

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

## 1. General

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is 29/F, Tower 2, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Group are the manufacturing and trading of electrical and electronic products.

The functional currency of the Company is United States dollars ("US\$").

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

### New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and the interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

#### Definition of a Lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

#### As a Lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. As at January 1, 2019, the Group recognized additional lease liabilities and measured right of use assets ("ROU assets") at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16. C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- elected not to recognize ROU assets and lease liabilities for leases with lease term ending within 12 months from the date of initial application;

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

### 2.1 HKFRS 16 Leases (continued)

#### As a Lessee (continued)

- excluded initial direct costs from measuring the ROU assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is approximately 2.8%.

	At January 1, 2019 US\$'000
Operating lease commitments disclosed as at December 31, 2018	316,373
Lease liabilities discounted at relevant incremental borrowing rates	287,180
Add: Extension options reasonably certain to be exercised	1,863
Less: Recognition exemption – short-term leases	(585)
Recognition exemption – low value assets	(4,580)
Leases not yet commenced to which the entity is committed	(5,301)
Non-lease components to be excluded from the lease liability	(880)
Lease liabilities relating to operating leases recognized upon application of HKFRS 16	277,697
Add: Obligations under finance leases recognized at December 31, 2018 (note b)	1,013
Lease liabilities as at January 1, 2019	278,710
Analyzed as	
Current	55,559
Non-current	223,151
	278,710

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

#### 2.1 HKFRS 16 Leases (continued)

##### As a Lessee (continued)

The carrying amount of ROU assets as at January 1, 2019 comprises the following:

	Right of use assets US\$'000
Right of use assets relating to operating leases recognized upon application of HKFRS 16	255,558
Reclassification from lease prepayments (note a)	28,475
Amounts included in property, plant and equipment under HKAS 17	
– Assets previously under finance leases (note b)	715
	<b>284,748</b>
By class:	
Leasehold land (lease prepayments)	28,475
Land and buildings	210,715
Office equipment, furniture and fixtures	2,528
Plant and machinery	2,930
Motor vehicles	34,963
Aircraft	5,137
	<b>284,748</b>

Note a: Upfront payments for leasehold lands were classified as lease prepayments as at December 31, 2018. Upon application of HKFRS 16, the lease prepayments amounting to US\$28,475,000 were reclassified to ROU assets.

Note b: In relation to assets previously under finance leases, the Group recategorized the carrying amounts of the relevant assets which were still under lease as at January 1, 2019 amounting to US\$715,000 as ROU assets. In addition, the Group reclassified the obligations under finance leases of US\$288,000 and US\$725,000 to lease liabilities as current and non-current liabilities respectively at January 1, 2019.

The following table summarizes the impact of transition to HKFRS 16 on retained profits at January 1, 2019.

	Impact of adopting HKFRS 16 at January 1, 2019 US\$'000
<b>Retained profits</b>	
Recognition of the differences between right of use assets and lease liabilities	<b>18,753</b>

### 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

#### 2.1 HKFRS 16 Leases (continued)

##### As a Lessee (continued)

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018 US\$'000	Reclassification US\$'000	Adjustments US\$'000	Carrying amounts under HKFRS 16 at January 1, 2019 US\$'000
<b>Non-current Assets</b>				
Property, plant and equipment	790,936	(715)	—	790,221
Lease prepayments	28,475	(28,475)	—	—
Right of use assets	—	29,190	255,558	284,748
Deferred tax assets	83,945	—	3,386	87,331
<b>Current Liabilities</b>				
Lease liabilities	—	288	55,271	55,559
Obligations under finance leases	288	(288)	—	—
<b>Non-current Liabilities</b>				
Lease liabilities	—	725	222,426	223,151
Obligations under finance leases	725	(725)	—	—
<b>Capital and Reserves</b>				
Retained profits	2,559,178	—	(18,753)	2,540,425

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

#### New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>4</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2021.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2020.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

#### New and revised HKFRSs in issue but not yet effective (continued)

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after January 1, 2020.

Other than described below, the directors of the Company consider the application of the new and amendments to HKFRSs would not have any material impact on the consolidated financial statements.

#### Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in HKFRS 9 Financial Instruments (“HKFRS 9”) and HKAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities’ hedging relationships are affected by the amendments. There are also amendments to HKFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

#### Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

### 3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

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

### 3. Significant Accounting Policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16 (since January 1, 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

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

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

The principal accounting policies are set out below.

#### Basis of Consolidation

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 3. Significant Accounting Policies (continued)

#### Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former Owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date. ROU assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9 or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

### 3. Significant Accounting Policies (continued)

#### Goodwill (continued)

A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit (or groups of cash-generating units). Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

#### Interests in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of loss of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any assets, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 3. Significant Accounting Policies (continued)

#### Interests in Associates (continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

#### Intangible Assets

##### Intangible Assets Acquired Separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Alternatively, intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

##### Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially measured at their fair value at the acquisition date. The cost of these intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

##### Internally-Generated Intangible Assets – Research and Development Expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

### 3. Significant Accounting Policies (continued)

#### Leases

##### Definition of a Lease (upon Application of HKFRS 16 in accordance with Transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

##### The Group as a Lessee (upon Application of HKFRS 16 in accordance with Transitions in note 2)

###### Allocation of Consideration to Components of a Contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative standalone prices.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

###### Short-term Leases and Leases of Low-value Assets

The Group applies the short-term lease recognition exemption to leases of certain property, plant & equipment ("PP&E") that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis or another systematic basis over the lease term.

###### ROU Assets

The cost of ROU assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

ROU assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

###### Refundable Rental Deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of ROU assets.

###### Lease Liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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### 3. Significant Accounting Policies (continued)

#### Leases (continued)

The Group as a Lessee (upon Application of HKFRS 16 in accordance with Transitions in note 2) (continued)

#### Lease Liabilities (continued)

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related ROU assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

#### Lease Modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant ROU asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components.

#### The Group as Lessee (prior to 1 January 2019)

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

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidation statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the term of the relevant lease.

### 3. Significant Accounting Policies (continued)

#### The Group as Lessee (prior to 1 January 2019) (continued)

In the event that lease incentives are received to enter into operating leases, these incentives are recognized as a liability. The aggregate benefits of incentives are recognized as a reduction of rental expense over the lease term on a straight-line basis.

#### Property, Plant & Equipment

PP&E including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Freehold land is not depreciated and are measured at cost less subsequent accumulated impairment losses.

Depreciation is provided to write off the cost of items of PP&E, other than freehold land and construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes PP&E in the course of construction for production or for its own use purposes. Construction in progress is carried at cost, less any recognized impairment loss. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is classified to the appropriate category of PP&E when completed and ready for its intended use. Depreciation of these assets, on the same basis as other PP&E, commences when the assets are ready for their intended use.

#### Ownership Interests in Leasehold Land and Building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold is presented as "ROU assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as PP&E.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

#### Impairment PP&E, ROU Assets and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its PP&E, ROU assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of PP&E, ROU assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

### 3. Significant Accounting Policies (continued)

#### Impairment PP&E, ROU Assets and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above) (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measureable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### Financial Instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### Financial Assets

##### Classification and Subsequent Measurement of Financial Assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Assets (continued)

##### Classification and Subsequent Measurement of Financial Assets (continued)

All other financial assets are subsequently measured at FVTPL except for derivatives designated as cash flow hedge relationship and, that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“OCI”) if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

##### Amortized Cost and Interest Income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

##### Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL except for derivatives designated as cash flow hedge relationship.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

##### Impairment of Financial Assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, bills receivable, trade receivables from associates, bank balances, deposits and cash) and other items (financial guarantee contracts) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

##### (i) Significant Increase in Credit Risk

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Assets (continued)

##### (i) Significant Increase in Credit Risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

##### (ii) Definition of Default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### (iii) Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Assets (continued)

##### (iii) Credit-impaired Financial Assets (continued)

- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

##### (iv) Write-off Policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

##### (v) Measurement and Recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis as below:

- Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group. Trade receivables from associates and other receivables are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset (i.e. gross carrying amount less loss allowance for ECL).

For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Assets (continued)

##### (v) Measurement and Recognition of ECL (continued)

Except for financial guarantee contracts, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognized through a loss allowance account.

##### Financial Liabilities and Equity

Financial liabilities and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

##### Equity Instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Buy-back of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### Financial Liabilities at Amortized Cost

Financial liabilities (including unsecured borrowings, trade and other payables, bills payable and discounted bills with recourse) are subsequently measured at amortized cost, using the effective interest method.

##### Financial Liabilities at FVTPL

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

##### Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

##### Hedge Accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

##### Assessment of Hedging Relationship and Effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Liabilities and Equity (continued)

##### Hedge Accounting (continued)

##### Assessment of Hedging Relationship and Effectiveness (continued)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

##### Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income and accumulated in the hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognized hedged item. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

##### Discontinuation of Hedge Accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transactions is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

##### Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance determined in accordance with HKFRS 9; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

##### Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized only when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

##### Offsetting a Financial Asset and a Financial Liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 3. Significant Accounting Policies (continued)

#### Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sales of goods are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

#### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is calculated using the first-in, first-out method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

#### Revenue from Contracts with Customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

#### Over time Revenue Recognition (Commission and Royalty Income): Measurement of Progress towards Complete Satisfaction of a Performance Obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (i.e. royalty income), the Group recognizes revenue in the amount to which the Group has the right to invoice.

#### Refund Liabilities

The Group recognizes a refund liability if the Group expects to refund some or all of the consideration received from customers.

#### Sale with a Right of Return/Exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognizes all of the following:

- (a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned/exchanged);
- (b) a refund liability; and
- (c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

### 3. Significant Accounting Policies (continued)

#### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the ROU assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the ROU assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to ROU assets and lease liabilities are assessed on a net basis. Excess of depreciation on ROU assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

#### Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 3. Significant Accounting Policies (continued)

#### Foreign Currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that form part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognized in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US\$) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after January 1, 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting date. Exchange differences arising are recognized in the other comprehensive income.

Goodwill and fair value adjustments on identifiable assets acquired arising on acquisitions of foreign operations before January 1, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### Equity-Settled Share-Based Payment Transactions

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognized in employee share-based compensation reserve will be transferred to share capital. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in the employee share-based compensation reserve will be transferred to retained profits.

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

When the trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

### 3. Significant Accounting Policies (continued)

#### Equity-Settled Share-Based Payment Transactions (continued)

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under the share award scheme. Accordingly, the related expense of the granted shares vested is reversed from the employee share-based compensation reserve. The difference arising from this transfer is debited/credited to retained profits. At the end of the reporting period, the Group revises its estimate of the number of shares that are expected to ultimately vest. The impact of the revision of the estimate, if any, is recognized in profit or loss with a corresponding adjustment to the employee share-based compensation reserve.

#### Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognized as expenses the related costs for which the grants are intended to compensate.

#### Retirement Benefit Schemes

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

For defined benefit retirement benefits plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in reserves and will not be reclassified to profit or loss.

Past service cost is recognized in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognized when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in the line item administrative expenses under profit or loss. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

The retirement benefit obligations recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

### 3. Significant Accounting Policies (continued)

#### Short-term and other Long-term Employee Benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service costs, interests and remeasurements are recognized in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

### 4. Key Sources of Accounting Estimates

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

#### Key Sources of Estimation Uncertainty

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

#### Estimated Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of their recoverable amounts, which is the higher of the value in use and fair value less costs of disposal of the cash-generating units to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2019, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$580,866,000 (2018: US\$581,215,000) and approximately US\$227,640,000 (2018: US\$227,640,000) respectively. Details of the recoverable amount calculation are disclosed in Note 21. In determining whether the goodwill and intangible assets with indefinite useful lives are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the cash-generating units. When the actual revenues and future cash flows are less than expected, a material impairment loss may arise and need to be recognized. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates that adjustments are required.

#### Capitalization, Useful Lives and Estimated Impairment of Deferred Development Costs

Determining the development costs, including the time and costs for individual projects, to be capitalized requires estimations and assumptions based on the expected future economic benefits to be generated by the products resulting from these development costs. Other important estimations and assumptions in this assessment process are the feasibility of mass production, the distinction between research and development and the estimated useful life. As at December 31, 2019, the carrying amounts of deferred development costs of the Group are US\$388,018,000 (2018: US\$338,230,000). The estimation of their useful lives impacts the level of annual amortization recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material impairment loss may arise and need to be recognized. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates that adjustments are required.

### 4. Key Sources of Accounting Estimates (continued)

#### Useful Lives and Impairment Assessment of Property, Plant and Equipment

PP&E are stated at cost less accumulated depreciation and identified impairment losses. As at December 31, 2019, the Group's carrying amount of PP&E is US\$1,086,559,000 (2018: US\$790,936,000). The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life of the equipment placed into production reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's PP&E. PP&E are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate assets' carrying values are written down to their recoverable amount and the amount of the write-down is charged against the results of operations.

#### Income Taxes

As at December 31, 2019, a deferred tax asset of approximately US\$28,165,000 (2018: US\$30,608,000) in relation to unused tax losses and approximately US\$31,984,000 (2018: US\$23,535,000) in relation to employee related provisions has been recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient taxable profits, or taxable temporary differences, will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognized in profit or loss for the period in which the reversal takes place. During the year, deferred tax assets of approximately US\$2,563,000 (2018: US\$3,326,000) in relation to unused tax losses were utilized.

#### Provision of ECL for Trade Receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 37 and 25 respectively.

### 5. Segment Information

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resources allocation and assessment of segment performance focuses on the types of goods sold.

The principal categories of goods supplied are "Power Equipment" and "Floor Care and Appliances". The Group's operating segments under HKFRS 8 are as follows:

1. Power Equipment – sales of power tools, power tool accessories, outdoor products, and outdoor product accessories for consumer, trade, professional and industrial users. The products are available under the MILWAUKEE, EMPIRE, AEG, RYOBI and HOMELITE brands plus original equipment manufacturer ("OEM") customers.
2. Floor Care and Appliances – sales of floor care products and floor care accessories under the HOOVER, DIRT DEVIL, VAX and ORECK brands plus OEM customers.

Information regarding the above segments is reported below.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 5. Segment Information (continued)

#### Segment Revenue and Results

The following is an analysis of the Group's revenue and results by reportable and operating segments for the year:

For the year ended December 31, 2019

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	6,791,514	875,207	—	7,666,721
Inter-segment sales	—	205	(205)	—
<b>Total segment revenue</b>	<b>6,791,514</b>	<b>875,412</b>	<b>(205)</b>	<b>7,666,721</b>

Inter-segment sales are charged at prevailing market rates.

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Result</b>				
Segment results	662,931	10,344	—	673,275
Interest income				40,215
Finance costs				(52,323)
Share of results of associates				119
Profit before taxation				661,286
Taxation charge				(46,290)
<b>Profit for the year</b>				<b>614,996</b>

For the year ended December 31, 2018

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	6,009,495	1,011,687	—	7,021,182
Inter-segment sales	—	1,442	(1,442)	—
<b>Total segment revenue</b>	<b>6,009,495</b>	<b>1,013,129</b>	<b>(1,442)</b>	<b>7,021,182</b>

Inter-segment sales are charged at prevailing market rates.

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Result</b>				
Segment results	598,283	9,172	—	607,455
Interest income				25,204
Finance costs				(38,049)
Profit before taxation				594,610
Taxation charge				(42,070)
<b>Profit for the year</b>				<b>552,540</b>

### 5. Segment Information (continued)

#### Segment Revenue and Results (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment without the allocation of interest income, finance costs and share of results of associates. This is the measure reported to the executive directors of the Company for the purpose of resources allocation and performance assessment.

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the chief operating decision makers for review.

#### Other Segment Information

For the year ended December 31, 2019

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	5,779	551	6,330
Write down of inventories	33,632	823	34,455
(Reversal of impairment loss) impairment loss on trade receivables under expected credit loss model	(1,876)	3,197	1,321
Depreciation and amortization	269,489	51,930	321,419
Gain on early termination of leases	(3,500)	—	(3,500)

For the year ended December 31, 2018

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	14,415	2,444	16,859
Write down of inventories	27,220	364	27,584
Impairment loss on trade receivables under expected credit loss model	20,197	2,648	22,845
Depreciation and amortization	182,200	56,534	238,734

#### Revenue from Major Products

The following is an analysis of the Group's disaggregated revenue from its major products:

	2019 US\$'000	2018 US\$'000
Power Equipment	6,791,514	6,009,495
Floor Care and Appliances	875,207	1,011,687
<b>Total</b>	<b>7,666,721</b>	<b>7,021,182</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 5. Segment Information (continued)

#### Geographical Information

The Group's revenue from external customers by geographical location, determined based on the location of the customer and information about its non-current assets, by geographical location, determined based on the location of the group entity owning the assets are detailed below:

	Revenue from external customers		Non-Current Assets*	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
North America	5,909,781	5,371,768	1,456,518	1,037,973
Europe	1,160,614	1,071,056	172,451	113,851
Other countries	596,326	578,358	952,305	869,603
Total	7,666,721	7,021,182	2,581,274	2,021,427

\* Non-current assets exclude interests in associates, financial assets at FVTPL, derivative financial instruments and deferred tax assets.

#### Information about Major Customer

During the years ended December 31, 2019 and 2018, the Group's largest customer contributed total revenue of US\$3,586,339,000 (2018: US\$3,194,744,000), of which US\$3,530,735,000 (2018: US\$3,143,450,000) was under the Power Equipment segment and US\$55,604,000 (2018: US\$51,294,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total revenue.

### 6. Revenue

Revenue represents the fair value of the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, and commission and royalty income received during the year and is analyzed as follows:

	2019 US\$'000	2018 US\$'000
Sales of goods	7,641,865	7,009,861
Commission and royalty income	24,856	11,321
	7,666,721	7,021,182

Revenue from sales of goods is recognized at a point in time. Commission and royalty income is recognized over time.

The Group sells products mainly to the wholesale market. Revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery).

Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

Revenue is recognized for sales which are considered highly probable and that a significant reversal of the cumulative revenue recognized will not occur. A contract liability is recognized for sales in which revenue has not yet been recognized. The Group's right to recover the product when customers exercise their right to return products is recognized as a right to returned goods asset and a corresponding adjustment to cost of sales.

As at December 31, 2019, revenue for unsatisfied contracts to be recognized by the Group over one year is immaterial. As permitted by HKFRS 15, the transaction price allocated to unsatisfied contracts for contracts with period of one year or less is not disclosed.

### 7. Other Income

Other income in both 2019 and 2018 mainly comprises of the sale of scrap materials and claims and reimbursements from customers and vendors.

### 8. Interest Income

Interest income represents interest earned on bank deposits.

### 9. Finance Costs

	2019 US\$'000	2018 US\$'000
Interests on:		
Bank borrowings	45,620	37,407
Interest on lease liabilities	6,703	—
Obligations under finance leases	—	642
	52,323	38,049

### 10. Taxation Charge

	2019 US\$'000	2018 US\$'000
Current tax:		
Hong Kong Profits Tax	(1,309)	(1,088)
Over (Under) provision in prior years	596	(2,057)
	(713)	(3,145)
Overseas taxation	(32,279)	(30,575)
(Under) Over provision in prior years	(324)	404
	(32,603)	(30,171)
Deferred tax (Note 42):		
Current year	4,203	17,544
Deferred tax asset impairment	(16,653)	(26,969)
Change in tax rates	(524)	671
	(12,974)	(8,754)
	(46,290)	(42,070)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 10. Taxation Charge (continued)

The tax charge for the year is reconciled as follows:

	2019 US\$'000	2019 %	2018 US\$'000	2018 %
Profit before taxation	661,286		594,610	
Tax at Hong Kong Profits Tax rate	(109,112)	16.5%	(98,111)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	128,326	(19.4%)	74,295	(12.5%)
Tax effect of expenses not deductible for tax purposes	(25,431)	3.8%	(6,537)	1.1%
Tax effect of income not taxable for tax purposes	2,175	(0.3%)	8,779	(1.4%)
Utilization of deductible temporary differences previously not recognized	2,563	(0.4%)	3,326	(0.6%)
Tax effect of tax losses and deductible temporary differences not recognized	(28,025)	4.2%	4,129	(0.7%)
Deferred tax asset impairment	(16,653)	2.5%	(26,969)	4.5%
Over (under) provision in respect of prior years	272	0.0%	(1,653)	0.3%
Tax effect of changes in tax rates	(524)	0.1%	671	(0.1%)
Tax effect of share of results of associates	119	0.0%	—	—
Tax charge for the year	(46,290)	7.0%	(42,070)	7.1%

Details of deferred tax are set out in Note 42.

### 11. Profit for the Year

	2019 US\$'000	2018 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	109,037	108,758
Amortization of lease prepayments	—	747
Auditors' remuneration	3,247	3,267
Cost of inventories recognized as an expense	4,774,065	4,406,605
Depreciation of right of use assets	67,719	—
Depreciation on property, plant and equipment		
Owned assets	144,663	126,396
Assets held under finance leases	—	2,833
Fair value loss (gain) on foreign currency forward contracts	11,007	(17,954)
Fair value loss on listed equity securities	8,231	5,570
Fair value gain on club membership debentures	(145)	(114)
Fair value loss on acquisition right of certain property, plant and equipment	512	117
Fair value loss on cross-currency interest rate swap	2,425	—
Gain on early termination of leases	(3,500)	—
Gain on disposal of listed equity securities	—	(236)
Impairment loss on trade receivables under expected credit loss model	1,321	22,845
Loss on disposal of property, plant and equipment	6,330	16,859
Net exchange gain	(3,128)	(20,788)
Operating lease expenses/expenses relating to short-term leases and low-value assets recognized in respect of:		
Motor vehicles	640	23,825
Plant and machinery	10,198	11,910
Premises	8,162	43,932
Other assets	601	2,632
Share of results of associates	(119)	—
Unconditional government grants	(322)	(382)
Write off of intangible assets	4,064	3,236
Write down of inventories	34,455	27,584
Staff costs		
Directors' remuneration		
Fees	491	315
Other emoluments	48,663	41,205
Other staff costs	49,154	41,520
Retirement benefits scheme contributions	1,097,733	911,760
(other than those included in the Directors' emoluments)		
Defined contribution plans	14,155	11,979
Defined benefit plans (Note 41)	1,660	2,277
	1,162,702	967,536

Staff costs disclosed above do not include an amount of US\$174,477,000 (2018: US\$149,073,000) of staff costs incurred relating to research and development activities.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2018: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

For the year ended December 31, 2019

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	15,066	1,186	17,925
Mr Stephan Horst Pudwill (Note i)	—	390	2	2,057	601	3,050
Mr Joseph Galli Jr (Note i)	—	1,633	180	14,100	648	16,561
Mr Kin Wah Chan (Note i)	—	826	2	2,345	601	3,774
Mr Chi Chung Chan (Note i)	—	823	—	4,585	601	6,009
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	—	135	212
Mr Camille Jojo (Note ii)	77	15	—	—	453	545
Mr Christopher Patrick Langley OBE (Note iii)	77	15	—	—	135	227
Mr Manfred Kuhlmann (Note iii)	29	13	—	—	61	103
Mr Peter David Sullivan (Note iii)	77	37	—	—	135	249
Mr Vincent Ting Kau Cheung (Note iii)	77	40	—	—	135	252
Mr Johannes-Gerhard Hesse (Note iii)	77	26	—	—	144	247
<b>Total</b>	<b>491</b>	<b>5,489</b>	<b>186</b>	<b>38,153</b>	<b>4,835</b>	<b>49,154</b>

### 12. Directors' Emoluments (continued)

For the year ended December 31, 2018

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	10,195	1,295	13,163
Mr Stephan Horst Pudwill (Note i)	—	362	2	1,960	505	2,829
Mr Joseph Galli Jr (Note i)	—	1,696	180	14,100	827	16,803
Mr Kin Wah Chan (Note i)	—	722	2	2,136	505	3,365
Mr Chi Chung Chan (Note i)	—	719	2	2,486	505	3,712
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	45	6	—	—	150	201
Mr Camille Jojo (Note ii)	45	13	—	—	231	289
Mr Christopher Patrick Langley OBE (Note iii)	45	19	—	—	150	214
Mr Manfred Kuhlmann (Note iii)	45	44	—	—	150	239
Mr Peter David Sullivan (Note iii)	45	47	—	—	150	242
Mr Vincent Ting Kau Cheung (Note iii)	45	48	—	—	150	243
Mr Johannes-Gerhard Hesse (Note iii)	45	31	—	—	144	220
<b>Total</b>	<b>315</b>	<b>5,378</b>	<b>188</b>	<b>30,877</b>	<b>4,762</b>	<b>41,520</b>

Note i: The individuals represent the Executive Directors of the Company and the Group. The Executive Directors' emoluments shown above were mainly for their services in connection with management of the affairs of the Company and the Group.

Note ii: The individuals represent the Non-Executive Directors of the Company. The Non-Executive Directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

Note iii: The individuals represent the independent Non-executive Directors of the Company. The Independent Non-executive Directors' emoluments shown above were mainly for their services as directors of the Company.

The bonuses were based on past performance of the Group.

The above emoluments include the value of share options granted and shares awarded to certain directors under the Company's share option schemes and share award scheme, respectively, as estimated at the date of grant and award. Details of these benefits in kind are disclosed under the sections "Share Options" and "Share Award Scheme" in Notes 46 and 47 respectively

## Notes to the Consolidated Financial Statements

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### 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2018: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2018: one) individual for the year ended December 31, 2019 were as follows:

	2019 US\$'000	2018 US\$'000
Basic salaries and allowances	787	773
Contributions to retirement benefits schemes	74	191
Bonus	2,587	4,000
Other benefit	—	59
Share-based payments	1,635	—
	<b>5,083</b>	5,023

The emoluments of this one (2018: one) highest paid individual for the year ended December 31, 2019 were within the following bands:

HK\$	No. of persons	
	2019	2018
39,000,001 to 39,500,000	1	1

During each of the two years ended December 31, 2019 and 2018, no emoluments have been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during those years.

### 14. Dividends

	2019 US\$'000	2018 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2018: HK50 cents (approximately US6.44 cents) (2017: HK39.75 cents (approximately US5.12 cents)) per share	117,621	93,827
Interim dividend paid:		
2019: HK45.00 cents (approximately US5.79 cents) (2018: HK38.00 cents (approximately US4.89 cents)) per share	105,973	89,595
	<b>223,594</b>	183,422

The final dividend of HK58.00 cents (approximately US7.46 cents) per share with a total of approximately US\$136,603,000 in respect of the year ended December 31, 2019 (2018: final dividend of HK50.00 cents (approximately US6.44 cents) per share in respect of the year ended December 31, 2018) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

### 15. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to Owners of the Company is based on the following data:

	2019 US\$'000	2018 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	614,900	552,463
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,826,362,982	1,831,782,645
Effect of dilutive potential ordinary shares:		
Share options	5,004,102	5,678,803
Share award	1,155,989	505,165
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,832,523,073	1,837,966,613

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For the year ended December 31, 2019

### 16. Property, Plant and Equipment

	Land and buildings (Note) US\$'000	Leasehold improvements US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Moulds and tooling US\$'000	Vessels US\$'000	Aircraft US\$'000	Construction in progress US\$'000	Total US\$'000
<b>Cost</b>										
At January 1, 2018	193,239	89,191	225,647	322,146	6,271	312,060	2,369	—	127,590	1,278,513
Currency realignment	(2,047)	(2,911)	(3,709)	(10,067)	(161)	(4,109)	—	—	(856)	(23,860)
Additions	7,530	3,808	12,315	23,110	590	2,226	4,737	31,283	173,635	259,234
Acquisition of a subsidiary	1,280	—	165	1,157	—	273	—	—	87	2,962
Disposals	(14)	(1,860)	(10,207)	(17,572)	(1,034)	(36,647)	—	—	(4,442)	(71,776)
Reclassification	5,611	1,188	13,406	17,971	225	69,822	—	—	(108,223)	—
At December 31, 2018	205,599	89,416	237,617	336,745	5,891	343,625	7,106	31,283	187,791	1,445,073
Adjustments upon application of HKFRS 16	(3,094)	—	—	—	(393)	—	—	—	—	(3,487)
At January 1, 2019 (restated)	202,505	89,416	237,617	336,745	5,498	343,625	7,106	31,283	187,791	1,441,586
Currency realignment	1,080	302	(8,305)	1,316	197	(1,108)	—	—	(46)	(6,564)
Additions	31,687	3,989	16,212	31,554	409	4,626	—	312	367,819	456,608
Disposals	(307)	(3,786)	(19,494)	(7,104)	(440)	(28,892)	—	(3,900)	(3,882)	(67,805)
Reclassification	165,256	2,626	21,743	33,078	2,383	71,930	—	—	(297,016)	—
At December 31, 2019	400,221	92,547	247,773	395,589	8,047	390,181	7,106	27,695	254,666	1,823,825
<b>Depreciation and Impairment</b>										
At January 1, 2018	31,223	41,597	147,842	172,616	4,268	189,780	2,319	—	—	589,645
Currency realignment	(734)	(1,295)	(2,200)	(5,141)	(104)	(2,217)	—	—	—	(11,691)
Provided for the year	6,389	6,117	22,227	29,083	782	63,693	704	234	—	129,229
Eliminated on disposals	(2)	(1,802)	(7,732)	(12,947)	(898)	(29,665)	—	—	—	(53,046)
At December 31, 2018	36,876	44,617	160,137	183,611	4,048	221,591	3,023	234	—	654,137
Adjustments upon application of HKFRS 16	(2,526)	—	—	—	(246)	—	—	—	—	(2,772)
At January 1, 2019 (restated)	34,350	44,617	160,137	183,611	3,802	221,591	3,023	234	—	651,365
Currency realignment	867	225	(6,021)	1,052	76	(640)	—	—	—	(4,441)
Provided for the year	9,026	7,509	22,579	33,611	1,050	67,789	1,198	1,901	—	144,663
Eliminated on disposals	(216)	(2,595)	(18,935)	(5,763)	(311)	(26,501)	—	—	—	(54,321)
At December 31, 2019	44,027	49,756	157,760	212,511	4,617	262,239	4,221	2,135	—	737,266
<b>Carrying amounts</b>										
At December 31, 2019	356,194	42,791	90,013	183,078	3,430	127,942	2,885	25,560	254,666	1,086,559
At December 31, 2018	168,723	44,799	77,480	153,134	1,843	122,034	4,083	31,049	187,791	790,936

Note: Buildings with a carrying amount of US\$16,655,000 (2018: US\$18,485,000) are erected on leasehold land that is presented as ROU assets (2018: lease prepayments) on the consolidated statement of financial position.

### 16. Property, Plant and Equipment (continued)

The above PP&E, other than construction in progress, are depreciated on a straight-line basis, at the following rates per annum:

Freehold land	Nil
Leasehold land	Shorter of lease term or useful life
Buildings	2½% – 6⅔%
Leasehold improvements	2½% – 33⅓%
Office equipment, furniture and fixtures	10% – 33⅓%
Plant and machinery	9% – 25%
Motor vehicles	10% – 33⅓%
Moulds and tooling	18% – 33⅓%
Vessels	20% – 25%
Aircraft	6% – 16⅔%

The carrying amounts of properties shown above comprise:

	2019 US\$'000	2018 US\$'000
Properties situated outside Hong Kong are analyzed as follows:		
Freehold land	276,007	85,310
Leasehold land and buildings	16,655	18,485
	292,662	103,795
Land and buildings situated in Hong Kong	63,532	64,928
	356,194	168,723

As at December 31, 2018, the carrying amounts of the Group's PP&E includes approximately US\$715,000 in respect of assets held under finance leases.

The cost of the Group's PP&E includes amounts of approximately US\$342,522,000 (2018: US\$290,105,000) in respect of fully depreciated PP&E that are still in use.

### 17. Lease Prepayments

	US\$'000
<b>Cost</b>	
At January 1, 2018	37,982
Currency realignment	(2,054)
Additions	27
At December 31, 2018	35,955
<b>Amortization</b>	
At January 1, 2018	7,146
Currency realignment	(413)
Provided for the year	747
At December 31, 2018	7,480
<b>Carrying amount</b>	
At December 31, 2018	28,475

All lease prepayments were related to leases outside Hong Kong.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 18. Right of Use Assets

	Land and buildings US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Aircraft US\$'000	Leasehold land US\$'000	Total US\$'000
<b>Cost</b>							
Adjustments upon application of HKFRS 16 at January 1, 2019	352,851	4,313	4,842	64,143	12,582	35,955	474,686
Currency realignment	(992)	32	51	(597)	—	(436)	(1,942)
Additions	52,426	4,075	1,716	30,899	—	—	89,116
Termination of leases	(74,091)	(1,206)	—	(13,028)	—	(34)	(88,359)
<b>At December 31, 2019</b>	<b>330,194</b>	<b>7,214</b>	<b>6,609</b>	<b>81,417</b>	<b>12,582</b>	<b>35,485</b>	<b>473,501</b>
<b>Depreciation</b>							
Adjustments upon application of HKFRS 16 at January 1, 2019	142,136	1,785	1,912	29,180	7,445	7,480	189,938
Currency realignment	(842)	3	40	(521)	—	(96)	(1,416)
Provided for the year	43,668	1,392	1,149	19,537	1,258	715	67,719
Elimination on termination of leases	(16,903)	(879)	—	(12,102)	—	—	(29,884)
<b>At December 31, 2019</b>	<b>168,059</b>	<b>2,301</b>	<b>3,101</b>	<b>36,094</b>	<b>8,703</b>	<b>8,099</b>	<b>226,357</b>
<b>Carrying amounts</b>							
<b>At January 1, 2019 (restated)</b>	<b>210,715</b>	<b>2,528</b>	<b>2,930</b>	<b>34,963</b>	<b>5,137</b>	<b>28,475</b>	<b>284,748</b>
<b>At December 31, 2019</b>	<b>162,135</b>	<b>4,913</b>	<b>3,508</b>	<b>45,323</b>	<b>3,879</b>	<b>27,386</b>	<b>247,144</b>
							<b>US\$'000</b>
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16							11,844
Expense relating to leases of low-value assets, excluding short-term leases of low value assets							7,757
Total cash outflow for leases							83,831

For both years, the Group leases land and buildings, office equipment, furniture and fixtures, plant and machinery, motor vehicles, aircraft and leasehold land for its operations. Lease contracts are entered into for term of up to 18 years. Certain leases of land and buildings, plant and machinery and fixtures and equipment were accounted for as finance leases during the year ended December 31, 2018 and carried interest ranged from 6.00% to 8.54%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

#### Leases committed

As at December 31, 2019, the Group entered into new leases for certain PP&E that have not yet commenced, with average non-cancellable period that range from 1 to 10 years with extension options, the total future undiscounted cash flows under which amounted to US\$33,475,000 over the non-cancellable period.

Details of the lease maturity analysis of the lease liabilities are set out in Note 33.

### 19. Goodwill

	US\$'000
At January 1, 2018	555,350
Currency realignment	(782)
Arising on acquisition of a subsidiary	26,647
At December 31, 2018	581,215
Currency realignment	(349)
<b>At December 31, 2019</b>	<b>580,866</b>

Particulars regarding impairment testing of goodwill are disclosed in Note 21.

### 20. Intangible Assets

	Deferred development costs US\$'000	Patents US\$'000	Trademarks US\$'000	Manufacturing know-how US\$'000	Retailer and service relationships US\$'000	Non compete agreement US\$'000	Total US\$'000
<b>Cost</b>							
At January 1, 2018	801,490	88,839	234,212	453	10,500	—	1,135,494
Currency realignment	(17)	—	—	—	—	—	(17)
Additions	124,489	11,150	—	—	—	—	135,639
Acquisition of a subsidiary	—	47	8,200	1,300	5,900	1,300	16,747
Written off in the year	(9,414)	(222)	—	—	—	—	(9,636)
At December 31, 2018	916,548	99,814	242,412	1,753	16,400	1,300	1,278,227
Currency realignment	53	—	—	—	—	—	53
Additions	151,931	7,040	—	—	—	—	158,971
Written off in the year	(6,075)	(198)	—	—	—	—	(6,273)
<b>At December 31, 2019</b>	<b>1,062,457</b>	<b>106,656</b>	<b>242,412</b>	<b>1,753</b>	<b>16,400</b>	<b>1,300</b>	<b>1,430,978</b>
<b>Amortization</b>							
At January 1, 2018	485,178	52,095	13,138	453	4,206	—	555,070
Currency realignment	(2)	—	—	—	—	—	(2)
Provided for the year	99,542	7,975	453	33	690	65	108,758
Eliminated on write off	(6,400)	—	—	—	—	—	(6,400)
At December 31, 2018	578,318	60,070	13,591	486	4,896	65	657,426
Currency realignment	19	—	—	—	—	—	19
Provided for the year	98,311	8,898	453	130	718	527	109,037
Eliminated on write off	(2,209)	—	—	—	—	—	(2,209)
<b>At December 31, 2019</b>	<b>674,439</b>	<b>68,968</b>	<b>14,044</b>	<b>616</b>	<b>5,614</b>	<b>592</b>	<b>764,273</b>
<b>Carrying amounts</b>							
<b>At December 31, 2019</b>	<b>388,018</b>	<b>37,688</b>	<b>228,368</b>	<b>1,137</b>	<b>10,786</b>	<b>708</b>	<b>666,705</b>
At December 31, 2018	338,230	39,744	228,821	1,267	11,504	1,235	620,801

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### 20. Intangible Assets (continued)

The retailer and service relationships were acquired through business combinations which related to the relationships with retailers and service centers.

Deferred development costs are internally generated by capitalizing the costs pertaining to the development of new or enhancement of existing products.

Included in trademarks of the Group, US\$227,640,000 (2018: US\$227,640,000) are trademarks considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 21.

The above intangible assets, other than trademarks with indefinite useful lives, are amortized on a straight-line basis, at the following rates per annum:

Deferred development costs	20% – 33 $\frac{1}{3}$ %
Patents	10% – 25%
Trademarks with finite useful lives	6 $\frac{2}{3}$ %
Manufacturing know-how	10%
Retailer and service relationships	5% – 6 $\frac{2}{3}$ %
Non compete agreement	6 $\frac{2}{3}$ %

### 21. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives

As explained in Note 5, the Group uses the types of goods sold for preparing the operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 19 and 20, the majority of the amounts have been allocated to five major individual cash-generating units ("CGUs"), including four units in the Power Equipment segment and one unit in the Floor Care and Appliances segment. The carrying amounts of goodwill and trademarks as at December 31, 2019 allocated to these units are as follows:

	Goodwill		Trademarks	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Power Equipment – MET	443,264	443,264	126,607	126,607
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	21,779	22,128	—	—
Power Equipment – Baja	9,017	9,017	3,200	3,200
Floor Care and Appliances – RAM/Hoover/VAX	75,748	75,748	67,179	67,179
Others	23,566	23,566	6	6
	<b>580,866</b>	581,215	<b>227,640</b>	227,640

No impairment of goodwill and trademarks have been recognized for the years ended December 31, 2019 and 2018.

### 21. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives (continued)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

#### Power Equipment – MET ("MET")

The recoverable amount of MET's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 10.0% (2018: 10.0%) per annum.

Cash flow projections during the budget period for MET are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on MET's past performance, management's expectations of the market development, the success of the new products launched, the success in reducing the working capital requirements and the success of the cost cutting strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2018: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of MET's goodwill and intangibles to exceed the recoverable amounts.

#### Power Equipment – HCP ("HCP")

The recoverable amount of HCP's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2018: 11.0%) per annum.

Cash flow projections during the budget period for HCP are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on HCP's past performance, management's expectations of the market development, the success of the new products launched and the success of the cost cutting strategy implemented. Cash flow projections beyond the 5-year period are extrapolated without considering any growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of HCP's goodwill and intangibles to exceed the recoverable amounts.

#### Power Equipment – Drebo ("Drebo")

The recoverable amount of Drebo's goodwill has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 10.0% (2018: 11.0%) per annum.

Cash flow projections during the budget period for Drebo are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Drebo's past performance, management's expectations of the market development, the success of the new products launched and the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 1.0% (2018: 1.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Drebo's goodwill to exceed the recoverable amount.

#### Power Equipment – Baja ("Baja")

The recoverable amount of Baja's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 12.0% (2018: 12.0%) per annum.

Cash flow projections during the budget period for Baja are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Baja's past performance, management's expectations of the market development and the success of the cost cutting strategy implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2018: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Baja's goodwill and intangibles to exceed the aggregate recoverable amounts.

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### 21. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives (continued)

#### Floor Care and Appliances – RAM/Hoover/VAX (“RAM/Hoover/VAX”)

The recoverable amount of RAM/Hoover/VAX’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 13.5% (2018: 14.0%) per annum.

Cash flow projections during the budget period for RAM/Hoover/VAX are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses, capital expenditures and working capital requirements. The assumptions and estimations are based on RAM/Hoover/VAX’s past performance, management’s expectations of the market development, the success in reducing the working capital requirements and the success of the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2018: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of RAM/Hoover/VAX’s goodwill and intangibles to exceed the aggregate recoverable amounts.

### 22. Interests in Associates

	2019 US\$’000	2018 US\$’000
Cost of investment in associates	1,470	1,470
Share of post-acquisition profits	119	—
Share of net assets	1,589	1,470
Amounts due from associates	1,654	2,194
	<b>3,243</b>	3,664

Summarized financial information in respect of Wuerth Master Power Tools Limited (“Wuerth”) is set out below. The summarized financial information below represents amounts shown in Wuerth’s financial statements prepared in accordance with HKFRSs.

Wuerth is accounted for using equity method in the consolidated financial statements.

	2019 US\$’000	2018 US\$’000
Non-current assets	1,681	—
Current assets	7,484	3,000
Current liabilities	5,922	—
Net assets	<b>3,243</b>	3,000

	2019 US\$’000	2018 US\$’000
Revenue	44,386	—
Profit for the year	242	—

### 22. Interests in Associates (continued)

Reconciliation of the above summarized financial information to the carrying amount of the interest in the Wuerth recognized in the consolidated financial statements:

	2019 US\$’000	2018 US\$’000
Net assets	<b>3,243</b>	3,000
Proportion of the Group’s ownership interest	<b>49.0%</b>	49.0%
The Group’s share of net assets	<b>1,589</b>	1,470
Carrying amount of the Group’s interest	<b>1,589</b>	1,470

Particulars of the principal associate as at December 31, 2019 and 2018 are set out in Note 53.

The amounts due from associates are unsecured, non-interest bearing and are repayable on demand.

At the end of the reporting period, amongst the associates, the Group holds 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together the “Gimelli Group companies”). The Group has discontinued recognizing its share of the losses of the Gimelli Group companies. The unrecognized share of profit (loss) for the year and cumulatively, extracted from the relevant unaudited management accounts of the associates, are US\$215,000 (2018: US\$504,000) and (US\$3,236,000) (2018: (US\$3,451,000)) respectively.

### 23. Financial assets at FVTPL

	Notes	2019 US\$’000	2018 US\$’000
Club membership debentures	(a)	2,450	2,316
Unlisted equity securities	(b)	3,301	3,000
Listed equity securities	(c)	24,597	32,828
Other		45	45
		<b>30,393</b>	38,189
<b>Analyzed for reporting purposes as:</b>			
Current assets		<b>24,597</b>	32,828
Non-current assets		<b>5,796</b>	5,361
		<b>30,393</b>	38,189

Notes:

- (a) As at December 31, 2019, the club membership debentures measured at fair value with reference to recent transaction prices for similar comparables with similar characteristic.
- (b) As at December 31, 2019, the unlisted equity securities represented the interest in a private company incorporated in the United States (“US”). The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in a private market.
- (c) The Group’s listed equity securities were carried at fair value using the market bid prices on the reporting date.

## Notes to the Consolidated Financial Statements

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### 24. Inventories

	2019 US\$'000	2018 US\$'000
Raw materials	209,495	112,049
Work in progress	43,832	41,723
Finished goods	1,859,604	1,612,950
	<b>2,112,931</b>	1,766,722

### 25. Trade and Other Receivables

	2019 US\$'000	2018 US\$'000
Trade receivables	1,195,630	1,140,923
Less: Allowances for credit losses	(34,529)	(51,760)
	<b>1,161,101</b>	1,089,163
Other receivables	67,472	37,635
	<b>1,228,573</b>	1,126,798

As at December 31, 2019 and January 1, 2019, all trade receivables are derived from contracts with customers.

The ageing analysis of trade receivables, net of allowances for credit losses, presented on the basis of the revenue recognition date, which is usually the invoice date, at the end of the reporting period is as follows:

	2019 US\$'000	2018 US\$'000
0 to 60 days	966,306	680,424
61 to 120 days	137,389	346,055
121 days or above	57,406	62,684
Total trade receivables	<b>1,161,101</b>	1,089,163

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

As at December 31, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$334,794,000 (2018: US\$268,543,000) which are past due as at the reporting date. Of the past due balances, US\$303,196,000 (2018: US\$218,511,000) are not considered as in default as they are due from a number of independent customers that have a good payment track record with the Group.

The Group had a policy of allowing credit periods ranging mainly from 30 days to 120 days.

In accordance with receivables purchase agreements, certain trade receivables has been factored to banks (the "Factored Trade Receivables"). As the Group still retained the risks associated in respect of default payments, the Group has continued to recognize the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of approximately US\$68,700,000 (2018: US\$75,000,000) were recognized as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

### 26. Bills Receivable

All the Group's bills receivable at December 31, 2019 and 2018 are aged within 120 days based on invoice date.

### 27. Trade Receivables from Associates

The trade receivables from associates are aged within 120 days based on invoice date.

### 28. Derivative Financial Instruments

	2019 US\$'000	2018 US\$'000
<b>Assets</b>		
Acquisition right of certain property, plant and equipment	8,929	9,441
Foreign currency forward contracts – under hedge accounting	25,065	33,477
Foreign currency forward contracts – not under hedge accounting	—	311
	<b>33,994</b>	43,229
<b>Liabilities</b>		
Foreign currency forward contracts – under hedge accounting	10,688	135
Foreign currency forward contracts – not under hedge accounting	4,380	577
Cross-currency interest rate swap – under hedge accounting	2,425	—
	<b>17,493</b>	712

#### Acquisition Right of Certain Property, Plant & Equipment

As at December 31, 2019 and 2018, the Group owned a right to acquire certain PP&E which was acquired as part of the acquisition of the Oreck business from the Oreck Bankruptcy Estate. The right is expected to be exercised in 2032. The fair value of the PP&E was US\$8,929,000 valued on September 30, 2019 (2018: US\$9,441,000 valued on September 30, 2018) by Duff & Phelps, LLC., an independent valuer not related to the Group.

#### Foreign Currency Forward Contracts

The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

**28. Derivative Financial Instruments** (continued)**Foreign Currency Forward Contracts under Hedge Accounting**

At the end of the reporting period, the Group had the following foreign currency forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to future foreign currency sales. The terms of the foreign exchange contracts have been negotiated to match the terms of the respective designated hedged items.

Major terms of the foreign currency forward contracts under hedge accounting are as follows:

**2019**

Notional amounts in millions	Maturity
Sell AUD 430M, Buy US\$	January 30, 2020 to December 30, 2020
Sell EUR 589M, Buy US\$	January 31, 2020 to December 30, 2021
Sell US\$354.3M, Buy RMB	January 31, 2020 to December 30, 2020
Sell US\$9M, Buy EUR	January 3, 2020 to May 22, 2020
Sell GBP 36.5M, Buy EUR	January 16, 2020 to December 10, 2020
Sell CHF 3M, Buy EUR	January 16, 2020 to December 10, 2020
Sell SEK 285M, Buy EUR	January 16, 2020 to December 10, 2020
Buy US\$95.9M, Sell GBP	January 3, 2020 to June 11, 2021

**2018**

Notional amounts in millions	Maturity
Sell AUD 129M, Buy US\$	January 30, 2019 to December 30, 2019
Sell EUR 312M, Buy US\$	January 30, 2019 to December 30, 2019
Sell US\$60.2M, Buy RMB	January 30, 2019
Sell AUD 276.6M, Buy US\$	January 30, 2019 to December 30, 2019
Sell US\$12.8M, Buy EUR	January 7, 2019 to August 23, 2019
Sell GBP 33M, Buy EUR	January 17, 2019 to November 14, 2019
Sell CHF 3.3M, Buy EUR	January 17, 2019 to December 12, 2019
Sell SEK 48M, Buy EUR	January 17, 2019 to March 14, 2019
Buy US\$68M, Sell GBP	January 4, 2019 to December 2, 2019
Buy US\$22M, Sell EUR	January 4, 2019 to December 16, 2019

As at December 31, 2019, a fair value loss of US\$9,681,000 (December 31, 2018: fair value gain of US\$51,730,000) has been recognized in other comprehensive income and accumulated in reserves and is expected to be reclassified to profit or loss.

During the year, a fair value gain of US\$21,448,000 (2018: loss of US\$28,784,000) was reclassified from reserves to profit or loss.

**28. Derivative Financial Instruments** (continued)**Foreign Currency Forward Contracts not under hedge accounting**

Major terms of the foreign currency forward contracts not under hedge accounting are as follows:

**2019**

Notional amounts in millions	Maturity
Buy EUR 4.8M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$21M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$35.9M, Sell NZD	January 17, 2020 to December 18, 2020
Buy US\$308.4M, Sell CAD	January 31, 2020 to August 21, 2020

**2018**

Notional amounts in millions	Maturity
Buy EUR 4.2M, Sell AUD	January 21, 2019 to December 20, 2019
Buy US\$9M, Sell AUD	January 22, 2019 to December 19, 2019
Buy US\$34.5M, Sell NZD	January 22, 2019 to December 20, 2019

**Cross-currency Interest Rate Swap**

The Group uses cross-currency interest rate swap designated as highly effective hedging instrument to minimize its exposures to foreign currency and interest rate risk of its US\$ bank borrowing by swapping the floating-rate US\$ bank borrowing to fixed-rate EUR bank borrowing.

The cross-currency interest rate swap with notional amount of US\$165,300,000 has fixed currency payments in EUR at exchange rate of EUR to US\$ at 1.102, fixed interest payments monthly in EUR at 0.305% per annum for periods up until October 2023 and October 2024.

The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the directors of the Company consider that the cross-currency interest rate swap is highly effective hedging instrument.

During the year, net adjustment on the above-mentioned cash flow hedges amounted to US\$2,425,000 and is included in other comprehensive income.

The fair value of the cross-currency interest swap is determined by using the discounted cash flow method based on LIBOR yield curves and the forward exchange rates between US\$ and EUR estimated at the end of the reporting period.

Major terms of the cross-currency interest rate swap were as follows:

**2019**

Notional amounts	Maturity	Receive floating	Pay fixed
US\$66,120,000	October 16, 2023	LIBOR +0.85%	0.305%
US\$99,180,000	October 9, 2024	LIBOR +0.85%	0.305%

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### 29. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which ranged from 0.001% to 3.95% (2018: 0.001% to 4.20%) per annum.

### 30. Trade and other Payables

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

	2019 US\$'000	2018 US\$'000
0 to 60 days	908,313	822,557
61 to 120 days	217,144	248,261
121 days or above	5,829	15,006
Total trade payables	1,131,286	1,085,824
Other payables	1,046,131	835,628
	<b>2,177,417</b>	1,921,452

The credit period on the purchase of goods ranges from 30 days to 120 days (2018: 30 days to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

### 31. Bills Payable

All the Group's bills payable at December 31, 2019 and 2018 are aged within 120 days based on invoice date.

### 32. Warranty Provision

	US\$'000
At January 1, 2018	94,264
Currency realignment	(2,601)
Provision in the year	135,423
Acquisition of a subsidiary	39
Utilization of provision	(121,910)
At December 31, 2018	105,215
Currency realignment	95
Provision in the year	127,237
Utilization of provision	(117,337)
<b>At December 31, 2019</b>	<b>115,210</b>

The warranty provision represents management's best estimate of the Group's service commitments arising from products sold, based on past claims and industry averages for defective products. It is expected that the majority of this expenditure will be incurred in the next financial year.

### 33. Lease Liabilities

	2019 US\$'000
Amounts payable under lease liabilities:	
Within one year	63,878
In more than one year but not more than two years	53,152
In more than two years but not more than five years	82,080
More than five years	39,258
	<b>238,368</b>
Less: Amount due for settlement with 12 months shown under current liabilities	<b>(63,878)</b>
Amount due for settlement after 12 months shown under non-current liabilities	<b>174,490</b>

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

	EUR US\$'000	AUD US\$'000	GBP US\$'000
As at December 31, 2019	<b>30,372</b>	<b>20,417</b>	<b>17,765</b>

### 34. Obligations under Finance Leases

As at December 31, 2018, it was the Group's policy to lease certain of its land and buildings, plant and machinery and fixtures and equipment under finance leases, with lease terms ranging from 2.5 years to 20 years. Interest rates underlying all obligations under finance leases were fixed at the respective contract dates ranging from 6.00% to 8.54% per annum. No arrangements had been entered into that include contingent rental payments.

The maturity of obligations under finance leases was as follows:

	Minimum lease payments 2018 US\$'000	Present value of minimum lease payments 2018 US\$'000
Amounts payable under finance leases:		
Within one year	356	288
In more than one year but not more than two years	305	260
In more than two years but not more than three years	286	261
In more than three years but not more than four years	152	142
In more than four years but not more than five years	63	62
More than five years	—	—
	1,162	1,013
Less: future finance charges	(149)	—
Present value of lease obligations	1,013	1,013
Less: Amount due within one year shown under current liabilities		(288)
Amount due after one year		725

The Group's obligations under finance leases were secured by charges over the leased assets.

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For the year ended December 31, 2019

### 35. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 2.93% per annum (2018: 2.76% per annum) have maturity profiles of less than 120 days.

### 36. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt which includes borrowings, discounted bills with recourse and obligations under finance leases, net of cash and cash equivalents and equity attributable to Owners of the Company, comprising issued share capital, reserves and retained profits.

#### Gearing Ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of not exceeding 35% determined as the proportion of net debt to equity. The Group will continue to execute very disciplined control and management of its working capital and generate free cash inflows through the growth of the business.

The gearing ratio at the year end was as follows:

	2019 US\$'000	2018 US\$'000
Bank balances, deposits and cash	1,411,821	1,103,880
Debt <sup>(i)</sup>	(1,427,397)	(964,815)
Net (debt) cash	(15,576)	139,065
Equity <sup>(ii)</sup>	3,394,645	3,057,771
Net debt to equity ratio	0.46%	-4.55%

(i) Debt comprises discounted bills with recourse and unsecured borrowings but excludes bank advances from factored trade receivables as detailed in Notes 35, 38 and 25 respectively.

(ii) Equity includes all capital and reserves attributable to the Owners of the Company.

In addition, based on management recommendations, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 37. Financial Instruments

### 37.1 Categories of Financial Instruments

	2019 US\$'000	2018 US\$'000
<b>Financial assets</b>		
<i>FVTPL</i>		
Financial assets at FVTPL	30,393	38,189
	<b>30,393</b>	38,189
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	8,929	9,441
Foreign currency forward contracts – under hedge accounting	25,065	33,477
Foreign currency forward contracts – not under hedge accounting	—	311
	<b>33,994</b>	43,229
<i>Financial assets at amortized cost</i>		
Trade and other receivables	1,228,573	1,126,798
Bills receivable	6,076	5,057
Trade receivables from associates	6,494	2,253
Bank balances, deposits and cash	1,411,821	1,103,880
	<b>2,652,964</b>	2,237,988
<b>Financial liabilities</b>		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts – under hedge accounting	10,688	135
Foreign currency forward contracts – not under hedge accounting	4,380	577
Cross-currency interest rate swap – under hedge accounting	2,425	—
	<b>17,493</b>	712
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	2,177,417	1,921,452
Bills payable	46,170	41,164
Discounted bills with recourse	9,089	243,360
Unsecured borrowings	1,487,008	795,442
	<b>3,719,684</b>	3,001,418

### 37.2 Financial Risk Management Objectives and Policies

The Group's corporate treasury function provides risk management advice to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These financial risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments or natural hedges to mitigate these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade derivative financial instruments for speculative purposes.

**37. Financial Instruments** (continued)**37.2 Financial Risk Management Objectives and Policies** (continued)**37.2.1 Foreign Currency Risk Management**

Subsidiaries of the Group have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 21.0% (2018: 21.9%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 38.2% (2018: 47.2%) of purchases are denominated in the group entity's respective functional currency.

The carrying amounts of certain significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Foreign Currency				
EURO	17,754	115,160	137,377	214,474

Note: For group entities with their functional currency as the US\$, monetary assets and monetary liabilities denominated in Hong Kong dollars have no material foreign currency risk exposure as the Hong Kong dollar is pegged with the US\$.

The Group requires its group entities to use foreign exchange forward contracts to reduce the currency exposure. The foreign exchange forward contracts must be in the same currency as the hedged item. On this basis, the Group has entered into forward contracts in relation to the foreign currency amounting to US\$660,461,000 (2018: US\$357,800,000). It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness (see Note 28 for details).

**Sensitivity Analysis**

The Group is mainly exposed to the effects of rate fluctuations in the EURO against US\$.

The following table details the Group's sensitivity to a 5% increase and decrease in the US\$ against the EURO without considering the foreign currency forward contracts and cross-currency interest rate swap entered at end of the reporting period. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the EURO:US\$ foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and excludes the effect of any foreign currency forward contracts held at the reporting date. A positive number below indicates an increase in profit for the year where the US\$ weakens 5% against the EURO.

	2019 US\$'000	2018 US\$'000
Impact of EURO		
Profit for the year <sup>(i)</sup>	5,562	4,614

(i) This is mainly attributable to the net exposure on receivables, payables and bank borrowings denominated in EURO at the reporting date.

**37. Financial Instruments** (continued)**37.2 Financial Risk Management Objectives and Policies** (continued)**37.2.2 Interest Rate Risk Management**

The Group's exposure to interest rates on financial assets and liabilities is detailed in the liquidity risk management section of this note. The Group is exposed to cash flow interest rate risk in relation to variable-rate borrowing (see Note 38 for details of these borrowings), discounted bills with recourse, bank balances and deposits. The Group's cash flow interest rate risk is mainly concentrated on London Interbank Offered Rate ("LIBOR") arising from the Group's US\$ and EURO denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk to be low. The management continuously monitors interest rate fluctuations and will consider further hedging the interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 38 for details of these borrowings) and lease liabilities.

During the year, the Group obtained new bank borrowings of US\$4,042 million (2018: US\$2,519 million) which are either at a fixed rate or LIBOR based. The proceeds were used for refinancing the Group's borrowings.

**Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year without considering the cross-currency interest rate swaps entered at the end of the reporting period. A 50 basis point increase or decrease in LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2019 would decrease/increase by US\$6,120,000 (2018: decrease/increase by US\$4,338,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

**37.2.3 Other Price Risk**

The Group is exposed to price risk through its financial assets at FVTPL.

**Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to price risks of listed equity securities measured at fair value at the reporting date.

If the prices of the listed equity securities had been 10% higher, the profit for the year ended December 31, 2019 of the Group would increase by US\$2,460,000 (2018: would increase by US\$3,283,000) as a result of the changes in the fair values of financial assets at FVTPL.

**37.2.4 Credit Risk Management and Impairment Assessment**

As at December 31, 2019, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk of US\$2,652,964,000 the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group is disclosed in Note 45. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

**Trade receivables arising from contracts with customers**

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 37. Financial Instruments (continued)

#### 37.2 Financial Risk Management Objectives and Policies (continued)

##### 37.2.4 Credit Risk Management and Impairment Assessment (continued)

###### Bank balances

The credit risks on bank balances are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

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

Internal credit rating	Description	Trade receivables	Other financial assets/ Other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts.	Lifetime ECL – not credit-impaired	12-month ECL
Medium risk	Debtor occasionally repays after due dates.	Lifetime ECL – not credit-impaired	12-month ECL
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources.	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit impaired.	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

The tables below detail the credit risk exposure of the Group's financial assets, which are subject to ECL assessment:

	Note	Internal credit rating	12-month or lifetime ECL	2019		2018	
				External credit rating	Gross carrying amount US\$'000	External credit rating	Gross carrying amount US\$'000
Trade receivables	25	(Note 2)	Lifetime ECL (not credit-impaired)	N/A	1,195,630	N/A	1,140,923
			Lifetime ECL (credit-impaired)		—		—
Other receivables	25	(Note 1)	12-month ECL	N/A	67,472	N/A	37,635
Bills receivable	26	N/A	12-month ECL	A- To A	6,076	A- To AA-	5,057
Trade receivables from associates	27	(Note 1)	12-month ECL	N/A	6,494	N/A	2,253
Bank balances, deposits and cash	29	N/A	12-month ECL	A To AA-	1,411,821	A- To AA+	1,103,880
Financial guarantee contracts	N/A	(Note 3)	12-month ECL	N/A	8,877	N/A	8,877

Notes:

- Trade receivables from associates and other receivables amounted to US\$6,494,000 and US\$67,472,000 (2018: US\$2,253,000 and US\$37,635,000) respectively have no fixed repayment terms. The Group has assessed these balances on a 12-month ECL basis as there has been no significant increase in the credit risk since initial recognition.
- For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix grouped by internal credit rating.
- For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

### 37. Financial Instruments (continued)

#### 37.2 Financial Risk Management Objectives and Policies (continued)

##### 37.2.4 Credit Risk Management and Impairment Assessment (continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at December 31, 2019.

	2019			2018		
	Average loss rate	Gross carrying amount US\$'000	Impairment loss allowance US\$'000	Average loss rate	Gross carrying amount US\$'000	Impairment loss allowance US\$'000
Internal credit rating						
No risk	Less than 1%	224,368	—	Less than 1%	246,139	—
Low risk	1-5%	904,009	12,777	1-5%	454,309	3,086
Medium risk	6-20%	42,682	4,498	6-20%	411,623	34,527
High risk	Over 20%	24,571	17,254	Over 20%	28,852	14,147
		1,195,630	34,529		1,140,923	51,760

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended December 31, 2019, the Group provided US\$34,529,000 (2018: US\$51,760,000) for impairment allowances for trade receivables.

The Group writes off trade receivables when there is information indicating that the debtors are in severe financial difficulties and there is no realistic prospect of recovery.

**37. Financial Instruments** (continued)**37.2 Financial Risk Management Objectives and Policies** (continued)**37.2.4 Credit Risk Management and Impairment Assessment** (continued)

The following table shows the movement in the lifetime ECL that has been recognized for trade receivables under the simplified approach.

	<b>Lifetime ECL (not credit- impaired) US\$'000</b>
As at January 1, 2018	37,114
Currency realignment	(562)
Impairment losses reversed	(28,890)
Impairment losses recognized	51,735
Acquisition of a subsidiary	25
Write-offs	(7,662)
As at December 31, 2018	51,760
Currency realignment	<b>(290)</b>
Impairment losses reversed	<b>(33,208)</b>
Impairment losses recognized	<b>34,529</b>
Write-offs	<b>(18,262)</b>
<b>As at December 31, 2019</b>	<b>34,529</b>

**37.2.5 Liquidity Risk Management**

Ultimate responsibility for liquidity risk management rests with the board of directors which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at December 31, 2019, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$345 million (2018: US\$419 million) and US\$1,506 million (2018: US\$1,466 million) respectively.

**Liquidity Tables**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as well as non-derivative financial assets which are included in the maturity analysis. For non-derivative financial assets, the tables have been drawn up based on the contractual maturities of the undiscounted cash flow of the financial assets unless specified separately. For non-derivative financial liabilities, the tables reflect the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that the interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and (outflows) on derivative instruments that settle on a net basis, and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the foreign currency exchange rates prevailing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

**37. Financial Instruments** (continued)**37.2 Financial Risk Management Objectives and Policies** (continued)**37.2.5 Liquidity Risk Management** (continued)**Liquidity Tables** (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand US\$'000	1-3 months US\$'000	4 months- 1 year US\$'000	1-2 years US\$'000	2+ years US\$'000	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2019 US\$'000
<b>2019</b>								
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(1,517,478)	(583,207)	(76,732)	—	—	(2,177,417)	(2,177,417)
Bills payable	—	(15,835)	(30,335)	—	—	—	(46,170)	(46,170)
Lease liabilities	2.80%	(5,323)	(10,696)	(48,915)	(54,640)	(128,133)	(247,707)	(238,368)
Discounted bills with recourse	2.93%	(7,233)	(1,866)	—	—	—	(9,099)	(9,089)
Bank borrowings	0.31% - 3.52%	(554,957)	(11,951)	(167,887)	(153,885)	(626,753)	(1,515,433)	(1,487,008)
Refund liabilities from right of return	—	(25,640)	—	(10,834)	—	—	(36,474)	(36,474)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(2,135,343)	(638,055)	(304,368)	(208,525)	(754,886)	(4,041,177)	(3,994,526)
<b>2019</b>								
<b>Derivatives - net settlement</b>								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	8,929	8,929	8,929
Cross-currency interest rate swap contracts	—	308	600	2,571	3,333	(9,745)	(2,933)	(2,425)
Foreign currency forward contracts - US\$	—	—	(727)	(2,938)	—	—	(3,665)	(3,665)
		308	(127)	(367)	3,333	(816)	2,331	2,839
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
- inflow								
- EUR	—	8,318	16,233	63,054	—	—	87,605	87,605
- RMB	—	—	94,794	267,196	—	—	361,990	361,990
- GBP	—	5,000	9,987	51,117	29,168	—	95,272	95,272
- US\$	—	24,207	125,575	570,623	268,944	—	989,349	989,349
- AUD	—	2,155	4,307	19,347	—	—	25,809	25,809
- NZD	—	14,163	7,003	15,402	—	—	36,568	36,568
		53,843	257,899	986,739	298,112	—	1,596,593	1,596,593
- outflow								
- EUR	—	(8,658)	(16,679)	(64,400)	—	—	(89,737)	(89,737)
- RMB	—	—	(92,678)	(261,661)	—	—	(354,339)	(354,339)
- GBP	—	(5,435)	(10,860)	(52,527)	(28,890)	—	(97,712)	(97,712)
- US\$	—	(24,603)	(124,389)	(561,240)	(267,820)	—	(978,052)	(978,052)
- AUD	—	(2,200)	(4,401)	(19,798)	—	—	(26,399)	(26,399)
- NZD	—	(14,209)	(6,964)	(15,519)	—	—	(36,692)	(36,692)
		(55,105)	(255,971)	(975,145)	(296,710)	—	(1,582,931)	(1,582,931)
		(1,262)	1,928	11,594	1,402	—	13,662	13,662

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 37. Financial Instruments (continued)

#### 37.2 Financial Risk Management Objectives and Policies (continued)

##### 37.2.5 Liquidity Risk Management (continued)

###### Liquidity Tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand US\$'000	1-3 months US\$'000	4 months- 1 year US\$'000	1-2 years US\$'000	2+ years US\$'000	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2018 US\$'000
<b>2018</b>								
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(1,158,086)	(627,490)	(135,876)	—	—	(1,921,452)	(1,921,452)
Bills payable	—	(12,801)	(27,906)	(457)	—	—	(41,164)	(41,164)
Discounted bills with recourse	2.76%	(88,396)	(148,763)	(7,024)	—	—	(244,183)	(243,360)
Bank borrowings	0.10% – 3.57%	(40,228)	(140,428)	(76,032)	(114,423)	(443,555)	(814,666)	(795,442)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(1,308,388)	(944,587)	(219,389)	(114,423)	(443,555)	(3,030,342)	(3,001,418)
<b>2018</b>								
<b>Derivatives – net settlement</b>								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,441	9,441	9,441
	—	—	—	—	—	9,441	9,441	9,441
<b>Derivatives – gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– EUR	—	10,187	19,110	54,850	—	—	84,147	84,147
– RMB	—	60,619	—	—	—	—	60,619	60,619
– GBP	—	7,044	11,542	49,366	—	—	67,952	67,952
– US\$	—	70,535	105,604	500,275	—	—	676,414	676,414
– AUD	—	1,098	2,198	9,910	—	—	13,206	13,206
– NZD	—	4,012	4,911	25,590	—	—	34,513	34,513
	—	153,495	143,365	639,991	—	—	936,851	936,851
– outflow								
– EUR	—	(10,035)	(18,770)	(53,882)	—	—	(82,687)	(82,687)
– RMB	—	(60,200)	—	—	—	—	(60,200)	(60,200)
– GBP	—	(6,538)	(10,369)	(45,539)	—	—	(62,446)	(62,446)
– US\$	—	(67,682)	(101,377)	(481,400)	—	—	(650,459)	(650,459)
– AUD	—	(1,069)	(2,141)	(9,684)	—	—	(12,894)	(12,894)
– NZD	—	(4,043)	(5,000)	(26,046)	—	—	(35,089)	(35,089)
	—	(149,567)	(137,657)	(616,551)	—	—	(903,775)	(903,775)
	—	3,928	5,708	23,440	—	—	33,076	33,076

Note: Maturities are based on the management's estimation of the expected realization of these financial assets.

### 37. Financial Instruments (continued)

#### 37.2 Financial Risk Management Objectives and Policies (continued)

##### 37.2.5 Liquidity Risk Management (continued)

###### Liquidity Tables (continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amount included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rate determined at the end of the reporting period.

#### 37.3 Fair Value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contract;
- the fair value of cross-currency interest rate swap is measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between US\$ and EUR, which is observable at the end of the reporting period.
- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices or latest purchase/transaction prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

##### Fair Value Measurements Recognized in the Statement of Financial Position

Fair value of the Group's financial assets and financial liabilities are measured on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 37. Financial Instruments (continued)

#### 37.3 Fair Value (continued)

##### Fair Value Measurements Recognized in the Statement of Financial Position (continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	2019	2018		
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	<b>Acquisition right of certain property, plant and equipment: US\$8,929,000</b>	Acquisition right of certain property, plant and equipment: US\$9,441,000	Level 2	Measured at the fair value of the land and buildings associated with the acquisition right which is based on a valuation by 3 <sup>rd</sup> party independent valuer at the end of the financial year.
2) Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	<b>Assets – US\$25,065,000; and Liabilities – US\$15,068,000</b>	Assets – US\$33,788,000; and Liabilities – US\$712,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
3) Listed equity securities classified as financial assets at FVTPL (2018: held-for-trading investments) in the consolidated statement of financial position	<b>Listed shares: US\$24,597,000</b>	Listed shares: US\$32,828,000	Level 1	Quoted bid prices in an active market.
4) Other financial assets classified as financial assets at FVTPL in the consolidated statement of financial position	<b>Club membership debentures: US\$2,450,000</b>	Club membership debentures: US\$2,316,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
	<b>Unlisted equity securities: US\$3,301,000</b>	Unlisted equity securities: US\$3,000,000	Level 3	The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in private market.
	<b>Other: US\$45,000</b>	Other: US\$45,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
5) Cross-currency interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	<b>Liabilities: US\$2,425,000</b>	—	Level 2	Measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between US\$ and EUR, which is observable at the end of the reporting period.

### 37. Financial Instruments (continued)

#### 37.3 Fair Value (continued)

##### Fair Value Measurements Recognized in the Statement of Financial Position (continued)

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<b>2019</b>				
<b>Financial assets</b>				
Acquisition right of certain property, plant and equipment	—	8,929	—	8,929
Foreign currency forward contracts	—	25,065	—	25,065
Financial assets at FVTPL	24,597	2,495	3,301	30,393
<b>Total</b>	<b>24,597</b>	<b>36,489</b>	<b>3,301</b>	<b>64,387</b>
<b>Financial liabilities</b>				
Foreign currency forward contracts	—	(15,068)	—	(15,068)
Cross-currency interest rate swaps	—	(2,425)	—	(2,425)
<b>Total</b>	<b>—</b>	<b>(17,493)</b>	<b>—</b>	<b>(17,493)</b>
<b>2018</b>				
<b>Financial assets</b>				
Acquisition right of certain property, plant and equipment	—	9,441	—	9,441
Foreign currency forward contracts	—	33,788	—	33,788
Held-for-trading investments	32,828	2,361	3,000	38,189
<b>Total</b>	<b>32,828</b>	<b>45,590</b>	<b>3,000</b>	<b>81,418</b>
<b>Financial liabilities</b>				
Foreign currency forward contracts	—	(712)	—	(712)
<b>Total</b>	<b>—</b>	<b>(712)</b>	<b>—</b>	<b>(712)</b>

The Group owns equity interest in a private company incorporated in the US that is classified as financial assets at FVTPL and is measured at fair value at the reporting date.

#### 37.4 Transfers of financial assets

The following were the Group's financial assets as at December 31, 2019 that were transferred to banks by discounting or factoring those trade and bills receivables on a full recourse basis. As the Group retained substantially all of the significant risks and rewards relating to these receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as discounted bills with recourse (see Note 35) and unsecured borrowings – due within one year (see Note 38). These financial assets are carried at amortized cost in the Group's consolidated statement of financial position.

The trade and bills receivables discounted with banks with full recourse at the year end was as follows:

	2019 US\$'000	2018 US\$'000
Carrying amount of transferred assets	77,789	318,360
Carrying amount of associated liabilities	(77,789)	(318,360)
Net position	—	—

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 38. Unsecured Borrowings

	2019 US\$'000	2018 US\$'000
Bank advance from Factored Trade Receivables	68,700	75,000
Bank loans	1,418,308	720,442
<b>Total borrowings</b>	<b>1,487,008</b>	795,442
The borrowings of the Group are repayable as follows:		
	2019 US\$'000	2018 US\$'000
<b>Fixed rate</b>		
Within one year	20,977	—
In more than one year but not more than two years	20,943	20,904
In more than two years but not more than five years	137,960	83,903
<b>Floating rate</b>		
Within one year	711,403	255,228
In more than one year but not more than two years	130,051	91,457
In more than two years but not more than five years	465,674	343,950
	<b>1,487,008</b>	795,442
Less: Amount due within one year shown under current liabilities	<b>(732,380)</b>	(255,228)
<b>Amount due after one year</b>	<b>754,628</b>	540,214

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2019	2018
Effective interest rate:		
Fixed-rate borrowings	2.55% to 3.52%	2.55% to 3.10%
Variable-rate borrowings	0.31% to 2.85%	0.10% to 3.57%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	US\$'000
<b>As at December 31, 2019</b>	—
As at December 31, 2018	14,843

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the contracted market rates.

### 39. Share Capital

	2019 Number of shares	2018 Number of shares	2019 US\$'000	2018 US\$'000
<b>Ordinary shares</b>				
Authorized shares	2,400,000,000	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the year	1,828,521,941	1,835,021,941	654,991	653,918
Issue of shares upon exercise of share options	3,835,000	600,000	7,388	1,073
Buy-back of shares	(2,350,000)	(7,100,000)	—	—
<b>At the end of the year</b>	<b>1,830,006,941</b>	1,828,521,941	<b>662,379</b>	654,991

Details of the share options are set out in Note 46.

During the year, the Company cancelled its own shares through the Stock Exchange as follows:

Month of cancellation	No. of ordinary shares	Price per share		Aggregate consideration paid US\$'000
		Highest HK\$	Lowest HK\$	
January 2019	2,350,000	43.00	40.45	12,644

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$12,644,000 was charged to retained profits.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 40. Reserves

	Shares held for share award scheme US\$'000	Employee share-based compensation reserve US\$'000	Hedging reserve US\$'000	Retained profits US\$'000	Total US\$'000
<b>The Company</b>					
At January 1, 2018	(10,561)	6,902	—	1,068,611	1,064,952
Loss for the year	—	—	—	(128,138)	(128,138)
Total comprehensive loss for the year	—	—	—	(128,138)	(128,138)
Shares issued at premium on exercise of options	—	(205)	—	—	(205)
Buy-back of shares	—	—	—	(38,608)	(38,608)
Vesting of awarded shares	637	(637)	—	—	—
Shares for share award scheme	(15,191)	—	—	—	(15,191)
Recognition of equity-settled share-based payments	—	4,978	—	—	4,978
Lapse of share options	—	(6)	—	6	—
Final dividend – 2017	—	—	—	(93,827)	(93,827)
Interim dividend – 2018	—	—	—	(89,595)	(89,595)
At December 31, 2018	(25,115)	11,032	—	718,449	704,366
Adjustment for adoption of HKFRS 16	—	—	—	(7)	(7)
At January 1, 2019 (restated)	<b>(25,115)</b>	<b>11,032</b>	—	<b>718,442</b>	<b>704,359</b>
Profit for the year	—	—	—	<b>23,411,930</b>	<b>23,411,930</b>
Fair value gain on foreign currency forward contracts and cross-currency interest rate swap in hedge accounting	—	—	<b>16,522</b>	—	<b>16,522</b>
Total comprehensive (loss) income for the year	—	—	<b>16,522</b>	<b>23,411,930</b>	<b>23,428,452</b>
Shares issued at premium on exercise of options	—	<b>(1,450)</b>	—	—	<b>(1,450)</b>
Buy-back of shares	—	—	—	<b>(12,644)</b>	<b>(12,644)</b>
Vesting of awarded shares	<b>1,765</b>	<b>(1,765)</b>	—	—	—
Shares for share award scheme	<b>(8,477)</b>	—	—	—	<b>(8,477)</b>
Recognition of equity-settled share-based payments	—	<b>6,792</b>	—	—	<b>6,792</b>
Lapse of share options	—	<b>(10)</b>	—	<b>10</b>	—
Final dividend – 2018	—	—	—	<b>(117,621)</b>	<b>(117,621)</b>
Interim dividend – 2019	—	—	—	<b>(105,973)</b>	<b>(105,973)</b>
<b>At December 31, 2019</b>	<b>(31,827)</b>	<b>14,599</b>	<b>16,522</b>	<b>23,894,144</b>	<b>23,893,438</b>

As at December 31, 2019, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$23,894,144,000 (2018: US\$718,449,000).

### 41. Retirement Benefit Obligations

#### Defined Contribution Plans:

The Company and its subsidiaries operating in Hong Kong have participated in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Schemes Ordinance since December 2000. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the MPF Schemes with a maximum amount of HK\$18,000 (2018: HK\$18,000) per employee per annum, which contribution is matched by the employee.

The employees of the Group's subsidiaries in the People's Republic of China ("PRC") are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group's overseas subsidiaries operate a number of defined contribution schemes. Contributions to the defined contribution schemes applicable to each year are made at a certain percentage of the employees' payroll.

The total expense recognized in profit or loss of US\$14,341,000 (2018: US\$12,167,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

#### Defined Benefits Plans:

The Group operates several defined benefit plans for qualifying employees of its subsidiaries in Germany and the US, of which these plans cover substantially all remaining employees that are not covered by defined contribution plans. The defined benefit plan is administered by a separate fund that is legally separated from the Group. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund. The major defined benefit plans are as follows:

	2019 US\$'000	2018 US\$'000
Pension plan obligations (Note i)	<b>82,755</b>	77,619
Post-retirement, medical and dental plan obligations (Note ii)	—	1
Life and medical insurance plan (Note ii)	<b>1,269</b>	1,257
Post-employment benefit plan obligations (Note iii)	<b>2,884</b>	2,129
Others (Note iv)	<b>56,553</b>	38,968
	<b>143,461</b>	119,974

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the employees are entitled to retirement benefits varying between 10% and 20% of final salary (based on the average of the last three years) on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out on January 1, 2020, by BDO AG Wirtschaftsprüfungsgesellschaft, Germany, an independent valuer not related to the Group.

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### 41. Retirement Benefit Obligations (continued)

#### Defined Benefits Plans: (continued)

Note ii: Post-retirement, medical and dental plan obligations/Life and medical insurance plan

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on January 3, 2019 by Willis Towers Watson, an independent valuer not related to the Group.

Note iii: Post-employment benefit plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on January 9, 2020 by CBIZ Benefits & Insurance Services, an independent valuer not related to the Group.

Note iv: Others

Others mainly includes the a long-term incentive benefit that is offered to certain management executives of the Group. The benefit is based on the performance of the executives and will pay out after certain year of services.

The plans in Germany and the US expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit.
Interest rate risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is reinsured by an external insurance company.

The main actuarial assumptions used were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate	0.30%	1.50%	N/A	1.00%	2.50%	3.75%	4.14%	3.46%
Expected rate of salary increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	4.14%	3.46%
Future pension increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Medical cost trend rates	N/A	N/A	N/A	5.00%	5.00%	5.00%	N/A	N/A

The actuarial valuation showed that the market value of plan assets was US\$5,994,000 (2018: US\$15,024,000) and that the actuarial value of these assets represented 67.5% (2018: 87.6%) of the benefits that had accrued to members.

### 41. Retirement Benefit Obligations (continued)

The effect of an increase of one percentage point in the assumed medical cost trend rate on the aggregate of the current service cost and interest cost; and the accumulated post-employment benefit obligations are as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Current service cost and interest cost	N/A	N/A	—	—	2	3	N/A	N/A
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	—	—	82	77	N/A	N/A

Amounts recognized in comprehensive income in respect of the plans are as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Service cost:								
Current service cost	409	509	—	—	—	—	—	—
Net interest on defined benefit liabilities	1,118	1,265	—	—	45	41	88	462
<b>Components of defined benefit costs recognized in profit or loss</b>	<b>1,527</b>	<b>1,774</b>	<b>—</b>	<b>—</b>	<b>45</b>	<b>41</b>	<b>88</b>	<b>462</b>
Remeasurement on the net defined benefit liability:								
Actuarial losses (gains) arising from changes in financial assumptions	8,412	666	—	(9)	(2)	(182)	666	(446)
<b>Components of defined benefit costs recognized in other comprehensive income</b>	<b>8,412</b>	<b>666</b>	<b>—</b>	<b>(9)</b>	<b>(2)</b>	<b>(182)</b>	<b>666</b>	<b>(446)</b>
<b>Total</b>	<b>9,939</b>	<b>2,440</b>	<b>—</b>	<b>(9)</b>	<b>43</b>	<b>(141)</b>	<b>754</b>	<b>16</b>

The charge for the year has been included in staff costs.

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For the year ended December 31, 2019

### 41. Retirement Benefit Obligations (continued)

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the major plans is as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Present value of funded obligations	—	—	—	—	—	—	8,878	17,153
Fair value of plan assets	—	—	—	—	—	—	(5,994)	(15,024)
	—	—	—	—	—	—	2,884	2,129
Present value of unfunded obligations	82,755	77,619	—	1	1,269	1,257	—	—
	82,755	77,619	—	1	1,269	1,257	2,884	2,129

Movements in the present value of the defined benefit obligations in the current year in respect of major plans were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
At January 1	77,619	82,764	1	19	1,257	1,431	17,153	18,620
Exchange differences	(933)	(3,688)	—	—	—	—	—	—
Current service cost	409	509	—	—	—	—	—	—
Actuarial losses (gains)	8,412	666	—	(9)	(2)	(182)	245	(406)
Interest cost	1,118	1,265	—	—	45	41	678	613
Benefit paid	(3,870)	(3,897)	(1)	(9)	(31)	(33)	(9,198)	(1,674)
At December 31	82,755	77,619	—	1	1,269	1,257	8,878	17,153

Movements in the fair value of the plan assets in the current year in respect of certain major plans were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	15,024	5,272
Exchange differences	N/A	N/A	N/A	N/A	N/A	N/A	—	—
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	590	151
Actuarial losses	N/A	N/A	N/A	N/A	N/A	N/A	(421)	40
Contribution from employer	N/A	N/A	N/A	N/A	N/A	N/A	—	11,235
Benefit paid	N/A	N/A	N/A	N/A	N/A	N/A	(9,199)	(1,674)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	5,994	15,024

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 4.14% (2018: 3.46%).

The actual return on plan assets was US\$168,000 (2018: US\$191,000).

The significant actuarial assumption for the determination of the defined obligation is the discount rate. If the discount rate is 100 basis points higher (lower), the effect on defined benefit obligation would be immaterial.

The Group expects to make a contribution of US\$4,700,000 (2018: US\$Nil) to the defined benefit plans during the next financial year.

### 42. Deferred Tax Assets (Liabilities)

The following are the major deferred tax assets and liabilities recognized and movements thereon during the current and prior year:

	Accelerated tax depreciation US\$'000	Warranty provision US\$'000	Employee related provision US\$'000	Tax losses US\$'000	Inventory provision and LIFO US\$'000	Others US\$'000	Total US\$'000
At January 1, 2018	(18,786)	12,629	24,196	46,523	6,376	7,597	78,535
Reclassify to refund liabilities from right of return	—	—	—	—	—	2,231	2,231
At January 1, 2018 (as restated)	(18,786)	12,629	24,196	46,523	6,376	9,828	80,766
Currency realignment	(26)	(392)	(453)	2,574	(94)	(2,718)	(1,109)
Credit to hedging reserve	—	—	—	—	—	(1,498)	(1,498)
(Charge) credit to profit or loss	(10,004)	2,522	(184)	(18,825)	3,003	14,063	(9,425)
Change in tax rates	21	—	58	336	5	251	671
Charge to equity	—	—	(82)	—	—	—	(82)
At December 31, 2018	(28,795)	14,759	23,535	30,608	9,290	19,926	69,323
Adjustment for adoption of HKFRS 16	—	—	—	—	—	3,386	3,386
At January 1, 2019	(28,795)	14,759	23,535	30,608	9,290	23,312	72,709
Currency realignment	27	(31)	(2,074)	2,200	(28)	(301)	(207)
Charge to hedging reserve	—	—	—	—	—	1,250	1,250
(Charge) credit to profit or loss	(9,347)	1,547	9,779	(4,125)	5,992	(16,296)	(12,450)
Change in tax rates	211	(5)	29	(518)	(24)	(217)	(524)
Charge to equity	—	—	715	—	—	—	715
At December 31, 2019	(37,904)	16,270	31,984	28,165	15,230	7,748	61,493

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 US\$'000	2018 US\$'000
Deferred tax assets	74,947	83,945
Deferred tax liabilities	(13,454)	(14,622)
	61,493	69,323

At the end of the reporting period, the Group has unused tax losses of US\$1,737 million (2018: US\$1,611 million) available for offset against future taxable profits. Of the US\$1,737 million of unused losses approximately US\$447 million expire over the next 9 to 18 years with the remaining loss carryforwards having no useful life limitation. No deferred tax asset has been recognized in respect of tax losses of US\$1,615 million (2018: US\$1,475 million) due to the lack of probable future taxable profits.

In respect of all unrepatriated foreign earnings, the Group has provided deferred taxes of US\$13 million (2018: US\$13 million) as these unrepatriated foreign earnings are not considered permanently reinvested.

## Notes to the Consolidated Financial Statements

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### 43. Major Non-Cash Transactions

During the year ended December 31, 2018, the Group entered into finance lease arrangements in respect of assets at the inception of the finance leases of US\$147,000.

### 44. Lease Commitments

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2018 US\$'000
Within one year	63,159
In the second to fifth year inclusive	153,247
After five years	99,967
	316,373

Operating lease payments represented rentals payable by the Group for certain of its plant and machinery, motor vehicles, office properties and other assets. Leases were negotiated for a term ranging from 1 year to 20 years.

### 45. Contingent Liabilities

	2019 US\$'000	2018 US\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	8,877	8,877

In addition, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at December 31, 2019 amounted to US\$123,959,000 (2018: US\$514,367,000).

### 46. Share Options

#### Scheme Option Schemes

The Company has two share option schemes in place – Scheme D and Scheme E. Scheme D was adopted on May 29, 2007 and expired on May 28, 2017, though its provisions shall remain in full force and effect in all other respects. Following the expiry of Scheme D, Scheme E was adopted on May 19, 2017 and will expire on May 18, 2027.

Both Scheme D and Scheme E are aimed for recognition of the contribution to the development and growth of the Group by the eligible persons. The scheme rules of both Scheme D and Scheme E are substantially identical and below are the summary of the principal terms of both schemes:

The Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

- (i) employees; or
- (ii) Directors; or
- (iii) secondees; or
- (iv) any shareholders of any member of the Group or invested entity or controlling shareholders or any holders of any securities issued by any member of the Group; or
- (v) business partners; or
- (vi) suppliers; or
- (vii) customers; or
- (viii) advisers of the Group.

Share options granted must be taken up within 21 days of the date of grant, upon payment of consideration to be determined by the Board for the grant thereof. Share options may be exercised at any time, subject to vesting conditions from the date of grant to the tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer.

The maximum number of shares in respect of which share options may be granted under the respective share option scheme is not permitted to exceed 30.0% of the issued share capital of the Company from time to time or 10.0% of shares in issue as at the adoption date of the respective share option scheme. No person shall be granted an option which exceeds 1.0% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

Options may be exercised at any time after the first or second anniversary of the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the Directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 46. Share Options (continued)

The following tables disclose movements in the Company's share options during the year:

2019

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	(230,000)	—	—	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	—	—	155,500	32.100	17.3.2018 – 16.3.2027
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	(1,000,000)	—	—	8.742	21.5.2013 – 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 – 19.5.2029
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	(1,000,000)	—	—	6.770	16.11.2010 – 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 – 19.5.2029
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	(400,000)	—	600,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 – 19.5.2029
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Christopher Patrick Langley OBE	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Peter David Sullivan	16.11.2009	D	200,000	—	(200,000)	—	—	6.770	16.11.2010 – 15.11.2019
	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2012 – 22.5.2021
	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 – 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029

### 46. Share Options (continued)

The following tables disclose movements in the Company's share options during the year: (continued)

2019

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Vincent Ting Kau Cheung	17.3.2017	D	150,000	—	(150,000)	—	—	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	(50,000)	—	50,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Manfred Kuhlmann (retired after the conclusion of the annual general meeting of the Company held on May 17, 2019)	17.3.2017	D	75,000	—	(75,000)	—	—	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
<b>Total for directors</b>			<b>11,263,500</b>	<b>2,179,000</b>	<b>(3,555,000)</b>	<b>—</b>	<b>9,887,500</b>		
<b>Employees</b>	16.11.2009	D	300,000	—	(250,000)	(50,000)	—	6.770	16.11.2010 – 15.11.2019
	28.12.2009	D	30,000	—	(30,000)	—	—	6.390	28.12.2010 – 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 – 16.1.2021
	23.3.2017	D	200,000	—	—	—	200,000	32.150	23.3.2018 – 22.3.2027
	19.6.2017	E	350,000	—	—	—	350,000	36.300	19.6.2018 – 18.6.2027
<b>Total for employees</b>			<b>900,000</b>	<b>—</b>	<b>(280,000)</b>	<b>(50,000)</b>	<b>570,000</b>		
<b>Total for all categories</b>			<b>12,163,500</b>	<b>2,179,000</b>	<b>(3,835,000)</b>	<b>(50,000)</b>	<b>10,457,500</b>		
<b>Exercisable at the end of the year</b>							<b>7,553,500</b>		

## Notes to the Consolidated Financial Statements

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### 46. Share Options (continued)

The following tables disclose movements in the Company's share options during the year:

2018

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	—	—	155,500	32.100	17.3.2018 – 16.3.2027
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 – 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 – 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Prof Roy Chi Ping Chung SBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Christopher Patrick Langley OBE	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Manfred Kuhlmann	11.9.2015	D	25,000	—	(25,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	(75,000)	—	75,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 – 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 – 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028	
Mr Vincent Ting Kau Cheung	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
<b>Total for directors</b>			<b>9,913,500</b>	<b>1,450,000</b>	<b>(100,000)</b>	<b>—</b>	<b>11,263,500</b>		

### 46. Share Options (continued)

The following tables disclose movements in the Company's share options during the year: (continued)

2018

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Employees</b>									
	14.1.2008	D	25,000	—	—	(25,000)	—	7.566	14.1.2009 – 13.1.2018
	17.4.2008	D	200,000	—	(200,000)	—	—	7.780	17.4.2009 – 16.4.2018
	16.11.2009	D	600,000	—	(300,000)	—	300,000	6.770	16.11.2010 – 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 – 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 – 16.1.2021
	23.3.2017	D	200,000	—	—	—	200,000	32.150	23.3.2018 – 22.3.2027
	19.6.2017	E	350,000	—	—	—	350,000	36.300	19.6.2018 – 18.6.2027
<b>Total for employees</b>			<b>1,425,000</b>	<b>—</b>	<b>(500,000)</b>	<b>(25,000)</b>	<b>900,000</b>		
<b>Total for all categories</b>			<b>11,338,500</b>	<b>1,450,000</b>	<b>(600,000)</b>	<b>(25,000)</b>	<b>12,163,500</b>		
<b>Exercisable at the end of the year</b>							<b>9,043,250</b>		

The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

Date of grant	Exercise price HK\$	Expected life of share options	Expected volatility based on historical volatility of share prices	Yields of Hong Kong Government Bonds	Expected annual dividend yield
<b>For the year ended December 31, 2019</b>					
<b>20.5.2019</b>	<b>51.080</b>	<b>3 years</b>	<b>38%</b>	<b>1.678%</b>	<b>1.5%</b>
For the year ended December 31, 2018					
14.3.2018	47.900	3 years	38%	1.507%	1.5%

The share options are vested in parts over 1 to 2 years from the date of grant.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The weighted average closing price of the Company's shares immediately before the date on which the share options were granted during 2019 was HK\$50.15 (2018: HK\$48.50).

The closing price of the Company's shares immediately before the date on which the share options were granted was HK\$50.15 in 2019 (2018: HK\$48.50).

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 46. Share Options (continued)

The weighted average closing prices of the Company's shares immediately before various dates during 2019 and 2018 on which the share options were exercised were HK\$55.67 and HK\$46.63 respectively.

The Group recognized a total expense of US\$2,636,000 for the year ended December 31, 2019 (2018: US\$2,634,000) in relation to share options granted by the Company.

The fair value of the share options granted in 2019 measured at the date on which the share options were granted was HK\$12.69 (2018: HK\$11.82). The weighted average fair value of the share options granted in 2019 was HK\$12.69 (2018: HK\$11.82) per option.

The Company had 10,457,500 share options outstanding (2018: 12,163,500), which represented approximately 0.57% (2018: 0.67%) of the issued share capital of the Company as at December 31, 2019. No option (2018: Nil) was cancelled and 50,000 (2018: 25,000) share options were lapsed during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.22% of the issued shares of the Company as at December 31, 2019. Total securities available for issue under Scheme E are 183,299,194 shares, which represented approximately 10.02% of the issued shares of the Company as at December 31, 2019.

### 47. Share Award Scheme

The purpose of the share award scheme is to recognize the contributions by certain eligible persons and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The share award scheme of the Company was adopted by the Board of Directors on January 9, 2008 and renewed on January 17, 2018. The Board may from time to time at their absolute discretion select any eligible person for participation in the scheme as a selected grantee and determine the number of shares to be awarded or make reference to a nominal amount. The Board must cause to be paid to the trustee the purchase price and the related expenses. The trustee must either purchase shares from the market or subscribe for new shares. The trustee must hold the shares until they are vested in accordance with the scheme rules. When the selected grantee has satisfied all vesting conditions specified by the Board at the time of making the award and becomes entitled to the shares forming the subject of the award, the trustee will transfer the relevant vested shares together with the income derived therefrom (net of accrued interest) to the selected grantee.

An award of shares automatically lapses when, (i) a selected grantee who is an employee ceases to be an employee; or (ii) the subsidiary by which a selected grantee is employed ceases to be a subsidiary of the Company (or of a member of the Group); or (iii) a selected grantee who is a Director of the Company or a subsidiary ceases to be a director of the same; or (iv) an order for the winding-up of the Company is made or a resolution is passed (otherwise than for certain purposes) for the voluntary winding-up of the Company, and, in any such case, the award, unless the Board otherwise agrees, automatically lapses forthwith and all the awarded shares and related income of such award do not vest on the relevant vesting date but become returned shares for the purpose of the scheme.

Recognition of share-based payment expenses under the share award scheme during the year was US\$4,156,000 (2018: US\$2,344,000). During 2019, 451,000 shares (2018: 160,500 shares) were transferred to the awardees upon vesting.

### 47. Share Award Scheme (continued)

(i) Movements in the number of awarded shares and their related average fair value were as follows:

	Number	
	2019	2018
At January 1	1,314,000	300,000
Awarded (Note (a))	1,560,000	1,174,500
Vested	(451,000)	(160,500)
<b>At December 31 (Note (b))</b>	<b>2,423,000</b>	1,314,000

Notes:

(a) All the awarded shares were purchased from the market.

(b) At the end of the year, the average fair value per share is HK\$41.22 (2018: HK\$30.30). The average fair value of the awarded shares is based on the average purchase cost.

(ii) The remaining vesting periods of the awarded shares outstanding are as follows:

	Number of awarded shares	
	2019	2018
Less than 1 year	691,000	441,000
More than 1 year	1,732,000	873,000
	<b>2,423,000</b>	1,314,000

### 48. Capital Commitments

	2019 US\$'000	2018 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	58,380	119,350

### 49. Related Party Transactions

During the year, the Group entered into the following transactions with its associates, which did not constitute connected transactions under Chapter 14A of the Listing Rules:

	2019 US\$'000	2018 US\$'000
Interest income	150	—
Sales income	50,014	5,141
Purchases	3,067	5,142

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 49. Related Party Transactions (continued)

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

	2019 US\$'000	2018 US\$'000
Short-term benefits	76,619	61,249
Post-employment benefits	1,918	856
Share-based payments	6,514	4,762
	<b>85,051</b>	<b>66,867</b>

Details of the balances and transactions with related parties are set out in the consolidated statements of financial position and Notes 22, 27 and 45.

### 50. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable	Unsecured borrowings	Discounted bills with recourse	Obligations under finance leases	Lease liabilities	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2018	—	825,020	87,837	11,617	—	924,474
Financing cash flows	(183,422)	(29,578)	155,523	(10,751)	—	(68,228)
Inception of finance lease	—	—	—	147	—	147
Interest expenses	—	37,407	—	642	—	38,049
Interest paid	—	(37,407)	—	(642)	—	(38,049)
Dividend declared	183,422	—	—	—	—	183,422
At December 31, 2018	—	795,442	243,360	1,013	—	1,039,815
Adjustments upon application of HKFRS 16	—	—	—	(1,013)	278,710	277,697
At January 1, 2019 (restated)	—	795,442	243,360	—	278,710	1,317,512
Financing cash flows	(223,594)	691,566	(234,271)	—	(64,230)	169,471
New leases entered	—	—	—	—	86,116	86,116
Early termination of leases	—	—	—	—	(62,228)	(62,228)
Interest expenses	—	45,620	—	—	6,703	52,323
Interest paid	—	(45,620)	—	—	(6,703)	(52,323)
Dividend declared	223,594	—	—	—	—	223,594
<b>At December 31, 2019</b>	<b>—</b>	<b>1,487,008</b>	<b>9,089</b>	<b>—</b>	<b>238,368</b>	<b>1,734,465</b>

### 51. Statement of Financial Position of the Company

As at December 31, 2019

	2019 US\$'000	2018 US\$'000
	Note	
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	4,523	5,380
Right of use assets	687	—
Intangible assets	12	19
Investments in subsidiaries	25,290,888	2,692,850
Loans to subsidiaries	131,180	829,857
Interests in associates	1,831	2,371
Financial assets at FVTPL	4,485	4,148
	<b>25,433,606</b>	<b>3,534,625</b>
<b>Current assets</b>		
Other receivables	—	9
Deposits and prepayments	12,641	12,397
Financial assets at FVTPL	24,597	32,828
Tax recoverable	4,368	1,794
Derivative financial instruments	25,665	—
Amounts due from subsidiaries	814,001	1,225,045
Bank balances, deposits and cash	555,486	225,764
	<b>1,436,758</b>	<b>1,497,837</b>
<b>Current liabilities</b>		
Trade and other payables	94,562	58,402
Derivative financial instruments	9,142	—
Lease liabilities	371	—
Amounts due to subsidiaries	791,840	3,049,630
Unsecured borrowings – due within one year	663,680	25,600
	<b>1,559,595</b>	<b>3,133,632</b>
Net current liabilities	<b>(122,837)</b>	<b>(1,635,795)</b>
Total assets less current liabilities	<b>25,310,769</b>	<b>1,898,830</b>
<b>Capital and Reserves</b>		
Share capital	662,379	654,991
Reserves	23,893,438	704,366
	<b>24,555,817</b>	<b>1,359,357</b>
<b>Non-current Liabilities</b>		
Lease liabilities	324	—
Unsecured borrowings – due after one year	754,628	539,473
Total equity and non-current liabilities	<b>25,310,769</b>	<b>1,898,830</b>

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 4, 2020 and are signed on its behalf by:

**Chi Chung Chan**  
Group Executive Director

**Stephan Horst Pudwill**  
Vice Chairman

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 52. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2019 and December 31, 2018 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Baja, Inc.	US	US\$17.36	—	100	Trading of outdoor power equipment products
DreBo Werkzeugfabrik GmbH*	Germany	EUR1,000,000	—	100	Trading and manufacture of power equipment products
Homelite Consumer Products, Inc.	US	US\$10	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	US\$1	—	100	Trading and manufacture of floor care products
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK\$100,000	100	—	Trading of household electronic and electrical products
Milwaukee Electric Tool Corporation	US	US\$50,000,000	—	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	US	US\$10	—	100	Trading of power equipment products
Royal Appliance International GmbH	Germany	EUR2,050,000	100	—	Trading of floor care products
Royal Appliance Mfg. Co.	US	US\$1	—	100	Trading and manufacture of floor care products
Sang Tech Industries Limited	Hong Kong	HK\$1,000,000	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$2,000,000	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK\$2,000,000	75.725	—	Manufacture of electronic products
Techtronic Cordless GP	US	US\$200	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Floor Care Technology Limited	British Virgin Islands ("BVI")	US\$1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd.†	PRC	US\$47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT\$5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP4,000,000	—	100	Trading of power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AU\$25,575,762	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR25,600	—	100	Trading of power equipment products
Techtronic Industries ELC GmbH*	Germany	EUR25,000	—	100	Trading of power equipment products and outdoor power equipment products
Techtronic Industries France SAS	France	EUR14,919,832	—	100	Trading of power equipment products
Techtronic Industries GmbH	Germany	EUR20,452,500	100	—	Trading and manufacture of power equipment products
Techtronic Industries Korea LLC	Korea	KRW3,400,000,000	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN50,000 (Serie I) MXN362,720,990 (Serie II)	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZ\$4,165,500	100	—	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries North America, Inc.	US	US\$10	100	—	Investment holding
Techtronic Outdoor Products Technology Limited	Bermuda	US\$3,244	100	—	Investment and intellectual properties holding

### 52. Particulars of Principal Subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Techtronic Power Tools Technology Limited	BVI	US\$1	100	—	Investment and intellectual properties holding
Techtronic Product Development Limited	Hong Kong	HK\$2	100	—	Engage in research and development activities
Techtronic Trading Limited	Hong Kong	HK\$2	100	—	Trading of power equipment, floor care and outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HK\$2	100	—	Investment holding
Vax Limited	United Kingdom	GBP30,000 (Ordinary A shares) GBP2,500 (Ordinary B shares)	100	—	Trading of household electrical and floor care products

\* Exempt from the obligation to publish local financial statements.

† A wholly foreign owned enterprise.

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

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarized as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2019	2018
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US and others	7	7
Trading of power equipment, floor care and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	38	34
Investment holding	Australia, BVI, Europe, Hong Kong, US	25	24
Dormant	BVI, Europe, Hong Kong, US	16	13

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

**53. Particulars of Principal Associate**

Particulars of the principal associate are as follows:

Name of associate	Place of incorporation/operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company directly		Principal activities
			2019	2018	
			%	%	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	<b>40.8</b>	40.8	Investment holding
Wuerth Master Power Tools Limited	Hong Kong	US\$3,000,000	<b>49.0</b>	49.0	Manufacture and sale of power equipment

**54. Subsequent Event**

The outbreak of the 2019 Novel Coronavirus (“COVID-19”) in PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group’s operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since early February 2020 and is already at approximately 70% capacity as at the date hereof.

The directors of the Company are monitoring the financial impact that the COVID-19 will have on the Group’s consolidated financial statements as at the date that these financial statements are authorized for issue.

**Financial Summary****Results**

	Year ended December 31				
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000	2019 US\$'000
Revenue	5,038,004	5,480,413	6,063,633	7,021,182	<b>7,666,721</b>
Profit before taxation	386,957	440,029	505,496	594,610	<b>661,286</b>
Taxation charge	(32,814)	(31,242)	(34,972)	(42,070)	<b>(46,290)</b>
Profit for the year	354,143	408,787	470,524	552,540	<b>614,996</b>
Attributable to:					
Owners of the Company	354,427	408,982	470,425	552,463	<b>614,900</b>
Non-controlling interests	(284)	(195)	99	77	<b>96</b>
Profit for the year	354,143	408,787	470,524	552,540	<b>614,996</b>
Basic earnings per share (US cents)	19.37	22.32	25.66	30.16	<b>33.67</b>

**Assets and Liabilities**

	As at December 31				
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000	2019 US\$'000
Total assets	4,802,718	5,120,407	5,598,477	6,348,862	<b>7,698,051</b>
Total liabilities	2,647,146	2,721,475	2,857,759	3,291,521	<b>4,303,740</b>
	2,155,572	2,398,932	2,740,718	3,057,341	<b>3,394,311</b>
Equity attributable to Owners of the Company	2,155,983	2,399,538	2,741,225	3,057,771	<b>3,394,645</b>
Non-controlling interests	(411)	(606)	(507)	(430)	<b>(334)</b>
	2,155,572	2,398,932	2,740,718	3,057,341	<b>3,394,311</b>