

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

Except as described below, the application of the amendments to HKFRSs and 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 financial statements.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognizes revenue from the following major sources which arise from contracts with customers:

- Commission and royalty income
- Manufacturing and sales of electrical and electronic products

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

2.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 6 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

The following table summarizes the impacts of transition to HKFRS 15 on retained profits at January 1, 2018.

	US\$’000
Retained profits	
Recognition of a provision for products with a right to return	(9,291)
Tax effect	2,231
Impact at January 1, 2018	(7,060)

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at December 31, 2017 US\$’000	Reclassification US\$’000	Remeasurement US\$’000	Carrying amounts adjusted under HKFRS 15 at January 1, 2018* US\$’000
Non-current Assets					
Deferred tax assets	(c)	92,939	—	2,231	95,170
Current Assets					
Right to returned goods asset	(a)(c)	—	10,834	2,595	13,429
Trade and other receivables	(a)(b)	1,136,876	3,425	—	1,140,301
Capital and Reserves					
Retained profits	(c)	2,234,229	—	(7,060)	2,227,169
Current Liabilities					
Trade and other payables	(a)(b)	1,574,402	(1,661)	—	1,572,741
Warranty provision	(b)	97,268	(3,004)	—	94,264
Refund liabilities from right of return	(b)(c)	—	18,924	11,886	30,810

* The amounts in this column are before the adjustments from the application of HKFRS 9.

(a) As at January 1, 2018, certain right to returned goods asset of US\$10,834,000 previously included in trade and other receivables of US\$5,574,000 and trade and other payables of US\$5,260,000 were reclassified to right to returned goods asset.

(b) As at January 1, 2018, certain liabilities of US\$18,924,000 previously included in warranty provision of US\$3,004,000, trade and other receivables of US\$8,999,000 and trade and other payables of US\$6,921,000 were reclassified to refund liabilities from right of return.

(c) The total remeasurement effect arising from the initial application of HKFRS 15 resulted an increase in the carrying amounts of right to returned good assets and refund liabilities from right of return of US\$2,595,000 and US\$11,886,000 respectively with corresponding adjustments to retained profits and deferred tax assets of US\$7,060,000 and US\$2,231,000 respectively.

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)**2.1 HKFRS 15 Revenue from Contracts with Customers (continued)**

The following table summarizes the impacts of applying HKFRS 15 on the Group’s consolidated statement of financial position as at December 31, 2018 for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported US\$'000	Adjustments US\$'000	Amounts without application of HKFRS 15 US\$'000
Non-current Assets			
Deferred tax assets	83,945	(2,231)	81,714
Current Assets			
Right to returned goods asset	14,005	(14,005)	—
Trade and other receivables	1,126,798	(2,718)	1,124,080
Capital and Reserves			
Retained profits	2,559,178	8,075	2,567,253
Current Liabilities			
Trade and other payables	1,921,452	2,451	1,923,903
Warranty provision	105,215	3,787	109,002
Refund liabilities from right of return	33,267	(33,267)	—

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement for hedge accounting*.

The Group continues to apply HKAS 39 for hedge accounting.

Accounting policies resulting from the application of HKFRS 9 are disclosed in Note 3.

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

2.2 HKFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

	Notes	Available- for-sale investments US\$'000	Financial assets at FVTPL US\$'000
Closing balance at December 31, 2017 – HKAS 39	(a)	3,697	—
Effect arising from initial application of HKFRS 9:			
Reclassification from available-for-sale investments		(3,697)	3,697
Remeasurement from cost less impairment to fair value		—	1,570
Opening balance at January 1, 2018		—	5,267

(a) Available-for-sale (“AFS”) investments

From AFS investments to fair value through profit or loss (“FVTPL”)

At the date of initial application of HKFRS 9, the Group’s unlisted equity securities and club membership debentures of US\$3,697,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value gains of US\$1,570,000 relating to club membership debentures previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits as at January 1, 2018. The fair value change on unlisted equity securities is considered insignificant.

(b) Financial assets at FVTPL and/or designated at FVTPL

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, US\$32,293,000 of the Group’s investments were held for trading and continued to be measured at FVTPL.

The remaining financial assets at FVTPL are derivatives not designated as effective hedging instruments and are continued to be measured at FVTPL under HKFRS 9.

There was no impact on the amounts recognized in relation to these assets from the application of HKFRS 9.

As at January 1, 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The adoption has not resulted in any additional impairment for financial assets as at January 1, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

2.3 Impacts on opening consolidated statement financial of position arising from the application and new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognized for each of the line items affected. Line items that were not affected by the changes have not been included.

	December 31, 2017 (Audited) US\$’000	HKFRS 15 US\$’000	HKFRS 9 US\$’000	January 1, 2018 (Restated) US\$’000
Non-current Assets				
AFS investments	3,697	—	(3,697)	—
Financial assets at FVTPL	—	—	5,267	5,267
Deferred tax assets	92,939	2,231	—	95,170
Current Assets				
Right to returned goods asset	—	13,429	—	13,429
Trade and other receivables	1,136,876	3,425	—	1,140,301
Held-for-trading investments	32,293	—	(32,293)	—
Financial assets at FVTPL	—	—	32,293	32,293
Current Liabilities				
Trade and other payables	1,574,402	(1,661)	—	1,572,741
Warranty provision	97,268	(3,004)	—	94,264
Refund liabilities from right of return	—	30,810	—	30,810
Capital and Reserves				
Retained profits	2,234,229	(7,060)	1,570	2,228,739

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended December 31, 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2018 as disclosed above.

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

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and an interpretation that have been issued but are not yet effective as at January 1, 2018:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment and Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRS	Annual Improvement to HKFRSs 2015-2017 Cycle ¹

¹ Effective for annual periods beginning on or after January 1, 2019.

² Effective for annual periods beginning on or after January 1, 2021.

³ Effective for annual periods beginning on or a date to be determined.

⁴ 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.

⁵ 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 and interpretations would not have any material impact on the consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under HKFRS 16, lease payments in relation to a lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payment will continue be presented as investing on operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognized an asset and a related finance lease liability, for a finance lease arrangement and prepaid lease payments for leasehold land where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of US\$316,373,000 as disclosed in Note 45. A preliminary assessment indicates that these arrangements may meet the definition of a lease. Upon application of HKFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

HKFRS 16 Leases (continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect 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 applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies HKFRS 9, including the impairment requirements, to long-term interests in an associate to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying HKFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

As at December 31, 2018, amounts due from associates of US\$2,194,000 are considered as long-term interests that, in substance form part of the Group’s net investments in the relevant joint ventures and associates. However, the application is not expected to have impact as the Group’s existing accounting policies are consistent with the requirements clarified by the amendments.

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.

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 within the scope of HKAS 17, 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.

3. Significant Accounting Policies (continued)

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.

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); and
- 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.

3. Significant Accounting Policies (continued)

Business Combinations (continued)

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 HKAS 39/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.

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.

3. Significant Accounting Policies (continued)

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 or a joint venture 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 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/HKAS 39, 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.

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).

3. Significant Accounting Policies (continued)

Intangible Assets (continued)

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.

Leases

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.

3. Significant Accounting Policies (continued)

The Group as Lessee

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.

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.

Leasehold Land and Building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease prepayments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Property, Plant and Equipment

Property, plant and equipment 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.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful lives and after taking into account 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 property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost, less any recognized impairment loss. Cost includes professional fees capitalized in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

3. Significant Accounting Policies (continued)

Impairment Losses on Tangible 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 tangible, 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 tangible 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. Where a reasonable and consistent basis of allocation can be identified, 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.

The 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.

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. 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. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), 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. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit 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 a cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately.

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 since January 1, 2018. 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 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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets

Classification and Subsequent Measurement of Financial Assets (upon Application of HKFRS 9)

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.

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 (upon Application HKFRS 9)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bills receivable, trade receivables from an associate, bank balances, deposits and cash and financial guarantee contracts). 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. Assessment 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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

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.

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.

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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

(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;
- (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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(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 an associate 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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

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

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.

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.

Classification and Subsequent Measurement of Financial Assets (before Application of HKFRS 9 on January 1, 2018)

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial Assets at FVTPL

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of 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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, trade receivables from an associate and bank balances, deposits and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

AFS Financial Assets

AFS financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment of financial assets below).

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Impairment of Financial Assets (before Application of HKFRS 9 on January 1, 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and trade receivables from an associate, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Liabilities and Equity

Financial liabilities and equity instruments issued by a group entity are classified 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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Liabilities and Equity (continued)

Other Financial Liabilities at Amortized Cost

Other 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.

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

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

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.

Discontinuation of Hedge Accounting

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting.

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 (since January 1, 2018)/HKAS 37 (before application of HKFRS 9 on January 1, 2018); and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

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.

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).

A provision for warranties is recognized at the time the products are sold based on the estimated cost using historical data for the level of repairs and replacements.

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 (upon Application of HKFRS 15)

Under HKFRS 15, 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.

3. Significant Accounting Policies (continued)

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.

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/contract liability; and
- (c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

Revenue Recognition (prior to January 1, 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold by the Group to outside customers in the normal course of business, less returns and allowances, and commission income and royalty income received.

Revenue is recognized when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of goods is recognized when goods are delivered and title has passed.

Commission income is recognized when services are provided.

Royalty income is recognized on a time proportion basis in accordance with the terms of the relevant agreements.

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

Dividend income from investments is recognized when the shareholders' right to receive payment have been established.

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.

3. Significant Accounting Policies (continued)

Taxation (continued)

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.

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 by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

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.

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).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. Significant Accounting Policies (continued)

Foreign Currencies (continued)

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.

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.

3. Significant Accounting Policies (continued)

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.

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.

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.

4. Key Sources of Accounting Estimates (continued)

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, 2018, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$581,215,000 (2017: US\$555,350,000) and approximately US\$227,640,000 (2017: US\$219,440,000) respectively. Details of the recoverable amount calculation are disclosed in Note 20. 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, 2018, the carrying amounts of deferred development costs of the Group are US\$338,230,000 (2017: US\$316,312,000). 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.

Useful Lives and Impairment Assessment of Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. As at December 31, 2018, the Group's carrying amount of property, plant and equipment is US\$790,936,000 (2017: US\$688,868,000). 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 property, plant and equipment. Property, plant and equipment 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, 2018, a deferred tax asset of approximately US\$30,608,000 (2017: US\$46,523,000) in relation to unused tax losses and approximately US\$23,535,000 (2017: US\$24,196,000) 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\$3,326,000 (2017: US\$15,116,000) 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.

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, 2018

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

Inter-segment sales are charged at prevailing market rates.

Result				
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)
Profit for the year				552,540

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

5. Segment Information (continued)

Segment Revenue and Results (continued)

For the year ended December 31, 2017

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	5,137,697	925,936	—	6,063,633
Inter-segment sales	—	1,915	(1,915)	—
Total segment revenue	5,137,697	927,851	(1,915)	6,063,633

Inter-segment sales are charged at prevailing market rates.

Result				
Segment results	511,722	7,462	—	519,184
Interest income				10,792
Finance costs				(24,480)
Profit before taxation				505,496
Taxation charge				(34,972)
Profit for the year				470,524

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 and finance costs. 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, 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, net of reversal	20,197	2,648	22,845
Depreciation and amortization	182,200	56,534	238,734

5. Segment Information (continued)

Other Segment Information (continued)

For the year ended December 31, 2017

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	11,593	921	12,514
Write down of inventories	5,304	1,645	6,949
Impairment loss on trade receivables, net of reversal	17,566	889	18,455
Depreciation and amortization	157,192	51,981	209,173

Revenue from Major Products

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

	2018 US\$'000	2017 US\$'000
Power Equipment	6,009,495	5,137,697
Floor Care and Appliances	1,011,687	925,936
Total	7,021,182	6,063,633

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*	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
North America	5,371,768	4,625,483	1,037,973	896,578
Europe	1,071,056	918,833	113,851	121,978
Other countries	578,358	519,317	869,603	836,922
Total	7,021,182	6,063,633	2,021,427	1,855,478

* 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, 2018 and 2017, the Group's largest customer contributed total revenue of US\$3,194,744,000 (2017: US\$2,760,045,000), of which US\$3,143,450,000 (2017: US\$2,688,536,000) was under the Power Equipment segment and US\$51,294,000 (2017: US\$71,509,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total revenue.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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:

	2018 US\$'000	2017 US\$'000
Sales of goods	7,009,861	6,042,103
Commission and royalty income	11,321	21,530
	7,021,182	6,063,633

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 that a significant reversal in the cumulative revenue recognized will not occur. A contract liability is recognized for sales in which revenue has 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, 2018, no material revenue for unsatisfied contracts to be recognized by the Group are over one year. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

7. Other Income

Other income in both 2018 and 2017 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

	2018 US\$'000	2017 US\$'000
Interests on:		
Bank borrowings	37,407	23,699
Obligations under finance leases	642	781
	38,049	24,480

10. Taxation Charge

	2018 US\$'000	2017 US\$'000
Current tax:		
Hong Kong Profits Tax	(1,088)	(2,035)
Underprovision in prior years	(2,057)	(1,542)
	(3,145)	(3,577)
Overseas taxation	(30,575)	(39,847)
Overprovision in prior years	404	59,381
	(30,171)	19,534
Deferred tax (Note 42):		
Current year	17,544	49,093
Deferred tax asset impairment	(26,969)	(40,374)
Change in tax rates	671	(59,648)
	(8,754)	(50,929)
	(42,070)	(34,972)

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.

The substantial deferred tax expense in 2017 was the result of the change in marginal United States ("US") Federal tax rates from 35% to 21% that triggered a substantial write-down of the 2017 US net deferred tax assets amounted to US\$59,552,000 which was primarily comprised of tax loss carryforwards.

The tax charge for the year is reconciled as follows:

	2018 US\$'000	2018 %	2017 US\$'000	2017 %
Profit before taxation	594,610		505,496	
Tax at Hong Kong Profits Tax rate	(98,111)	16.5%	(83,407)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	74,295	(12.5%)	79,537	(15.7%)
Tax effect of expenses not deductible for tax purposes	(6,537)	1.1%	(15,571)	3.0%
Tax effect of income not taxable for tax purposes	8,779	(1.4%)	22,386	(4.4%)
Utilization of deductible temporary differences previously not recognized	3,326	(0.6%)	2,100	(0.4%)
Tax effect of tax losses and deductible temporary differences not recognized	4,129	(0.7%)	2,166	(0.5%)
Deferred tax asset impairment	(26,969)	4.5%	(40,374)	8.0%
(Under) over provision in respect of prior years	(1,653)	0.3%	57,839	(11.4%)
Tax effect of changes in tax rates	671	(0.1%)	(59,648)	11.8%
Tax charge for the year	(42,070)	7.1%	(34,972)	6.9%

Details of deferred tax are set out in Note 42.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

11. Profit for the Year

	2018 US\$'000	2017 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	108,758	93,938
Amortization of lease prepayments	747	732
Auditors' remuneration	3,267	3,352
Cost of inventories recognized as an expense	4,406,605	3,837,426
Depreciation and amortization on property, plant and equipment		
Owned assets	126,396	111,363
Assets held under finance leases	2,833	3,140
Fair value (gain) loss on foreign currency forward contracts	(17,954)	8,920
Fair value loss (gain) on listed equity securities	5,570	(2,447)
Fair value gain on club membership debentures	(114)	—
Fair value loss on derivative financial instruments	117	428
Impairment loss on trade receivables, net of reversal	22,845	18,455
Loss on disposal of property, plant and equipment	16,859	12,514
Gain on disposal of listed equity securities	(236)	—
Net exchange gain	(20,788)	(1,999)
Operating lease expenses recognized in respect of:		
Motor vehicles	23,825	20,448
Plant and machinery	11,910	10,058
Premises	43,932	43,356
Other assets	2,632	2,820
Unconditional government grants	(382)	(315)
Write off of intangible assets	3,236	3,760
Write down of inventories	27,584	6,949
Staff costs		
Directors' remuneration		
Fees	315	273
Other emoluments	41,205	42,913
Other staff costs	41,520	43,186
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)		767,285
Defined contribution plans	11,979	10,286
Defined benefit plans (Note 41)	2,277	1,925
	912,696	822,682

Staff costs disclosed above do not include an amount of US\$149,073,000 (2017: US\$140,125,000) of staff costs incurred relating to research and development activities.

12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2017: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

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
Total	315	5,378	188	30,877	4,762	41,520

For the year ended December 31, 2017

	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	11,815	1,268	14,756
Mr Stephan Horst Pudwill (Note i)	—	353	2	1,420	348	2,123
Mr Joseph Galli Jr (Note i)	—	1,661	180	13,100	3,263	18,204
Mr Kin Wah Chan (Note i)	—	722	2	1,732	348	2,804
Mr Chi Chung Chan (Note i)	—	719	2	2,595	348	3,664
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	39	6	—	338	117	500
Mr Camille Jojo (Note ii)	39	13	—	—	199	251
Mr Christopher Patrick Langley OBE (Note iii)	39	15	—	—	117	171
Mr Manfred Kuhlmann (Note iii)	39	43	—	—	117	199
Mr Peter David Sullivan (Note iii)	39	45	—	—	117	201
Mr Vincent Ting Kau Cheung (Note iii)	39	47	—	—	117	203
Mr Johannes-Gerhard Hesse (Note iii)	39	10	—	—	61	110
Total	273	5,305	188	31,000	6,420	43,186

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

12. Directors' Emoluments (continued)

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 47 and 48 respectively

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2017: three) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2017: two) individuals for the year ended December 31, 2018 were as follows:

	2018 US\$'000	2017 US\$'000
Basic salaries and allowances	773	1,265
Contributions to retirement benefits schemes	191	152
Bonus	4,000	6,366
Other benefit	59	59
Share-based payments	—	—
	5,023	7,842

The emoluments of these one (2017: two) highest paid individuals for the year ended December 31, 2018 were within the following bands:

HK\$	No. of persons	
	2018	2017
24,000,001 to 24,500,000	—	1
36,500,001 to 37,000,000	—	1
39,000,001 to 39,500,000	1	—

During each of the two years ended December 31, 2018 and 2017, 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

	2018 US\$'000	2017 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2017: HK39.75 cents (approximately US5.12 cents) (2016: HK30.00 cents (approximately US3.86 cents)) per share	93,827	70,778
Interim dividend paid:		
2018: HK38.00 cents (approximately US4.89 cents) (2017: HK27.75 cents (approximately US3.57 cents)) per share	89,595	65,507
	183,422	136,285

The final dividend of HK50.00 cents (approximately US6.44 cents) per share with a total of approximately US\$117,666,000 in respect of the year ended December 31, 2018 (2017: final dividend of HK39.75 cents (approximately US5.12 cents) per share in respect of the year ended December 31, 2017) 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:

	2018 US\$'000	2017 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	552,463	470,425
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,831,782,645	1,833,278,393
Effect of dilutive potential ordinary shares:		
Share options	5,678,803	5,403,141
Share award	505,165	147,754
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,837,966,613	1,838,829,288

The computation of diluted earnings per share does not assume the exercise of certain of the Company's share options because the exercise prices of those options were higher than the average market price of the Company's shares for the year ended December 31, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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
Cost										
At January 1, 2017	182,384	73,164	209,600	279,352	5,744	290,952	2,369	—	104,921	1,148,486
Currency realignment	4,226	3,322	7,218	14,615	212	4,497	—	—	1,323	35,413
Additions	895	2,072	10,783	14,386	970	15,795	—	—	160,383	205,284
Disposals	(23,450)	(178)	(19,020)	(1,714)	(765)	(59,187)	—	—	(6,356)	(110,670)
Reclassification	29,184	10,811	17,066	15,507	110	60,003	—	—	(132,681)	—
At December 31, 2017	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 (Note 43)	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
Depreciation and Impairment										
At January 1, 2017	42,656	31,449	144,931	140,029	3,826	182,060	2,305	—	—	547,256
Currency realignment	1,008	2,447	4,556	5,731	202	2,422	—	—	—	16,366
Provided for the year	6,009	7,717	16,795	27,338	878	55,752	14	—	—	114,503
Eliminated on disposals	(18,450)	(16)	(18,440)	(482)	(638)	(50,454)	—	—	—	(88,480)
At December 31, 2017	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
Carrying amounts										
At December 31, 2018	168,723	44,799	77,480	153,134	1,843	122,034	4,083	31,049	187,791	790,936
At December 31, 2017	162,016	47,594	77,805	149,530	2,003	122,280	50	—	127,590	688,868

Note: Buildings with a carrying amount of US\$18,485,000 (2017: US\$20,633,000) are erected on leasehold land that is presented as lease prepayments on the consolidated statement of financial position.

16. Property, Plant and Equipment (continued)

The above property, plant and equipment, 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	10%

The carrying amounts of properties shown above comprise:

	2018 US\$'000	2017 US\$'000
Land and buildings situated outside Hong Kong are analyzed as follows:		
Freehold	85,310	75,058
Leasehold	18,485	20,633
	103,795	95,691
Land and buildings situated in Hong Kong	64,928	66,325
	168,723	162,016

The carrying amounts of the Group's property, plant and equipment include amounts of approximately US\$715,000 (2017: US\$10,665,000) in respect of assets held under finance leases.

The gross carrying amount of the Group's property, plant and equipment includes amounts of approximately US\$290,105,000 (2017: US\$283,554,000) in respect of fully depreciated property, plant and equipment that are still in use.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

17. Lease Prepayments

	US\$'000
Cost	
At January 1, 2017	35,562
Currency realignment	2,420
At December 31, 2017	37,982
Currency realignment	(2,054)
Additions	27
At December 31, 2018	35,955
Amortization	
At January 1, 2017	5,981
Currency realignment	433
Provided for the year	732
At December 31, 2017	7,146
Currency realignment	(413)
Provided for the year	747
At December 31, 2018	7,480
Carrying amounts	
At December 31, 2018	28,475
At December 31, 2017	30,836

All lease prepayments are related to leases outside Hong Kong.

18. Goodwill

	US\$'000
At January 1, 2017	553,194
Currency realignment	2,156
At December 31, 2017	555,350
Currency realignment	(782)
Arising on acquisition of a subsidiary (Note 43)	26,647
At December 31, 2018	581,215

Particulars regarding impairment testing of goodwill are disclosed in Note 20.

19. 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 competes agreement US\$'000	Total US\$'000
Cost							
At January 1, 2017	729,782	67,610	234,290	453	10,500	10,634	1,053,269
Currency realignment	222	31	—	—	—	—	253
Additions	108,965	22,450	—	—	—	—	131,415
Written off in the year	(37,479)	(1,252)	(78)	—	—	(10,634)	(49,443)
At December 31, 2017	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 (Note 43)	—	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
Amortization							
At January 1, 2017	432,521	47,573	12,723	453	3,614	9,749	506,633
Currency realignment	181	1	—	—	—	—	182
Provided for the year	86,780	5,220	461	—	592	885	93,938
Eliminated on write off	(34,304)	(699)	(46)	—	—	(10,634)	(45,683)
At December 31, 2017	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
Carrying amounts							
At December 31, 2018	338,230	39,744	228,821	1,267	11,504	1,235	620,801
At December 31, 2017	316,312	36,744	221,074	—	6,294	—	580,424

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 development of new or enhancement of existing products.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

19. Intangible Assets (continued)

Included in trademarks of the Group, US\$227,640,000 (2017: US\$219,440,000) are trademarks as 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 20.

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	20%

20. 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 operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 18 and 19, 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, 2018 allocated to these units are as follows:

	Goodwill		Trademarks	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Power Equipment – MET	443,264	416,617	126,607	118,407
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	22,128	22,909	—	—
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	23,567	6	6
	581,215	555,350	227,640	219,440

No impairment of goodwill and trademarks have been recognized for the years ended December 31, 2018 and 2017.

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% (2017: 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 in 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% (2017: 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.

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

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% (2017: 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 in 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 amount of HCP’s goodwill and intangibles to exceed the aggregate 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 11.0% (2017: 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 in new products launched and the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 1.0% (2017: 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% (2017: 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% (2017: 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.

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 14.0% (2017: 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% (2017: 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

21. Interests in Associates

	2018 US\$'000	2017 US\$'000
Unlisted shares, at cost less impairment loss recognized	1,470	—
Amounts due from associates	2,194	2,780
	3,664	2,780

Particulars of the principal associate as at December 31, 2018 and December 31, 2017 are set out in Note 54.

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 held 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\$504,000 (2017: US\$424,000) and (US\$3,451,000) (2017: (US\$3,955,000)) respectively.

In September 2018, the Group acquired a 49% equity interest in Wuerth Master Power Tools Limited "Wuerth" for the consideration of US\$1,470,000. Wuerth is engaged in the manufacture and sale of power equipment.

22. AFS Investments

	2018 US\$'000	2017 US\$'000
Unlisted equity securities and club membership debentures, at cost less impairment loss recognized	—	3,697

As at December 31, 2017, all AFS investments mainly represented investments in unlisted equity securities and club membership debentures. They were measured at cost less impairment at the reporting date because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that their fair values cannot be measured reliably.

Due to the adoption of HKFRS 9, the AFS investments are reclassified as financial assets at FVTPL on January 1, 2018 (Note 23).

23. Financial assets at FVTPL

	Note	2018 US\$'000	2017 US\$'000
Club membership debentures	(a)	2,316	—
Unlisted equity securities	(b)	3,000	—
Listed equity securities	(c)	32,828	—
Other		45	—
		38,189	—
Analyzed for reporting purposes as:			
Current assets		32,828	—
Non-current assets		5,361	—
		38,189	—

Note:

- (a) As at December 31, 2018, 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, 2018, the unlisted equity securities represented the interest in a private company incorporated in the US. The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in private market.
- (c) The Group's listed equity securities were carried at fair value using the market bid prices on the reporting date.

24. Inventories

	2018 US\$'000	2017 US\$'000
Raw materials	112,049	87,481
Work in progress	41,723	37,195
Finished goods	1,612,950	1,342,744
	1,766,722	1,467,420

25. Trade and Other Receivables

	2018 US\$'000	2017 US\$'000
Trade receivables	1,140,923	1,143,319
Less: Allowances for credit losses	(51,760)	(37,114)
	1,089,163	1,106,205
Other receivables	37,635	30,671
	1,126,798	1,136,876

As at December 31, 2018 and January 1, 2018, 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:

	2018 US\$'000	2017 US\$'000
0 to 60 days	680,424	753,407
61 to 120 days	346,055	276,964
121 days or above	62,684	75,834
Total trade receivables	1,089,163	1,106,205

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, 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$268,543,000 which are past due as at the reporting date. Out of the past due balances, US\$218,511,000 is not considered as in default as they are related to a number of independent customers that have a good payment track record with the Group.

As at December 31, 2017, included in the Group's trade receivables balance were debtors with a carrying amount of US\$159,086,000 which were past due at the reporting date for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances. The average age of these receivables was 59 days.

The Group had a policy of allowing credit periods ranging mainly from 30 days to 120 days. Trade receivables that were past due but not provided for impairment loss were related to a number of independent customers that had good payment track records with the Group. The management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality of the relevant customers and the balances were still considered fully recoverable.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

25. Trade and Other Receivables (continued)

Ageing of Trade Receivables which were past due but not Impaired

	2017 US\$'000
1 – 60 days	130,324
61 – 120 days	12,656
121 – 365 days	15,271
1 – 2 years	730
Over 2 years	105
Total	159,086

Movement in the Allowance for Doubtful Debts

	2017 US\$'000
Balance at beginning of the year	20,025
Currency realignment	968
Impairment losses recognized on receivables	21,940
Amounts written off as uncollectible	(2,334)
Amounts recovered during the year	(3,485)
Balance at end of the year	37,114

Included in the allowance for doubtful debts were individually impaired trade receivables amounting to US\$37,114,000 as at December 31, 2017 which had the worst credit scoring attributable under the internal credit scoring system used by the Group. The Group did not hold any collateral over these balances.

Ageing of Impaired Trade Receivables (by Invoice Date)

	2017 US\$'000
0 – 120 days	3,641
121 – 365 days	19,169
1 – 2 years	12,554
Over 2 years	1,750
Total	37,114

Details of impairment assessment of trade and other receivables for the year ended December 31, 2018 are set out in Note 37.

In accordance with receivables purchase agreements, certain trade receivables were 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\$75,000,000 (2017: 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, 2018 and 2017 are due within 120 days.

27. Trade Receivables from an Associate

The trade receivables from an associate are due within 120 days.

28. Derivative Financial Instruments

	2018 US\$'000	2017 US\$'000
Assets		
Acquisition right of certain property, plant and equipment	9,441	9,558
Foreign currency forward contracts – under hedge accounting	33,477	3,641
Foreign currency forward contracts – not under hedge accounting	311	157
	43,229	13,356
Liabilities		
Foreign currency forward contracts – under hedge accounting	135	43,830
Foreign currency forward contracts – not under hedge accounting	577	—
	712	43,830

Acquisition Right of Certain Property, Plant and Equipment

As at December 31, 2018 and 2017, the Group owned a right to acquire certain property, plant and equipment 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 property, plant and equipment was US\$9,441,000 valued on September 30, 2018 (2017: US\$9,558,000 valued on September 30, 2017) 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.

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.

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

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

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 USD	January 30, 2019 to December 30, 2019
Sell USD12.8M, 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

2017

Notional amounts in millions	Maturity
Sell EUR 601M, Buy US\$	January 31, 2018 to December 30, 2019
Sell US\$170M, Buy RMB	September 27, 2018 to December 28, 2018
Sell GBP 30M, Buy EUR	January 16, 2018 to December 11, 2018
Sell PLN 30M, Buy EUR	January 18, 2018 to May 17, 2018
Buy US\$223M, Sell AUD	January 31, 2018 to December 31, 2018
Buy US\$66M, Sell GBP	January 2, 2018 to December 21, 2018
Buy US\$34.5M, Sell EUR	January 12, 2018 to December 28, 2018
Buy US\$163M, Sell CA\$	January 31, 2018 to October 31, 2018
Buy US\$3M, Sell KRW	January 10, 2018 to February 19, 2018

As at December 31, 2018, a fair value gain of US\$51,730,000 (December 31, 2017: fair value loss of US\$47,485,000) 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 loss of US\$28,784,000 (2017: gain of US\$18,152,000) was reclassified from reserves to profit or loss.

Foreign Currency Forward Contracts not under hedge accounting

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

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

2017

Notional amounts in millions	Maturity
Buy US\$12M, Sell NZD	April 19, 2018 to December 20, 2018
Buy EUR 0.3M, Sell AUD	January 16, 2018

29. Held-for-Trading Investments

The Group's held-for-trading investments at December 31, 2017 were carried at fair value using the market bid prices on the reporting date.

Held-for-trading investments include:

	2018 US\$'000	2017 US\$'000
Equity securities:		
– Listed shares	—	32,293
	—	32,293

Due to the adoption of HKFRS 9, the held-for-trading investments are reclassified as financial assets at FVTPL as at January 1, 2018 (Note 23).

30. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which range from 0.001% to 4.20% (2017: 0.01% to 2.02%) per annum.

31. 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:

	2018 US\$'000	2017 US\$'000
0 to 60 days	822,557	629,355
61 to 120 days	248,261	171,577
121 days or above	15,006	7,719
Total trade payables	1,085,824	808,651
Other payables	835,628	765,751
	1,921,452	1,574,402

The credit period on the purchase of goods ranges from 30 days to 120 days (2017: 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.

32. Bills Payable

All the Group's bills payable at December 31, 2018 and 2017 are due within 120 days.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

33. Warranty Provision

	US\$'000
At January 1, 2017	80,088
Currency realignment	3,353
Additional provision in the year	114,481
Utilization of provision	(100,654)
At December 31, 2017	97,268
Adoption of HKFRS 15 (Note 2)	(3,004)
At January 1, 2018 (as restated)	94,264
Currency realignment	(2,601)
Additional provision in the year	135,423
Acquisition of a subsidiary	39
Utilization of provision	(121,910)
At December 31, 2018	105,215

The warranty provision represents management's best estimate of the Group's outstanding liabilities on products sold, based on prior experience and industry averages for defective products. It is expected that the majority of this expenditure will be incurred in the next financial year.

34. Obligations under Finance Leases

It is 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 are fixed at the respective contract dates ranging from 6.00% to 8.54% (December 31, 2017: 5.06% to 8.98%) per annum. No arrangements have been entered into that include contingent rental payments.

The maturity of obligations under finance leases is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Amounts payable under finance leases:				
Within one year	356	3,518	288	2,895
In more than one year but not more than two years	305	3,421	260	2,970
In more than two years but not more than three years	286	3,300	261	3,028
In more than three years but not more than four years	152	2,459	142	2,361
In more than four years but not more than five years	63	315	62	301
More than five years	—	63	—	62
	1,162	13,076	1,013	11,617
Less: future finance charges	(149)	(1,459)	—	—
Present value of lease obligations	1,013	11,617	1,013	11,617
Less: Amount due within one year shown under current liabilities			(288)	(2,895)
Amount due after one year			725	8,722

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

35. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 2.76% per annum (2017: 2.06% 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 balance. 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:

	2018 US\$'000	2017 US\$'000
Bank balances, deposits and cash	1,103,880	863,515
Debt ⁽ⁱ⁾	(964,815)	(849,474)
Net cash	139,065	14,041
Equity ⁽ⁱⁱ⁾	3,057,771	2,741,225
Net debt to equity ratio	-4.55%	-0.51%

(i) Debt comprises obligations under finance leases, discounted bills with recourse and unsecured borrowings but excludes bank advances from factored trade receivables as detailed in Notes 34, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

37. Financial Instruments

37.1 Categories of Financial Instruments

	2018 US\$'000	2017 US\$'000
Financial assets		
<i>FVTPL</i>		
Financial assets at FVTPL	38,189	—
Held-for-trading investments	—	32,293
	38,189	32,293
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	9,441	9,558
Foreign currency forward contracts – <i>under hedge accounting</i>	33,477	3,641
Foreign currency forward contracts – <i>not under hedge accounting</i>	311	157
	43,229	13,356
<i>AFS investments</i>	—	3,697
<i>Loans and receivables (including cash & cash equivalents)</i>	—	2,011,189
<i>Financial assets at amortized cost</i>		
Trade and other receivables	1,126,798	—
Bills receivable	5,057	—
Trade receivables from an associate	2,253	—
Bank balances, deposits and cash	1,103,880	—
	2,237,988	—
Financial liabilities		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts – <i>under hedge accounting</i>	135	43,830
Foreign currency forward contracts – <i>not under hedge accounting</i>	577	—
	712	43,830
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	1,921,452	1,574,402
Bills payable	41,164	54,952
Discounted bills with recourse	243,360	87,837
Unsecured borrowings	795,442	825,020
	3,001,418	2,542,211

37. Financial Instruments (continued)

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.

37.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 21.9% (2017: 22.1%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 47.2% (2017: 48.5%) 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	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Foreign Currency				
EURO	115,160	131,797	214,474	212,455

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\$357,800,000 (2017: US\$721,579,000). 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 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.

	2018 US\$'000	2017 US\$'000
Impact of EURO		
Profit for the year (i)	4,614	3,754

(i) This is mainly attributable to the exposure outstanding 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 is insignificant. The management continuously monitors interest rate fluctuations and will consider further hedging 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).

During the year, the Group obtained new bank borrowings of US\$2,519 million (2017: US\$2,206 million) which are either at 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 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, 2018 would decrease/increase by US\$4,338,000 (2017: decrease/increase by US\$3,761,000). 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 respectively.

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, 2018 of the Group would increase by US\$3,283,000 (2017: would increase by US\$3,229,000) as a result of the changes in fair value of financial assets at FVTPL.

37.2.4 Credit Risk Management and Impairment Assessment

As at December 31, 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk of US\$2,237,988,000, 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 46. The Group does not hold any collateral or other credit enhancements to cover its credit risks 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 (2017: incurred loss model) based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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 is performed based on the following provision matrix:

Internal credit rating	Description	Trade receivables	Other financial assets
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 exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount US\$'000
Trade receivables	25	N/A	(Note 2)	Lifetime ECL (not credit-impaired) Lifetime ECL (credit-impaired)	1,140,923 —
Other receivables	25	N/A	(Note 1)	12-month ECL	37,635
Bills receivable	26	A- To AA-	N/A	12-month ECL	5,057
Trade receivables from an associate	27	N/A	(Note 1)	12-month ECL	2,253
Bank balances, deposits and cash	30	A- To AA+	N/A	12-month ECL	1,103,880

Notes:

- Trade receivables from an associate and other receivables amounted to US\$2,253,000 and US\$37,635,000 respectively with no fixed repayment terms. The Group has assessed these balances using 12-month ECL basis as these had been no significant increase in credit risk since initial recognition. The loss allowance at December 31, 2018 was insignificant.
- 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.

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, 2018.

	Average loss rate	Gross carrying amount US\$'000	Impairment loss allowance US\$'000
Internal credit rating			
No risk	0%	246,139	—
Low risk	1-5%	454,309	3,086
Medium risk	6-20%	411,623	34,527
High risk	Over 20%	28,852	14,147
		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, 2018, the Group provided 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.

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

	Lifetime ECL (not credit- impaired) US\$'000
As at January 1, 2018	37,114
Currency realignment	(562)
Impairment losses recognized, net of reversal	22,845
Acquisition of a subsidiary	25
Write-offs	(7,662)
As at December 31, 2018	51,760

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

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, 2018, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$419 million (2017: US\$274 million) and US\$1,466 million (2017: US\$1,694 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.

	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
2018								
Non-derivative financial assets								
Financial assets at FVTPL	—	32,828	—	—	5,361	—	38,189	38,189
Trade and other receivables	—	730,503	387,643	8,652	—	—	1,126,798	1,126,798
Bills receivable	—	1,916	3,141	—	—	—	5,057	5,057
Trade receivables from an associates	—	5	2,027	221	—	—	2,253	2,253
Bank balances, deposits and cash	0.001% – 4.20%	1,023,112	80,905	—	—	—	1,104,017	1,103,880
		1,788,364	473,716	8,873	5,361	—	2,276,314	2,276,177
Non-derivative financial liabilities								
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)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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
2018								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,441	9,441	9,441
	—	—	—	—	—	9,441	9,441	9,441
Derivatives – gross settlement								
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)

	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, 2017 US\$'000
2017								
Non-derivative financial assets								
Held-for-trading investments	—	32,293	—	—	—	—	32,293	32,293
AFS investments (Note)	—	—	—	—	3,697	—	3,697	3,697
Trade and other receivables	—	669,933	453,860	13,083	—	—	1,136,876	1,136,876
Bills receivable	—	879	7,129	—	—	—	8,008	8,008
Trade receivables from an associate	—	5	2,420	365	—	—	2,790	2,790
Bank balances, deposits and cash	0.01% – 2.02%	732,534	131,202	—	—	—	863,736	863,515
		1,435,644	594,611	13,448	3,697	—	2,047,400	2,047,179
Non-derivative financial liabilities								
Trade and other payables	—	(996,318)	(505,029)	(73,055)	—	—	(1,574,402)	(1,574,402)
Bills payable	—	(18,362)	(36,590)	—	—	—	(54,952)	(54,952)
Discounted bills with recourse	2.06%	(28,122)	(56,065)	(3,901)	—	—	(88,088)	(87,837)
Bank borrowings	0.66% – 3.10%	(101,642)	(67,174)	(98,116)	(30,565)	(549,802)	(847,299)	(825,020)
Financial guarantee contracts	—	(9,298)	—	—	—	—	(9,298)	—
		(1,153,742)	(664,858)	(175,072)	(30,565)	(549,802)	(2,574,039)	(2,542,211)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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, 2017 US\$'000
2017								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,558	9,558	9,558
Foreign currency forward contracts								
– US\$	—	—	(535)	(2,147)	—	—	(2,682)	(2,682)
		—	(535)	(2,147)	—	9,558	6,876	6,876
Derivatives – gross settlement								
Foreign currency forward contracts								
– inflow								
– EUR	—	7,574	15,209	60,781	—	—	83,564	83,564
– RMB	—	—	—	173,355	—	—	173,355	173,355
– GBP	—	3,543	13,055	49,400	—	—	65,998	65,998
– US\$	—	—	153,127	781,570	—	—	934,697	934,697
– AUD	—	299	—	—	—	—	299	299
– NZD	—	4,002	8,004	18,013	—	—	30,019	30,019
– KRW	—	1,807	1,167	—	—	—	2,974	2,974
		17,225	190,562	1,083,119	—	—	1,290,906	1,290,906
– outflow								
– EUR	—	(7,717)	(15,372)	(63,020)	—	—	(86,109)	(86,109)
– RMB	—	—	—	(170,007)	—	—	(170,007)	(170,007)
– GBP	—	(3,772)	(13,997)	(52,668)	—	—	(70,437)	(70,437)
– US\$	—	—	(158,501)	(810,070)	—	—	(968,571)	(968,571)
– AUD	—	(297)	—	—	—	—	(297)	(297)
– NZD	—	(3,988)	(7,979)	(17,842)	—	—	(29,809)	(29,809)
– KRW	—	(1,855)	(1,171)	—	—	—	(3,026)	(3,026)
		(17,629)	(197,020)	(1,113,607)	—	—	(1,328,256)	(1,328,256)
		(404)	(6,458)	(30,488)	—	—	(37,350)	(37,350)

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

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. Financial Instruments (continued)

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 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, 2018

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
	2018	2017		
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	Acquisition right of certain property, plant and equipment: US\$9,441,000	Acquisition right of certain property, plant and equipment: US\$9,558,000	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 rd 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	Assets – US\$33,788,000; and Liabilities – US\$712,000	Assets – US\$3,798,000; and Liabilities – US\$43,830,000	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 (2017: held-for-trading investments) in the consolidated statement of financial position	Listed shares: US\$32,828,000	Listed shares: US\$32,293,000	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	Club membership debentures: US\$2,316,000	N/A	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristic.
	Unlisted equity securities: US\$3,000,000	N/A	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.
	Other: US\$45,000	N/A	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristic.

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
2018				
Financial assets				
Acquisition right of certain property, plant and equipment	—	9,441	—	9,441
Foreign currency forward contracts	—	33,788	—	33,788
Financial assets at FVTPL	32,828	2,361	3,000	38,189
Total	32,828	45,590	3,000	81,418
Financial liabilities				
Foreign currency forward contracts	—	(712)	—	(712)
Total	—	(712)	—	(712)
2017				
Financial assets				
Acquisition right of certain property, plant and equipment	—	9,558	—	9,558
Foreign currency forward contracts	—	3,798	—	3,798
Held-for-trading investments	32,293	—	—	32,293
Total	32,293	13,356	—	45,649
Financial liabilities				
Foreign currency forward contracts	—	(43,830)	—	(43,830)
Total	—	(43,830)	—	(43,830)

The Group owns equity interest in a private company incorporated in the US that is classified as financial assets at FVTPL (2017: AFS investment) 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, 2018 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:

	2018 US\$'000	2017 US\$'000
Carrying amount of transferred assets	318,360	162,837
Carrying amount of associated liabilities	(318,360)	(162,837)
Net position	—	—

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

38. Unsecured Borrowings

	2018 US\$'000	2017 US\$'000
Bank advance from Factored Trade Receivables	75,000	75,000
Bank loans	720,442	750,020
Total borrowings	795,442	825,020

The borrowings of the Group are repayable as follows:

	2018 US\$'000	2017 US\$'000
Fixed rate		
In more than one year but not more than two years	20,904	—
In more than two years but not more than five years	83,903	104,735
Floating rate		
Within one year	255,228	260,342
In more than one year but not more than two years	91,457	25,022
In more than two years but not more than five years	343,950	434,921
	795,442	825,020
Less: Amount due within one year shown under current liabilities	(255,228)	(260,342)
Amount due after one year	540,214	564,678

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

	2018	2017
Effective interest rate:		
Fixed-rate borrowings	2.55% to 3.10%	2.55% to 3.10%
Variable-rate borrowings	0.10% to 3.57%	0.66% to 3.07%

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
As at December 31, 2018	14,843
As at December 31, 2017	13,542

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

39. Share Capital

	2018 Number of shares	2017 Number of shares	2018 US\$'000	2017 US\$'000
Ordinary shares				
Authorized shares	2,400,000,000	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the year	1,835,021,941	1,833,896,941	653,918	649,214
Issue of shares upon exercise of share options	600,000	2,625,000	1,073	4,704
Buy-back of shares	(7,100,000)	(1,500,000)	—	—
At the end of the year	1,828,521,941	1,835,021,941	654,991	653,918

Details of the share options are set out in Note 47.

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\$	
March 2018	1,000,000	46.25	45.00	5,911
May 2018	500,000	45.35	44.75	2,906
June 2018	672,000	47.55	43.85	3,947
July 2018	1,378,000	43.50	41.70	7,634
September 2018	200,000	47.25	47.00	1,218
October 2018	250,000	43.90	43.75	1,415
November 2018	3,100,000	41.40	36.25	15,577
	7,100,000			38,608

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$38,608,000 was charged to retained profits.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

40. Reserves

	Shares held for share award scheme US\$'000	Employee share-based compensation reserve US\$'000	Retained profits US\$'000	Total US\$'000
The Company				
At January 1, 2017	(10,476)	7,010	1,236,931	1,233,465
Loss for the year	—	—	(27,472)	(27,472)
Total comprehensive loss for the year	—	—	(27,472)	(27,472)
Shares issued at premium on exercise of options	—	(917)	—	(917)
Buy-back of shares	—	—	(5,388)	(5,388)
Vesting of awarded shares	3,370	(3,370)	—	—
Shares for share award scheme	(3,455)	—	—	(3,455)
Recognition of equity-settled share-based payments	—	4,193	—	4,193
Lapse of share options	—	(14)	14	—
Final dividend – 2016	—	—	(70,778)	(70,778)
Interim dividend – 2017	—	—	(65,507)	(65,507)
At December 31, 2017	(10,561)	6,902	1,067,800	1,064,141
Adjustment for adoption of HKFRS 9 (Note 2)	—	—	811	811
At January 1, 2018 (restated)	(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

As at December 31, 2018, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$718,449,000 (2017: US\$1,067,800,000).

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 (2017: 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\$12,167,000 (2017: US\$10,474,000) 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:

	2018 US\$'000	2017 US\$'000
Pension plan obligations (Note i)	77,619	82,764
Post-retirement, medical and dental plan obligations (Note ii)	1	19
Life and medical insurance plan (Note ii)	1,257	1,431
Post-employment benefit plan obligations (Note iii)	2,129	13,348
Others	38,968	26,955
	119,974	124,517

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, 2019, by BDO AG Wirtschaftsprüfungsgesellschaft, Germany.

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 Watsons.

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 December 1, 2018 by CBIZ Benefits & Insurance Services.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

41. Retirement Benefit Obligations (continued)

Defined Benefits Plans: (continued)

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate	1.50%	1.65%	1.00%	1.00%	3.75%	3.00%	3.46%	3.90%
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	3.46%	3.90%
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	5.00%	5.00%	5.00%	5.00%	N/A	N/A

The actuarial valuation showed that the market value of plan assets was US\$15,024,000 (2017: US\$5,272,000) and that the actuarial value of these assets represented 87.6% (2017: 28.3%) of the benefits that had accrued to members.

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	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Current service cost and interest cost	N/A	N/A	—	—	3	3	N/A	N/A
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	—	—	77	93	N/A	N/A

41. Retirement Benefit Obligations (continued)

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	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Service cost:								
Current service cost	509	478	—	—	—	—	—	—
Net interest on defined benefit liabilities	1,265	966	—	—	41	43	462	438
Components of defined benefit costs recognized in profit or loss	1,774	1,444	—	—	41	43	462	438
Remeasurement on the net defined benefit liability:								
Actuarial losses (gains) arising from changes in financial assumptions	666	(3,472)	(9)	(42)	(182)	(186)	(446)	1,676
Components of defined benefit costs recognized in other comprehensive income	666	(3,472)	(9)	(42)	(182)	(186)	(446)	1,676
Total	2,440	(2,028)	(9)	(42)	(141)	(143)	16	2,114

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

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	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Present value of funded obligations	—	—	—	—	—	—	17,153	18,620
Fair value of plan assets	—	—	—	—	—	—	(15,024)	(5,272)
	—	—	—	—	—	—	2,129	13,348
Present value of unfunded obligations	77,619	82,764	1	19	1,257	1,431	—	—
	77,619	82,764	1	19	1,257	1,431	2,129	13,348

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

41. Retirement Benefit Obligations (continued)

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	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
At January 1	82,764	78,020	19	68	1,431	1,630	18,620	18,336
Exchange differences	(3,688)	10,767	—	—	—	—	—	—
Current service cost	509	478	—	—	—	—	—	—
Actuarial losses (gains)	666	(3,472)	(9)	(42)	(182)	(186)	(406)	1,514
Interest cost	1,265	966	—	—	41	43	613	677
Benefit paid	(3,897)	(3,995)	(9)	(7)	(33)	(56)	(1,674)	(1,907)
At December 31	77,619	82,764	1	19	1,257	1,431	17,153	18,620

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	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	5,272	7,102
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	151	239
Actuarial losses	N/A	N/A	N/A	N/A	N/A	N/A	40	(162)
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	(1,674)	(1,907)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	15,024	5,272

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 3.46% (2017: 3.90%).

The actual return on plan assets was US\$191,000 (2017: US\$77,000).

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 no contribution (2017: US\$4,000,000) 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, 2017	(12,880)	13,613	48,199	89,952	10,876	(13,934)	135,826
Currency realignment	1	275	845	(850)	52	2,115	2,438
Credit to hedging reserve	—	—	—	—	—	549	549
(Charge) credit to profit or loss	(15,297)	3,027	(6,689)	22,525	(1,730)	6,883	8,719
Change in tax rates	9,390	(4,286)	(8,810)	(65,104)	(2,822)	11,984	(59,648)
Charge to equity	—	—	(9,349)	—	—	—	(9,349)
At December 31, 2017	(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)
Charge 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

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:

	2018 US\$'000	2017 US\$'000
Deferred tax assets	83,945	92,939
Deferred tax liabilities	(14,622)	(14,404)
	69,323	78,535

At the end of the reporting period, the Group has unused tax losses of US\$1,611 million (2017: US\$1,296 million) available for offset against future taxable profits. Of the US\$1,611 million of unused losses approximately US\$478 million expire over the next 10 to 19 years with the remaining loss carryforwards do not expire. No deferred tax asset has been recognized in respect of tax losses of US\$1,475 million (2017: US\$1,114 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 (2017: Nil) as these unrepatriated foreign earnings are not considered permanently reinvested.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

43. Acquisition of a Subsidiary

In October 2018, the Group acquired a 100% equity interest in Imperial Blades LLC ("Imperial") for the consideration of approximately US\$49,597,000. Imperial's business was acquired so as to continue the expansion of the Group's power equipment business. Imperial is engaged in manufacture and sale of oscillating saw blades and accessories and is included in the Power Equipment segment.

	Fair value US\$'000
Net Assets Acquired	
Property, plant and equipment	2,962
Intangible assets	16,747
Inventories	2,130
Trade and other receivables, deposits and prepayments	3,567
Bank balances and cash	250
Trade and other payables	(2,667)
Warranty provision	(39)
	22,950
Goodwill arising on acquisition of a subsidiary	26,647
Total consideration	49,597
Net cash outflow arising on acquisition:	
Total consideration	49,597
Less: Bank balances and cash acquired	(250)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	49,347

Intangible assets of US\$16,747,000 and goodwill of US\$26,647,000 arose on the acquisition of Imperial's business from patents, trademarks, manufacturing know-how, retailer and service relationships, non compete agreement and the anticipated profitability arising from new product synergies and cost savings within the Power Equipment segment.

The fair value and contractual amounts of trade and other receivables at the date of acquisition amounted to US\$3,404,000. All amount are expected to be collected.

Goodwill arising on this acquisition is included in Power Equipment-MET CGU and subject for impairment testing as at December 31, 2018 (Note 20). None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

Acquisition-related costs are insignificant and have been excluded from the consideration transferred and have been recognized as an expense in the current year.

The business acquired contributed approximately US\$4,123,000 to the Group's turnover, and approximately US\$393,000 increase in the Group's profit before taxation for the period between the respective dates of acquisition and the reporting date as at December 31, 2018.

The revenue and profit or loss of the acquired businesses for the current reporting period as though the acquisition date for the acquisitions that occurred during the year has been as of the beginning of the annual reporting period is not presented as it was impracticable to obtain various values in various acquiree's operations prior to the acquisition.

44. 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 (2017: US\$1,654,000).

45. 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	2017 US\$'000
Within one year	63,159	66,532
In the second to fifth year inclusive	153,247	149,640
After five years	99,967	101,099
	316,373	317,271

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

46. Contingent Liabilities

	2018 US\$'000	2017 US\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	8,877	9,298

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, 2018 amounted to US\$514,367,000 (2017: US\$372,530,000).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

47. 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 share 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.

47. 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
Directors									
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 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
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
Total for directors			9,913,500	1,450,000	(100,000)	—	11,263,500		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

47. 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
Employees	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
Total for employees			1,425,000	—	(500,000)	(25,000)	900,000		
Total for all categories			11,338,500	1,450,000	(600,000)	(25,000)	12,163,500		
Exercisable at the end of the year							9,043,250		

47. Share Options (continued)

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

2017

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	
Directors										
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
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
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
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
Mr Camille Jojo	17.3.2017	D	—	250,000	—	—	250,000	32.100	17.3.2018	– 16.3.2027
Mr Christopher Patrick Langley OBE	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
Mr Manfred Kuhlmann	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013	– 20.5.2022
	11.9.2015	D	150,000	—	(125,000)	—	25,000	29.650	11.9.2016	– 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018	– 16.3.2027
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
Mr Vincent Ting Kau Cheung	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
Mr Johannes-Gerhard Hesse	19.6.2017	E	—	135,000	—	—	135,000	36.300	19.6.2018	– 18.6.2027
Total for directors			7,798,000	2,790,500	(675,000)	—	9,913,500			

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

47. Share Options (continued)

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

2017

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
Employees	24.8.2007	D	670,000	—	(620,000)	(50,000)	—	8.390	24.8.2008 – 23.8.2017
	16.10.2007	D	15,000	—	(15,000)	—	—	8.810	16.10.2008 – 15.10.2017
	14.1.2008	D	430,000	—	(405,000)	—	25,000	7.566	14.1.2009 – 13.1.2018
	17.4.2008	D	250,000	—	(50,000)	—	200,000	7.780	17.4.2009 – 16.4.2018
	14.5.2008	D	40,000	—	(40,000)	—	—	7.500	14.5.2009 – 13.5.2018
	16.11.2009	D	1,420,000	—	(820,000)	—	600,000	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
Total for employees			2,875,000	550,000	(1,950,000)	(50,000)	1,425,000		
Total for all categories			10,673,000	3,340,500	(2,625,000)	(50,000)	11,338,500		
Exercisable at the end of the year							7,998,000		

47. Share Options (continued)

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
For the year ended December 31, 2018					
14.3.2018	47.900	3 years	38%	1.507%	1.5%
For the year ended December 31, 2017					
17.3.2017	32.100	3 years	39%	1.207%	1.5%
23.3.2017	32.150	3 years	39%	1.057%	1.5%
19.6.2017	36.300	3 years	38%	0.778%	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 various dates on which the share options were granted during 2018 was HK\$48.50 (2017: HK\$32.42).

The closing price of the Company's shares immediately before the various dates on which the share options were granted was HK\$48.50 in 2018 (2017: HK\$31.80 to HK\$36.00).

The weighted average closing prices of the Company's shares immediately before various dates during 2018 and 2017 on which the share options were exercised were HK\$46.63 and HK\$38.21 respectively.

The Group recognized a total expense of US\$2,634,000 for the year ended December 31, 2018 (2017: US\$2,246,000) in relation to share options granted by the Company.

The fair values of the share options granted in 2018 measured at various dates on which the share options were granted was HK\$11.82 (2017: HK\$7.98 to HK\$8.68). The weighted average fair value of the share options granted in 2018 was HK\$11.82 (2017: HK\$8.11) per option.

The Company had 12,163,500 share options outstanding (2017: 11,338,500), which represented approximately 0.67% (2017: 0.62%) of the issued share capital of the Company as at December 31, 2018. No option was cancelled during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.23% of the issued shares of the Company as at December 31, 2018. 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, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

48. 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\$2,344,000 (2017: US\$1,947,000). During 2018, 160,500 shares (2017: 1,036,500 shares) were transferred to the awardees upon vesting.

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

	Number	
	2018	2017
At January 1	300,000	1,025,000
Awarded (Note (a))	1,174,500	311,500
Vested	(160,500)	(1,036,500)
At December 31 (Note (b))	1,314,000	300,000

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\$30.30 (2017: HK\$30.82). 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	
	2018	2017
Less than 1 year	441,000	150,000
More than 1 year	873,000	150,000
	1,314,000	300,000

49. Capital Commitments

	2018 US\$'000	2017 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	119,350	21,888

50. 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:

	2018 US\$'000	2017 US\$'000
Sales income	5,141	5,801
Purchases	5,142	5,719

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

	2018 US\$'000	2017 US\$'000
Short-term benefits	61,249	59,348
Post-employment benefits	856	808
Share-based payments	4,762	6,420
	66,867	66,576

Details of the balances and transactions with related parties are set out in the statements of financial position and Notes 21, 27 and 46.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

51. 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 US\$'000	Unsecured borrowings Note 38 US\$'000	Discounted bills with recourse Note 35 US\$'000	Obligations under finance leases Note 34 US\$'000	Total US\$'000
At January 1, 2017	—	894,277	93,897	13,742	1,001,916
Financing cash flows:					
New bank loans obtained	—	2,206,220	—	—	2,206,220
Repayment	—	(2,275,477)	(6,060)	(3,786)	(2,285,323)
Foreign exchange translation	—	—	—	7	7
Inception of finance lease	—	—	—	1,654	1,654
Interest expenses	—	23,699	—	781	24,480
Interest paid	—	(23,699)	—	(781)	(24,480)
Dividend declared	136,285	—	—	—	136,285
Dividend paid	(136,285)	—	—	—	(136,285)
At December 31, 2017 and January 1, 2018	—	825,020	87,837	11,617	924,474
Financing cash flows:					
New bank loans obtained	—	2,519,087	155,523	—	2,674,610
Repayment	—	(2,548,665)	—	(10,751)	(2,559,416)
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
Dividend paid	(183,422)	—	—	—	(183,422)
At December 31, 2018	—	795,442	243,360	1,013	1,039,815

52. Statement of Financial Position of the Company

As at December 31, 2018

	Note	2018 US\$'000	2017 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		5,380	2,898
Intangible assets		19	4
Investments in subsidiaries		2,692,850	1,168,489
Loans to subsidiaries		829,857	860,741
Interests in associates		2,371	1,488
AFS investments		—	3,311
Financial assets at FVTPL		4,148	—
		3,534,625	2,036,931
Current assets			
Other receivables		9	46
Deposits and prepayments		12,397	4,046
Held-for-trading investments		—	32,293
Financial assets at FVTPL		32,828	—
Tax recoverable		1,794	—
Amounts due from subsidiaries		1,225,045	2,041,292
Bank balances, deposits and cash		225,764	261,018
		1,497,837	2,338,695
Current liabilities			
Trade and other payables		58,402	57,864
Tax payable		—	815
Amounts due to subsidiaries		3,049,630	2,003,610
Unsecured borrowings – due within one year		25,600	30,600
		3,133,632	2,092,889
Net current (liabilities) assets		(1,635,795)	245,806
Total assets less current liabilities		1,898,830	2,282,737
Capital and Reserves			
Share capital		654,991	653,918
Reserves	40	704,366	1,064,141
		1,359,357	1,718,059
Non-current Liabilities			
Unsecured borrowings – due after one year		539,473	564,678
Total equity and non-current liabilities		1,898,830	2,282,737

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 6, 2019 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, 2018

53. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2018 and December 31, 2017 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 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

53. 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 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 Limited	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\$12,000	100	—	Investment and intellectual properties holding
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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. 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 %	
TTI (Macao Commercial Offshore) Limited	Macau	MOP780,000	—	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.

+ Indirectly 100% held by the Company as at December 31, 2017.

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	
		2018	2017
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US and others	7	5
Trading of power equipment, floor care and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	34	33
Investment holding	Australia, BVI, Europe, Hong Kong, US	24	23
Dormant	BVI, Europe, Hong Kong, US	13	13

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

54. 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
			2018 %	2017 %	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	40.8	40.8	Investment holding