

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

## 1. General Information

Techtronic Industries Company Limited (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 Company and its subsidiaries (the “Group”) are the manufacturing and trading of electrical and electronic products.

The consolidated financial statements are presented in United States dollars (“US\$”), which is also the functional currency of the Company.

## 2. Application of Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

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

In 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, which are mandatorily effective for the annual periods beginning on or after January 1, 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2”

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* (“HKFRS 7”).

As at January 1, 2021, the Group has several financial liabilities and derivative financial instruments, the interest of which are indexed to benchmark rates that will be subject to interest rate benchmark reform.

The following table shows the total amounts of outstanding contracts with payments indexed to benchmark rates which are subject to interest rate benchmark reform. The amounts of financial liabilities are shown at their carrying amounts and derivative financial instruments are shown at their notional amounts.

	United States dollar London Interbank Offered Rate (“USD LIBOR”) US\$’000
<b>Financial liabilities</b>	
Unsecured borrowings	270,245
<b>Derivative financial instruments</b>	
Cross-currency interest rate swaps	210,300

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for unsecured borrowings measured at amortized cost. Additional disclosures as required by HKFRS 7 are set out in Note 36.

## 2. Application of Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

### New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments <sup>3</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond June 30, 2021 <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>3</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>3</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>3</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>3</sup>
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2022.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2023.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognizes the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at December 31, 2021, the application of the amendments will not result in a reclassification of the Group's liabilities.

## 2. Application of Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

### Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

### Amendments to HKAS 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

### Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognize a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right of use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. As at December 31, 2021, the carrying amounts of right of use assets and lease liabilities which are subject to the amendments amounted to US\$524,917,000 and US\$554,200,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments. The cumulative effect of initially applying the amendments will be recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest comparative period presented.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

#### Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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 accounted for in accordance with HKFRS 16 *Leases* 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.

#### Significant Accounting Policies

##### 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.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### **BASIS OF CONSOLIDATION** (continued)

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

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

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

##### **BUSINESS COMBINATIONS OR ASSET ACQUISITIONS**

##### **Optional Concentration Test**

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

##### **Asset Acquisitions**

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

##### **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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### BUSINESS COMBINATIONS OR ASSET ACQUISITIONS (continued)

###### Business Combinations (continued)

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are 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 or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included 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. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognized in profit or loss.

###### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs) 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 CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period.

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

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

The Group's policy for goodwill arising on the acquisition of an associate is disclosed below.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### INTEREST IN AN ASSOCIATE

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

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

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

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

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

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

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

###### 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 listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### LEASES

##### Definition of a Lease

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

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

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

##### The Group as a Lessee

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

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

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

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

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

##### ROU Assets

The cost of ROU assets includes:

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

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

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

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

##### Refundable Rental Deposits

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### LEASES (continued)

##### The Group as a Lessee (continued)

###### Lease Liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

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

###### Lease Modifications

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

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

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

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

##### PROPERTY, PLANT & EQUIPMENT (“PP&E”)

PP&E are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes, other than freehold land and construction in progress as described below. PP&E are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### PROPERTY, PLANT & EQUIPMENT (“PP&E”) (continued)

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

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold is presented as “ROU assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as PP&E.

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

##### IMPAIRMENT ON PP&E, ROU ASSETS AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of the reporting period, the Group reviews the carrying amounts of its PP&E, ROU assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired. The recoverable amount of PP&E, ROU assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

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 CGU) for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) 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 CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### FINANCIAL INSTRUMENTS

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

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

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

##### Financial Assets

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

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

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

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

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

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

A financial asset is classified as held for trading if:

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

##### Amortized Cost and Interest Income

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### FINANCIAL INSTRUMENTS (continued)

##### Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

##### *Financial Assets at FVTPL*

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

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

##### *Impairment of Financial Assets and Other Item Subject to Impairment Assessment under HKFRS 9*

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

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

The Group always recognizes lifetime ECL for trade receivables.

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

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

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

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

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### FINANCIAL INSTRUMENTS (continued)

##### Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

##### *Impairment of Financial Assets and Other Item Subject to Impairment Assessment under HKFRS 9 (continued)*

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

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

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

##### (ii) Definition of Default

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

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

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

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### FINANCIAL INSTRUMENTS (continued)

##### Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

##### *Impairment of Financial Assets and Other Item Subject to Impairment Assessment under HKFRS 9 (continued)*

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

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

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

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

##### Financial Liabilities and Equity

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

##### Equity Instrument

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

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

##### Financial Liabilities at Amortized Cost

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### FINANCIAL INSTRUMENTS (continued)

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

##### Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

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

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

##### Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortized cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

##### 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.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### FINANCIAL INSTRUMENTS (continued)

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

##### Hedge Accounting

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

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

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based, is not altered as a result of interest rate benchmark reform.

##### Assessment of Hedging Relationship and Effectiveness

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

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

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

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

##### 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, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### FINANCIAL INSTRUMENTS (continued)

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

###### Discontinuation of Hedge Accounting

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

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

###### Derecognition of Financial Assets and Liabilities

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 recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. 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 measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

##### PROVISIONS

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

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

##### INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a 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. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

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

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

##### OVER TIME REVENUE RECOGNITION (COMMISSION AND ROYALTY INCOME): MEASUREMENT OF PROGRESS TOWARDS COMPLETE SATISFACTION OF A PERFORMANCE OBLIGATION

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

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

##### REFUND LIABILITIES

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

##### SALE WITH A RIGHT OF RETURN/EXCHANGE

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

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

##### 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 of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### TAXATION (continued)

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

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

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

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

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

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

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

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

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### 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 items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the 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 or partial 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 re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of an associate that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

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

##### BORROWING COSTS

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

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

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### **EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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

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.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income".

##### **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.

### 3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

(continued)

#### Significant Accounting Policies (continued)

##### RETIREMENT BENEFIT SCHEMES (continued)

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

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

Defined benefit costs are categorized as follows:

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

The 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 underlying 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.

##### 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, 2021, the carrying amounts of deferred development costs of the Group are US\$572,449,000 (2020: US\$394,144,000). The estimation of their useful lives impacts the level of annual amortization recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material impairment loss may arise and need to be recognized. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates that adjustments are required.

##### Income Taxes

The Group operates in a complex multinational tax environment. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for taxation charge as there are many transactions and calculations, of which the ultimate tax determination is uncertain during the ordinary course of business. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as liabilities in the consolidated statement of financial position as at December 31, 2021 was US\$56,123,000 (2020: US\$32,336,000).

As at December 31, 2021, deferred tax assets of US\$17,797,000 (2020: US\$25,362,000) in relation to unused tax losses and US\$74,748,000 (2020: US\$39,452,000) in relation to employee related provisions has been recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax assets 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, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of the deferred tax assets may arise, which would be recognized in profit or loss for the period in which the reversal or further recognition takes place. During the year, deferred tax assets of approximately US\$8,100,000 (2020: US\$6,703,000) in relation to unused tax losses were utilized.

## 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 “Floorcare & Cleaning”. 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, HOMELITE and HART brands plus original equipment manufacturer (“OEM”) customers.
2. Floorcare & Cleaning – sales of floorcare products and floorcare accessories under the HOOVER, DIRT DEVIL, VAX and ORECK brands plus OEM customers.

In order to better describe the business nature, the Group renamed the “Floorcare” segment to “Floorcare & Cleaning”. The change in segment name does not affect the comparative figures. 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 ended December 31, 2021

	Power Equipment US\$'000	Floorcare & Cleaning US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	11,960,891	1,242,270	—	13,203,161
Inter-segment sales	—	20,340	(20,340)	—
<b>Total segment revenue</b>	<b>11,960,891</b>	<b>1,262,610</b>	<b>(20,340)</b>	<b>13,203,161</b>

Inter-segment sales are charged at prevailing market rates.

<b>Result</b>				
Segment results	1,162,480	29,227	—	1,191,707
Interest income				32,028
Finance costs				(42,008)
<b>Profit before taxation</b>				<b>1,181,727</b>

#### For the year ended December 31, 2020

	Power Equipment US\$'000	Floorcare & Cleaning US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	8,729,841	1,082,100	—	9,811,941
Inter-segment sales	—	4,018	(4,018)	—
<b>Total segment revenue</b>	<b>8,729,841</b>	<b>1,086,118</b>	<b>(4,018)</b>	<b>9,811,941</b>

Inter-segment sales are charged at prevailing market rates.

<b>Result</b>				
Segment results	843,831	24,622	—	868,453
Interest income				36,787
Finance costs				(44,222)
<b>Profit before taxation</b>				<b>861,018</b>

## 5. Segment Information (continued)

### Segment Revenue and Results (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment without the allocation of interest income 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, 2021

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floorcare & Cleaning US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	31,374	1,333	32,707
Write down of inventories	90,860	11,131	101,991
Impairment loss (reversal of impairment loss) on trade receivables under expected credit loss model	32,226	(7,406)	24,820
Write-off of intangible assets	26,830	1,493	28,323
Depreciation and amortization	356,938	41,835	398,773
Gain on early termination of leases	(734)	—	(734)

For the year ended December 31, 2020

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floorcare & Cleaning US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	55,070	7,366	62,436
Write down of inventories	29,974	2,165	32,139
Impairment loss on trade receivables under expected credit loss model	16,222	6,267	22,489
Write-off of intangible assets	43,320	5,481	48,801
Depreciation and amortization	308,564	46,783	355,347
Gain on early termination of leases	(31)	—	(31)

### Revenue from Major Products

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

	2021 US\$'000	2020 US\$'000
Power Equipment	11,960,891	8,729,841
Floorcare & Cleaning	1,242,270	1,082,100
Total	13,203,161	9,811,941

## 5. Segment Information (continued)

### Geographical Information

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

	Revenue from external customers		Non-Current Assets*	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
North America	10,225,163	7,650,370	2,329,309	1,764,007
Europe	1,951,454	1,382,707	189,085	173,873
Other countries	1,026,544	778,864	1,314,879	1,020,933
<b>Total</b>	<b>13,203,161</b>	<b>9,811,941</b>	<b>3,833,273</b>	<b>2,958,813</b>

\* Non-current assets exclude interest in an associate, financial assets at FVTPL, derivative financial instruments and deferred tax assets.

### Information about Major Customer

During the years ended December 31, 2021 and 2020, the Group's largest customer contributed total revenue of US\$6,275,193,000 (2020: US\$4,793,600,000), of which US\$6,206,588,000 (2020: US\$4,742,534,000) was under the Power Equipment segment and US\$68,605,000 (2020: US\$51,066,000) was under the Floorcare & Cleaning segment. There is no other customer contributing more than 10% of total revenue.

## 6. Revenue

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

	2021 US\$'000	2020 US\$'000
Sales of goods	13,187,327	9,801,240
Commission and royalty income	15,834	10,701
<b>Total</b>	<b>13,203,161</b>	<b>9,811,941</b>

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

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

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

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

As at December 31, 2021, revenue for unsatisfied contracts to be recognized by the Group over one year is immaterial. As permitted by HKFRS 15, the transaction price allocated to unsatisfied contracts for contracts with period of one year or less is not disclosed.

## 7. Other Income

Other income in both 2021 and 2020 mainly comprises of the sale of scrap materials and claims and reimbursements from customers and vendors.

## 8. Interest Income

Interest income represents interest earned on bank deposits.

## 9. Finance Costs

	2021 US\$'000	2020 US\$'000
Interest on:		
Unsecured borrowings	31,656	36,648
Lease liabilities	10,352	7,574
	<b>42,008</b>	44,222

## 10. Taxation Charge

	2021 US\$'000	2020 US\$'000
Current tax:		
Hong Kong Profits Tax	(1,337)	(260)
(Under) over provision in prior years	(392)	995
	<b>(1,729)</b>	735
Overseas taxation	<b>(105,702)</b>	(58,505)
Under provision in prior years	<b>(1,539)</b>	(2,033)
	<b>(107,241)</b>	(60,538)
Deferred tax (Note 41):		
Current year	39,916	8,075
Deferred tax asset impairment	(14,127)	(8,521)
Change in tax rates	457	(9)
	<b>26,246</b>	(455)
	<b>(82,724)</b>	(60,258)

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.

**10. Taxation Charge** (continued)

The taxation charge for the year is reconciled as follows:

	2021 US\$'000	2021 %	2020 US\$'000	2020 %
Profit before taxation	1,181,825		861,254	
Tax at Hong Kong Profits Tax rate	(195,001)	16.5%	(142,107)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	161,337	(13.7%)	111,836	(13.0%)
Tax effect of expenses not deductible for tax purposes	(61,339)	5.2%	(42,289)	4.9%
Tax effect of income not taxable for tax purposes	3,386	(0.3%)	2,962	(0.3%)
Utilization of deductible temporary differences previously not recognized	8,100	(0.7%)	6,703	(0.8%)
Tax effect of tax losses and deductible temporary differences not recognized	16,394	(1.4%)	12,134	(1.4%)
Deferred tax asset impairment	(14,127)	1.2%	(8,521)	1.0%
Under provision in respect of prior years	(1,931)	0.2%	(1,038)	0.1%
Tax effect of changes in tax rates	457	0.0%	(9)	0.0%
Tax effect of share of result of an associate	—	0.0%	71	(0.0%)
Taxation charge for the year	(82,724)	7.0%	(60,258)	7.0%

Details of deferred tax are set out in Note 41.

## 11. Profit for the Year

	2021 US\$'000	2020 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	95,669	112,416
Auditors' remuneration	3,352	3,027
Cost of inventories recognized as an expense	8,081,548	6,058,859
Depreciation of right of use assets	112,815	77,038
Depreciation of property, plant and equipment	190,289	165,893
Fair value (gain) loss on foreign currency forward contracts	(9,074)	3,750
Fair value loss on listed equity securities	4,792	8,061
Fair value loss on acquisition right of certain property, plant and equipment	192	435
Gain on early termination of leases	(734)	(31)
Goodwill written off	—	3,861
Impairment loss on trade receivables under expected credit loss model	24,820	22,489
Impairment loss on right of use assets	876	—
Loss on disposal of property, plant and equipment	32,707	62,436
Net exchange (gain) loss	(1,443)	1,633
Expenses relating to short-term leases and low-value assets recognized in respect of:		
Motor vehicles	988	934
Plant and machinery	18,205	11,522
Premises	14,618	9,716
Other assets	1,036	510
Share of result of an associate	(5)	(432)
Unconditional government grants	(1,026)	(657)
Write down of inventories	101,991	32,139
Write-off of intangible assets	28,323	48,801
Staff costs		
Directors' remuneration		
Fees	515	539
Other emoluments	86,645	63,754
	87,160	64,293
Other staff costs	1,765,516	1,293,422
Contributions to retirement benefits schemes (other than those included in the Directors' emoluments)		
Defined contribution plans	24,594	17,608
Defined benefit plans (Note 40)	874	808
	1,878,144	1,376,131

Staff costs disclosed above do not include an amount of US\$328,684,000 (2020: US\$207,699,000) of staff costs incurred relating to research and development activities.

## 12. Directors' Emoluments

The emoluments paid or payable to each of the thirteen (2020: twelve) directors, disclosed pursuant to the applicable Listing Rules and the CO, was as follows:

For the year ended December 31, 2021

	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	14,257	3,249	19,179
Mr Stephan Horst Pudwill (Note i)	—	1,034	2	2,556	4,630	8,222
Mr Joseph Galli Jr (Note i)	—	1,743	874	22,773	13,870	39,260
Mr Kin Wah Chan (Note i)	—	905	2	3,035	4,630	8,572
Mr Chi Chung Chan (Note i)	—	902	—	4,362	4,630	9,894
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	—	149	226
Mr Camille Jojo (Note ii)	77	27	—	—	364	468
Mr Peter David Sullivan (Note iii)	77	37	—	—	149	263
Mr Johannes-Gerhard Hesse (Note iii)	77	27	—	—	149	253
Mr Robert Hinman Getz (Note iii)	77	28	—	—	193	298
Ms Virginia Davis Wilmerding (appointed on April 9, 2021) (Note iii)	56	—	—	—	42	98
Mr Christopher Patrick Langley OBE (retired after the conclusion of the annual general meeting of the Company held on May 14, 2021) (Note iii)	29	6	—	—	162	197
Mr Vincent Ting Kau Cheung (passed away on July 31, 2021) (Note iii)	45	23	—	—	162	230
<b>Total</b>	<b>515</b>	<b>6,403</b>	<b>880</b>	<b>46,983</b>	<b>32,379</b>	<b>87,160</b>

## 12. Directors' Emoluments (continued)

For the year ended December 31, 2020

	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	12,412	3,795	17,880
Mr Stephan Horst Pudwill (Note i)	—	537	2	2,225	1,191	3,955
Mr Joseph Galli Jr (Note i)	—	1,753	383	19,100	7,211	28,447
Mr Kin Wah Chan (Note i)	—	870	2	2,645	1,191	4,708
Mr Chi Chung Chan (Note i)	—	867	—	4,750	1,191	6,808
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	816	81	974
Mr Camille Jojo (Note ii)	77	27	—	—	521	625
Mr Peter David Sullivan (Note iii)	77	37	—	—	81	195
Mr Johannes-Gerhard Hesse (Note iii)	77	27	—	—	81	185
Mr Robert Hinman Getz (Note iii)	77	7	—	—	61	145
Mr Christopher Patrick Langley OBE (Note iii)	77	15	—	—	81	173
Mr Vincent Ting Kau Cheung (Note iii)	77	40	—	—	81	198
<b>Total</b>	<b>539</b>	<b>5,851</b>	<b>389</b>	<b>41,948</b>	<b>15,566</b>	<b>64,293</b>

Note i: The individuals represent the Executive Directors of the Company and the Group. The Executive Directors' emoluments shown above were mainly for their services in connection with management of the affairs of the Company and the Group. Mr Joseph Galli Jr serves as the Chief Executive Officer of 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. The share-based payments represent the costs of share options and share awards granted to directors as charged to the Company's profit and loss, but not as income of respective directors. Details of these benefits in kind are disclosed under the sections "Share Options" and "Share Award Scheme" in Notes 43 and 44 respectively.

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2020: three) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2020: two) individuals for the year ended December 31, 2021 were as follows:

	2021 US\$'000	2020 US\$'000
Basic salaries and allowances	829	1,677
Contributions to retirement benefits schemes	40	152
Bonus	7,500	10,578
Share-based payments	—	1,948
<b>Total</b>	<b>8,369</b>	<b>14,355</b>

### 13. Employees' Emoluments (continued)

The emoluments of these one (2020: two) highest paid individuals for the year ended December 31, 2021 were within the following bands:

HK\$	No. of persons	
	2021	2020
51,000,001 to 51,500,000	—	1
60,000,001 to 60,500,000	—	1
65,000,001 to 65,500,000	1	—

During each of the two years ended December 31, 2021 and 2020, 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

	2021 US\$'000	2020 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2020: HK82.00 cents (approximately US10.55 cents) (2019: HK58.00 cents (approximately US7.46 cents)) per share	193,488	136,688
Interim dividend paid:		
2021: HK85.00 cents (approximately US10.94 cents) (2020: HK53.00 cents (approximately US6.82 cents)) per share	200,627	124,949
	<b>394,115</b>	261,637

The final dividend of HK 1 dollar (approximately US12.87 cents) per share with a total of approximately US\$236,098,000 in respect of the year ended December 31, 2021 (2020: final dividend of HK82.00 cents (approximately US10.55 cents) per share in respect of the year ended December 31, 2020) 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:

	2021 US\$'000	2020 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	1,099,003	800,760
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,830,544,048	1,828,388,789
Effect of dilutive potential ordinary shares:		
Share options	7,179,011	4,816,658
Share award	2,287,031	1,980,218
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,840,010,090	1,835,185,665

## 16. Property, Plant and Equipment

	Freehold land and land and buildings (Note) US\$'000	Leasehold improvements US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Moulds and tooling US\$'000	Vessels US\$'000	Aircraft US\$'000	Construction in progress US\$'000	Total US\$'000
<b>Cost</b>										
At January 1, 2020	400,221	92,547	247,773	395,589	8,047	390,181	7,106	27,695	254,666	1,823,825
Currency realignment	3,163	2,989	5,255	16,765	142	7,142	—	—	2,567	38,023
Additions	177	5,289	15,766	34,373	1,303	3,584	—	—	398,436	458,928
Disposals	(11,478)	(17,160)	(19,858)	(8,641)	(1,485)	(139,383)	—	—	(17,259)	(215,264)
Reclassification	67,597	6,766	36,791	43,623	657	99,119	—	—	(254,553)	—
At December 31, 2020	459,680	90,431	285,727	481,709	8,664	360,643	7,106	27,695	383,857	2,105,512
Currency realignment	(1,552)	(36)	(2,771)	(1,198)	(140)	2,345	—	—	(871)	(4,223)
Additions	4,193	11,965	29,226	67,609	1,977	1,945	—	41,119	588,504	746,538
Disposals	(2,614)	(2,218)	(19,285)	(14,714)	(170)	(137,483)	—	(1,321)	(9,590)	(187,395)
Reclassification	94,826	14,640	30,148	81,343	140	143,129	—	—	(364,226)	—
<b>At December 31, 2021</b>	<b>554,533</b>	<b>114,782</b>	<b>323,045</b>	<b>614,749</b>	<b>10,471</b>	<b>370,579</b>	<b>7,106</b>	<b>67,493</b>	<b>597,674</b>	<b>2,660,432</b>
<b>Depreciation and Impairment</b>										
At January 1, 2020	44,027	49,756	157,760	212,511	4,617	262,239	4,221	2,135	—	737,266
Currency realignment	1,282	1,532	3,795	7,681	87	5,766	—	—	—	20,143
Provided for the year	11,295	10,269	30,543	41,610	1,410	67,662	1,198	1,906	—	165,893
Eliminated on disposals	(4,110)	(12,316)	(13,530)	(8,364)	(1,084)	(111,346)	—	—	—	(150,750)
At December 31, 2020	52,494	49,241	178,568	253,438	5,030	224,321	5,419	4,041	—	772,552
Currency realignment	(146)	(1)	(2,145)	(885)	(91)	1,029	—	—	—	(2,239)
Provided for the year	13,334	13,110	33,939	55,750	1,560	69,681	1,191	1,724	—	190,289
Eliminated on disposals	(21)	(1,886)	(15,096)	(12,399)	(151)	(122,713)	—	(790)	—	(153,056)
<b>At December 31, 2021</b>	<b>65,661</b>	<b>60,464</b>	<b>195,266</b>	<b>295,904</b>	<b>6,348</b>	<b>172,318</b>	<b>6,610</b>	<b>4,975</b>	<b>—</b>	<b>807,546</b>
<b>Carrying amounts</b>										
<b>At December 31, 2021</b>	<b>488,872</b>	<b>54,318</b>	<b>127,779</b>	<b>318,845</b>	<b>4,123</b>	<b>198,261</b>	<b>496</b>	<b>62,518</b>	<b>597,674</b>	<b>1,852,886</b>
At December 31, 2020	407,186	41,190	107,159	228,271	3,634	136,322	1,687	23,654	383,857	1,332,960

Note: Buildings with a carrying amount of US\$13,319,000 (2020: US\$15,099,000) are erected on leasehold land that is presented as ROU assets on the consolidated statement of financial position.

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

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

Land and buildings	Over the Shorter of lease term or useful life of twenty to fifty years
Leasehold improvements	2½% – 37½%
Office equipment, furniture and fixtures	10% – 33⅓%
Plant and machinery	6⅔% – 33⅓%
Motor vehicles	10% – 33⅓%
Moulds and tooling	18% – 33⅓%
Vessels	20% – 25%
Aircraft	6% – 16⅔%

The carrying amounts of properties shown above comprise:

	2021 US\$'000	2020 US\$'000
Properties situated outside Hong Kong are analyzed as follows:		
Freehold land	414,814	329,951
Land and buildings	13,319	15,099
	<b>428,133</b>	345,050
Land and buildings situated in Hong Kong	60,739	62,136
	<b>488,872</b>	407,186

The cost of the Group's PP&E includes amounts of US\$286,318,000 (2020: US\$347,619,000) in respect of fully depreciated PP&E that are still in use.

## 17. Right of Use Assets

	Land and buildings US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Aircraft US\$'000	Leasehold land US\$'000	Total US\$'000
<b>Cost</b>							
At January 1, 2020	330,194	7,214	6,609	81,417	12,582	35,485	473,501
Currency realignment	12,102	(9)	269	2,759	—	2,369	17,490
Additions	175,919	1,701	176	33,636	—	—	211,432
Early termination/end of leases	(21,957)	(596)	(601)	(12,954)	—	—	(36,108)
At December 31, 2020	496,258	8,310	6,453	104,858	12,582	37,854	666,315
Currency realignment	(9,483)	(21)	(143)	(2,393)	—	1,019	(11,021)
Additions	241,862	5,934	4,337	42,021	—	—	294,154
Early termination/end of leases	(40,413)	(1,165)	(1,707)	(13,432)	—	—	(56,717)
Impairment loss	(876)	—	—	—	—	—	(876)
<b>At December 31, 2021</b>	<b>687,348</b>	<b>13,058</b>	<b>8,940</b>	<b>131,054</b>	<b>12,582</b>	<b>38,873</b>	<b>891,855</b>
<b>Depreciation</b>							
At January 1, 2020	168,059	2,301	3,101	36,094	8,703	8,099	226,357
Currency realignment	7,366	10	180	1,548	—	580	9,684
Provided for the year	48,979	1,756	1,576	22,753	1,258	716	77,038
Elimination on early termination/end of leases	(17,596)	(568)	(550)	(11,768)	—	—	(30,482)
At December 31, 2020	206,808	3,499	4,307	48,627	9,961	9,395	282,597
Currency realignment	(6,317)	(9)	(79)	(1,613)	—	264	(7,754)
Provided for the year	80,020	2,331	1,068	27,372	1,258	766	112,815
Elimination on early termination/end of leases	(33,421)	(1,138)	(1,667)	(12,942)	—	—	(49,168)
<b>At December 31, 2021</b>	<b>247,090</b>	<b>4,683</b>	<b>3,629</b>	<b>61,444</b>	<b>11,219</b>	<b>10,425</b>	<b>338,490</b>
<b>Carrying amounts</b>							
<b>At December 31, 2021</b>	<b>440,258</b>	<b>8,375</b>	<b>5,311</b>	<b>69,610</b>	<b>1,363</b>	<b>28,448</b>	<b>553,365</b>
At December 31, 2020	289,450	4,811	2,146	56,231	2,621	28,459	383,718
					<b>2021</b>	2020	
					<b>US\$'000</b>	US\$'000	
Expense relating to short-term leases					<b>22,536</b>	12,911	
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets					<b>12,311</b>	9,771	
Total cash outflow for leases					<b>146,935</b>	106,079	

For both years, the Group leases land and buildings, office equipment, furniture and fixtures, plant and machinery, motor vehicles and aircraft for its operations. Lease contracts are entered into for term of up to 50 years (2020: 18 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 17. Right of Use Assets (continued)

In addition, the Group owns office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for premises, plant and machinery and motor vehicles. As at December 31, 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

### Leases Committed

As at December 31, 2021, the Group entered into new leases for certain PP&E that have not yet commenced, with average non-cancellable period that ranges from 1 to 6 years (2020: 1 to 6 years) with extension options, the total future undiscounted cash flows under which amounts to US\$59,395,000 (2020: US\$7,294,000) over the non-cancellable period.

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

## 18. Goodwill

	<b>US\$'000</b>
At January 1, 2020	580,866
Currency realignment	1,456
Written off during the year	(3,861)
At December 31, 2020	578,461
Currency realignment	<b>(1,224)</b>
<b>At December 31, 2021</b>	<b>577,237</b>

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
<b>Cost</b>							
At January 1, 2020	1,062,457	106,656	242,412	1,753	16,400	1,300	1,430,978
Currency realignment	108	—	—	—	—	—	108
Additions	145,707	12,479	—	—	—	—	158,186
Written off in the year	(444,763)	(23,482)	(3,200)	—	(6,500)	—	(477,945)
At December 31, 2020	763,509	95,653	239,212	1,753	9,900	1,300	1,111,327
Currency realignment	(156)	—	—	—	—	—	(156)
Additions	296,179	14,059	—	—	—	—	310,238
Written off in the year	(34,939)	(200)	—	—	—	—	(35,139)
<b>At December 31, 2021</b>	<b>1,024,593</b>	<b>109,512</b>	<b>239,212</b>	<b>1,753</b>	<b>9,900</b>	<b>1,300</b>	<b>1,386,270</b>
<b>Amortization</b>							
At January 1, 2020	674,439	68,968	14,044	616	5,614	592	764,273
Currency realignment	108	—	—	—	—	—	108
Provided for the year	102,116	8,504	453	130	664	549	112,416
Eliminated on write-off	(407,298)	(17,675)	—	—	(4,171)	—	(429,144)
At December 31, 2020	369,365	59,797	14,497	746	2,107	1,141	447,653
Currency realignment	(21)	—	—	—	—	—	(21)
Provided for the year	89,616	4,829	275	130	660	159	95,669
Eliminated on write-off	(6,816)	—	—	—	—	—	(6,816)
<b>At December 31, 2021</b>	<b>452,144</b>	<b>64,626</b>	<b>14,772</b>	<b>876</b>	<b>2,767</b>	<b>1,300</b>	<b>536,485</b>
<b>Carrying amounts</b>							
<b>At December 31, 2021</b>	<b>572,449</b>	<b>44,886</b>	<b>224,440</b>	<b>877</b>	<b>7,133</b>	<b>—</b>	<b>849,785</b>
At December 31, 2020	394,144	35,856	224,715	1,007	7,793	159	663,674

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

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

Included in trademarks of the Group, US\$224,440,000 (2020: US\$224,440,000) are trademarks considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 20.

## 19. Intangible Assets (continued)

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

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

## 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 preparing the 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 four major individual CGUs, including three units in the Power Equipment segment and one unit in the Floorcare & Cleaning segment. The carrying amounts of goodwill and trademarks as at December 31, 2021 allocated to these units are as follows:

	Goodwill		Trademarks	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Power Equipment – MET	443,264	443,264	126,607	126,607
Power Equipment – TTI OPE	16,509	16,509	30,648	30,648
Power Equipment – Drebo	22,010	23,234	—	—
Floorcare & Cleaning – RAM/Hoover/VAX	75,748	75,748	67,179	67,179
Others	19,706	19,706	6	6
	<b>577,237</b>	578,461	<b>224,440</b>	224,440

During the year ended December 31, 2020, management of the Group wrote off goodwill of US\$3,861,000 and trademarks of US\$3,200,000 pertaining to amounts included in the Others CGU and Power Equipment – TTI OPE CGU respectively.

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

### Power Equipment – MET (“MET”)

The recoverable amounts of MET’s goodwill and intangible assets have 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 7.5% (2020: 8.5%) per annum.

Cash flow projections during the budget period for MET are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on MET’s past performance, management’s expectations of the market development, the success of the new products launched, managing the working capital and the continuance of costs controlling strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2020: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of MET’s goodwill and intangible assets to exceed the estimated recoverable amounts.

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

### Power Equipment – TTI OPE (“TTI OPE”)

The recoverable amounts of TTI OPE's goodwill and intangible assets have 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 9.0% (2020: 10.0%) per annum.

Cash flow projections during the budget period for TTI OPE 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 TTI OPE's past performance, management's expectations of the market development, the success of the new products launched and the continuance of costs controlling strategy implemented. Cash flow projections beyond the 5-year period are extrapolated without considering any growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of TTI OPE's goodwill and intangible assets to exceed the estimated recoverable amounts.

### Power Equipment – Drebo (“Drebo”)

The recoverable amounts of Drebo's goodwill have 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 9.0% (2020: 9.0%) per annum.

Cash flow projections during the budget period for Drebo are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Drebo's past performance, management's expectations of the market development, the success of the new products launched and the continuance of costs controlling strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 3.0% (2020: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of Drebo's goodwill to exceed the estimated recoverable amount.

### Floorcare & Cleaning – RAM/Hoover/VAX (“RAM/Hoover/VAX”)

The recoverable amounts of RAM/Hoover/VAX's goodwill and intangible assets have 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% (2020: 12.5%) 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, managing the working capital and the continuance of costs controlling strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2020: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of RAM/Hoover/VAX's goodwill and intangibles to exceed the estimated aggregate recoverable amounts.

## 21. Interest in an Associate

	2021 US\$'000	2020 US\$'000
Cost of investment in an associate	1,470	1,470
Share of post-acquisition profits	556	551
Share of net assets	2,026	2,021

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

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

	2021 US\$'000	2020 US\$'000
Non-current assets	1,578	1,875
Current assets	9,391	7,034
Current liabilities	6,834	4,437
Non-current liabilities	—	347
Net assets	4,135	4,125

	2021 US\$'000	2020 US\$'000
Revenue	62,113	45,095
Profit for the year	9	882

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

	2021 US\$'000	2020 US\$'000
Net assets	4,135	4,125
Proportion of the Group’s ownership interest	49.0%	49.0%
The Group’s share of net assets	2,026	2,021
Carrying amount of the Group’s interest	2,026	2,021

Particulars of an associate as at December 31, 2021 and 2020 are set out in Note 50.

The trade receivables from an associate are unsecured, non-interest bearing and are repayable on demand.

## 22. Financial Assets at FVTPL

	Notes	2021 US\$'000	2020 US\$'000
Club membership debentures	(a)	4,914	3,189
Unlisted equity securities	(b)	—	3,301
Listed equity securities	(c)	16,272	17,763
Other		45	45
		<b>21,231</b>	24,298
<b>Analyzed for reporting purposes as:</b>			
Current assets		16,272	17,763
Non-current assets		4,959	6,535
		<b>21,231</b>	24,298

Notes:

- (a) As at December 31, 2021 and 2020, the club membership debentures measured at fair value with reference to recent transaction prices for similar comparables with similar characteristic.
- (b) As at December 31, 2020, the unlisted equity securities represented the interest in a private company incorporated in the United States of America ("US"). The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in a private market. During the year ended December 31, 2021, the shares of the private company have been listed in the US and the carrying value was reclassified as "listed equity securities".
- (c) The Group's listed equity securities were carried at fair value using the market bid prices on the reporting date.

## 23. Inventories

	2021 US\$'000	2020 US\$'000
Raw materials	602,312	401,837
Work in progress	61,129	53,703
Finished goods	4,186,351	2,768,208
	<b>4,849,792</b>	3,223,748

## 24. Right to Returned Goods Asset/Refund Liabilities from Right of Return

The right to returned goods asset represents the Group's right to recover products from customers where customers exercise their right of return under the Group's various returns policies. The Group uses its accumulated historical experience to estimate the dollar value of returns on a portfolio level based on the expected return level.

The refund liabilities relate to customers' right to return products within certain days of purchase. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognized for the sold products expected to be returned. The Group uses its accumulated historical experience to estimate the dollar value of returns on a portfolio level based on the expected return level.

## 25. Trade and Other Receivables

	2021 US\$'000	2020 US\$'000
Trade receivables	1,976,060	1,359,988
Less: Allowances for credit losses	(75,913)	(52,932)
	<b>1,900,147</b>	1,307,056
Other receivables	<b>122,131</b>	60,230
	<b>2,022,278</b>	1,367,286

As at January 1, 2020, all trade receivables amounted US\$1,195,630,000 are derived from contracts with customers.

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

	2021 US\$'000	2020 US\$'000
0 to 60 days	1,795,436	1,016,581
61 to 120 days	22,583	232,640
121 days or above	82,128	57,835
Total trade receivables	<b>1,900,147</b>	1,307,056

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

As at December 31, 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$220,824,000 (2020: US\$307,439,000) which are past due as at the reporting date. The past due over 90 days balances that are presumed in default according with the Group's accounting policy of US\$145,059,000 (2020: US\$254,508,000) are not considered as in default as they are due from a number of independent customers that have a good payment track record with the Group.

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

In accordance with receivables purchase agreements, certain trade receivables have been factored to banks (the "Factored Trade Receivables"). As the Group still retained the risks associated in respect of default payments, the Group has continued to recognize the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of US\$75,000,000 (2020: US\$10,000,000) were recognized as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

## 26. Bills Receivable

All the Group's bills receivable at December 31, 2021 and 2020 are aged within 120 days based on invoice date.

## 27. Trade Receivables from an Associate

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

## 28. Derivative Financial Instruments

	2021 US\$'000	2020 US\$'000
<b>Assets</b>		
Acquisition right of certain property, plant and equipment	8,302	8,494
Foreign currency forward contracts – under hedge accounting	86,226	9,341
Foreign currency forward contracts – not under hedge accounting	7,328	–
	<b>101,856</b>	17,835
<b>Liabilities</b>		
Foreign currency forward contracts – under hedge accounting	1,885	51,458
Foreign currency forward contracts – not under hedge accounting	–	16,400
Cross-currency interest rate swaps – under hedge accounting	6,397	28,277
	<b>8,282</b>	96,135

### Acquisition Right of Certain PP&E

As at December 31, 2021 and 2020, the Group owned a right to acquire certain PP&E which was acquired as part of the acquisition of the Oreck business from the Oreck Bankruptcy Estate. The right is expected to be exercised in 2032. The fair value of the PP&E was US\$8,302,000 valued on September 30, 2021 (2020: US\$8,494,000 valued on September 30, 2020) by Duff & Phelps, an independent valuer not related to the Group.

### Foreign Currency Forward Contracts

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

### Foreign Currency Forward Contracts under Hedge Accounting

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

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

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

**2021**

Notional amounts in millions ("M")	Maturity
Sell AUD 488M, Buy US\$	January 28, 2022 to December 29, 2022
Sell EUR 673.6M, Buy US\$	January 27, 2022 to December 29, 2022
Sell US\$954.8M, Buy RMB	January 27, 2022 to December 29, 2022
Sell US\$101M, Buy EUR	January 5, 2022 to October 16, 2023
Sell GBP 89.5M, Buy US\$	January 4, 2022 to December 22, 2022
Sell GBP 72M, Buy EUR	January 13, 2022 to December 15, 2022
Sell CHF 6.6M, Buy EUR	January 13, 2022 to December 15, 2022
Sell SEK 660M, Buy EUR	January 13, 2022 to December 15, 2022
Sell NOK 96M, Buy EUR	January 13, 2022 to April 13, 2022

**2020**

Notional amounts in M	Maturity
Sell AUD 537M, Buy US\$	January 28, 2021 to December 30, 2021
Sell EUR 780.2M, Buy US\$	January 11, 2021 to December 29, 2022
Sell GBP 90.8M, Buy US\$	January 8, 2021 to March 18, 2022
Sell US\$270.8M, Buy RMB	July 29, 2021 to December 30, 2021
Sell US\$16M, Buy EUR	January 5, 2021 to August 24, 2021
Sell GBP 18M, Buy EUR	January 14, 2021 to September 16, 2021
Sell CHF 4.4M, Buy EUR	January 14, 2021 to December 16, 2021
Sell SEK 333M, Buy EUR	January 14, 2021 to December 16, 2021

As at December 31, 2021, a fair value gain of US\$175,263,000 (December 31, 2020: fair value loss of US\$75,838,000) has been recognized in other comprehensive income and accumulated in hedging reserve and is expected to be reclassified to profit or loss.

During the year, a fair value loss of US\$33,587,000 (2020: fair value gain of US\$12,896,000) was reclassified from reserves to profit or loss.

## 28. Derivative Financial Instruments (continued)

### Foreign Currency Forward Contracts under Hedge Accounting (continued)

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

#### 2021

Notional amounts in M	Maturity
Buy EUR 3.2M, Sell AUD	January 20, 2022 to December 20, 2022
Buy US\$65.5M, Sell AUD	January 20, 2022 to December 23, 2022
Buy US\$60.1M, Sell NZD	January 20, 2022 to December 22, 2022
Buy US\$402.9M, Sell CAD	January 31, 2022 to November 2, 2022

#### 2020

Notional amounts in M	Maturity
Buy EUR 4.8M, Sell AUD	January 13, 2021 to December 13, 2021
Buy US\$27M, Sell AUD	January 20, 2021 to December 20, 2021
Buy US\$33.5M, Sell NZD	January 20, 2021 to December 20, 2021
Buy US\$381.7M, Sell CAD	January 29, 2021 to October 8, 2021

### Cross-currency Interest Rate Swaps

The Group uses cross-currency interest rate swaps designated as effective hedging instrument to minimize its exposures to interest rate risk on US\$ floating borrowings and foreign currency risk on the intercompany advances which affects the consolidated profit or loss.

The cross-currency interest rate swaps with notional amount of US\$210,300,000 (2020: US\$210,300,000) have fixed currency payments in EUR at exchange rate of EUR to US\$ at 1.102 and 1.077 (2020: at 1.102 and 1.077), fixed interest payments monthly in EUR at 0.305% and 0.520% per annum (2020: 0.305% and 0.520% per annum) for periods up until October 2023, October 2024, April 2024 and April 2025 (2020: October 2023, October 2024, April 2024 and April 2025).

The floating rate index and the currency exposure of the cross-currency interest rate swaps match with the floating rate US\$ bank borrowings and the currency exposure of the intercompany advances respectively.

During the year, a fair value gain of US\$21,880,000 (December 31, 2020: fair value loss of US\$28,277,000) has been recognized in other comprehensive income and accumulated in hedging reserve and is expected to be reclassified to profit or loss.

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

## 28. Derivative Financial Instruments (continued)

### Cross-currency Interest Rate Swaps (continued)

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

#### 2021

Notional amounts	Maturity	Receive floating	Pay fixed
US\$66,120,000	October 16, 2023	LIBOR +0.85%	0.305%
US\$99,180,000	October 9, 2024	LIBOR +0.85%	0.305%
US\$18,000,000	April 23, 2024	LIBOR +0.85%	0.520%
US\$27,000,000	April 23, 2025	LIBOR +0.85%	0.520%

#### 2020

Notional amounts	Maturity	Receive floating	Pay fixed
US\$66,120,000	October 16, 2023	LIBOR +0.85%	0.305%
US\$99,180,000	October 9, 2024	LIBOR +0.85%	0.305%
US\$18,000,000	April 23, 2024	LIBOR +0.85%	0.520%
US\$27,000,000	April 23, 2025	LIBOR +0.85%	0.520%

## 29. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which ranged from (1.25%) to 3.50% (2020: 0.001% to 1.75%) per annum.

## 30. Trade and other Payables

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

	2021 US\$'000	2020 US\$'000
0 to 60 days	1,267,129	1,315,379
61 to 120 days	672,558	389,775
121 days or above	92,789	17,988
Total trade payables	2,032,476	1,723,142
Other payables	2,007,823	1,583,190
Total trade and other payables	4,040,299	3,306,332
Non-current portion of other payables	(48,502)	(58,524)
	3,991,797	3,247,808

The credit period on the purchase of goods ranges from 30 days to 120 days (2020: 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.

The other payables mainly represents accruals of various selling, general and administrative expenses of US\$1,731,545,000 (2020: US\$1,385,793,000). The non-current other payables mainly represents accruals of long-term incentive benefits offered to certain management executives of the Group.

### 31. Bills Payable

All the Group's bills payable at December 31, 2021 and 2020 are aged within 120 days based on invoice date.

### 32. Warranty Provision

	US\$'000
At January 1, 2020	115,210
Currency realignment	3,788
Provision in the year	141,803
Utilization of provision	(104,130)
At December 31, 2020	156,671
Currency realignment	<b>(2,954)</b>
Provision in the year	<b>140,742</b>
Utilization of provision	<b>(111,694)</b>
<b>At December 31, 2021</b>	<b>182,765</b>

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

### 33. Lease Liabilities

	2021 US\$'000	2020 US\$'000
Amounts payable under lease liabilities:		
Within one year	<b>115,194</b>	73,331
In more than one year but not more than two years	<b>106,211</b>	69,439
In more than two years but not more than five years	<b>181,084</b>	111,206
More than five years	<b>151,711</b>	120,431
	<b>554,200</b>	374,407
Less: Amount due for settlement with 12 months shown under current liabilities	<b>(115,194)</b>	(73,331)
Amount due for settlement after 12 months shown under non-current liabilities	<b>439,006</b>	301,076

The weighted average incremental borrowing rates applied to lease liabilities ranged from 1.60% to 2.80% (2020: from 2.20% to 2.80%).

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

	EUR US\$'000	AUD US\$'000	VND US\$'000	GBP US\$'000
<b>As at December 31, 2021</b>	<b>49,532</b>	<b>24,166</b>	<b>35,050</b>	<b>23,497</b>
As at December 31, 2020	32,706	24,388	23,686	16,922

### 34. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 3.81% per annum (2020: 3.88% 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 shareholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt which includes unsecured borrowings and discounted bills with recourse, 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:

	2021 US\$'000	2020 US\$'000
Bank balances, deposits and cash	1,874,401	1,533,876
Debt <sup>(i)</sup>	<b>(3,207,844)</b>	(1,316,870)
Net (debt) cash	<b>(1,333,443)</b>	217,006
Equity <sup>(ii)</sup>	<b>4,722,518</b>	3,903,005
Net debt to equity ratio	<b>28.24%</b>	(5.56%)

(i) Debt comprises discounted bills with recourse and unsecured borrowings but excludes bank advances from factored trade receivables as detailed in Notes 34, 37 and 25 respectively.

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

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

## 36. Financial Instruments

### 36.1 Categories of Financial Instruments

	2021 US\$'000	2020 US\$'000
<b>Financial assets</b>		
<i>FVTPL</i>		
Financial assets at FVTPL	<b>21,231</b>	24,298
	<b>21,231</b>	24,298
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	<b>8,302</b>	8,494
Foreign currency forward contracts – under hedge accounting	<b>86,226</b>	9,341
Foreign currency forward contracts – not under hedge accounting	<b>7,328</b>	—
	<b>101,856</b>	17,835
<i>Financial assets at amortized cost</i>		
Trade and other receivables	<b>2,022,278</b>	1,367,286
Bills receivable	<b>7,643</b>	7,660
Trade receivables from an associate	<b>6,600</b>	4,240
Bank balances, deposits and cash	<b>1,874,401</b>	1,533,876
	<b>3,910,922</b>	2,913,062
<b>Financial liabilities</b>		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts – under hedge accounting	<b>1,885</b>	51,458
Foreign currency forward contracts – not under hedge accounting	<b>—</b>	16,400
Cross-currency interest rate swaps – under hedge accounting	<b>6,397</b>	28,277
	<b>8,282</b>	96,135
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	<b>4,040,299</b>	3,306,332
Bills payable	<b>47,549</b>	61,791
Discounted bills with recourse	<b>1,857</b>	1,436
Unsecured borrowings	<b>3,280,987</b>	1,325,434
	<b>7,370,692</b>	4,694,993

## 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 internally 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 exposes the Group to foreign currency risk. Approximately 21.0% (2020: 20.4%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 13.0% (2020: 14.4%) 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	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Foreign Currency				
EUR	<b>413,646</b>	448,945	<b>672,148</b>	676,921
US\$	<b>3,927,546</b>	2,974,968	<b>883,038</b>	1,715,483

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\$693,733,000 (2020: US\$946,737,000). It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness (see Note 28 for details).

The Group also uses cross-currency interest rate swaps to reduce currency exposure to hedge against the debts which are effective to convert the foreign currency debts to the functional currency of the relevant group entity. The critical terms of these currency swaps are similar to those of hedged borrowings.

## 36. Financial Instruments (continued)

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

#### 36.2.1 FOREIGN CURRENCY RISK MANAGEMENT (continued)

##### Sensitivity Analysis

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in the functional currency against foreign currency without considering the cross-currency interest rate swaps entered at end of the reporting period. 5% (2020: 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 foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and excludes the effect of cross-currency interest rate swaps held at the reporting date. A positive number below indicates an increase in profit for the year where functional currency weakens 5% (2020: 5%) against foreign currency. For a 5% (2020: 5%) strengthening of functional currency against the foreign currency, there would be an equal and opposite impact on the profit for the year and the amounts below would be negative.

	Impact of US\$		Impact of EUR	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Profit for the year <sup>(i)</sup>	<b>(141,571)</b>	(58,567)	<b>12,020</b>	10,601

(i) This is mainly attributable to the net exposure on receivables, payables and unsecured borrowings denominated in US\$ & EUR as foreign currency 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 borrowings (see Note 37 for details of these borrowings), discounted bills with recourse and bank balances and deposits. The Group's cash flow interest rate risk is mainly concentrated on LIBOR arising from the Group's US\$ and EUR denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk to be low. The management continuously monitors interest rate fluctuations and will consider further hedging the interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate unsecured borrowings (see Note 37 for details of these borrowings) and lease liabilities.

During the year, the Group obtained new unsecured borrowings of US\$7,300 million (2020: US\$3,694 million) which are either at a fixed rate or LIBOR based. The proceeds were used for refinancing the Group's borrowings.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

**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 at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year without considering the cross-currency interest rate swaps entered at the end of the reporting period. A 50 basis points (2020: 50 basis points) 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 (2020: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2021 would decrease/increase by US\$11,828,000 (2020: decrease/increase by US\$3,992,000). 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.

**36.2.3 OTHER PRICE RISK**

The Group is exposed to price risk mainly through its listed equity securities.

**Sensitivity analysis**

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

If the prices of the listed equity securities had been 10% higher, the profit for the year ended December 31, 2021 of the Group would have increase by US\$1,627,000 (2020: increase by US\$1,776,000) as a result of the changes in the fair values of the listed equity securities.

**36.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT**

As at December 31, 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group amounted to US\$3,910,922,000 (2020: US\$2,913,062,000). The Group's credit risk exposures are primarily attributable to trade and other receivables, bills receivables, trade receivables from an associate and bank balances, deposits and cash. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

**Trade receivables arising from contracts with customers**

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

The Group has concentration of credit risk as 43.0% (2020: 35.0%) and 61.9% (2020: 53.6%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively. In order to minimize the credit risk, the management of Group has delegated a team responsible for determination of credit limits and credit approvals.

### 36. Financial Instruments (continued)

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

##### 36.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT (continued)

###### Bank balances

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

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

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

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

	Notes	Internal credit rating	12m or lifetime ECL	2021		2020	
				External credit rating	Gross carrying amount US\$'000	External credit rating	Gross carrying amount US\$'000
Trade receivables	25	(Note 1)	Lifetime ECL (not credit-impaired)	<b>N/A</b>	<b>1,976,060</b>	N/A	1,359,988
Other receivables	25	(Note 2)	12m ECL	<b>N/A</b>	<b>122,131</b>	N/A	60,230
Bills receivable	26	N/A	12m ECL	<b>A- To A+</b>	<b>7,643</b>	A- To A	7,660
Trade receivables from an associate	27	(Note 2)	12m ECL	<b>N/A</b>	<b>6,600</b>	N/A	4,240
Bank balances and deposits	29	N/A	12m ECL	<b>A To A+</b>	<b>1,874,401</b>	A To A+	1,533,876

Notes:

- For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a collective assessment grouped by internal credit rating.
- Trade receivables from an associate and other receivables amounted to US\$6,600,000 and US\$122,131,000 (2020: US\$4,240,000 and US\$60,230,000) respectively have no fixed repayment terms. The Group has assessed these balances on a 12m ECL basis as there has been no significant increase in the credit risk since initial recognition.

### 36. Financial Instruments (continued)

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

##### 36.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT (continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively as at December 31, 2021.

	2021			2020		
	Average loss rate	Gross carrying amount US\$'000	Allowances for credit losses US\$'000	Average loss rate	Gross carrying amount US\$'000	Allowances for credit losses US\$'000
Internal credit rating						
Minimal risk	Less than 1%	405,109	—	Less than 1%	380,494	—
Low risk	1-5%	1,516,371	58,848	1-5%	920,879	30,534
Medium risk	6-20%	29,485	3,007	6-20%	31,255	2,624
High risk	Over 20%	25,095	14,058	Over 20%	27,360	19,774
		<b>1,976,060</b>	<b>75,913</b>		<b>1,359,988</b>	<b>52,932</b>

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

During the year ended December 31, 2021, the Group provided US\$75,913,000 (2020: US\$52,932,000) for credit losses allowances for trade receivables.

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

## 36. Financial Instruments (continued)

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

#### 36.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT (continued)

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

	Lifetime ECL (not credit-impaired) US\$'000
As at January 1, 2020	34,529
Currency realignment	(581)
Impairment losses reversed upon settlement in full of trade debtors with a gross carrying amount of US\$967,757,000	(30,443)
Impairment losses recognized on new trade receivables with a gross carrying amount of US\$979,494,000	52,932
Write-offs	(3,505)
As at December 31, 2020	52,932
Currency realignment	(619)
Impairment losses reversed upon settlement in full of trade debtors with a gross carrying amount of US\$978,274,000	(51,093)
Impairment losses recognized on new trade receivables with a gross carrying amount of US\$1,570,951,000	75,913
Write-offs	(1,220)
<b>As at December 31, 2021</b>	<b>75,913</b>

#### 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, 2021, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$323 million (2020: US\$351 million) and US\$2,248 million (2020: US\$2,220 million) respectively.

#### Liquidity Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities and derivative instruments. The tables have been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on agreed repayment dates. 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.

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/settlement as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

**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, 2021 US\$'000
<b>2021</b>								
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(2,746,663)	(869,860)	(375,274)	(48,502)	—	(4,040,299)	(4,040,299)
Bills payable	—	(1,708)	(19,225)	(26,616)	—	—	(47,549)	(47,549)
Lease liabilities	1.60% – 2.80%	(9,600)	(19,268)	(87,821)	(108,548)	(347,438)	(572,675)	(554,200)
Discounted bills with recourse	3.81%	(723)	(1,142)	—	—	—	(1,865)	(1,857)
Unsecured borrowings	0.31% – 3.52%	(1,695,726)	(105,435)	(458,299)	(189,414)	(874,764)	(3,323,638)	(3,280,987)
Refund liabilities from right of return	—	(8,763)	—	(14,002)	(2,885)	—	(25,650)	(22,767)
		(4,463,183)	(1,014,930)	(962,012)	(349,349)	(1,222,202)	(8,011,676)	(7,947,659)
<b>2021</b>								
<b>Derivatives – net settlement</b>								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	8,302	8,302	8,302
Cross-currency interest rate swaps contracts	—	103	227	1,683	(1,084)	(7,922)	(6,993)	(6,397)
Foreign currency forward contracts – US\$	—	—	881	2,209	—	—	3,090	3,090
	—	103	1,108	3,892	(1,084)	380	4,399	4,995
<b>Derivatives – gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– EUR	—	20,518	40,676	160,690	—	—	221,884	221,884
– RMB	—	182,971	298,083	494,375	—	—	975,429	975,429
– GBP	—	11,994	23,991	87,092	—	—	123,077	123,077
– US\$	—	105,438	192,979	887,189	69,947	—	1,255,553	1,255,553
– AUD	—	6,286	11,569	51,278	—	—	69,133	69,133
– NZD	—	3,980	8,712	47,449	—	—	60,141	60,141
	—	331,187	576,010	1,728,073	69,947	—	2,705,217	2,705,217
– outflow								
– EUR	—	(20,738)	(41,105)	(161,632)	—	—	(223,475)	(223,475)
– RMB	—	(178,977)	(291,420)	(484,798)	—	—	(955,195)	(955,195)
– GBP	—	(12,123)	(24,290)	(84,722)	—	—	(121,135)	(121,135)
– US\$	—	(98,965)	(180,967)	(842,565)	(69,300)	—	(1,191,797)	(1,191,797)
– AUD	—	(6,162)	(11,343)	(50,293)	—	—	(67,798)	(67,798)
– NZD	—	(3,804)	(8,325)	(45,109)	—	—	(57,238)	(57,238)
	—	(320,769)	(557,450)	(1,669,119)	(69,300)	—	(2,616,638)	(2,616,638)
	—	10,418	18,560	58,954	647	—	88,579	88,579

**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, 2020 US\$'000
<b>2020</b>								
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(2,300,469)	(792,033)	(155,306)	(58,524)	—	(3,306,332)	(3,306,332)
Bills payable	—	(968)	(31,401)	(29,422)	—	—	(61,791)	(61,791)
Lease liabilities	2.20% – 2.80%	(6,111)	(12,273)	(56,029)	(71,175)	(243,219)	(388,807)	(374,407)
Discounted bills with recourse	3.88%	(1,436)	—	—	—	—	(1,436)	(1,436)
Unsecured borrowings	0.31% – 3.52%	(219,614)	(44,140)	(123,346)	(250,416)	(721,110)	(1,358,626)	(1,325,434)
Refund liabilities from right of return	—	(18,493)	—	(8,219)	(1,202)	—	(27,914)	(26,713)
		(2,547,091)	(879,847)	(372,322)	(381,317)	(964,329)	(5,144,906)	(5,096,113)
<b>2020</b>								
<b>Derivatives – net settlement</b>								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	8,494	8,494	8,494
Cross-currency interest rate swaps contracts	—	102	201	887	1,270	(32,117)	(29,657)	(28,277)
Foreign currency forward contracts – US\$	—	(721)	(1,822)	(9,373)	—	—	(11,916)	(11,916)
	—	(619)	(1,621)	(8,486)	1,270	(23,623)	(33,079)	(31,699)
<b>Derivatives – gross settlement</b>								
Foreign currency forward contracts – inflow								
– EUR	—	30,161	16,873	44,614	—	—	91,648	91,648
– RMB	—	—	—	281,578	—	—	281,578	281,578
– GBP	—	9,516	18,482	71,366	19,440	—	118,804	118,804
– US\$	—	69,698	154,137	733,052	364,074	—	1,320,961	1,320,961
– AUD	—	2,722	5,447	24,505	—	—	32,674	32,674
– NZD	—	2,518	5,000	25,999	—	—	33,517	33,517
	—	114,615	199,939	1,181,114	383,514	—	1,879,182	1,879,182
– outflow								
– EUR	—	(30,793)	(16,941)	(44,598)	—	—	(92,332)	(92,332)
– RMB	—	—	—	(270,378)	—	—	(270,378)	(270,378)
– GBP	—	(9,785)	(18,978)	(74,707)	(20,603)	—	(124,073)	(124,073)
– US\$	—	(72,829)	(161,045)	(762,996)	(371,504)	—	(1,368,374)	(1,368,374)
– AUD	—	(2,887)	(5,775)	(25,873)	—	—	(34,535)	(34,535)
– NZD	—	(2,737)	(5,476)	(27,878)	—	—	(36,091)	(36,091)
	—	(119,031)	(208,215)	(1,206,430)	(392,107)	—	(1,925,783)	(1,925,783)
	—	(4,416)	(8,276)	(25,316)	(8,593)	—	(46,601)	(46,601)

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

**36. Financial Instruments** (continued)**36.2 Financial Risk Management Objectives and Policies** (continued)**36.2.5 LIQUIDITY RISK MANAGEMENT** (continued)**Liquidity Tables** (continued)

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.

**36.2.6 INTEREST RATE BENCHMARK REFORM**

Several of the Group's financial liabilities and derivative financial instruments, the interest of which are indexed to benchmark rates will be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

**LIBOR**

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after December 31, 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after June 30, 2023, in the case of the remaining US dollar settings.

Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

*Interest rate related risks*

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

*Liquidity risk*

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

*Litigation risk*

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

*Interest rate basis risk*

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. If such a case arises, the Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

## 36. Financial Instruments (continued)

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

#### 36.2.6 INTEREST RATE BENCHMARK REFORM (continued)

##### LIBOR (continued)

Progress towards implementation of alternative benchmark interest rates

The Group is exposed to the impact of interest rate changes, primarily through its floating rate borrowings that require it to make interest payments based on LIBOR. The Group uses cross-currency interest rate swaps to reduce its market risk from changes in interest rates.

The Group plans to transition the majority of its LIBOR linked contracts to risk-free rates through amendments to fallback clauses in its floating rate credit facilities and debt instruments which would change the basis for determining the interest rate cash flows from LIBOR to a risk-free rate at an agreed point in time.

Interest rate benchmark transition for non-derivative financial liabilities

As at December 31, 2021, the Group has US\$2,511 million of outstanding USD LIBOR referenced borrowings summarized as following:

	Principal US\$'000	Weighted average term (years)	Transition progress
Term loans	450,970	2.09	Expected to amend fallback clauses prior to cessation of publication of LIBOR.
Revolving and trade loan	2,060,110	0.11	Expected to amend fallback clauses prior to cessation of publication of LIBOR.
<b>Total</b>	<b>2,511,080</b>		

## 36. Financial Instruments (continued)

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

#### 36.2.6 INTEREST RATE BENCHMARK REFORM (continued)

##### LIBOR (continued)

Interest rate benchmark transition for derivatives

As at December 31, 2021, the Group had an outstanding notional balance of US\$210,300,000 of USD LIBOR referenced cross-currency interest rate swaps which were in a cash flow hedge with the Group's variable-rate US\$ unsecured borrowings.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators regarding the transition away from LIBOR. In response to the announcements, the Group has set up an LIBOR transition programme comprised of the following work streams: tax, treasury, legal, accounting and systems. The aim of the programme is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. None of the Group's current LIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different LIBORs, which the Group is monitoring closely and will look to implement these when appropriate.

For the Group's cross-currency interest rate swaps, the International Swaps and Derivatives Association's ("ISDA") fall back clauses were made available in the first quarter of 2021 and the Group is discussing with its banks with the aim to implement this language into its ISDA agreements within 2022.

The Group will continue to apply the amendments to HKFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends. The Group has assumed that this uncertainty will not end until the Group's LIBOR contracts are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall back clauses which have yet to be added to the Group's contracts and the negotiation with lenders is underway.

Below are details of the hedging instruments and the related hedged items that have been or will be subject to transition to alternative benchmark interest rates, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal amount US\$'000	Hedged item	Transition progress
Cash flow hedge	Cross-currency interest rate swaps	October 2023, October 2024, April 2024 and April 2025	210,300	Floating rate US\$ bank borrowings and the currency exposure of the intercompany advances	To transition derivatives via ISDA protocol

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

#### **FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED 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 CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	2021	2020		
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	<b>Acquisition right of certain property, plant and equipment: US\$8,302,000</b>	Acquisition right of certain property, plant and equipment: US\$8,494,000	Level 2	Measured at the fair value of the land and buildings associated with the acquisition right which is based on a valuation by third party independent valuer at the end of the financial year.
2) Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	<b>Assets – US\$93,554,000; and Liabilities – US\$1,885,000</b>	Assets – US\$9,341,000; and Liabilities – US\$67,858,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates and yield curves at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
3) Listed equity securities classified as financial assets at FVTPL in the consolidated statement of financial position	<b>Listed shares: US\$16,272,000</b>	Listed shares: US\$17,763,000	Level 1	Quoted bid prices in an active market.
4) Other financial assets classified as financial assets at FVTPL in the consolidated statement of financial position	<b>Club membership debentures: US\$4,914,000</b>	Club membership debentures: US\$3,189,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
	<b>Unlisted equity securities: Nil</b>	Unlisted equity securities: US\$3,301,000	Level 2	The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in private market.
	<b>Other: US\$45,000</b>	Other: US\$45,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
5) Cross-currency interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	<b>Liabilities: US\$6,397,000</b>	Liabilities: US\$28,277,000	Level 2	Measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between US\$ and EUR, which is observable at the end of the reporting period.

### 36. Financial Instruments (continued)

#### 36.3 Fair Value (continued)

##### FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Level 1 US\$'000	Level 2 US\$'000	Total US\$'000
<b>2021</b>			
<b>Financial assets</b>			
Acquisition right of certain property, plant and equipment	—	8,302	8,302
Foreign currency forward contracts	—	93,554	93,554
Financial assets at FVTPL	16,272	4,959	21,231
<b>Total</b>	<b>16,272</b>	<b>106,815</b>	<b>123,087</b>
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(1,885)	(1,885)
Cross-currency interest rate swaps	—	(6,397)	(6,397)
<b>Total</b>	<b>—</b>	<b>(8,282)</b>	<b>(8,282)</b>
<b>2020</b>			
<b>Financial assets</b>			
Acquisition right of certain property, plant and equipment	—	8,494	8,494
Foreign currency forward contracts	—	9,341	9,341
Financial assets at FVTPL	17,763	6,535	24,298
<b>Total</b>	<b>17,763</b>	<b>24,370</b>	<b>42,133</b>
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(67,858)	(67,858)
Cross-currency interest rate swaps	—	(28,277)	(28,277)
<b>Total</b>	<b>—</b>	<b>(96,135)</b>	<b>(96,135)</b>

During the year, there was a transfer of financial asset of US\$3,301,000 from level 2 to level 1 for one equity investment. The reason for the transfer was that the shares of the invested company have started being actively traded and reliable quoted price can be obtained in the market.

## 36. Financial Instruments (continued)

### 36.4 Transfers of financial assets

The following were the Group's financial assets as at December 31, 2021 that were transferred to banks by discounting or factoring those trade and bills receivables on a full recourse basis. As the Group retained substantially all of the significant risks and rewards relating to these receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as discounted bills with recourse (see Note 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:

	2021 US\$'000	2020 US\$'000
Carrying amount of transferred assets	76,857	11,436
Carrying amount of associated liabilities	(76,857)	(11,436)
Net position	—	—

## 37. Unsecured Borrowings

	2021 US\$'000	2020 US\$'000
Bank advance from Factored Trade Receivables	75,000	10,000
Bank loans	2,991,475	1,205,110
Medium Term Notes	214,512	110,324
Total borrowings	3,280,987	1,325,434

The borrowings of the Group are repayable as follows:

	2021 US\$'000	2020 US\$'000
<b>Fixed-rate</b>		
Within one year	21,000	20,982
In more than one year but not more than two years	79,856	62,960
In more than two years but not more than five years	423,860	274,154
More than five years	214,512	110,324
<b>Variable-rate</b>		
Within one year	2,231,636	364,232
In more than one year but not more than two years	105,998	182,750
In more than two years but not more than five years	204,125	310,032
	3,280,987	1,325,434
Less: Amount due within one year shown under current liabilities	(2,252,636)	(385,214)
Amount due after one year	1,028,351	940,220

### 37. Unsecured Borrowings (continued)

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

	2021	2020
Effective interest rate:		
Fixed-rate borrowings	<b>0.73% to 3.52%</b>	0.73% to 3.52%
Variable-rate borrowings	<b>0.31% to 2.91%</b>	0.31% to 1.15%

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

	US\$'000
<b>As at December 31, 2021</b>	<b>87,258</b>
As at December 31, 2020	60,745

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

### 38. Share Capital

	2021 Number of shares	2020 Number of shares	2021 US\$'000	2020 US\$'000
<b>Ordinary shares</b>				
Authorized shares	<b>2,400,000,000</b>	2,400,000,000	<b>N/A</b>	N/A
Issued and fully paid:				
At the beginning of the year	<b>1,832,620,441</b>	1,830,006,941	<b>673,141</b>	662,379
Issue of shares upon exercise of share options	<b>1,864,000</b>	2,613,500	<b>10,254</b>	10,762
At the end of the year	<b>1,834,484,441</b>	1,832,620,441	<b>683,395</b>	673,141

Details of the share options are set out in Note 43.

### 39. Reserves

	Shares held for share award scheme US\$'000	Employee share-based compensation reserve US\$'000	Hedging reserve US\$'000	Retained profits US\$'000	Total US\$'000
<b>The Company</b>					
At January 1, 2020	(31,827)	14,599	16,522	23,894,144	23,893,438
Loss for the year	—	—	—	(60,272)	(60,272)
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	(81,012)	—	(81,012)
Total comprehensive loss for the year	—	—	(81,012)	(60,272)	(141,284)
Shares issued on exercise of options	—	(2,168)	—	—	(2,168)
Vesting of awarded shares	12,798	(12,798)	—	—	—
Shares for share award scheme	(23,057)	—	—	—	(23,057)
Recognition of equity-settled share-based payments	—	17,778	—	—	17,778
Final dividend – 2019	—	—	—	(136,688)	(136,688)
Interim dividend – 2020	—	—	—	(124,949)	(124,949)
At December 31, 2020	(42,086)	17,411	(64,490)	23,572,235	23,483,070
Loss for the year	—	—	—	<b>(72,591)</b>	<b>(72,591)</b>
Fair value gain on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	<b>131,393</b>	—	<b>131,393</b>
Total comprehensive income (loss) for the year	—	—	<b>131,393</b>	<b>(72,591)</b>	<b>58,802</b>
Shares issued on exercise of options	—	<b>(2,046)</b>	—	—	<b>(2,046)</b>
Vesting of awarded shares	<b>17,597</b>	<b>(17,597)</b>	—	—	—
Shares for share award scheme	<b>(81,251)</b>	—	—	—	<b>(81,251)</b>
Recognition of equity-settled share-based payments	—	<b>33,573</b>	—	—	<b>33,573</b>
Final dividend – 2020	—	—	—	<b>(193,488)</b>	<b>(193,488)</b>
Interim dividend – 2021	—	—	—	<b>(200,627)</b>	<b>(200,627)</b>
<b>At December 31, 2021</b>	<b>(105,740)</b>	<b>31,341</b>	<b>66,903</b>	<b>23,105,529</b>	<b>23,098,033</b>

As at December 31, 2021, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$23,105,529,000 (2020: US\$23,572,235,000).

## 40. Retirement Benefit Obligations

### Defined Contribution Plans:

The Group 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 (2020: HK\$18,000) per employee per annum, which contribution is matched by the employee.

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

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

The total expense recognized in profit or loss of US\$25,474,000 (2020: US\$17,997,000) 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 plans are administered by separate funds that are 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:

	2021 US\$'000	2020 US\$'000
Pension plan obligations (Note i)	74,474	90,505
Life and medical insurance plan (Note ii)	1,051	1,245
Others	614	568
	<b>76,139</b>	<b>92,318</b>

#### Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes an unfunded plan that pays retirement benefits based on the term of service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the qualifying 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, 2022, by BDO AG Wirtschaftsprüfungsgesellschaft, an independent valuer not related to the Group.

#### Note ii: Life and medical insurance plan

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on December 23, 2021 by Willis Towers Watson, an independent valuer not related to the Group.

#### 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		Life & medical insurance plan	
	2021	2020	2021	2020
Discount rate	0.55%	0.45%	2.00%	1.75%
Expected rate of salary increases	2.00%	2.00%	N/A	N/A
Future pension increases	2.00%	2.00%	N/A	N/A
Medical cost trend rates	N/A	N/A	5.00%	5.00%

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		Life & medical insurance plan	
	2021	2020	2021	2020
	US\$'000	US\$'000	US\$'000	US\$'000
Current service cost and interest cost	N/A	N/A	1	1
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	61	80

**40. Retirement Benefit Obligations** (continued)

**Defined Benefits Plans:** (continued)

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

	Pension plan		Life & medical Insurance plan	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Service cost:				
Current service cost	479	485	—	—
Net interest expense on defined benefit liabilities	374	263	21	30
<b>Components of defined benefit costs recognized in profit or loss</b>	<b>853</b>	<b>748</b>	<b>21</b>	<b>30</b>
Remeasurement on the net defined benefit liability:				
Actuarial (gains) losses arising from changes in financial assumptions	(7,257)	3,283	(202)	(40)
<b>Components of defined benefit costs recognized in other comprehensive income</b>	<b>(7,257)</b>	<b>3,283</b>	<b>(202)</b>	<b>(40)</b>
<b>Total</b>	<b>(6,404)</b>	<b>4,031</b>	<b>(181)</b>	<b>(10)</b>

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 defined benefit plans is as follows:

	Pension plan		Life & medical insurance plan	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Present value of unfunded obligations	74,474	90,505	1,051	1,245

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

	Pension plan		Life & medical insurance plan	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
At January 1	90,505	82,755	1,245	1,269
Exchange realignment	(5,857)	7,429	—	—
Current service cost	479	485	—	—
Actuarial (gains) losses	(7,257)	3,283	(202)	(40)
Interest cost	374	263	21	30
Benefit paid	(3,770)	(3,710)	(13)	(14)
At December 31	74,474	90,505	1,051	1,245

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.

#### 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 US\$'000	Others US\$'000	Total US\$'000
At January 1, 2020	(37,904)	16,270	31,984	28,165	15,230	7,748	61,493
Currency realignment	(73)	503	131	369	141	1,653	2,724
Credit to hedging reserve	—	—	—	—	—	322	322
(Charge) credit to profit or loss	(16,406)	4,873	10,906	(3,277)	(14,360)	17,818	(446)
Change in tax rates	36	—	(64)	105	4	(90)	(9)
Charge to other comprehensive income	—	—	(3,505)	—	—	—	(3,505)
At December 31, 2020	(54,347)	21,646	39,452	25,362	1,015	27,451	60,579
Currency realignment	68	(429)	(410)	(57)	(190)	(1,459)	(2,477)
Charge to hedging reserve	—	—	—	—	—	(1,351)	(1,351)
(Charge) credit to profit or loss	(28,052)	4,770	35,259	(7,589)	(2,405)	23,806	25,789
Change in tax rates	(1)	13	67	81	19	278	457
Credit to other comprehensive income	—	—	380	—	—	—	380
<b>At December 31, 2021</b>	<b>(82,332)</b>	<b>26,000</b>	<b>74,748</b>	<b>17,797</b>	<b>(1,561)</b>	<b>48,725</b>	<b>83,377</b>

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:

	2021 US\$'000	2020 US\$'000
Deferred tax assets	97,436	74,501
Deferred tax liabilities	(14,059)	(13,922)
	<b>83,377</b>	60,579

At the end of the reporting period, the Group has unused tax losses of US\$2,031 million (2020: US\$1,916 million) available for offset against future taxable profits. Of the US\$2,031 million of unused losses approximately US\$447 million expire over the next 7 to 16 years with the remaining loss carryforwards having no useful life limitation. No deferred tax asset has been recognized in respect of tax losses of US\$1,946 million (2020: US\$1,802 million) due to the lack of probable future taxable profits.

In respect of all unrepatriated foreign earnings, the Group has provided deferred taxes of US\$13 million (2020: US\$13 million) as these unrepatriated foreign earnings are not considered permanently reinvested.

#### 42. Guarantees

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, 2021 amounted to US\$670,896,000 (2020: US\$83,227,000).

## 43. Share Options

### Share 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 the shares in issue as at the adoption date of the respective share option scheme. No person shall be granted an option which exceeds 1.0% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

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

### 43. Share Options (continued)

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

2021

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	20.5.2019	E	97,000	—	(97,000)	—	—	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Stephan Horst Pudwill	20.3.2014	D	750,000	—	—	—	750,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
30.12.2021	E	—	1,000,000	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031	
Mr Kin Wah Chan	11.9.2015	D	250,000	—	(250,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	(300,000)	—	200,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
30.12.2021	E	—	1,000,000	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031	
Mr Chi Chung Chan	20.3.2014	D	200,000	—	(200,000)	—	—	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	(250,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	1,000,000	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Prof Roy Chi Ping Chung gbs bbs JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Camille Jojo	14.3.2018	E	100,000	—	(50,000)	—	50,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 – 29.12.2031

### 43. Share Options (continued)

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

#### 2021

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Peter David Sullivan	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	150,000	—	(150,000)	—	—	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	100,000	—	(100,000)	—	—	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	(97,000)	—	—	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 - 29.12.2031
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 - 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 - 29.12.2031
Mr Robert Hinman Getz	15.5.2020	E	75,000	—	—	—	75,000	65.250	15.5.2021 - 14.5.2030
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 - 29.12.2031
Ms. Virginia Davis Wilmerding (appointed on April 9, 2021)	19.08.2021	E	—	29,500	—	—	29,500	167.200	19.08.2022 - 19.08.2031
Mr Christopher Patrick Langley OBE (retired after the conclusion of the annual general meeting of the Company held on May 14, 2021)	17.3.2017	D	130,000	—	(20,000)	—	110,000	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
Mr Vincent Ting Kau Cheung (passed away on July 31, 2021)	14.3.2018	E	50,000	—	—	—	50,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
<b>Total for directors</b>			<b>15,495,000</b>	<b>3,221,500</b>	<b>(1,664,000)</b>	<b>—</b>	<b>17,052,500</b>		
<b>Employees</b>	23.3.2017	D	100,000	—	(100,000)	—	—	32.150	23.3.2018 - 22.3.2027
	19.6.2017	E	100,000	—	—	—	100,000	36.300	19.6.2018 - 18.6.2027
	14.3.2018	E	100,000	—	(100,000)	—	—	47.900	14.3.2019 - 13.3.2028
<b>Total for employees</b>			<b>300,000</b>	<b>—</b>	<b>(200,000)</b>	<b>—</b>	<b>100,000</b>		
<b>Total for all categories</b>			<b>15,795,000</b>	<b>3,221,500</b>	<b>(1,864,000)</b>	<b>—</b>	<b>17,152,500</b>		
<b>Exercisable at the end of the year</b>							<b>8,690,500</b>		

### 43. Share Options (continued)

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

2020

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	11.9.2015	D	168,000	—	(168,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	(155,500)	—	—	32.100	17.3.2018 – 16.3.2027
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030
Mr Stephan Horst Pudwill	20.3.2014	D	1,000,000	—	(250,000)	—	750,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	—	500,000	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	—	2,000,000	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	(1,000,000)	—	—	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	—	500,000	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	—	2,000,000	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
Mr Chi Chung Chan	20.3.2014	D	600,000	—	(400,000)	—	200,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	—	500,000	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	—	2,000,000	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030
Mr Camille Jojo	17.3.2017	D	250,000	—	(250,000)	—	—	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030
Mr Peter David Sullivan	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030

### 43. Share Options (continued)

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

2020

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 Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030
Mr Robert Hinman Getz	15.5.2020	E	—	75,000	—	—	75,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030
Mr Christopher Patrick Langley OBE	17.3.2017	D	150,000	—	(20,000)	—	130,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030
Mr Vincent Ting Kau Cheung	14.3.2018	E	50,000	—	—	—	50,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	—	47,000	—	—	47,000	105.500	22.12.2021 – 21.12.2030
Total for directors			9,787,500	7,951,000	(2,243,500)	—	15,495,000		
Employees									
	17.1.2011	D	20,000	—	(20,000)	—	—	10.436	17.1.2012 – 16.1.2021
	23.3.2017	D	200,000	—	(100,000)	—	100,000	32.150	23.3.2018 – 22.3.2027
	19.6.2017	E	350,000	—	(250,000)	—	100,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Total for employees			670,000	—	(370,000)	—	300,000		
Total for all categories			10,457,500	7,951,000	(2,613,500)	—	15,795,000		
Exercisable at the end of the year							6,754,500		

### 43. 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
<b>For the year ended December 31, 2021</b>					
<b>19.8.2021</b>	<b>167.200</b>	<b>3 years</b>	<b>38%</b>	<b>0.254%</b>	<b>1.5%</b>
<b>30.12.2021</b>	<b>154.900</b>	<b>3 years</b>	<b>38%</b>	<b>0.553%</b>	<b>1.5%</b>
For the year ended December 31, 2020					
15.5.2020	65.250	3 years	38%	0.273%	1.5%
22.12.2020	105.500	3 years	38%	0.178%	1.5%

The share options are vested in parts over 1 to 3 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 2021 was HK\$152.31 (2020: HK\$98.44).

The closing price of the Company's shares immediately before the various dates on which the share options were granted ranged from HK\$152.20 to HK\$163.70 in 2021 (2020: ranged from HK\$63.80 to HK\$107.00).

The weighted average closing prices of the Company's shares immediately before various dates during 2021 and 2020 on which the share options was exercised were HK\$152.40 (2020: HK\$83.11) respectively.

The Group recognized a total expense of US\$13,935,000 (2020: US\$3,209,000) for the year ended December 31, 2021 in relation to share options granted by the Company.

The fair value of the share options granted in 2021 measured at various dates on which the share options were granted was ranged from HK\$36.67 to HK\$39.49 (2020: ranged from HK\$15.26 to HK\$24.57). The weighted average fair value of the share options granted in 2021 was HK\$36.70 (2020: HK\$22.73) per option.

The Company had 17,152,500 share options outstanding (2020: 15,795,000), which represented approximately 0.94% (2020: 0.86%) of the issued share capital of the Company as at December 31, 2021. No option (2020: Nil) was cancelled and no share options (2020: Nil) was lapsed 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, 2021. Total securities available for issue under Scheme E are 183,299,194 shares, which represented approximately 9.99% of the issued shares of the Company as at December 31, 2021.

#### 44. Share Award Scheme

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

The share award scheme of the Company was adopted by the Board of Directors on January 9, 2008 and renewed on January 17, 2018. The Board may, from time to time, at their absolute discretion select any eligible person for participation in the scheme as a selected grantee and determine the number of shares to be awarded or make reference to a nominal amount. The Board of Directors are required to pay 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 of Directors 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\$19,638,000 (2020: US\$14,569,000). During the year ended December 31, 2021, 2,391,500 shares (2020: 2,364,000 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	
	2021	2020
At January 1	3,452,000	2,423,000
Awarded (Note (a))	3,530,500	3,393,000
Vested	(2,391,500)	(2,364,000)
<b>At December 31 (Note (b))</b>	<b>4,591,000</b>	3,452,000

Notes:

- (a) All the awarded shares were purchased from the market with the average price of HK\$97.08.
- (b) At the end of the year, the average fair value per share is HK\$75.82 (2020: HK\$44.51). 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	
	2021	2020
Less than 1 year	966,000	1,376,000
More than 1 year	3,625,000	2,076,000
	<b>4,591,000</b>	3,452,000

#### 45. Capital Commitments

	2021 US\$'000	2020 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<b>235,174</b>	103,957

#### 46. Related Party Transactions

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

	2021 US\$'000	2020 US\$'000
Interest income	—	7
Sales income	<b>56,956</b>	40,644
Service income	<b>1,464</b>	57
Purchases	<b>1,847</b>	520

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

	2021 US\$'000	2020 US\$'000
Short-term benefits	<b>113,825</b>	97,852
Post-employment benefits	<b>1,542</b>	1,316
Share-based payments	<b>33,517</b>	17,522
	<b>148,884</b>	116,690

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

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

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

	Dividend payable	Unsecured borrowings	Discounted bills with recourse	Lease liabilities	Total
	US\$'000	Note 37 US\$'000	Note 34 US\$'000	Note 33 US\$'000	US\$'000
At January 1, 2020	—	1,487,008	9,089	238,368	1,734,465
Currency realignment	—	—	—	6,124	6,124
Financing cash flows	(261,637)	(161,574)	(7,653)	(75,823)	(506,687)
New leases entered	—	—	—	211,432	211,432
Early termination of leases	—	—	—	(5,694)	(5,694)
Interest expenses	—	36,648	—	7,574	44,222
Interest paid	—	(36,648)	—	(7,574)	(44,222)
Dividends declared	261,637	—	—	—	261,637
At December 31, 2020	—	1,325,434	1,436	374,407	1,701,277
Currency realignment	—	(3,776)	—	(4,271)	(8,047)
Financing cash flows	(394,115)	1,959,329	421	(101,736)	1,463,899
New leases entered	—	—	—	294,154	294,154
Early termination of leases	—	—	—	(8,354)	(8,354)
Interest expenses	—	31,656	—	10,352	42,008
Interest paid	—	(31,656)	—	(10,352)	(42,008)
Dividends declared	394,115	—	—	—	394,115
<b>At December 31, 2021</b>	<b>—</b>	<b>3,280,987</b>	<b>1,857</b>	<b>554,200</b>	<b>3,837,044</b>

**48. Statement of Financial Position of the Company**

As at December 31, 2021

	Note	2021 US\$'000	2020 US\$'000
<b>Non-current assets</b>			
Property, plant and equipment		3,888	3,643
Right of use assets		1,988	1,273
Intangible assets		18	30
Investments in subsidiaries		26,500,976	25,672,357
Loans to subsidiaries		12,822	33,148
Investment in an associate		1,470	1,470
Financial assets at FVTPL		3,647	5,224
		<b>26,524,809</b>	25,717,145
<b>Current assets</b>			
Deposits and prepayments		25,226	19,482
Financial assets at FVTPL		16,272	17,763
Tax recoverable		7,612	6,068
Derivative financial instruments		73,300	11,200
Amounts due from subsidiaries		682,938	1,256,348
Bank balances, deposits and cash		773,663	415,159
		<b>1,579,011</b>	1,726,020
<b>Current liabilities</b>			
Trade and other payables		170,147	130,958
Derivative financial instruments		6,397	75,691
Lease liabilities		893	823
Amounts due to subsidiaries		1,484,310	1,773,617
Unsecured borrowings – due within one year		1,631,147	365,214
		<b>3,292,894</b>	2,346,303
Net current liabilities		<b>(1,713,883)</b>	(620,283)
Total assets less current liabilities		<b>24,810,926</b>	25,096,862
<b>Capital and Reserves</b>			
Share capital		683,395	673,141
Reserves	39	23,098,033	23,483,070
Total equity		<b>23,781,428</b>	24,156,211
<b>Non-current Liabilities</b>			
Lease liabilities		1,147	431
Unsecured borrowings – due after one year		1,028,351	940,220
Total equity and non-current liabilities		<b>24,810,926</b>	25,096,862

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 2, 2022 and are signed on its behalf by:

**Chi Chung Chan**  
Group Executive Director

**Stephan Horst Pudwill**  
Vice Chairman

## 49. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2021 and December 31, 2020 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
			2021		2020		
			Directly %	Indirectly %	Directly %	Indirectly %	
DreBo Werkzeugfabrik GmbH*	Germany	EUR1,000,000	—	100	—	100	Trading and manufacture of power equipment products
TTI Outdoor Power Equipment, Inc. (Formerly known as Homelite Consumer Products, Inc.)	US	US\$10	—	100	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	US\$1	—	100	—	100	Trading and manufacture of floorcare products
Hart Consumer Products, Inc.	US	US\$10	—	100	—	100	Trading of power equipment and outdoor power equipment products
Milwaukee Electric Tool Corporation	US	US\$50,000,000	—	100	—	100	Trading and manufacture of power equipment products
TTI Consumer Power Tools, Inc. (Formerly known as One World Technologies, Inc.)	US	US\$10	—	100	—	100	Trading of power equipment products
Royal Appliance Mfg. Co.	US	US\$1	—	100	—	100	Trading and manufacture of floorcare products
Sang Tech Industries Limited	Hong Kong	HK\$1,000,000	100	—	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$2,000,000	100	—	100	—	Manufacture of metallic parts
Techtronic Cordless GP	US	US\$200	—	100	—	100	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries (Dongguan) Co. Ltd.#	PRC	US\$47,000,000	—	100	—	100	Manufacture of power equipment, floorcare and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NTD5,000,000	100	—	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP4,000,000	—	100	—	100	Trading of power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AUD25,575,762	—	100	—	100	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR25,600	—	100	—	100	Trading of power equipment products

**49. 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
			2021		2020		
			Directly %	Indirectly %	Directly %	Indirectly %	
Techtronic Industries ELC GmbH*	Germany	EUR25,000	—	100	—	100	Trading of power equipment products and outdoor power equipment products
Techtronic Industries France SAS	France	EUR14,919,832	—	100	—	100	Trading of power equipment products
Techtronic Industries GmbH	Germany	EUR20,452,500	—	100	100	—	Trading and manufacture of power equipment products
Techtronic Industries Korea LLC	Korea	KRW3,400,000,000	100	—	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN50,000 (Serie I) MXN596,964,358 (Serie II)	—	100	—	100	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries Co. Mexico, S. De R.L. de C.V.	Mexico	MXN878,896,320 (2020: MXN458,386,930)	99.99	0.01	99.99	0.01	Manufacture of power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZD4,165,600	100	—	100	—	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries North America, Inc.	US	US\$10	100	—	100	—	Investment holding
Techtronic Industries Vietnam Manufacturing Co Ltd	Vietnam	VND406,954,000,000 (2020: VND347,895,000,000)	100	—	100	—	Manufacture of power equipment and outdoor power equipment products
Techtronic Product Development Limited	Hong Kong	HK\$2	100	—	100	—	Engage in research and development activities
Techtronic Trading Limited	Hong Kong	HK\$2	100	—	100	—	Trading of power equipment, floorcare and outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HK\$2	100	—	100	—	Investment holding
Vax Limited	United Kingdom	GBP30,000 (Ordinary A shares) GBP2,500 (Ordinary B shares)	—	100	100	—	Trading of household electrical and floorcare 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.

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

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	
		2021	2020
Manufacture of power equipment, floorcare and outdoor power equipment products	Europe, PRC, US and others	6	6
Trading of power equipment, floorcare and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	38	44
Investment holding	Australia, BVI, Europe, Hong Kong, US	22	22
Dormant	BVI, Europe, Hong Kong, US	19	15

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

#### 50. Particulars of an Associate

Particulars of an 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
			2021 %	2020 %	
Wuerth Master Power Tools Limited	Hong Kong	US\$3,000,000	49.0	49.0	Manufacture and sale of power equipment