whether these extension options are reasonably certain to be exercised (Note 3.1(c)).

Group as a lessor

The Group has entered into commercial property leases for the use or rent of land and buildings. These non-cancellable leases have an average lease term of between one and two years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

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22. LEASES (CONTINUED)

Group as a lessor (Continued)

Future minimum rental receivable under non-cancellable operating leases at the end of the reporting period are as follows:

	Group	
	2019	**2018**
	RM'000	**RM'000**
Not later than one year	**91**	219
Later than one year but not later than five years	**30**	–
	121	219

23. SHARE CAPITAL

	Group and Company			
	2019		**2018**	
	No. of shares	**RM'000**	**No. of shares**	**RM'000**
Issued and fully paid ordinary shares				
At 1 January	**489,144,200**	**66,135**	40,000,000	20,234
Sub-division of 1,000 shares into 10,668 shares ("Share Split")	**–**	**–**	426,720,000	–
Issuance of new shares pursuant to IPO	**–**	**–**	62,424,200	48,387
Capitalisation of listing expenses	**–**	**–**	–	(2,486)
At 31 December	**489,144,200**	**66,135**	489,144,200	66,135

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary share has no par value.

As approved by the shareholders on 16 January 2018, every 1,000 issued share capital of the Company was sub-divided into 10,668 shares (the "Share Split"). The number of shares after the Share Split was 426,720,000.

The Company issued 62,424,200 shares as part of its listing on the Catalist Board of the SGX-ST on 31 January 2018. Upon the Share Split and issuance of new shares pursuant to the IPO, the number of issued and fully paid ordinary shares increased to 489,144,200 shares.

24. MERGER RESERVE

This represents the difference between the deemed cost of acquiring the subsidiary and the share capital of the subsidiary pursuant to the Restructuring Exercise as described in Note 2.4(c).

25. RELATED PARTY DISCLOSURES

(a) ***Sale and purchase of goods and services***

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

	Group	
	2019	**2018**
	RM'000	**RM'000**
Director-related companies:		
Sale of goods	**-**	29,904
Sale of property, plant and equipment and leasehold land	**8**	13
Rental received	**359**	456
Rental paid	**(261)**	(156)
Purchase of goods	**(9,488)**	(39,950)
Sub-contractor costs	**(9,863)**	(11,612)
Rental paid to a director of the subsidiary	**(18)**	(18)

(b) ***Compensation of key management personnel***

	Group	
	2019	**2018**
	RM'000	**RM'000**
Salaries and bonuses	**3,910**	3,773
Employee Provident Fund	**281**	299
	4,191	4,072
Comprise amounts paid to:		
Directors of the Company	**2,896**	2,796
Other key management personnel	**1,295**	1,276
	4,191	4,072

(c) ***Transaction with key management personnel***

During the year ended 31 December 2019, the Company has exercised the call option to acquire assets and the business of LP Global Resources Sdn. Bhd. from Lian Yu Furniture Corporation Sdn. Bhd, a director-related company, at fair market value which has been determined by an independent appraiser for the purchase consideration of RM8,294,000.

(d) ***Commitments with related parties***

On 1 April 2019, LYFSB entered into a 36-month agreement ending 31 March 2022 with Lian Yu Asset Management Sdn. Bhd. ("LYAM"), a director-related company, for the lease of building. The Group expects the rental paid to LYAM to be RM132,000, RM132,000, and RM33,000 in 2020, 2021, and 2022 respectively.

On 25 June 2019, LYFSB entered into a 36-month agreement commencing on 1 July 2019 and ending 30 June 2022 with LYAM, a director-related company, for the lease of building. The Group expects the rental paid to LYAM to be RM168,000, RM168,000, and RM84,000 in 2020, 2021, and 2022 respectively.

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26. COMMITMENTS

(a) ***Capital commitments***

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Capital commitments in respect of leasehold land and building	**7,665**	2,676

(b) ***Operating lease arrangements – as lessee***

In addition to the leasehold land disclosed in Note 13, the Group has entered into non-cancellable operating lease arrangements for the use or rent of land and buildings. These leases have an average life of between one and two years with no renewal or purchase option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Minimum lease payments, including amortisation of leasehold land recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to RM895,000.

As at 31 December 2018, the future minimum rental payable under non-cancellable operating leases (excluding leasehold land) contracted for but not recognised as liabilities, are as follows:

	Group 2018 RM'000
Not later than one year	3
Later than one year but not later than two years	–
	3

As disclosed in Note 2.2, the Group has adopted SFRS(I) 16 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the statement of financial position as at 31 December 2019.

(c) ***Finance lease commitments***

The Group has finance leases for certain motor vehicles. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Total minimum lease payments	**Present value of payments**
	2018 RM'000	
Group		
Not later than one year	510	464
Later than one year but not later than five years	827	781
Total minimum lease payments	1,337	1,245
Less: Amount representing finance charges	(92)	–
Present value of minimum lease payments	1,245	1,245

On adoption of SFRS(I) 16, the Group re-assessed its previously recognised finance leases under SFRS(I) 1-7 and concluded that the contracts do not contain a lease and had reclassified the previously recognised finance leases as financing arrangements.

27. GUARANTEES

As at 31 December 2019, the Company has provided corporate guarantees for bank facilities taken by a subsidiary amounting to RM5,894,000.

28. FAIR VALUE OF ASSETS AND LIABILITIES

(a) ***Fair value hierarchy***

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date;

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3 – Unobservable inputs for the asset or the liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The carrying amount of financial assets and liabilities are reasonable approximation of fair values, due to their short-term nature.

Fair value of trade and other receivables, payables and accrued operating expenses are not materially different from their carrying amounts. The Group does not anticipate that the carrying amounts recorded at the end of the reporting period would be significantly different from the values that would eventually be received or settled.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The directors review and agree on policies and procedures for the management of these risks, which are executed by the management team. The Audit and Risk Committee provides independent oversight to the effectiveness of the risk management process.

It is, and has been throughout the current and previous financial years, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group does not apply hedge accounting.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For cash and bank balances, the Group recognise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while recognised losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 180 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal and external credit rating;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the group and changes in the operating results of the debtor.

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 180 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) *Credit risk (Continued)*

The following are credit risk management practices and quantitative and qualitative information about amounts arising from expected credit losses for each class of financial assets.

Trade receivables

The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due by grouping of customers based on geographical region. The loss allowance provision as at 31 December 2019 is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

Summarised below is the information about the credit risk exposure on the Group's trade receivables using provision matrix, grouped by geographical region:

31 December 2019 RM'000	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**More than 120 days past due**	**Total**
Gross carrying amount:						
Malaysia	**3,121**	**125**	**109**	**64**	**106**	**3,525**
United States of America	**11,064**	**2,688**	**126**	**–**	**63**	**13,941**
Hong Kong	**3,000**	**3,121**	**339**	**8**	**–**	**6,468**
Others	**1,681**	**341**	**(85)**	**–**	**(200)**	**1,737**
	18,866	**6,275**	**489**	**72**	**(31)**	**25,671**
Loss allowance provision	**–**	**–**	**–**	**–**	**(50)**	**(50)**

31 December 2018 RM'000	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**More than 120 days past due**	**Total**
Gross carrying amount:						
Malaysia	2,392	–	–	1,602	–	3,994
United States of America	9,533	220	–	–	–	9,753
Others	1,272	103	–	–	–	1,375
	13,197	323	–	1,602	–	15,122
Loss allowance provision	–	–	–	–	(50)	(50)

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) ***Credit risk (Continued)***

Trade receivables (Continued)

Information regarding loss allowance movement of trade receivables and contract assets are disclosed in Note 17.

During the financial year, the Group did not write-off any trade receivables which are more than 180 days past due which the Group still expects to receive future cash flows from.

At the reporting date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the consolidated statement of financial position.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels. The Group does not apply hedge accounting.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	RM'000	%
2019		
By country:		
United States of America	**13,891**	**54.2**
Hong Kong	**6,469**	**25.2**
Malaysia	**3,525**	**13.8**
Others	**1,736**	**6.8**
	25,621	**100.0**
2018		
By country:		
United States of America	9,956	66.1
Malaysia	3,992	26.4
Others	1,124	7.5
	15,072	100.0

At the end of the reporting period approximately 82% (2018: 73.5%) of the Group's trade receivables were due from the 5 major customers located in United States of America, Hong Kong and Malaysia.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) ***Credit risk (Continued)***

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due not impaired are with creditworthy debtors with good payment record within the Group. Cash and short-term deposits are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Information regarding trade and other receivables that are either past due or impaired is disclosed in Note 17.

(b) ***Liquidity risk***

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with three different banks to meet its short-term working capital requirements. At the end of the reporting period, approximately 93.1% (2018: 76.9%) of the Group's loans and borrowings will mature in less than one year based on the carrying amount reflected in the financial statements, excluding discontinued operation.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets used for managing liquidity risk and financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

Group	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
31 December 2019				
Financial assets				
Trade and other receivables (net of GST receivable)	27,327	–	–	27,327
Cash and cash equivalents	36,083	–	–	36,083
	63,410	–	–	63,410
Financial liabilities				
Trade and other payables	29,092	–	–	29,092
Accrued operating expense	678	–	–	678
Loans and borrowings	6,243	478	–	6,721
Lease liabilities	1,560	4,842	1,223	7,625
	37,573	5,320	1,223	44,116
Total undiscounted financial assets/ (liabilities)	25,837	(5,320)	(1,223)	19,294

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) ***Liquidity risk (Continued)***

Analysis of financial instruments by remaining contractual maturities (Continued)

Group	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31 December 2018			
Financial assets			
Trade and other receivables (net of GST receivable)	20,274	–	20,274
Cash and cash equivalents	64,709	–	64,709
	84,983	–	84,983
Financial liabilities			
Trade and other payables	22,755	–	22,755
Accrued operating expense	504	–	504
Loans and borrowings	2,647	827	3,474
	25,906	827	26,733
Total undiscounted financial assets/(liabilities)	59,077	(827)	58,250

	Company On demand or within one year 2019 RM'000	2018 RM'000
Financial assets		
Trade and other receivables (net of GST receivable)	**4,140**	10,518
Cash and cash equivalents	**17,731**	32,415
	21,871	42,933
Financial liabilities		
Trade and other payables	**–**	38
Accrued operating expense	**453**	395
	453	433
Total undiscounted financial assets	**21,418**	42,500

(c) ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from its borrowings.

Sensitivity analysis for interest rate risk

During the financial year, if interest rates had been 10 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM5,000 (2018: RM9,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observable market environment.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) ***Foreign currency risk***

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to transactional currency risk primarily through sales that are denominated in a currency other than the respective functional currencies of the Group entities. The currency giving rise to this risk is primarily United States Dollars ("USD"). Approximately 85% (2018: 88%) of the Group's sales are denominated in foreign currencies whilst almost 78% (2018: 83%) of the costs are denominated in the respective functional currencies of the Group's entities. The Group's trade receivables and trade payables at the end of the reporting period have similar exposure.

The Group also hold cash, short-term deposits and short-term trade financing denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances are mainly in USD and Singapore Dollars ("SGD").

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the USD and SGD against the functional currency of the Group, with all other variables held constant.

	2019 RM'000	2018 RM'000
USD/RM		
– strengthen by 9% (2018: 9%)	**2,293**	2,563
– weaken by 9% (2018: 9%)	**(2,293)**	(2,563)
SGD/RM		
- strengthen by 9% (2018: 9%)	**2,034**	2,944
- weaken by 9% (2018: 9%)	**(2,034)**	(2,944)

30. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is total indebtedness divided by total capital. Total indebtedness comprise loans and borrowings whereas total capital comprises the equity attributable to owners of the Company.

	2019 RM'000	2018 RM'000
Loans and borrowings	**6,675**	3,382
Lease liabilities	**6,475**	–
	13,150	3,382
Equity attributable to the owners of the Company	**221,805**	224,836
Gearing ratio	**5.9%**	1.5%

Following the adoption of SFRS(I) 16, the gearing ratio of the Group increased from 1.5% on 31 December 2018 to 2.0% on 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

31. SEGMENT INFORMATION

The Group's activities are predominantly in manufacturing of wooden bedroom furniture. Management has not segregated the business to different reportable segment. Management monitors the performance of the Group based on revenue by geographical segments. Other information of the profit or loss in respect of the segments are not provided to the chief operating decision maker regularly. Instead, other than revenue, the chief operating decision maker reviews the other information of the profit or loss on a Group basis without segregating such information based on segment. The geographical segments are as follows:

(i) United States of America
(ii) Malaysia
(iii) Republic of China
(iv) People's Republic of China
(v) United Arab Emirates
(vi) Canada
(vii) Hong Kong
(viii) Japan
(ix) Korea
(x) Others

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follow:

	2019 RM'000	2018 RM'000
Revenue		
United States of America	**166,658**	202,905
Malaysia	**35,644**	30,719
Republic of China	**18,200**	15,337
People's Republic of China	**–**	1,734
United Arab Emirates	**5,968**	6,979
Canada	**3,036**	2,992
Hong Kong	**11,100**	–
Japan	**1,899**	–
Korea	**924**	–
Others	**2,431**	2,470
	245,860	263,136
Non-current assets		
Malaysia	**167,267**	133,178

Non-current assets information presented above consist of property, plant and equipment and leasehold land, right-of-use assets, trademarks and goodwill as presented in the consolidated statement of financial position.

Information about major customers

Revenue from three (2018: three) major customers amount to RM122,339,000 (2018: RM153,289,000).

32. DIVIDENDS

	2019 RM'000	2018 RM'000
Declared and paid during the financial year		
Final single tier dividend for 2017: Nil (2017: 2.31 sen) per share	-	11,304
Final single tier dividend for 2018: 1.25 (2017: Nil) per share	**6,115**	-

	2019 RM'000	2018 RM'000
Proposed but not recognised as a liability as at 31 December:		
Dividends on ordinary shares, subject to shareholders' approval at the AGM:		
- Final exempt (one-tier) dividend for 2019: 0.25 sen (2018: 1.24 sen) per share	**1,234**	6,080

33. EVENTS OCCURRING AFTER REPORTING PERIOD

The emergence of COVID-19 since January 2020 has brought about uncertainties to the general economic environment and may affect the Group's performance subsequent to the financial year end. The Group is cognisant of the challenges posed by these developing events and the potential impact they have on the business sector. The Group will continuously assess the situation, work closely with local authorities to support their efforts in containing the spread of COVID-19, and put in place measures to minimise impact to the business. The assets of the Group may subject to impairment or reduction in value due to the outbreak.

The subsidiaries of the Company are required to adhere to the Restricted Movement Order as announced by the Prime Minister of Malaysia on 16 March 2020 to contain the spread of COVID-19 infection in Malaysia. The operations of the subsidiaries located in Malaysia are required to be closed from 18 March 2020 to 28 April 2020, subject to further directives from the Malaysian Government. On 27 March 2020, the subsidiaries of the Company received an approval letter from the Malaysian Timber Industry Board which allows the subsidiaries of the Company to operate, subject to certain terms and conditions. The approval may be revoked and withdrawn if the conditions are not complied with. The subsidiaries of the Company had started their operations on 30 March 2020 upon receiving the approval.

As the situation is still evolving as at date of this report, the full effect of the outbreak is subject to uncertainty and could not be ascertained yet.

34. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 13 April 2020.

STATISTICS OF SHAREHOLDINGS

AS AT 23 MARCH 2020

SHARE CAPITAL AND VOTING RIGHTS

Number of shares issued	:	489,144,200
Issued and fully paid-up capital	:	S$22,985,000
Class of shares	:	Ordinary shares
Voting rights	:	1 vote per ordinary share
Treasury shares	:	Nil
Subsidiary holdings	:	Nil

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 23 MARCH 2020

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	0	0.00	0	0.00
100 – 1,000	6	2.01	2,700	0.00
1,001 – 10,000	70	23.41	483,700	0.10
10,001 – 1,000,000	214	71.57	35,597,700	7.28
1,000,001 AND ABOVE	9	3.01	453,060,100	92.62
TOTAL	**299**	**100.00**	**489,144,200**	**100.00**

TWENTY LARGEST SHAREHOLDERS AS AT 23 MARCH 2020

NO.	SHAREHOLDER'S NAME	NUMBER OF SHARES HELD	%
1	LIAN YU HOLDINGS PTE. LTD.	352,305,400	72.02
2	CROWN LEAP LIMITED	59,740,800	12.21
3	UOB KAY HIAN PTE LTD	17,407,900	3.56
4	CITIBANK NOMINEES SINGAPORE PTE LTD	8,339,800	1.70
5	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	6,334,200	1.29
6	RHB SECURITIES SINGAPORE PTE LTD	4,417,300	0.90
7	TANG HEE SUNG	2,010,000	0.41
8	CHANG CHING CHAU @ TEW KING CHANG	1,294,000	0.26
9	OCBC SECURITIES PRIVATE LTD	1,210,700	0.25
10	PHILLIP SECURITIES PTE LTD	963,400	0.20
11	KHOR KENG SEAH	905,000	0.19
12	TAN FIE PING	825,000	0.17
13	TAN AI LUANG	800,000	0.16
14	LAU CHIA EN	788,462	0.16
15	TAN YI ZE	780,000	0.16
16	TAN YANG SENG (CHEN YINGSHENG)	750,000	0.15
17	KHOR GUAN CHIANG	668,000	0.14
18	TEE BOON HUAT	645,000	0.13
19	LIM POH HUNG	630,000	0.13
20	CHINK POH CHENG @ CHNG POH CHENG	625,000	0.13
	TOTAL	**461,439,962**	**94.32**

STATISTICS OF SHAREHOLDINGS

AS AT 23 MARCH 2020

SUBSTANTIAL SHAREHOLDERS AS AT 23 MARCH 2020

Substantial Shareholders	Direct Interest Number of Shares	%	Deemed Interest Number of Shares	%	Total Interest Number of Shares	%
Lian Yu Holdings Pte. Ltd.	352,305,400	72.02	–	–	352,305,400	72.02
Crown Leap Limited	59,740,800	12.21	–	–	59,740,800	12.21
Tan Kwee Chai[(1)]	1,414,200	0.29	352,305,400	72.02	353,719,600	72.31
Tan Kwee Lim[(2)]	1,296,300	0.26	352,305,400	72.02	353,601,700	72.28
Shen Min-Hui[(3)]	–	–	59,740,800	12.21	59,740,800	12.21

(1) Mr Tan Kwee Chai is deemed to be interested in the shares held by Lian Yu Holdings Pte. Ltd. in the share capital of the Company through his 43.17% of interest held in Lian Yu Holdings Pte. Ltd.

(2) Mr Tan Kwee Lim is deemed to be interested in the shares held by Lian Yu Holdings Pte. Ltd. in the share capital of the Company through his 22.37% of interest held in Lian Yu Holdings Pte. Ltd.

(3) Mr Shen Min-Hui is the director and holds 100% of the issued shares of Crown Leap Limited. He is therefore deemed to be interested in all the shares held by Crown Leap Limited in the Company.

SHAREHOLDING HELD IN PUBLIC HANDS

Approximately 14.43% of the shareholding of the Company is held in the hands of the public as at 23 March 2020 and Rule 723 of the Catalist Rules is complied with.

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