

Independent Auditor's Report

Deloitte.

德勤

TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED

創科實業有限公司

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Techtronic Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 108 to 186, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Impairment Assessment of Goodwill and Intangible Assets with Indefinite Useful Lives – Floor Care and Appliances Segment

We identified the impairment assessment of goodwill and other intangible assets for the Floor Care and Appliances segment as defined in Note 5 to the consolidated financial statements as a key audit matter due to significant judgement and assumptions about the future performance of the segment.

As disclosed in Note 20 to the consolidated financial statements, as at December 31, 2017 the carrying value of goodwill and trademarks attributable to the Floor Care and Appliances segment was US\$143 million (2016: US\$143 million). This segment is profitable but has underperformed in comparison to other cash generating units and management has made a number of key assumptions and assertions to support their assessment of the carrying value of goodwill and other intangible assets attributable to this segment. The key assumptions include growth rates, discount rates applied and the forecast performance based on management's view of future business prospects. There is no impairment on goodwill and intangible assets with indefinite useful lives for the Floor Care and Appliances segment for the year ended December 31, 2017.

Capitalization of Deferred Development Costs

We identified the capitalization of deferred development costs as a key audit matter due to significant management judgement about the future performance and viability of the products. The Group conducts a significant level of development activities and has to apply judgement in identifying projects meeting the criteria for capitalization under the requirements of accounting standards and to capture accurate time and cost information for those projects.

As disclosed in Note 19 to the consolidated financial statements, as at December 31, 2017 the carrying value of deferred development costs was US\$316 million (2016: US\$297 million) and the additions during the year were US\$109 million (2016: US\$112 million).

How our Audit Addressed the Key Audit Matter

Our procedures in relation to management's assessment of the carrying value of goodwill and other intangible assets for the Floor Care and Appliances segment included:

- Assessing the valuation methodology adopted by management which is disclosed in Note 20 to the consolidated financial statements;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry;
- Reconciling input data used in the cash flow forecasts to supporting evidence, such as approved budgets and considering the reasonableness of those budgets;
- Considering the potential impact of reasonably possible downside changes in these key assumptions; and
- Meeting with the independent valuation specialist engaged by management to understand the assumptions they used in building up the discounted cash flow model.

In performing our audit procedures, we engaged our internal valuation specialists to assess the discount rate applied by benchmarking against independent data.

Our procedures in relation to capitalization of deferred development costs included:

- Testing management's controls over capitalization of deferred development costs;
- Evaluating the nature of the type of the research and development expenses incurred that are capitalized into intangible assets;
- Assessing the reasonableness of the capitalization based on our knowledge of the business and industry; and
- Evaluating the appropriateness of expenses capitalized, on a sample basis, by agreeing the material costs, overheads and engineers' hours incurred to external invoices and internal timesheets and payroll records.

Key Audit Matters (continued) Key Audit Matter

Recoverability of Deferred Tax Assets

We identified the recoverability of deferred tax assets as a key audit matter due to the recognition of these assets involving judgement by management as to the likelihood of the realization of these deferred tax assets, which is based on a number of factors including whether there will be sufficient taxable profits in future periods to support recognition.

As disclosed in Note 41 to the consolidated financial statements, as at December 31, 2017 the Group has recognized US\$93 million (2016: US\$178 million) of deferred tax assets in the consolidated statement of financial position.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

How our Audit Addressed the Key Audit Matter

Our procedures in relation to management's assessment about the recoverability of deferred tax assets included:

- Evaluating management's assessment on the sufficiency of future taxable profits in support of the recognition of deferred tax assets by comparing management's forecasts of future profits to historical results and evaluating the assumptions used in those forecasts;
- Discussing with the group tax director the tax positions of the loss making entities; and
- Obtaining the communications between the Group and taxation authorities regarding tax positions.

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

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Martin Stuart Hills.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 13, 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2017

	Notes	2017 US\$'000	2016 US\$'000
Revenue	6	6,063,633	5,480,413
Cost of sales		(3,837,426)	(3,495,234)
Gross profit		2,226,207	1,985,179
Other income	7	5,454	5,039
Interest income	8	10,792	11,653
Selling, distribution and advertising expenses		(925,146)	(794,280)
Administrative expenses		(623,710)	(598,492)
Research and development costs		(163,621)	(147,277)
Finance costs	9	(24,480)	(21,793)
Profit before taxation		505,496	440,029
Taxation charge	10	(34,972)	(31,242)
Profit for the year	11	470,524	408,787
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		(7,325)	(7,063)
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss) gain on foreign currency forward contracts in hedge accounting		(46,936)	29,339
Exchange differences on translation of foreign operations		62,671	(82,000)
Other comprehensive income (loss) for the year		8,410	(59,724)
Total comprehensive income for the year		478,934	349,063
Profit for the year attributable to:			
Owners of the Company		470,425	408,982
Non-controlling interests		99	(195)
		470,524	408,787
Total comprehensive income attributable to:			
Owners of the Company		478,835	349,258
Non-controlling interests		99	(195)
		478,934	349,063
Earnings per share (US cents)	15		
Basic		25.66	22.32
Diluted		25.58	22.24

Consolidated Statement of Financial Position

As at December 31, 2017

	Notes	2017 US\$'000	2016 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	688,868	601,230
Lease prepayments	17	30,836	29,581
Goodwill	18	555,350	553,194
Intangible assets	19	580,424	546,636
Interests in associates	21	2,780	3,667
Available-for-sale investments	22	3,697	613
Derivative financial instruments	27	9,558	9,986
Deferred tax assets	41	92,939	178,191
		1,964,452	1,923,098
Current assets			
Inventories	23	1,467,420	1,296,425
Trade and other receivables	24	1,136,876	950,882
Deposits and prepayments		112,627	98,638
Bills receivable	25	8,008	11,190
Tax recoverable		6,698	11,694
Trade receivables from an associate	26	2,790	3,540
Derivative financial instruments	27	3,798	20,199
Held-for-trading investments	28	32,293	—
Bank balances, deposits and cash	29	863,515	804,741
		3,634,025	3,197,309
Current liabilities			
Trade and other payables	30	1,574,402	1,330,807
Bills payable	31	54,952	54,137
Warranty provision	32	97,268	80,088
Tax payable		23,912	100,164
Derivative financial instruments	27	43,830	2,175
Obligations under finance leases - due within one year	33	2,895	2,982
Discounted bills with recourse	34	87,837	93,897
Unsecured borrowings - due within one year	37	260,342	403,825
Bank overdrafts	29	—	1,656
		2,145,438	2,069,731
Net current assets		1,488,587	1,127,578
Total assets less current liabilities		3,453,039	3,050,676

Consolidated Statement of Financial Position

As at December 31, 2017

	Notes	2017 US\$'000	2016 US\$'000
Capital and Reserves			
Share capital	38	653,918	649,214
Reserves		2,087,307	1,750,324
Equity attributable to Owners of the Company		2,741,225	2,399,538
Non-controlling interests		(507)	(606)
Total equity		2,740,718	2,398,932
Non-current Liabilities			
Obligations under finance leases - due after one year	33	8,722	10,760
Unsecured borrowings - due after one year	37	564,678	490,452
Retirement benefit obligations	40	124,517	108,167
Deferred tax liabilities	41	14,404	42,365
		712,321	651,744
Total equity and non-current liabilities		3,453,039	3,050,676

The consolidated financial statements on pages 108 to 186 were approved and authorized for issue by the Board of Directors on March 13, 2018 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

	Attributable to Owners of the Company							Attributable to non-controlling interests		
	Share capital US\$'000	Shares held for share award scheme US\$'000	Translation reserve US\$'000	Employee share-based compensation reserve US\$'000	Defined benefit obligations remeasurement reserve US\$'000	Hedging reserve US\$'000	Retained profits US\$'000	Total US\$'000	Share of net assets of subsidiaries US\$'000	Total US\$'000
At January 1, 2016	647,109	(9,254)	(74,729)	6,050	(6,033)	(11,187)	1,604,027	2,155,983	(411)	2,155,572
Profit (loss) for the year	—	—	—	—	—	—	408,982	408,982	(195)	408,787
Remeasurement of defined benefit obligations	—	—	—	—	(9,968)	—	—	(9,968)	—	(9,968)
Fair value gain on foreign currency forward contracts in hedge accounting	—	—	—	—	—	29,339	—	29,339	—	29,339
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	2,905	—	—	2,905	—	2,905
Exchange differences on translation of foreign operations	—	—	(82,000)	—	—	—	—	(82,000)	—	(82,000)
Other comprehensive income (loss) for the year	—	—	(82,000)	—	(7,063)	29,339	—	(59,724)	—	(59,724)
Total comprehensive income (loss) for the year	—	—	(82,000)	—	(7,063)	29,339	408,982	349,258	(195)	349,063
Shares issued at premium on exercise of options	2,105	—	—	(401)	—	—	—	1,704	—	1,704
Buy-back of shares	—	—	—	—	—	—	(5,425)	(5,425)	—	(5,425)
Vesting of awarded shares	—	8,087	—	(8,087)	—	—	—	—	—	—
Shares for share award scheme	—	(9,309)	—	—	—	—	—	(9,309)	—	(9,309)
Recognition of equity-settled share-based payments	—	—	—	9,448	—	—	—	9,448	—	9,448
Final dividend – 2015	—	—	—	—	—	—	(54,881)	(54,881)	—	(54,881)
Interim dividend – 2016	—	—	—	—	—	—	(47,240)	(47,240)	—	(47,240)
At December 31, 2016	649,214	(10,476)	(156,729)	7,010	(13,096)	18,152	1,905,463	2,399,538	(606)	2,398,932
Profit for the year	—	—	—	—	—	—	470,425	470,425	99	470,524
Remeasurement of defined benefit obligations	—	—	—	—	2,024	—	—	2,024	—	2,024
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	(47,485)	—	(47,485)	—	(47,485)
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	(9,349)	—	—	(9,349)	—	(9,349)
Deferred tax liability on hedging reserve	—	—	—	—	—	549	—	549	—	549
Exchange differences on translation of foreign operations	—	—	62,671	—	—	—	—	62,671	—	62,671
Other comprehensive income (loss) for the year	—	—	62,671	—	(7,325)	(46,936)	—	8,410	—	8,410
Total comprehensive income (loss) for the year	—	—	62,671	—	(7,325)	(46,936)	470,425	478,835	99	478,934
Shares issued at premium on exercise of options	4,704	—	—	(917)	—	—	—	3,787	—	3,787
Buy-back of shares	—	—	—	—	—	—	(5,388)	(5,388)	—	(5,388)
Vesting of awarded shares	—	3,370	—	(3,370)	—	—	—	—	—	—
Shares for share award scheme	—	(3,455)	—	—	—	—	—	(3,455)	—	(3,455)
Recognition of equity-settled share-based payments	—	—	—	4,193	—	—	—	4,193	—	4,193
Lapse of share options	—	—	—	(14)	—	—	14	—	—	—
Final dividend – 2016	—	—	—	—	—	—	(70,778)	(70,778)	—	(70,778)
Interim dividend – 2017	—	—	—	—	—	—	(65,507)	(65,507)	—	(65,507)
At December 31, 2017	653,918	(10,561)	(94,058)	6,902	(20,421)	(28,784)	2,234,229	2,741,225	(507)	2,740,718

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

	2017 US\$'000	2016 US\$'000
Operating Activities		
Profit before taxation	505,496	440,029
Adjustments for:		
Amortization/write-off of intangible assets	97,698	90,544
Amortization of lease prepayments	732	744
Depreciation on property, plant and equipment	114,503	101,342
Employee share-based payments expense	4,193	9,448
Fair value gain on interest rate swap	—	(660)
Fair value loss on foreign currency forward contracts	8,920	21,115
Fair value (gain) loss on held-for-trading investments	(2,447)	139
Fair value loss on derivative financial instruments	428	558
Finance costs	24,480	21,793
Impairment loss on trade receivables	21,940	11,712
Interest income	(10,792)	(11,653)
Loss on disposal of property, plant and equipment	12,514	12,902
Loss on disposal of held-for-trading investments	—	49
Reversal of impairment loss on trade receivables	(3,485)	(4,544)
Write down of inventories	6,949	13,836
Operating cash flows before movements in working capital	781,129	707,354
Increase in inventories	(158,395)	(144,774)
Increase in trade and other receivables, deposits and prepayments	(208,221)	(105,610)
Decrease in bills receivable	3,182	16,087
Decrease (increase) in trade receivables from an associate	750	(859)
Increase in trade and other payables	230,453	164,456
Increase in bills payable	815	16,697
Increase in warranty provision	13,827	6,517
Increase (decrease) in retirement benefit obligations	18,373	(1,718)
Net payment for purchase of shares for share award scheme	(3,455)	(9,309)
Cash generated from operations	678,458	648,841
Interest paid	(24,480)	(21,793)
Hong Kong Profits Tax paid	(5,441)	(4,174)
Overseas tax paid	(51,048)	(53,994)
Overseas tax refunded	812	14,694
Net Cash from Operating Activities	598,301	583,574

	2017 US\$'000	2016 US\$'000
Investing Activities		
Additions to intangible assets	(131,415)	(116,277)
Interest received	10,792	11,653
Proceeds from disposal of held-for-trading investment	—	928
Proceeds from disposal of property, plant and equipment	9,676	975
Purchase of available-for-sale investment	(3,081)	—
Purchase of held-for-trading investment	(29,846)	—
Purchase of property, plant and equipment	(203,630)	(186,604)
Repayment from associates	887	2,921
Net Cash used in Investing Activities	(346,617)	(286,404)
Financing Activities		
(Decrease) increase in discounted bills with recourse	(6,060)	16,268
Dividends paid	(136,285)	(102,121)
New bank loans obtained	2,206,220	1,668,892
Proceeds from issue of shares	3,787	1,704
Repayment of bank loans	(2,275,477)	(1,819,587)
Repayment of obligations under finance leases	(3,786)	(2,653)
Buy-back of shares	(5,388)	(5,425)
Net Cash used in Financing Activities	(216,989)	(242,922)
Net Increase in Cash and Cash Equivalents	34,695	54,248
Cash and Cash Equivalents at Beginning of the Year	803,085	770,771
Effect of Foreign Exchange Rate Changes	25,735	(21,934)
Cash and Cash Equivalents at End of the Year	863,515	803,085
Analysis of the Balances of Cash and Cash Equivalents		
Represented by:		
Bank balances, deposits and cash	863,515	804,741
Bank overdrafts	—	(1,656)
	863,515	803,085

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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")

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 49. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 49, the application of these amendments has had no impact on the Group's consolidated financial statements.

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 revised HKFRSs that have been issued but are not yet effective as at January 1, 2017:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
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 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRS	Annual Improvement to HKFRSs 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after January 1, 2018.

² Effective for annual periods beginning on or after January 1, 2019.

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

⁴ Effective for annual periods beginning on or after January 1, 2021.

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

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

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

The key requirements of HKFRS 9 which are relevant to the Group are:

- All recognized financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 Financial Instruments, Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Based on the Group’s financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and Measurement:

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 22: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognized in profit or loss. Upon initial application of HKFRS 9, the directors of the Company do not anticipate that fair value changes related to these securities will have material impact on the Group’s consolidated financial statements.
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortized costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognized by Group as at January 1, 2018 would be slightly increased as compared to the accumulated amount recognized under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognized under expected credit loss model would reduce the opening retained profits at January 1, 2018.

Hedge Accounting

As the new hedge accounting requirements will align more closely with the Group’s risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group’s current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of HKFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirements will not have a material impact on the Group’s current hedge designation and hedge accounting.

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity 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. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

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. 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.

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, 2017, the Group has non-cancellable operating lease commitments of US\$317,271,000 as disclosed in Note 43. 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. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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.

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.

3. Significant Accounting Policies (continued)

Business Combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); 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.

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. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from 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 changes in the fair value of 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, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

3. Significant Accounting Policies (continued)

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 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 comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

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/joint venture 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 invested 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 invested 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 requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, 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 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.

3. Significant Accounting Policies (continued)

Interests in Associates (continued)

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

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

Intangible Assets

Intangible Assets Acquired Separately

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

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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

3. Significant Accounting Policies (continued)

Leasing

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

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 and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating 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.

3. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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.

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 assets 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. 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 measureable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. 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.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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, where appropriate, a shorter period to the net carrying amount on initial recognition.

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 Fair Value through Profit or Loss

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).

Available-for-sale Financial Assets

Available-for-sale 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 available-for-sale 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

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 and trade receivables from an associate, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

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.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Other Financial Liabilities at Amortized Cost

Other financial liabilities (including unsecured borrowings, trade and other payables, bills payable, discounted bills with recourse and bank overdrafts) 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 hedges of highly probable forecast transactions for foreign currency exposure (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.

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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

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. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the obligation under the contract, as determined in accordance with HKAS 37; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period in accordance with the revenue recognition policy.

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 and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity 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.

For a provision in relation to employee termination benefits, the liability and expenses are recognized when the Group committed to terminate the employment of an employee or group of employees before their normal retirement date or provide termination benefits as a result of an offer made to encourage voluntary redundancy.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

3. Significant Accounting Policies (continued)

Revenue Recognition

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.

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 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.

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.

3. Significant Accounting Policies (continued)

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).

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 translation reserve.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

3. Significant Accounting Policies (continued)

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 (share premium before March 3, 2014). 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.

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.

3. Significant Accounting Policies (continued)

Retirement Benefit Schemes (continued)

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.

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, 2017, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$555,350,000 (2016: US\$553,194,000) and approximately US\$219,440,000 (2016: 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 loss may arise. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates that adjustments are required.

4. Key Sources of Accounting Estimates (continued)

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, 2017, the carrying amounts of deferred development costs of the Group are US\$316,312,000 (2016: US\$297,261,000). 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 loss may arise. 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, 2017, the Group's carrying amount of property, plant and equipment is US\$688,868,000 (2016: US\$601,230,000). The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life that the Group places the equipment 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, 2017, a deferred tax asset of approximately US\$46,523,000 (2016: US\$89,952,000) in relation to unused tax losses and approximately US\$24,196,000 (2016: US\$48,199,000) 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\$15,116,000 (2016: US\$9,200,000) in relation to unused tax losses were utilized.

Estimated Impairment of Trade and Other Receivables, Bills Receivable and Trade Receivables from an Associate

When there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). When the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2017, the Group's carrying amount of trade and other receivables, bills receivable and trade receivables from an associate is US\$1,150,454,000 (net of allowance for doubtful debts of US\$37,114,000) (2016: US\$969,279,000 (net of allowance for doubtful debts of US\$20,025,000)).

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, 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

5. Segment Information (continued)

Segment Revenue and Results (continued)

For the year ended December 31, 2016

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	4,470,590	1,009,823	—	5,480,413
Inter-segment sales	—	1,038	(1,038)	—
Total segment revenue	4,470,590	1,010,861	(1,038)	5,480,413

Inter-segment sales are charged at prevailing market rates.

Result				
Segment results	430,307	19,862	—	450,169
Interest income				11,653
Finance costs				(21,793)
Profit before taxation				440,029
Taxation charge				(31,242)
Profit for the year				408,787

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, 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	18,719	3,221	21,940
Depreciation and amortization	157,192	51,981	209,173

5. Segment Information (continued)

Other Segment Information (continued)

For the year ended December 31, 2016

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	10,523	2,379	12,902
Write down of inventories	13,701	135	13,836
Impairment loss on trade receivables	8,613	3,099	11,712
Depreciation and amortization	139,266	51,469	190,735

Revenue from Major Products

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

	2017 US\$'000	2016 US\$'000
Power Equipment	5,137,697	4,470,590
Floor Care and Appliances	925,936	1,009,823
Total	6,063,633	5,480,413

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*	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
North America	4,625,483	4,160,886	896,578	829,447
Europe	918,833	889,587	121,978	111,417
Other countries	519,317	429,940	836,922	789,777
Total	6,063,633	5,480,413	1,855,478	1,730,641

* Non-current assets exclude interests in associates, available-for-sale investments, financial instruments and deferred tax assets.

Information about Major Customer

During the years ended December 31, 2017 and 2016, the Group's largest customer contributed total revenue of US\$2,760,045,000 (2016: US\$2,453,525,000), of which US\$2,688,536,000 (2016: US\$2,373,928,000) was under the Power Equipment segment and US\$71,509,000 (2016: US\$79,597,000) 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, 2017

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:

	2017 US\$'000	2016 US\$'000
Sales of goods	6,042,103	5,472,493
Commission and royalty income	21,530	7,920
	6,063,633	5,480,413

7. Other Income

Other income in both 2017 and 2016 mainly comprises of the sale of scrap materials and claims and reimbursement from customers and vendors.

8. Interest Income

Interest income represents interest earned on bank deposits.

9. Finance Costs

	2017 US\$'000	2016 US\$'000
Interests on:		
Bank borrowings and overdrafts	23,699	20,938
Obligations under finance leases	781	855
	24,480	21,793

10. Taxation Charge

	2017 US\$'000	2016 US\$'000
Current tax:		
Hong Kong Profits Tax	(2,035)	(1,669)
Underprovision in prior years	(1,542)	(1,770)
	(3,577)	(3,439)
Overseas taxation	(39,847)	(30,061)
Over provision in prior years	59,381	4,155
	19,534	(25,906)
Deferred tax (Note 41):		
Current year	49,093	21,080
Deferred tax asset impairment	(40,374)	(21,590)
Change in tax rates	(59,648)	(1,387)
	(50,929)	(1,897)
	(34,972)	(31,242)

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.

Overprovision of income tax in prior years includes reversal of provisions for estimated tax expenses in respect of successfully completed tax audits, primarily in the People's Republic of China ("PRC").

The substantial deferred tax expense associated with the change in marginal United States ("US") Federal tax rates from 35% to 21% has triggered a substantial writedown of existing US net deferred tax assets amounted to US\$59,552,000 which is primarily comprised of tax loss carryforwards.

The tax charge for the year is reconciled as follows:

	2017 US\$'000	2017 %	2016 US\$'000	2016 %
Profit before taxation	505,496		440,029	
Tax at Hong Kong Profits Tax rate	(83,407)	16.5%	(72,605)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	79,537	(15.7%)	68,749	(15.6%)
Tax effect of expenses not deductible for tax purposes	(15,571)	3.0%	(25,814)	5.9%
Tax effect of income not taxable for tax purposes	22,386	(4.4%)	19,413	(4.4%)
Utilization of deductible temporary differences previously not recognized	2,100	(0.4%)	386	(0.1%)
Tax effect of tax losses and deductible temporary differences not recognized	2,166	(0.5%)	(779)	0.2%
Deferred tax asset impairment	(40,374)	8.0%	(21,590)	4.9%
Over provision in respect of prior years	57,839	(11.4%)	2,385	(0.6%)
Tax effect of changes in tax rates	(59,648)	11.8%	(1,387)	0.3%
Tax charge for the year	(34,972)	6.9%	(31,242)	7.1%

Details of deferred tax are set out in Note 41.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

11. Profit for the Year

	2017 US\$'000	2016 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	93,938	88,649
Amortization of lease prepayments	732	744
Auditors' remuneration	3,352	3,309
Cost of inventories recognized as an expense	3,837,426	3,495,234
Depreciation and amortization on property, plant and equipment		
Owned assets	111,363	98,609
Assets held under finance leases	3,140	2,733
Fair value gain on interest rate swap	—	(660)
Fair value loss on foreign currency forward contracts	8,920	21,115
Fair value (gain) loss on held-for-trading investments	(2,447)	139
Fair value loss on derivative financial instruments	428	558
Impairment loss on trade receivables	21,940	11,712
Loss on disposal of property, plant and equipment	12,514	12,902
Loss on disposal of held-for-trading investments	—	49
Net exchange gain	(1,999)	(12,389)
Operating lease expenses recognized in respect of:		
Motor vehicles	20,448	19,230
Plant and machinery	10,058	14,694
Premises	43,356	33,642
Other assets	2,820	2,761
Reversal of impairment loss on trade receivables	(3,485)	(4,544)
Unconditional government grants	(315)	(375)
Write off of intangible assets	3,760	1,895
Write down of inventories	6,949	13,836
Staff costs		
Directors' remuneration		
Fees	273	244
Other emoluments	42,913	36,061
Other staff costs	43,186	36,305
Retirement benefits scheme contributions	767,285	632,530
(other than those included in the Directors' emoluments)		
Defined contribution plans	10,286	9,160
Defined benefit plans (Note 40)	1,925	2,211
	822,682	680,206

Staff costs disclosed above do not include an amount of US\$140,125,000 (2016: US\$126,298,000) of staff costs incurred relating to research and development activities.

12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2016: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

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

For the year ended December 31, 2016

	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	5,862	1,530	9,065
Mr Stephan Horst Pudwill (Note i)	—	340	2	970	443	1,755
Mr Joseph Galli Jr (Note i)	—	1,596	180	14,100	3,658	19,534
Mr Kin Wah Chan (Note i)	—	721	2	1,150	443	2,316
Mr Chi Chung Chan (Note i)	—	719	2	1,476	443	2,640
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	39	6	—	—	85	130
Mr Camille Jojo (Note ii)	39	6	—	—	—	45
Mr Christopher Patrick Langley OBE (Note iii)	39	19	—	—	85	143
Mr Manfred Kuhlmann (Note iii)	39	45	—	152	85	321
Mr Peter David Sullivan (Note iii)	39	48	—	—	85	172
Mr Vincent Ting Kau Cheung (Note iii)	39	49	—	—	85	173
Mr Johannes-Gerhard Hesse (appointed on October 1, 2016) (Note iii)	10	1	—	—	—	11
Total	244	5,221	188	23,710	6,942	36,305

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For the year ended December 31, 2017

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 45 and 46 respectively.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2016: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining two (2016: one) individuals for the year ended December 31, 2017 were as follows:

	2017 US\$'000	2016 US\$'000
Basic salaries and allowances	1,265	767
Contributions to retirement benefits schemes	152	91
Bonus	6,366	1,500
Other benefit	59	42
Share-based payments	—	—
	7,842	2,400

The emoluments of these two (2016: one) highest paid individuals for the year ended December 31, 2017 were within the following bands:

	No. of persons	
HK\$	2017	2016
18,500,001 to 19,000,000	—	1
24,000,001 to 24,500,000	1	—
36,500,001 to 37,000,000	1	—

During each of the two years ended December 31, 2017 and 2016, 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

	2017 US\$'000	2016 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2016: HK30.00 cents (approximately US3.86 cents) (2015: HK23.25 cents (approximately US2.99 cents)) per share	70,778	54,881
Interim dividend paid:		
2017: HK27.75 cents (approximately US3.57 cents) (2016: HK20.00 cents (approximately US2.57 cents)) per share	65,507	47,240
	136,285	102,121

The final dividend of HK39.75 cents (approximately US5.12 cents) per share with a total of approximately US\$93,877,000 in respect of the year ended December 31, 2017 (2016: final dividend of HK30.00 cents (approximately US3.86 cents) per share in respect of the year ended December 31, 2016) 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:

	2017 US\$'000	2016 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	470,425	408,982
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,833,278,393	1,832,139,377
Effect of dilutive potential ordinary shares:		
Share options	5,403,141	6,024,374
Share award	147,754	713,467
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,838,829,288	1,838,877,218

The computation of diluted earnings per share does not assume the exercise of certain Company's options because the exercise price of those options were higher than the average market price for shares for the year ended December 31, 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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	Construction in progress US\$'000	Total US\$'000
Cost									
At January 1, 2016	186,829	62,756	182,588	256,627	5,830	245,821	2,298	96,105	1,038,854
Currency realignment	(1,776)	(2,206)	(6,067)	(8,105)	(49)	(4,509)	—	(506)	(23,218)
Additions	2,507	3,003	15,091	17,513	471	14,670	71	137,128	190,454
Disposals	(12,195)	(589)	(5,475)	(8,786)	(749)	(23,331)	—	(6,479)	(57,604)
Reclassification	7,019	10,200	23,463	22,103	241	58,301	—	(121,327)	—
At December 31, 2016	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
Depreciation and Impairment									
At January 1, 2016	47,728	27,903	136,128	128,621	3,654	154,056	2,298	—	500,388
Currency realignment	(442)	(827)	(3,716)	(3,233)	(35)	(2,494)	—	—	(10,747)
Provided for the year	7,565	4,917	17,763	22,481	761	47,848	7	—	101,342
Eliminated on disposals	(12,195)	(544)	(5,244)	(7,840)	(554)	(17,350)	—	—	(43,727)
At December 31, 2016	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
Carrying amounts									
At December 31, 2017	162,016	47,594	77,805	149,530	2,003	122,280	50	127,590	688,868
At December 31, 2016	139,728	41,715	64,669	139,323	1,918	108,892	64	104,921	601,230

Note: Buildings with a carrying amount of US\$20,633,000 (2016: US\$21,958,000) 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	2 ¹ / ₅ % - 6 ² / ₃ %
Leasehold improvements	2 ¹ / ₂ % - 33 ¹ / ₃ %
Office equipment, furniture and fixtures	10% - 33 ¹ / ₃ %
Plant and machinery	9% - 25%
Motor vehicles	10% - 33 ¹ / ₃ %
Moulds and tooling	18% - 33 ¹ / ₃ %
Vessels	20%

The carrying amounts of properties shown above comprise:

	2017 US\$'000	2016 US\$'000
Land and buildings situated outside Hong Kong are analyzed as follows:		
Freehold	75,058	50,049
Leasehold	20,633	21,958
	95,691	72,007
Land and buildings situated in Hong Kong	66,325	67,721
	162,016	139,728

The carrying amounts of the Group's property, plant and equipment include amounts of approximately US\$10,665,000 (2016: US\$12,958,000) 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\$283,554,000 (2016: US\$283,657,000) in respect of fully depreciated property, plant and equipment that are still in use.

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For the year ended December 31, 2017

17. Lease Prepayments

	US\$'000
Cost	
At January 1, 2016	38,084
Currency realignment	(2,522)
At December 31, 2016	35,562
Currency realignment	2,420
At December 31, 2017	37,982
Amortization	
At January 1, 2016	5,643
Currency realignment	(406)
Provided for the year	744
At December 31, 2016	5,981
Currency realignment	433
Provided for the year	732
At December 31, 2017	7,146
Carrying amounts	
At December 31, 2017	30,836
At December 31, 2016	29,581

All lease prepayments are related to leases outside Hong Kong.

18. Goodwill

	US\$'000
At January 1, 2016	553,789
Currency realignment	(595)
At December 31, 2016	553,194
Currency realignment	2,156
At December 31, 2017	555,350

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 compete agreement US\$'000	Total US\$'000
Cost							
At January 1, 2016	630,644	63,405	234,284	453	10,500	10,634	949,920
Currency realignment	(60)	(22)	—	—	—	—	(82)
Additions	111,950	4,321	6	—	—	—	116,277
Written off in the year	(12,752)	(94)	—	—	—	—	(12,846)
At December 31, 2016	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
Amortization							
At January 1, 2016	362,535	43,091	12,262	453	3,022	7,622	428,985
Currency realignment	(48)	(2)	—	—	—	—	(50)
Provided for the year	80,910	4,559	461	—	592	2,127	88,649
Eliminated on write off	(10,876)	(75)	—	—	—	—	(10,951)
At December 31, 2016	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
Carrying amounts							
At December 31, 2017	316,312	36,744	221,074	—	6,294	—	580,424
At December 31, 2016	297,261	20,037	221,567	—	6,886	885	546,636

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.

Included in trademarks of the Group, US\$219,440,000 (2016: 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 ¹ / ₃ %
Patents	10% - 25%
Trademarks with finite useful lives	6 ² / ₃ % - 10%
Retailer and service relationships	5% - 6 ² / ₃ %
Non compete agreement	20%

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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, 2017 allocated to these units are as follows:

	Goodwill		Trademarks	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
Power Equipment – MET	416,617	416,617	118,407	118,407
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	22,909	20,753	—	—
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	23,567	23,567	6	6
	555,350	553,194	219,440	219,440

No impairment of goodwill and trademarks have been recognized for the year ended December 31, 2017 and December 31, 2016.

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% (2016: 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% (2016: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of MET’s goodwill and intangibles to exceed the recoverable amounts.

Power Equipment – HCP (“HCP”)

The recoverable amount of HCP’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2016: 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.

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

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% (2016: 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% (2016: 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% (2016: 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% (2016: 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% (2016: 15.0%) 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% (2016: 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.

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21. Interests in Associates

	2017 US\$'000	2016 US\$'000
Unlisted shares, at cost less impairment loss recognized	—	—
Share of net assets	—	—
Amounts due from associates	2,780	3,667
	2,780	3,667

Particulars of the associates as at December 31, 2017 and December 31, 2016 are set out in Note 52.

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 management accounts of the associates, are US\$424,000 (2016: US\$557,000) and (US\$3,955,000) (2016: (US\$4,379,000)) respectively.

22. Available-for-sale Investments

	2017 US\$'000	2016 US\$'000
Unlisted equity securities and club membership debentures, at cost less impairment loss recognized	3,697	613

As at December 31, 2017, all available-for-sale investments represent investments in unlisted equity securities and club membership debentures. They are measured at cost less impairment at the reporting date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. Inventories

	2017 US\$'000	2016 US\$'000
Raw materials	87,481	120,919
Work in progress	37,195	9,787
Finished goods	1,342,744	1,165,719
	1,467,420	1,296,425

24. Trade and other Receivables

	2017 US\$'000	2016 US\$'000
Trade receivables	1,143,319	954,875
Less: Allowances for doubtful debts	(37,114)	(20,025)
	1,106,205	934,850
Other receivables	30,671	16,032
	1,136,876	950,882

The aging analysis of trade receivables, net of allowances for doubtful debts, 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:

	2017 US\$'000	2016 US\$'000
0 to 60 days	753,407	759,702
61 to 120 days	276,964	141,223
121 days or above	75,834	33,925
Total trade receivables	1,106,205	934,850

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.

Included in the Group's trade receivable balance are debtors with a carrying amount of US\$159,086,000 (2016: US\$112,148,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 59 days (2016: 42 days).

The Group has 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 are related to a number of independent customers that have a good track record with the Group. The management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the relevant customers and the balances are still considered fully recoverable.

Ageing of Trade Receivables which are past due but not Impaired

	2017 US\$'000	2016 US\$'000
1 - 60 days	130,324	100,131
61 - 120 days	12,656	10,524
121 - 365 days	15,271	541
1 - 2 years	730	782
Over 2 years	105	170
Total	159,086	112,148

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24. Trade and Other Receivables (continued)

Movement in the Allowance for Doubtful Debts

	2017 US\$'000	2016 US\$'000
Balance at beginning of the year	20,025	23,705
Currency realignment	968	(907)
Impairment losses recognized on receivables	21,940	11,712
Amounts written off as uncollectible	(2,334)	(9,941)
Amounts recovered during the year	(3,485)	(4,544)
Balance at end of the year	37,114	20,025

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to US\$37,114,000 (2016: US\$20,025,000) which have the worst credit scoring attributable under the internal credit scoring system used by the Group. The Group does not hold any collateral over these balances.

Ageing of Impaired Trade Receivables (by Invoice Date)

	2017 US\$'000	2016 US\$'000
0 - 120 days	3,641	3,975
121 - 365 days	19,169	6,743
1 - 2 years	12,554	8,514
Over 2 years	1,750	793
Total	37,114	20,025

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 (2016: US\$75,000,000) were recognized as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

25. Bills Receivable

All the Group's bills receivable at December 31, 2017 and 2016 are due within 120 days.

26. Trade Receivables from an Associate

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

27. Derivative Financial Instruments

	2017 US\$'000	2016 US\$'000
Assets		
Acquisition right of certain property, plant and equipment	9,558	9,986
Foreign currency forward contracts – under hedge accounting	3,641	19,857
Foreign currency forward contracts – not under hedge accounting	157	342
	13,356	30,185
Liabilities		
Foreign currency forward contracts – under hedge accounting	43,830	1,392
Foreign currency forward contracts – not under hedge accounting	—	783
	43,830	2,175

Acquisition Right of Certain Property, Plant and Equipment

As at December 31, 2017 and 2016, 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\$9,558,000 valued on September 30, 2017 (2016: US\$9,986,000 valued on September 30, 2016) 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.

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For the year ended December 31, 2017

27. 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:

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 AU\$	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

2016

Notional amounts in millions	Maturity
Sell AU\$ 308M, Buy US\$	January 25, 2017 to December 28, 2017
Sell EUR 150M, Buy US\$	January 31, 2017 to December 29, 2017
Buy US\$ 66M, Sell GBP	January 17, 2017 to December 15, 2017
Sell US\$ 4.6M, Buy GBP	May 15, 2017 to December 15, 2017
Buy US\$ 40M, Sell EUR	January 31, 2017 to December 29, 2017

As at December 31, 2017, fair value loss of US\$47,485,000 (December 31, 2016: fair value gain of US\$29,339,000) have been recognized in other comprehensive income and accumulated in equity and are expected to be reclassified to profit or loss.

During the year, a fair value gain of US\$18,152,000 (2016: loss of US\$11,187,000) 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:

2017

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

2016

Notional amounts in millions	Maturity
Sell NOK 30M, Buy EUR	January 19, 2017 to May 18, 2017
Sell US\$ 2.3M, Buy EUR	January 17, 2017 to March 15, 2017
Buy US\$ 5M, Sell EUR	January 31, 2017 to March 15, 2017
Buy US\$ 24M, Sell NZ\$	February 7, 2017 to November 20, 2017
Buy US\$ 8.4M, Sell AU\$	January 9, 2017 to June 13, 2017

28. 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:

	2017 US\$'000	2016 US\$'000
Equity securities:		
– Listed shares	32,293	—
	32,293	—

29. Bank Balances, Deposits and Cash/Bank Overdrafts

Bank balances carry interest at market rates which range from 0.01% to 2.02% (2016: 0.001% to 0.70%) per annum. Bank overdrafts in 2016 carried interest at market rates which ranged from 3.50% to 3.75% per annum.

30. Trade and other Payables

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

	2017 US\$'000	2016 US\$'000
0 to 60 days	629,355	561,148
61 to 120 days	171,577	142,404
121 days or above	7,719	7,878
Total trade payables	808,651	711,430
Other payables	765,751	619,377
	1,574,402	1,330,807

The credit period on the purchase of goods ranges from 30 days to 120 days (2016: 30 days to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

31. Bills Payable

All the Group's bills payable at December 31, 2017 and 2016 are due within 120 days.

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32. Warranty Provision

	US\$'000
At January 1, 2016	75,193
Currency realignment	(1,622)
Additional provision in the year	110,403
Utilization of provision	(103,886)
At December 31, 2016	80,088
Currency realignment	3,353
Additional provision in the year	114,481
Utilization of provision	(100,654)
At December 31, 2017	97,268

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.

33. 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 5.06% to 8.98% (December 31, 2016: 0.53% to 7.50%) 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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
Amounts payable under finance leases:				
Within one year	3,518	3,727	2,895	2,982
In more than one year but not more than two years	3,421	3,516	2,970	2,948
In more than two years but not more than three years	3,300	3,133	3,028	2,740
In more than three years but not more than four years	2,459	3,006	2,361	2,774
In more than four years but not more than five years	315	2,172	301	2,094
More than five years	63	216	62	204
	13,076	15,770	11,617	13,742
Less: future finance charges	(1,459)	(2,028)	—	—
Present value of lease obligations	11,617	13,742	11,617	13,742
Less: Amount due within one year shown under current liabilities			(2,895)	(2,982)
Amount due after one year			8,722	10,760

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

34. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 2.06% per annum (2016: 1.80% per annum) have maturity profiles of less than 120 days.

35. 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:

	2017 US\$'000	2016 US\$'000
Bank balances, deposits and cash	863,515	804,741
Debt ⁽ⁱ⁾	(849,474)	(928,572)
Net cash (debt)	14,041	(123,831)
Equity ⁽ⁱⁱ⁾	2,741,225	2,399,538
Net debt to equity ratio	-0.51%	5.16%

(i) Debt comprises obligations under finance leases, discounted bills with recourse, unsecured borrowings and bank overdrafts but excludes bank advances from factored trade receivables as detailed in Notes 33, 34, 37, 29 and 24 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.

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36. Financial Instruments

36.1 Categories of Financial Instruments

	2017 US\$'000	2016 US\$'000
Financial assets		
<i>Fair value through profit or loss</i>		
Held-for-trading investments	32,293	—
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	9,558	9,986
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	3,641	19,857
<i>Derivative financial instruments – not under hedge accounting</i>		
Foreign currency forward contracts	157	342
	13,356	30,185
<i>Available-for-sale investments</i>	3,697	613
<i>Loans and receivables (including cash and cash equivalents)</i>		
Trade and other receivables	1,136,876	950,882
Bills receivable	8,008	11,190
Trade receivables from an associate	2,790	3,540
Bank balances, deposits and cash	863,515	804,741
	2,011,189	1,770,353
Financial liabilities		
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	43,830	1,392
<i>Derivative financial instruments – not under hedge accounting</i>		
Foreign currency forward contracts	—	783
	43,830	2,175
<i>Other financial liabilities</i>		
Trade and other payables	1,574,402	1,330,807
Bills payable	54,952	54,137
Discounted bills with recourse	87,837	93,897
Unsecured borrowings	825,020	894,277
Bank overdrafts	—	1,656
	2,542,211	2,374,774

36. Financial Instruments (continued)

36.2 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.

36.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 22.1% (2016: 21.1%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 48.5% (2016: 52.5%) 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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
Foreign Currency EURO	131,797	98,830	212,455	159,456

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\$721,579,000 (2016: US\$157,799,000). 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 27 for details).

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.1 Foreign Currency Risk Management (continued)

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.

	2017 US\$'000	2016 US\$'000
Impact of EURO Profit for the year ⁽ⁱ⁾	3,754	2,816

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

36.2.2 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 37 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 37 for details of these borrowings).

During the year, the Group obtained new bank borrowings of US\$2,206 million (2016: US\$1,669 million) which are either at fixed rate or LIBOR based. The proceeds were used to repay the Group's borrowings.

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.2 Interest Rate Risk Management (continued)

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, 2017 would decrease/increase by US\$3,761,000 (2016: decrease/increase by US\$4,598,000). 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 decreased during the current period mainly due to the decrease in variable rate debt instruments respectively.

36.2.3 Other Price Risk

The Group is exposed to price risk through its held-for-trading investments and derivative financial instruments.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to price risks of equity investments held-for-trading measured at fair value at the reporting date.

If the prices of the respective equity instruments had been 10% higher the profit for the year ended December 31, 2017 of the Group would increase by US\$3,229,000 (2016: N/A) as a result of the changes in fair value of held-for-trading investments.

36.2.4 Credit Risk Management

As at December 31, 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognized financial assets as stated in the statements of financial position; and
- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 44.

In order to minimize the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and debt investments at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited for the Group because the counterparties are banks with good reputations and credit ratings.

The Group's concentration of credit risk by geographical location is mainly in North America, where 69.4% (2016: 65.9%) of the total trade receivables as at December 31, 2017 are located.

The Group has concentration of credit risk as 36.7% (2016: 28.0%) and 48.3% (2016: 39.2%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

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For the year ended December 31, 2017

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 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, 2017, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$274 million (2016: US\$256 million) and US\$1,694 million (2016: US\$1,559 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, 2017 US\$'000
2017								
Non-derivative financial assets								
Held-for-trading investments	—	32,293	—	—	—	—	32,293	32,293
Available-for-sale investments (Note)	—	3,573	—	124	—	—	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
		1,439,217	594,611	13,572	—	—	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)

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 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
– AU\$	—	299	—	—	—	—	299	299
– NZ\$	—	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)
– AU\$	—	(297)	—	—	—	—	(297)	(297)
– NZ\$	—	(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)

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36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 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, 2016 US\$'000
2016								
Non-derivative financial assets								
Available-for-sale investments (Note)	—	539	3	71	—	—	613	613
Trade and other receivables	—	666,428	265,688	18,766	—	—	950,882	950,882
Bills receivable	—	10,927	263	—	—	—	11,190	11,190
Trade receivables from an associate	—	4	2,945	591	—	—	3,540	3,540
Bank balances, deposits and cash	0.001% - 0.70%	789,722	15,028	—	—	—	804,750	804,741
		1,467,620	283,927	19,428	—	—	1,770,975	1,770,966
Non-derivative financial liabilities								
Trade and other payables	—	(874,630)	(390,748)	(65,429)	—	—	(1,330,807)	(1,330,807)
Bills payable	—	(13,226)	(40,911)	—	—	—	(54,137)	(54,137)
Discounted bills with recourse	1.80%	(48,035)	(45,725)	(277)	—	—	(94,037)	(93,897)
Variable rate borrowings	0.72% - 2.60%	(10,668)	(254,860)	(140,731)	(117,165)	(387,657)	(911,081)	(894,277)
Bank overdrafts	3.50% - 3.75%	(1,656)	—	—	—	—	(1,656)	(1,656)
Financial guarantee contracts	—	(9,545)	—	—	—	—	(9,545)	—
		(957,760)	(732,244)	(206,437)	(117,165)	(387,657)	(2,401,263)	(2,374,774)

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 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, 2016 US\$'000
2016								
Derivatives - net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,986	9,986	9,986
	—	—	—	—	—	9,986	9,986	9,986
Derivatives - gross settlement								
Foreign currency forward contracts								
– inflow								
– EUR	—	1,417	19,928	29,276	—	—	50,621	50,621
– GBP	—	5,498	11,034	44,852	—	—	61,384	61,384
– US\$	—	20,318	69,258	305,010	—	—	394,586	394,586
– AU\$	—	1,408	2,526	4,552	—	—	8,486	8,486
– NZ\$	—	2,000	4,000	18,000	—	—	24,000	24,000
		30,641	106,746	401,690	—	—	539,077	539,077
– outflow								
– EUR	—	(1,450)	(18,762)	(27,551)	—	—	(47,763)	(47,763)
– GBP	—	(5,398)	(10,787)	(43,179)	—	—	(59,364)	(59,364)
– US\$	—	(20,521)	(67,973)	(292,282)	—	—	(380,776)	(380,776)
– AU\$	—	(1,420)	(2,562)	(4,627)	—	—	(8,609)	(8,609)
– NZ\$	—	(2,114)	(4,230)	(18,197)	—	—	(24,541)	(24,541)
		(30,903)	(104,314)	(385,836)	—	—	(521,053)	(521,053)
		(262)	2,432	15,854	—	—	18,024	18,024

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.

36. Financial Instruments (continued)

36.3 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; 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).

36. Financial Instruments (continued)

36.3 Fair Value (continued)

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

Financial assets / financial liabilities	Fair value		Fair value hierarchy	Valuation techniques and key inputs
	2017	2016		
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\$9,558,000	Acquisition right of certain property, plant and equipment: US\$9,986,000	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\$3,798,000; and Liabilities – US\$43,830,000	Assets – US\$20,199,000; and Liabilities – US\$2,175,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
3) Held-for-trading non-derivative financial assets classified as held-for-trading investments in the consolidated statement of financial position	Listed shares: US\$32,293,000	—	Level 1	Quoted bid prices in an active market.

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36. Financial Instruments (continued)

36.3 Fair Value (continued)

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

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values. There were no transfers between Level 1 and 2 in both periods.

	Level 1 US\$'000	Level 2 US\$'000	Total US\$'000
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)
2016			
Financial assets			
Acquisition right of certain property, plant and equipment	—	9,986	9,986
Foreign currency forward contracts	—	20,199	20,199
Total	—	30,185	30,185
Financial liabilities			
Foreign currency forward contracts	—	(2,175)	(2,175)
Total	—	(2,175)	(2,175)

36.4 Transfer of Financial Assets

The following were the Group's financial assets as at December 31, 2017 that were transferred to banks by discounting or factoring those trade and bills receivables on a full recourse basis. As the Group has not transferred 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 34) and unsecured borrowings - due within one year (see Note 37). 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:

	2017 US\$'000	2016 US\$'000
Carrying amount of transferred assets	162,837	168,897
Carrying amount of associated liabilities	(162,837)	(168,897)
Net position	—	—

37. Unsecured Borrowings

	2017 US\$'000	2016 US\$'000
Bank advance from Factored Trade Receivables	75,000	75,000
Bank loans	750,020	819,277
Total borrowings	825,020	894,277

The borrowings of the Group are repayable as follows:

	2017 US\$'000	2016 US\$'000
Fixed rate		
In more than two years but not more than five years	104,735	—
Floating rate		
Within one year	260,342	403,825
In more than one year but not more than two years	25,022	115,941
In more than two years but not more than five years	434,921	374,511
	825,020	894,277
Less: Amount due within one year shown under current liabilities	(260,342)	(403,825)
Amount due after one year	564,678	490,452

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

	2017	2016
Effective interest rate:		
Fixed-rate borrowings	2.55% to 3.10%	N/A
Variable-rate borrowings	0.66% to 3.07%	0.72% to 2.60%

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, 2017	13,542
As at December 31, 2016	265,387

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

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38. Share Capital

	2017 Number of shares	2016 Number of shares	2017 US\$'000	2016 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	1,833,896,941	1,833,736,941	649,214	647,109
Issue of shares upon exercise of share options	2,625,000	1,660,000	4,704	2,105
Buy-back of shares	(1,500,000)	(1,500,000)	—	—
At the end of the year	1,835,021,941	1,833,896,941	653,918	649,214

Details of the share options are set out in Note 45.

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

Month of cancellation	No. of ordinary shares	Price per share		Aggregate consideration paid US\$'000
		Highest HK\$	Lowest HK\$	
January 2017	1,500,000	28.15	27.50	5,388

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$5,388,000 was charged to retained profits.

39. 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, 2016	(9,254)	6,050	1,436,539	1,433,335
Loss for the year	—	—	(92,062)	(92,062)
Total comprehensive loss for the year	—	—	(92,062)	(92,062)
Shares issued at premium on exercise of options	—	(401)	—	(401)
Buy-back of shares	—	—	(5,425)	(5,425)
Vesting of awarded shares	8,087	(8,087)	—	—
Shares for share award scheme	(9,309)	—	—	(9,309)
Recognition of equity-settled share-based payments	—	9,448	—	9,448
Final dividend – 2015	—	—	(54,881)	(54,881)
Interim dividend – 2016	—	—	(47,240)	(47,240)
At December 31, 2016	(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

As at December 31, 2017, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$1,067,800,000 (2016: US\$1,236,931,000).

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40. 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 (2016: HK\$18,000) per employee per annum, which contribution is matched by the employee.

The employees of the Group's subsidiaries in the 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\$10,474,000 (2016: US\$9,348,000) 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:

	2017 US\$'000	2016 US\$'000
Pension plan obligations (Note i)	82,764	78,020
Post-retirement, medical and dental plan obligations (Note ii)	19	68
Life and medical insurance plan (Note ii)	1,431	1,630
Post-employment benefit plan obligations (Note iii)	13,348	11,234
Others	26,955	17,215
	124,517	108,167

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, 2018, 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 5, 2018 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 January 12, 2018 by CBIZ Benefits & Insurance Services.

40. 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Discount rate	1.65%	2.00%	1.00%	0.75%	3.00%	2.75%	3.90%	4.11%
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	3.90%	4.11%
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\$5,272,000 (2016: US\$7,102,000) and that the actuarial value of these assets represented 28.3% (2016: 38.7%) 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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 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	—	—	93	106	N/A	N/A

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40. 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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
Service cost:								
Current service cost	478	418	—	—	—	—	—	—
Net interest on defined benefit liabilities	966	1,463	—	1	43	34	438	295
Components of defined benefit costs recognized in profit or loss	1,444	1,881	—	1	43	34	438	295
Remeasurement on the net defined benefit liability:								
Actuarial (gains) losses arising from changes in financial assumptions	(3,472)	4,838	(42)	(45)	(186)	550	1,676	4,625
Components of defined benefit costs recognized in other comprehensive income	(3,472)	4,838	(42)	(45)	(186)	550	1,676	4,625
Total	(2,028)	6,719	(42)	(44)	(143)	584	2,114	4,920

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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
Present value of funded obligations	—	—	—	—	—	—	18,620	18,336
Fair value of plan assets	—	—	—	—	—	—	(5,272)	(7,102)
	—	—	—	—	—	—	13,348	11,234
Present value of unfunded obligations	82,764	78,020	19	68	1,431	1,630	—	—
	82,764	78,020	19	68	1,431	1,630	13,348	11,234

40. 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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
At January 1	78,020	77,871	68	126	1,630	1,109	18,336	15,450
Exchange differences	10,767	(2,923)	—	—	—	—	—	—
Current service cost	478	418	—	—	—	—	—	—
Actuarial (gains) losses	(3,472)	4,838	(42)	(45)	(186)	550	1,514	4,332
Interest cost	966	1,463	—	1	43	34	677	600
Benefit paid	(3,995)	(3,647)	(7)	(14)	(56)	(63)	(1,907)	(2,046)
At December 31	82,764	78,020	19	68	1,431	1,630	18,620	18,336

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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	7,102	5,637
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	239	304
Actuarial losses	N/A	N/A	N/A	N/A	N/A	N/A	(162)	(293)
Contribution from employer	N/A	N/A	N/A	N/A	N/A	N/A	—	3,500
Benefit paid	N/A	N/A	N/A	N/A	N/A	N/A	(1,907)	(2,046)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	5,272	7,102

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 3.90% (2016: 4.11%).

The actual return on plan assets was US\$77,000 (2016: US\$11,000).

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

The Group expects to make a contribution of US\$4,000,000 (2016: Nil) to the defined benefit plans during the next financial year.

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41. 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, 2016	(6,669)	11,654	43,661	107,846	13,281	(34,409)	135,364
Currency realignment	(42)	(56)	(134)	513	(17)	(831)	(567)
(Charge) credit to profit or loss	(6,169)	2,015	1,767	(18,407)	(2,430)	21,327	(1,897)
Credit (charge) to equity	—	—	2,905	—	42	(21)	2,926
At December 31, 2016	(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

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:

	2017 US\$'000	2016 US\$'000
Deferred tax assets	92,939	178,191
Deferred tax liabilities	(14,404)	(42,365)
	78,535	135,826

At the end of the reporting period, the Group has unused tax losses of US\$1,296 million (2016: US\$848 million) available for the offset against future taxable profits that carry forward for at least twenty years. No deferred tax asset has been recognized in respect of tax losses of US\$1,114 million (2016: US\$618 million) due to the lack of probable future taxable profits.

42. Major Non-Cash Transactions

During the year ended December 31, 2017, the Group entered into finance lease arrangements in respect of assets at the inception of the finance leases of US\$1,654,000 (2016: US\$3,850,000).

43. Lease Commitments

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

	2017 US\$'000	2016 US\$'000
Within one year	66,532	52,824
In the second to fifth year inclusive	149,640	138,994
After five years	101,099	63,242
	317,271	255,060

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.

44. Contingent Liabilities

	2017 US\$'000	2016 US\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	9,298	9,545

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, 2017 amounted to US\$372,530,000 (2016: US\$235,920,000).

45. 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 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

45. Share Options (continued)

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

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		

45. 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		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

45. Share Options (continued)

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

2016

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
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
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
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
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Christopher Patrick Langley OBE	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Manfred Kuhlmann	23.5.2011	D	100,000	—	(100,000)	—	—	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
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
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	(400,000)	—	—	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
Total for directors		8,748,000	—	(950,000)	—	7,798,000			

45. Share Options (continued)

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

2016

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	730,000	—	(60,000)	—	670,000	8.390	24.8.2008 - 23.8.2017
	16.10.2007	D	50,000	—	(35,000)	—	15,000	8.810	16.10.2008 - 15.10.2017
	7.11.2007	D	40,000	—	(40,000)	—	—	8.088	7.11.2008 - 6.11.2017
	14.1.2008	D	505,000	—	(75,000)	—	430,000	7.566	14.1.2009 - 13.1.2018
	17.4.2008	D	350,000	—	(100,000)	—	250,000	7.780	17.4.2009 - 16.4.2018
	14.5.2008	D	40,000	—	—	—	40,000	7.500	14.5.2009 - 13.5.2018
	30.5.2008	D	250,000	—	(250,000)	—	—	7.546	30.5.2009 - 29.5.2018
	16.11.2009	D	1,570,000	—	(150,000)	—	1,420,000	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
Total for employees			3,585,000	—	(710,000)	—	2,875,000		
Total for all categories			12,333,000	—	(1,660,000)	—	10,673,000		
Exercisable at the end of the year							9,839,000		

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For the year ended December 31, 2017

45. 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, 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 2017 was HK\$32.42.

The closing price of the Company's shares immediately before the various dates on which the share options were granted ranged from HK\$31.80 to HK\$36.00 in 2017.

The weighted average closing prices of the Company's shares immediately before various dates during 2017 and 2016 on which the share options were exercised were HK\$38.21 and HK\$30.75 respectively.

The Group recognized a total expense of US\$2,246,000 for the year ended December 31, 2017 (2016: US\$1,069,000) in relation to share options granted by the Company.

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

The Company had 11,338,500 share options outstanding, (2016: 10,673,000), which represented approximately 0.62% (2016: 0.58%) of the issued share capital of the Company as at December 31, 2017. No option was cancelled during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.20% of the issued shares of the Company as at December 31, 2017. Total securities available for issue under Scheme E are 183,299,194 shares, which represented approximately 10.00% of the issued shares of the Company as at December 31, 2017.

46. 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. 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\$1,947,000 (2016: US\$8,379,000). During 2017, 1,036,500 shares (2016: 2,324,500 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	
	2017	2016
At January 1	1,025,000	2,349,500
Awarded (Note (a))	311,500	1,000,000
Vested	(1,036,500)	(2,324,500)
At December 31 (Note (b))	300,000	1,025,000

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\$30.82 (2016: HK\$29.22). 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	
	2017	2016
Less than 1 year	150,000	1,025,000
More than 1 year	150,000	—
	300,000	1,025,000

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For the year ended December 31, 2017

47. Capital Commitments

	2017 US\$'000	2016 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	21,888	32,828

48. 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:

	2017 US\$'000	2016 US\$'000
Sales income	5,801	7,281
Purchases	5,719	7,204

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

	2017 US\$'000	2016 US\$'000
Short-term benefits	59,348	43,225
Post-employment benefits	808	717
Share-based payments	6,420	6,942
	66,576	50,884

Details of the balances and transactions with related parties are set out in the statements of financial position and Notes 21, 26 and 44.

49. 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.

	Unsecured borrowings Note 37 US\$'000	Discounted bills with recourse Note 34 US\$'000	Obligations under finance leases Note 33 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)
At December 31, 2017	825,020	87,837	11,617	924,474

50. Statement of Financial Position of the Company

As at December 31, 2017

	Note	2017 US\$'000	2016 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		2,898	4,132
Intangible assets		4	7
Investments in subsidiaries		1,168,489	1,147,043
Loans to subsidiaries		860,741	791,656
Interests in associates		1,488	2,376
Available-for-sale investments		3,311	228
		2,036,931	1,945,442
Current assets			
Other receivables		46	—
Deposits and prepayments		4,046	10,056
Held-for-trading investments		32,293	—
Amounts due from subsidiaries		2,041,292	2,043,260
Bank balances, deposits and cash		261,018	267,280
		2,338,695	2,320,596
Current liabilities			
Trade and other payables		57,864	42,530
Tax payable		815	2,700
Amounts due to subsidiaries		2,003,610	1,530,083
Unsecured borrowings - due within one year		30,600	317,594
		2,092,889	1,892,907
Net current assets		245,806	427,689
Total assets less current liabilities		2,282,737	2,373,131
Capital and Reserves			
Share capital		653,918	649,214
Reserves	39	1,064,141	1,233,465
		1,718,059	1,882,679
Non-current Liabilities			
Unsecured borrowings - due after one year		564,678	490,452
Total equity and non-current liabilities		2,282,737	2,373,131

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 13, 2018 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, 2017

51. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2017 and December 31, 2016 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	EUR 1,000,000	—	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	EUR 2,050,000	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	GBP 4,000,000	—	100	Trading of power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AU\$ 25,575,762	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR 25,600	—	100	Trading of power equipment products

51. 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 ELC GmbH*	Germany	EUR 25,000	—	100	Trading of power equipment products and outdoor power equipment products
Techtronic Industries France SAS	France	EUR 14,919,832	—	100	Trading of power equipment products
Techtronic Industries GmbH	Germany	EUR 20,452,500	—	100	Trading and manufacture of power equipment products
Techtronic Industries Korea Limited	Korea	KRW 3,400,000,000	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN 50,000 (Serie I) MXN 362,720,990 (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, 2017

51. 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	MOP 780,000	—	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	GBP 30,000 (Ordinary A shares) GBP 2,500 (Ordinary B shares)	100	—	Trading of household electrical and floor care products

* Exempt from the obligation to publish local financial statements.

A wholly foreign owned enterprise.

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

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

Principal activities	Principal place of business	Number of subsidiaries	
		2017	2016
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US	5	5
Trading of power equipment, floor care and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US	33	33
Investment holding	Australia, BVI, Europe, Hong Kong, US	23	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.

52. 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
			2017 %	2016 %	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$ 6,250	40.8	40.8	Investment holding

Financial Summary

Results

	Year ended December 31				
	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000	2017 US\$'000
Revenue	4,299,755	4,752,960	5,038,004	5,480,413	6,063,633
Profit before taxation	276,398	325,159	386,957	440,029	505,496
Taxation charge	(29,036)	(25,680)	(32,814)	(31,242)	(34,972)
Profit for the year	247,362	299,479	354,143	408,787	470,524
Attributable to:					
Owners of the Company	250,284	300,330	354,427	408,982	470,425
Non-controlling interests	(2,922)	(851)	(284)	(195)	99
Profit for the year	247,362	299,479	354,143	408,787	470,524
Basic earnings per share (US cents)	13.68	16.41	19.37	22.32	25.66

Assets and Liabilities

	As at December 31				
	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000	2017 US\$'000
Total assets	4,012,559	4,351,383	4,802,718	5,120,407	5,598,477
Total liabilities	2,267,123	2,384,357	2,647,146	2,721,475	2,857,759
	1,745,436	1,967,026	2,155,572	2,398,932	2,740,718
Equity attributable to Owners of the Company	1,740,713	1,967,153	2,155,983	2,399,538	2,741,225
Non-controlling interests	4,723	(127)	(411)	(606)	(507)
	1,745,436	1,967,026	2,155,572	2,398,932	2,740,718