

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 1. General

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

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

The functional currency of the Company is United States dollars.

## 2. Application of New and 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"):

Amendments to HKFRS 11	Accounting for Acquisition of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

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

### New and amendments to HKFRSs issued 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 as at January 1, 2016:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2018.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2019.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2017.

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

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

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

### HKFRS 9 Financial Instruments

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

The key requirements of HKFRS 9 are described as follows:

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

The directors anticipate that the adoption of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group’s financial assets, such as the recognition of credit losses based on the expected loss model. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

### HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2016, the Group has non-cancellable operating lease commitments of US\$255,060,000 as disclosed in Note 43. A preliminary assessment indicates that these arrangements may meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

### Amendment to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures of the Group’s financing activities, specifically a reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

### 3. Significant Accounting Policies

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

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

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

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

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

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

The principal accounting policies are set out below.

#### Basis of Consolidation

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

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

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

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

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

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

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

## 3. Significant Accounting Policies (continued)

### Allocation of Total Comprehensive Income to Non-Controlling Interests

Total comprehensive income and expense 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 (effective from January 1, 2010 onwards).

### Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to Owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the Owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, of the cost on initial recognition of an investment in an associate or a joint venture.

### 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 recognised in profit or loss as incurred.

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised 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 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

### 3. Significant Accounting Policies (continued)

#### Business Combinations (continued)

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

#### Acquisition of a Subsidiary not Constituting a Business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual 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.

#### Goodwill

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

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

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

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

On disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 3. Significant Accounting Policies (continued)

#### Interests in Associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. 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 recognising its share of further losses. Additional losses are recognised 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 recognised 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 recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets 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 recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised 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 accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised 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 recognised 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) when the equity method is discontinued.

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 recognised 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 recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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

An intangible asset is derecognised 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 recognised in profit or loss in the period when the asset is derecognised.

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

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

##### **Research and Development Expenditure**

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

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

#### Leasing

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



## Notes to the Consolidated Financial Statements

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### 3. Significant Accounting Policies (continued)

#### The Group as Lessee

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

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

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

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

#### Leasehold Land and Building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease prepayments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

#### Property, Plant and Equipment

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

Freehold land is not depreciated.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised 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 derecognised.

### 3. Significant Accounting Policies (continued)

#### Impairment Losses on Tangible and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

#### Financial Instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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

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For the year ended December 31, 2016

## 3. Significant Accounting Policies (continued)

### Financial Instruments (continued)

#### Financial Assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### Effective Interest Method

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

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

#### Financial Assets at Fair Value through Profit or Loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

#### Loans and Receivables

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

#### Available-for-sale Financial Assets

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

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

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Assets (continued)

##### *Impairment of Financial Assets*

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 3. Significant Accounting Policies (continued)

### Financial Instruments (continued)

#### Financial Liabilities and Equity

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

#### Equity Instrument

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

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

#### Effective Interest Method

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

Interest expense is recognised on an effective interest basis.

#### Other Financial Liabilities

Other financial liabilities (including unsecured borrowings, trade and other payables, bills payable, discounted bills with recourse and bank overdrafts) are subsequently measured at amortised cost, using the effective interest method.

#### Derivative Financial Instruments and Hedging

Derivatives are initially recognised 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 recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### Hedge Accounting

The Group designates certain derivatives as hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges).

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

#### Cash Flow Hedges

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

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the obligation under the contract, as determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period in accordance with the revenue recognition policy.

##### Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

##### Provisions

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

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

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

##### Inventories

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 3. Significant Accounting Policies (continued)

### Revenue Recognition

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

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

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

Commission income is recognised when services are provided.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

### Taxation

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

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

Deferred tax is recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such assets and liabilities are not recognised 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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

### 3. Significant Accounting Policies (continued)

#### Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that form part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) 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 recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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

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

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

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 3. Significant Accounting Policies (continued)

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

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

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, such that the cumulative expenses reflecting the revised estimate, is recognised in profit or loss, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share capital (share premium before March 3, 2014). When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in the employee share-based compensation reserve will be transferred to retained profits.

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

When the trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised 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 recognised in profit or loss with a corresponding adjustment to the employee share-based compensation reserve.

#### Government Grants

Government grants are not recognised 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 recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related costs for which the grants are intended to compensate.

#### Retirement Benefit Schemes

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

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

### 3. Significant Accounting Policies (continued)

#### Retirement Benefit Schemes (continued)

Defined benefit costs are categorised as follows:

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

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

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

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

Liabilities recognised 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 cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

### 4. Key Sources of Accounting Estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Key Sources of Estimation Uncertainty

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

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

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

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of recoverable amount, which is the higher of the value in use and fair value less costs of disposal of the cash generating units to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2016, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$553,194,000 (2015: US\$553,789,000) and approximately US\$219,440,000 (2015: US\$219,434,000) respectively. Details of the recoverable amount calculation are disclosed in Note 20.

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

Determining the development costs, including time and costs for individual projects, to be capitalised requires estimations and assumptions based on the expected future economic benefits to be generated by the products resulted 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, 2016, the carrying amounts of deferred development costs of the Group are US\$297,261,000 (2015: US\$268,109,000). The estimation of their useful lives impacts the level of annual amortisation recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material loss may arise. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored, and adjustments will be made in future periods, if future market activity indicates that adjustments are required.

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

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. As at December 31, 2016, the Group's carrying amount of property, plant and equipment is US\$601,230,000 (2015: US\$538,466,000). The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life that the Group places the equipment into production reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate assets' carrying values are written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

### Income Taxes

As at December 31, 2016, a deferred tax asset of approximately US\$89,952,000 (2015: US\$107,846,000) in relation to unused tax losses and approximately US\$48,199,000 (2015: US\$43,661,000) in relation to employee related provisions has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient taxable profits, or taxable temporary differences, will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. During the year, deferred tax assets of approximately US\$9,200,000 (2015: US\$8,403,000) in relation to unused tax losses were utilised.

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

When there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). When the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2016, the Group's carrying amount of trade and other receivables, bills receivable and trade receivables from an associate is US\$969,279,000 (net of allowance for doubtful debts of US\$20,025,000) (2015: US\$886,034,000 (net of allowance for doubtful debts of US\$23,705,000)).

## 5. Segment Information

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

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

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

Information regarding the above segments is reported below.

### Segment Revenue and Results

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

#### For the year ended December 31, 2016

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	4,470,590	1,009,823	—	5,480,413
Inter-segment sales	—	1,038	(1,038)	—
Total segment revenue	4,470,590	1,010,861	(1,038)	5,480,413
<b>Result</b>				
Segment results	430,307	19,862	—	450,169
Interest income				11,653
Finance costs				(21,793)
Profit before taxation				440,029
Taxation charge				(31,242)
Profit for the year				408,787

Inter-segment sales are charged at prevailing market rates.

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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 5. Segment Information (continued)

#### Other Segment Information

For the year ended December 31, 2016

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	10,523	2,379	12,902
Write down of inventories	13,701	135	13,836
Impairment loss on trade receivables	8,613	3,099	11,712
Depreciation and amortisation	139,266	51,469	190,735

#### Segment Revenue and Results

For the year ended December 31, 2015

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	3,972,081	1,065,923	—	5,038,004
Inter-segment sales	17	1,009	(1,026)	—
Total segment revenue	3,972,098	1,066,932	(1,026)	5,038,004

Inter-segment sales are charged at prevailing market rates.

<b>Result</b>				
Segment results	379,302	20,513	—	399,815
Interest income				10,577
Finance costs				(23,435)
Profit before taxation				386,957
Taxation charge				(32,814)
Profit for the year				354,143

## 5. Segment Information (continued)

### Other Segment Information

For the year ended December 31, 2015

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	6,690	2,088	8,778
Write down of inventories	13,169	6,943	20,112
Impairment loss on trade receivables	6,530	4,781	11,311
Depreciation and amortisation	121,281	48,665	169,946

### Revenue from Major Products

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

	2016 US\$'000	2015 US\$'000
Power Equipment	4,470,590	3,972,081
Floor Care and Appliances	1,009,823	1,065,923
Total	5,480,413	5,038,004

### 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*	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
North America	4,160,886	3,772,235	829,447	869,789
Europe	889,587	861,029	111,417	110,888
Other countries	429,940	404,740	789,777	664,954
Total	5,480,413	5,038,004	1,730,641	1,645,631

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

### Information about Major Customer

During the years ended December 31, 2016 and 2015, the Group's largest customer contributed total revenue of US\$2,453,525,000 (2015: US\$2,148,906,000), of which US\$2,373,928,000 (2015: US\$2,067,735,000) was under the Power Equipment segment and US\$79,597,000 (2015: US\$81,171,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total revenue.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 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 analysed as follows:

	2016 US\$'000	2015 US\$'000
Sales of goods	5,472,493	5,030,375
Commission and royalty income	7,920	7,629
	<b>5,480,413</b>	5,038,004

### 7. Other Income

Other income in both 2016 and 2015 mainly comprises of the sale of scrap materials and claims and reimbursement from customers and vendors.

### 8. Interest Income

Interest income represents interest earned on bank deposits.

### 9. Finance Costs

	2016 US\$'000	2015 US\$'000
Interest on:		
Bank borrowings and overdrafts	20,938	20,843
Obligations under finance leases	855	845
Fixed interest rate notes	—	1,747
	<b>21,793</b>	23,435

## 10. Taxation Charge

	2016 US\$'000	2015 US\$'000
Current tax:		
Hong Kong Profits Tax	(1,669)	(1,370)
Underprovision in prior years	(1,770)	(719)
	<b>(3,439)</b>	(2,089)
Overseas taxation	(30,061)	(33,601)
Over (under)provision in prior years	4,155	(48,120)
	<b>(25,906)</b>	(81,721)
Deferred tax (Note 41):		
Current year	(1,897)	50,996
	<b>(31,242)</b>	(32,814)

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.

Underprovision of income tax in prior years includes provisions for estimated tax exposures in respect of ongoing tax audits. Given the tax provided, no provision for additional income tax, if any, arising from the ongoing tax audits has been recognised as these amounts cannot be reliably estimated at this stage.

The tax charge for the year is reconciled as follows:

	2016 US\$'000	2016 %	2015 US\$'000	2015 %
Profit before taxation	440,029		386,957	
Tax at Hong Kong Profits Tax rate	(72,605)	16.5%	(63,848)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	68,749	(15.6%)	87,485	(22.6%)
Tax effect of expenses not deductible for tax purposes	(25,814)	5.9%	(17,729)	4.6%
Tax effect of income not taxable for tax purposes	19,413	(4.4%)	14,600	(3.7%)
Utilisation of deductible temporary differences previously not recognised	386	(0.1%)	(97)	0.0%
Tax effect of tax losses and deductible temporary differences not recognised	(22,369)	5.1%	(3,453)	0.9%
Over (under)provision in respect of prior years	2,385	(0.6%)	(48,839)	12.6%
Others	(1,387)	0.3%	(933)	0.2%
Tax charge for the year	<b>(31,242)</b>	<b>7.1%</b>	(32,814)	8.5%

Details of deferred tax are set out in Note 41.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 11. Profit for the Year

	2016 US\$'000	2015 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortisation of intangible assets	88,649	78,422
Amortisation of lease prepayments	744	739
Auditors' remuneration	3,309	3,129
Cost of inventories recognised as an expense	3,495,234	3,240,365
Depreciation and amortisation on property, plant and equipment		
Owned assets	98,609	88,385
Assets held under finance leases	2,733	2,400
Fair value gain on interest rate swap	(660)	(1,287)
Fair value loss (gain) on foreign currency forward contracts	21,115	(7,858)
Fair value loss on held-for-trading investments	139	38
Fair value loss on derivative financial instruments	558	1,091
Impairment loss on trade receivables	11,712	11,311
Loss on disposal of property, plant and equipment	12,902	8,778
Loss on disposal of held-for-trading investments	49	—
Net exchange (gain) loss	(12,389)	2,202
Operating lease expenses recognised in respect of:		
Motor vehicles	19,230	17,137
Plant and machinery	14,694	5,288
Premises	33,642	31,588
Other assets	2,761	2,769
Reversal of impairment loss on trade receivables	(4,544)	(2,697)
Unconditional government grants	(375)	(109)
Write off of intangible assets	1,895	3,476
Write down of inventories	13,836	20,112
Staff costs		
Directors' remuneration		
Fees	244	217
Other emoluments	36,061	33,450
Other staff costs	36,305	33,667
Retirement benefits scheme contributions	632,530	576,970
(other than those included in the Directors' emoluments)		
Defined contribution plans	9,160	7,996
Defined benefit plans (Note 40)	2,211	2,589
	<b>680,206</b>	<b>621,222</b>

Staff costs disclosed above do not include an amount of US\$126,298,000 (2015: US\$105,709,000) of staff costs incurred relating to research and development activities.

## 12. Director's Emoluments

The emoluments paid or payable to each of the twelve (2015: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

### For the year ended December 31, 2016

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	5,862	1,530	9,065
Mr Stephan Horst Pudwill (appointed as Vice Chairman on October 1, 2016) (Note i)	—	340	2	970	443	1,755
Mr Joseph Galli Jr (Note i)	—	1,596	180	14,100	3,658	19,534
Mr Kin Wah Chan (Note i)	—	721	2	1,150	443	2,316
Mr Chi Chung Chan (Note i)	—	719	2	1,476	443	2,640
Prof Roy Chi Ping Chung BBS JP (Note ii)	39	6	—	—	85	130
Mr Camille Jojo (Note ii)	39	6	—	—	—	45
Mr Christopher Patrick Langley OBE (Note iii)	39	19	—	—	85	143
Mr Manfred Kuhlmann (Note iii)	39	45	—	152	85	321
Mr Peter David Sullivan (Note iii)	39	48	—	—	85	172
Mr Vincent Ting Kau Cheung (Note iii)	39	49	—	—	85	173
Mr Johannes-Gerhard Hesse (appointed on October 1, 2016) (Note iii)	10	1	—	—	—	11
<b>Total</b>	<b>244</b>	<b>5,221</b>	<b>188</b>	<b>23,710</b>	<b>6,942</b>	<b>36,305</b>

### For the year ended December 31, 2015

	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	4,575	1,147	7,395
Mr Stephan Horst Pudwill (Note i)	—	340	2	2,080	381	2,803
Mr Joseph Galli Jr (Note i)	—	1,583	180	13,500	1,091	16,354
Mr Kin Wah Chan (Note i)	—	722	2	1,439	381	2,544
Mr Chi Chung Chan (Note i)	—	719	2	2,547	381	3,649
Prof Roy Chi Ping Chung BBS JP (Note ii)	39	5	—	—	33	77
Mr Camille Jojo (appointed on October 30, 2015)	7	—	—	—	—	7
Mr Christopher Patrick Langley OBE (Note iii)	39	18	—	269	33	359
Mr Manfred Kuhlmann (Note iii)	39	43	—	106	33	221
Mr Peter David Sullivan (Note iii)	39	46	—	—	33	118
Mr Vincent Ting Kau Cheung (Note iii)	39	35	—	—	33	107
Mr Joel Arthur Schleicher (retired on May 22, 2015)	15	18	—	—	—	33
<b>Total</b>	<b>217</b>	<b>5,200</b>	<b>188</b>	<b>24,516</b>	<b>3,546</b>	<b>33,667</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 12. Director's Emoluments (continued)

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

Note ii: The individuals represent the Non-executive Directors of the Company. The non-executive director' emoluments shown above were mainly for their services as Directors of the Company.

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

The bonuses were based on past performance of the Group.

The above emoluments include the value of share options granted and shares awarded to certain directors under the Company's share option schemes and share award scheme, respectively, as estimated at the date of grant and award. Details of these benefits in kind are disclosed under the sections "Share Options" and "Share Award Scheme" in Notes 45 and 46 respectively.

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2015: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2015: one) individual for the year ended December 31, 2016 was as follows:

	2016 US\$'000	2015 US\$'000
Basic salaries and allowances	767	684
Contributions to retirement benefits schemes	91	79
Bonus	1,500	2,820
Other benefit	42	30
Share-based payments	—	—
	<b>2,400</b>	3,613

The emoluments of this one (2015: one) highest paid individual for the year ended December 31, 2016 was within the following bands:

US\$	No. of persons	
	2016	2015
2,000,001 to 2,500,000	1	—
3,500,001 to 4,000,000	—	1

During each of the two years ended December 31, 2016 and 2015, 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

	2016 US\$'000	2015 US\$'000
Dividends recognised as distributions during the year:		
Final dividend paid:		
2015: HK23.25 cents (approximately US2.99 cents) (2014: HK19.00 cents (approximately US2.45 cents)) per share	<b>54,881</b>	44,799
Interim dividend paid:		
2016: HK20.00 cents (approximately US2.57 cents) (2015: HK16.00 cents (approximately US2.06 cents)) per share	<b>47,240</b>	37,726
	<b>102,121</b>	82,525

The final dividend of HK30.00 cents (approximately US3.86 cents) per share with a total of approximately US\$70,807,000 in respect of the year ended December 31, 2016 (2015: final dividend of HK23.25 cents (approximately US2.99 cents) per share in respect of the year ended December 31, 2015) 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:

	2016 US\$'000	2015 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	<b>408,982</b>	354,427
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,832,139,377</b>	1,830,134,915
Effect of dilutive potential ordinary shares:		
Share options	<b>6,024,374</b>	7,351,461
Share award	<b>713,467</b>	402,825
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,838,877,218</b>	1,837,889,201

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 16. Property, Plant and Equipment

	Land and buildings (Note) US\$'000	Leasehold improvements US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Moulds and tooling US\$'000	Vessels US\$'000	Construction in progress US\$'000	Total US\$'000
<b>Cost</b>									
At January 1, 2015	113,705	61,875	170,427	232,063	5,690	220,747	2,298	76,459	883,264
Currency realignment	(2,480)	(2,031)	(5,624)	(7,150)	(253)	(2,527)	—	(1,475)	(21,540)
Additions	4,695	2,113	13,024	23,591	728	16,958	—	100,543	161,652
Acquisition of subsidiaries / a business	69,815	—	—	—	—	—	—	—	69,815
Disposals	(3,095)	(552)	(2,752)	(9,549)	(665)	(33,076)	—	(4,648)	(54,337)
Reclassification	4,189	1,351	7,513	17,672	330	43,719	—	(74,774)	—
<b>At December 31, 2015</b>	<b>186,829</b>	<b>62,756</b>	<b>182,588</b>	<b>256,627</b>	<b>5,830</b>	<b>245,821</b>	<b>2,298</b>	<b>96,105</b>	<b>1,038,854</b>
Currency realignment	(1,776)	(2,206)	(6,067)	(8,105)	(49)	(4,509)	—	(506)	(23,218)
Additions	2,507	3,003	15,091	17,513	471	14,670	71	137,128	190,454
Disposals	(12,195)	(589)	(5,475)	(8,786)	(749)	(23,331)	—	(6,479)	(57,604)
Reclassification	7,019	10,200	23,463	22,103	241	58,301	—	(121,327)	—
<b>At December 31, 2016</b>	<b>182,384</b>	<b>73,164</b>	<b>209,600</b>	<b>279,352</b>	<b>5,744</b>	<b>290,952</b>	<b>2,369</b>	<b>104,921</b>	<b>1,148,486</b>
<b>Depreciation and Impairment</b>									
At January 1, 2015	41,868	24,862	125,237	118,996	3,737	141,092	2,106	—	457,898
Currency realignment	(360)	(784)	(3,690)	(2,651)	(133)	(1,279)	—	—	(8,897)
Provided for the year	6,943	4,318	17,153	20,414	655	41,110	192	—	90,785
Eliminated on disposals	(723)	(493)	(2,572)	(8,138)	(605)	(26,867)	—	—	(39,398)
<b>At December 31, 2015</b>	<b>47,728</b>	<b>27,903</b>	<b>136,128</b>	<b>128,621</b>	<b>3,654</b>	<b>154,056</b>	<b>2,298</b>	<b>—</b>	<b>500,388</b>
Currency realignment	(442)	(827)	(3,716)	(3,233)	(35)	(2,494)	—	—	(10,747)
Provided for the year	7,565	4,917	17,763	22,481	761	47,848	7	—	101,342
Eliminated on disposals	(12,195)	(544)	(5,244)	(7,840)	(554)	(17,350)	—	—	(43,727)
<b>At December 31, 2016</b>	<b>42,656</b>	<b>31,449</b>	<b>144,931</b>	<b>140,029</b>	<b>3,826</b>	<b>182,060</b>	<b>2,305</b>	<b>—</b>	<b>547,256</b>
<b>Carrying amounts</b>									
<b>At December 31, 2016</b>	<b>139,728</b>	<b>41,715</b>	<b>64,669</b>	<b>139,323</b>	<b>1,918</b>	<b>108,892</b>	<b>64</b>	<b>104,921</b>	<b>601,230</b>
At December 31, 2015	139,101	34,853	46,460	128,006	2,176	91,765	—	96,105	538,466

Note: Buildings with a carrying amount of US\$21,958,000 (2015: US\$19,640,000) are erected on leasehold land that is presented as lease prepayments on the consolidated statement of financial position.

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

The above property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, at the following rates per annum:

Freehold land	Nil
Leasehold land	Shorter of lease term or useful life
Buildings	2 <sup>1</sup> / <sub>5</sub> % - 6 <sup>2</sup> / <sub>3</sub> %
Leasehold improvements	2 <sup>1</sup> / <sub>2</sub> % - 33 <sup>1</sup> / <sub>3</sub> %
Office equipment, furniture and fixtures	10% - 33 <sup>1</sup> / <sub>3</sub> %
Plant and machinery	9% - 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	10% - 33 <sup>1</sup> / <sub>3</sub> %
Moulds and tooling	18% - 33 <sup>1</sup> / <sub>3</sub> %
Vessels	20%

The carrying amounts of properties shown above comprise:

	2016 US\$'000	2015 US\$'000
Land and buildings situated outside Hong Kong are analysed as follows:		
Freehold	50,049	50,344
Leasehold	21,958	19,640
	<b>72,007</b>	69,984
Land and buildings situated in Hong Kong	<b>67,721</b>	69,117
	<b>139,728</b>	139,101

The carrying amounts of the Group's property, plant and equipment include amounts of approximately US\$12,958,000 (2015: US\$11,856,000) in respect of assets held under finance leases.

The gross carrying amount of the Group's property, plant and equipment includes amounts of approximately US\$283,657,000 (2015: US\$241,377,000) in respect of fully depreciated property, plant and equipment that are still in use.

## Notes to the Consolidated Financial Statements

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### 17. Lease Prepayments

	US\$'000
<b>Cost</b>	
At January 1, 2015	39,862
Currency realignment	(1,778)
At December 31, 2015	38,084
Currency realignment	(2,522)
<b>At December 31, 2016</b>	<b>35,562</b>
<b>Amortisation</b>	
At January 1, 2015	5,156
Currency realignment	(252)
Provided for the year	739
At December 31, 2015	5,643
Currency realignment	(406)
Provided for the year	744
<b>At December 31, 2016</b>	<b>5,981</b>
<b>Carrying amounts</b>	
<b>At December 31, 2016</b>	<b>29,581</b>
At December 31, 2015	32,441

All lease prepayments are related to leases outside Hong Kong.

### 18. Goodwill

	US\$'000
At January 1, 2015	554,137
Currency realignment	(1,772)
Arising on acquisition of subsidiaries / a business	1,424
At December 31, 2015	553,789
Currency realignment	(595)
<b>At December 31, 2016</b>	<b>553,194</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, 2015	535,452	59,442	234,784	453	10,500	10,634	851,265
Currency realignment	(183)	—	—	—	—	—	(183)
Additions	102,767	4,023	—	—	—	—	106,790
Written off in the year	(7,392)	(60)	(500)	—	—	—	(7,952)
At December 31, 2015	630,644	63,405	234,284	453	10,500	10,634	949,920
Currency realignment	(60)	(22)	—	—	—	—	(82)
Additions	111,950	4,321	6	—	—	—	116,277
Written off in the year	(12,752)	(94)	—	—	—	—	(12,846)
<b>At December 31, 2016</b>	<b>729,782</b>	<b>67,610</b>	<b>234,290</b>	<b>453</b>	<b>10,500</b>	<b>10,634</b>	<b>1,053,269</b>
<b>Amortisation</b>							
At January 1, 2015	297,166	38,290	11,349	453	2,430	5,495	355,183
Currency realignment	(144)	—	—	—	—	—	(144)
Provided for the year	69,967	4,823	913	—	592	2,127	78,422
Eliminated on write off	(4,454)	(22)	—	—	—	—	(4,476)
At December 31, 2015	362,535	43,091	12,262	453	3,022	7,622	428,985
Currency realignment	(48)	(2)	—	—	—	—	(50)
Provided for the year	80,910	4,559	461	—	592	2,127	88,649
Eliminated on write off	(10,876)	(75)	—	—	—	—	(10,951)
<b>At December 31, 2016</b>	<b>432,521</b>	<b>47,573</b>	<b>12,723</b>	<b>453</b>	<b>3,614</b>	<b>9,749</b>	<b>506,633</b>
<b>Carrying amounts</b>							
<b>At December 31, 2016</b>	<b>297,261</b>	<b>20,037</b>	<b>221,567</b>	<b>—</b>	<b>6,886</b>	<b>885</b>	<b>546,636</b>
At December 31, 2015	268,109	20,314	222,022	—	7,478	3,012	520,935

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

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

Included in trademarks of the Group, US\$219,440,000 (2015: US\$219,434,000) are trademarks as considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 20.

The above intangible assets, other than trademarks with indefinite useful lives, are amortised 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 $\frac{2}{3}$ % - 10%
Retailer and service relationships	5% - 6 $\frac{2}{3}$ %
Non compete agreement	20%



## Notes to the Consolidated Financial Statements

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

As explained in Note 5, the Group uses the types of goods sold for operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 18 and 19, the majority of the amounts have been allocated to five major individual cash generating units (CGUs), including four units in the Power Equipment segment and one unit in the Floor Care and Appliances segment. The carrying amounts of goodwill and trademarks as at December 31, 2016 allocated to these units are as follows:

	Goodwill		Trademarks	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Power Equipment – MET	416,617	416,617	118,407	118,407
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	20,753	21,348	—	—
Power Equipment – Baja	9,017	9,017	3,200	3,200
Floor Care and Appliances – RAM/Hoover/VAX	75,748	75,748	67,179	67,179
Others	23,567	23,567	6	—
	<b>553,194</b>	553,789	<b>219,440</b>	219,434

No impairment of goodwill and trademarks have been recognised for the year ended December 31, 2016 and December 31, 2015.

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

#### Power Equipment – MET (“MET”)

The recoverable amount of MET’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 10.0% (2015: 11.5%) 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 in new products launched, the success in reducing the working capital requirements and the success of the cost cutting strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2015: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of MET’s goodwill and intangibles to exceed the recoverable amounts.

#### Power Equipment – HCP (“HCP”)

The recoverable amount of HCP’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2015: 12.0%) per annum.

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

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

### Power Equipment – Drebo (“Drebo”)

The recoverable amount of Drebo’s goodwill has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2015: 11.0%) per annum.

Cash flow projections during the budget period for Drebo are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Drebo’s past performance, management’s expectations of the market development, the success in new products launched and the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 1.0% (2015: 1.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Drebo’s goodwill to exceed the recoverable amount.

### Power Equipment – Baja (“Baja”)

The recoverable amount of Baja’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 12.0% (2015: 12.0%) per annum.

Cash flow projections during the budget period for Baja are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Baja’s past performance, management’s expectations of the market development and the success of the cost cutting strategy implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2015: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Baja’s goodwill and intangibles to exceed the aggregate recoverable amounts.

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

The recoverable amount of RAM/Hoover/VAX’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 15.0% (2015: 15.0%) per annum.

Cash flow projections during the budget period for RAM/Hoover/VAX are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses, capital expenditures and working capital requirements. The assumptions and estimations are based on RAM/Hoover/VAX’s past performance, management’s expectations of the market development, the success in reducing the working capital requirements and the success of the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2015: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of RAM/Hoover/VAX’s goodwill and intangibles to exceed the aggregate recoverable amounts.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 21. Interests in Associates

	2016 US\$'000	2015 US\$'000
Unlisted shares, at cost less impairment loss recognised	—	—
Share of net assets	—	—
Amounts due from associates	3,667	6,588
	<b>3,667</b>	6,588

Particulars of the associates as at December 31, 2016 and December 31, 2015 are set out in Note 51.

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

At the end of the reporting period, amongst the associates, the Group held 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together the "Gimelli Group companies"). The Group has discontinued recognising its share of the losses of the Gimelli Group companies. The unrecognised share of profit (loss) for the year and cumulatively, extracted from the relevant management accounts of the associates, are US\$557,000 (2015: US\$142,000) and (US\$4,379,000) (2015: (US\$4,936,000)) respectively.

### 22. Available-for-sale Investments

	2016 US\$'000	2015 US\$'000
Unlisted equity securities and club membership debentures, at cost less impairment loss recognised	613	495

As at December 31, 2016, all available-for-sale investments represent investments in unlisted equity securities and club membership debentures. They are measured at cost less impairment at the reporting date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

### 23. Inventories

	2016 US\$'000	2015 US\$'000
Raw materials	120,919	105,340
Work in progress	9,787	12,937
Finished goods	1,165,719	1,072,054
	<b>1,296,425</b>	1,190,331

## 24. Trade and other Receivables

	2016 US\$'000	2015 US\$'000
Trade receivables	954,875	851,642
Less: Allowances for doubtful debts	(20,025)	(23,705)
	<b>934,850</b>	827,937
Other receivables	16,032	21,551
	<b>950,882</b>	849,488

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

	2016 US\$'000	2015 US\$'000
0 to 60 days	759,702	699,592
61 to 120 days	141,223	90,601
121 days or above	33,925	37,744
Total trade receivables	<b>934,850</b>	827,937

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

Included in the Group's trade receivable balance are debtors with a carrying amount of US\$112,148,000 (2015: US\$111,504,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 42 days (2015: 61 days).

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

### Ageing of Trade Receivables which are past due but not Impaired

	2016 US\$'000	2015 US\$'000
1 - 60 days	100,131	85,554
61 - 120 days	10,524	14,128
121 - 365 days	541	11,607
1 - 2 years	782	54
Over 2 years	170	161
Total	<b>112,148</b>	111,504

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 24. Trade and other Receivables (continued)

#### Movement in the Allowance for Doubtful Debts

	2016 US\$'000	2015 US\$'000
Balance at beginning of the year	23,705	22,522
Currency realignment	(907)	(1,063)
Impairment losses recognised on receivables	11,712	11,311
Amounts written off as uncollectible	(9,941)	(6,368)
Amounts recovered during the year	(4,544)	(2,697)
Balance at end of the year	20,025	23,705

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to US\$20,025,000 (2015: US\$23,705,000) which have the worst credit scoring attributable under the internal credit scoring system used by the Group. The Group does not hold any collateral over these balances.

#### Ageing of Impaired Trade Receivables (by Invoice Date)

	2016 US\$'000	2015 US\$'000
0 - 120 days	3,975	3,195
121 - 365 days	6,743	9,035
1 - 2 years	8,514	7,879
Over 2 years	793	3,596
Total	20,025	23,705

In accordance with receivables purchase agreements, certain trade receivables were factored to banks (the "Factored Trade Receivables"). As the Group still retained the risks associated in respect of default payments, the Group has continued to recognise the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of approximately US\$75,000,000 (2015: US\$75,000,000) were recognised as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

### 25. Bills Receivable

All the Group's bills receivable at December 31, 2016 and 2015 are due within 120 days.

### 26. Trade Receivables from an Associate

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

## 27. Derivative Financial Instruments

	2016 US\$'000	2015 US\$'000
<b>Assets</b>		
Acquisition right of certain property, plant and equipment	9,986	10,544
Foreign currency forward contracts – under hedge accounting	19,857	20,654
Foreign currency forward contracts – not under hedge accounting	342	1,761
	<b>30,185</b>	32,959
<b>Liabilities</b>		
Foreign currency forward contracts – under hedge accounting	1,392	12,463
Foreign currency forward contracts – not under hedge accounting	783	905
Interest rate swap	—	660
	<b>2,175</b>	14,028

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

As at December 31, 2016, the Group owned a right to acquire certain property, plant and equipment which was acquired as part of the acquisition of the Oreck business from the Oreck Bankruptcy Estate. The right is expected to be exercised in 2032. The fair value of the property, plant and equipment was US\$9,986,000 valued on September 30, 2016 by Duff & Phelps, LLC., an independent valuer not related to the Group.

### Foreign Currency Forward Contracts

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

### Foreign Currency Forward Contracts under Hedge Accounting

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 27. Derivative Financial Instruments (continued)

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

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

#### 2016

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

#### 2015

Notional amounts in millions	Maturity
Sell AU\$ 267.6M, Buy US\$	January 29, 2016 to December 30, 2016
Sell US\$ 414.2M, Buy RMB	January 28, 2016 to December 28, 2016
Sell EUR 169M, Buy US\$	January 15, 2016 to December 30, 2016
Buy US\$ 50M, Sell GBP	January 11, 2016 to June 20, 2016
Buy US\$ 34.6M, Sell EUR	January 4, 2016 to October 31, 2016
Buy EUR 3.7M, Sell AU\$	January 15, 2016 to December 5, 2016
Buy US\$ 17.2M, Sell AU\$	January 21, 2016 to June 6, 2016

During the year, a fair value loss of US\$11,187,000 (2015: gain of US\$19,075,000) was reclassified from reserves to profit or loss.

#### Foreign Currency Forward Contracts not under Hedge Accounting

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

#### 2016

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

#### 2015

Notional amounts in millions	Maturity
Buy US\$ 25M, Sell RMB	January 7, 2016 to April 29, 2016
Sell US\$ 25M, Buy RMB	January 7, 2016 to April 29, 2016
Sell EUR 23.3M, Buy US\$	December 14, 2015 to February 29, 2016
Sell GBP 8M, Buy EUR	January 21, 2016 to May 12, 2016
Buy GBP 3M, Sell EUR	January 21, 2016 to May 12, 2016
Sell US\$ 0.5M, Buy DKK	April 6, 2016
Buy US\$ 2.4M, Sell EUR	January 15, 2016 to June 15, 2016
Sell US\$ 2M, Buy EUR	January 25, 2016 to March 21, 2016
Buy US\$ 26.1M, Sell NZ\$	December 23, 2015 to December 20, 2016

## 27. Derivative Financial Instruments (continued)

### Interest Rate Swap (not under hedge accounting)

The fair value of the interest rate swap in 2015 of the Group was measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Major terms of the interest rate swap were as follows:

2015

Notional amount	Maturity	Receive floating	Pay fixed
US\$ 50,000,000	December 31, 2013 to May 4, 2016	LIBOR	1.2% - 3.1%

## 28. Held-for-Trading Investments

The Group's held-for-trading investments at December 31, 2015 were carried at fair value using the market bid prices on the reporting date.

Held-for-trading investments include:

	2016 US\$'000	2015 US\$'000
Equity securities:		
– Unlisted investment funds	—	1,116
	—	1,116

## 29. Bank Balances, Deposits and Cash/Bank Overdrafts

Bank balances carry interest at market rates which range from 0.001% to 0.70% (2015: 0.03% to 0.05%) per annum. Bank overdrafts carry interest at market rates which range from 3.50% to 3.75% (2015: 3.25% to 5.00%) per annum.

## 30. Trade and other Payables

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

	2016 US\$'000	2015 US\$'000
0 to 60 days	561,148	523,034
61 to 120 days	142,404	140,479
121 days or above	7,878	9,734
Total trade payables	711,430	673,247
Other payables	619,377	487,247
	1,330,807	1,160,494

The credit period on the purchase of goods ranges from 30 days to 120 days (2015: 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.



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 31. Bills Payable

All the Group's bills payable at December 31, 2016 and 2015 are due within 120 days.

### 32. Warranty Provision

	US\$'000
At January 1, 2015	65,819
Currency realignment	(2,123)
Additional provision in the year	118,254
Utilisation of provision	(106,757)
At December 31, 2015	75,193
Currency realignment	(1,622)
Additional provision in the year	110,403
Utilisation of provision	(103,886)
<b>At December 31, 2016</b>	<b>80,088</b>

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

### 33. Obligations under Finance Leases

It is the Group's policy to lease certain of its land and buildings, plant and machinery and fixtures and equipment under finance leases, with lease terms ranging from 2 years to 20 years. Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 0.53% to 7.50% (December 31, 2015: 6.74% to 8.65%) per annum. No arrangements have been entered into that include contingent rental payments.

The maturity of obligations under finance leases is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Amounts payable under finance leases:				
Within one year	3,727	2,901	2,982	2,153
In more than one year but not more than two years	3,516	2,697	2,948	2,087
In more than two years but not more than three years	3,133	2,697	2,740	2,229
In more than three years but not more than four years	3,006	2,324	2,774	1,996
In more than four years but not more than five years	2,172	2,199	2,094	1,997
More than five years	216	2,181	204	2,093
	<b>15,770</b>	14,999	<b>13,742</b>	12,555
Less: future finance charges	<b>(2,028)</b>	(2,444)	—	—
Present value of lease obligations	<b>13,742</b>	12,555	<b>13,742</b>	12,555
Less: Amount due within one year shown under current liabilities			<b>(2,982)</b>	(2,153)
Amount due after one year			<b>10,760</b>	10,402

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

### 34. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 1.80% per annum (2015: 1.43% 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 maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

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

#### Gearing Ratio

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

The gearing ratio at the year end was as follows:

	2016 US\$'000	2015 US\$'000
Debt <sup>(i)</sup>	<b>928,572</b>	1,064,042
Bank balances, deposits and cash	<b>(804,741)</b>	(774,608)
Net debt	<b>123,831</b>	289,434
Equity <sup>(ii)</sup>	<b>2,399,538</b>	2,155,983
Net debt to equity ratio	<b>5.16%</b>	13.42%

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

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

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 36. Financial Instruments

#### 36.1 Categories of Financial Instruments

	2016 US\$'000	2015 US\$'000
<b>Financial assets</b>		
<i>Fair value through profit or loss</i>		
Held-for-trading investments	—	1,116
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	9,986	10,544
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	19,857	20,654
<i>Derivative financial instruments – not under hedge accounting</i>		
Foreign currency forward contracts	342	1,761
	<b>30,185</b>	32,959
<i>Available-for-sale investments</i>	<b>613</b>	495
<i>Loans and receivables (including cash and cash equivalents)</i>		
Trade and other receivables	950,882	849,488
Bills receivable	11,190	27,277
Trade receivables from an associate	3,540	2,681
Bank balances, deposits and cash	804,741	774,608
	<b>1,770,353</b>	1,654,054
<b>Financial liabilities</b>		
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	1,392	12,463
<i>Derivative financial instruments – not under hedge accounting</i>		
Foreign currency forward contracts	783	905
Interest rate swap	—	660
	<b>2,175</b>	14,028
<i>Other financial liabilities</i>		
Trade and other payables	1,330,807	1,160,494
Bills payable	54,137	37,440
Discounted bills with recourse	93,897	77,629
Unsecured borrowings	894,277	1,045,021
Bank overdrafts	1,656	3,837
	<b>2,374,774</b>	2,324,421

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

#### 36.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 21.1% (2015: 21.3%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 52.5% (2015: 55.3%) 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	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Foreign Currency EURO	<b>98,830</b>	75,545	<b>159,456</b>	137,851

Note: For group entities with their functional currency as the United States dollar, 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 United States dollar.

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\$157,799,000 (2015: US\$184,717,000). It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness (see Note 27 for details).

**36. Financial Instruments** (continued)

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

## 36.2.1 Foreign Currency Risk Management (continued)

*Sensitivity Analysis*

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

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

	<b>2016</b> <b>US\$'000</b>	2015 US\$'000
Impact of EURO Profit for the year <sup>(i)</sup>	<b>2,816</b>	2,966

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

## 36.2.2 Interest Rate Risk Management

The Group's cash flow interest rate risk relates primarily to variable-rate borrowing (see Note 37 for details of these borrowings), discounted bills with recourse, bank overdrafts and bank balances and deposits. In relation to these floating-rate borrowings, the Group aims at keeping certain borrowings at fixed rates. In order to achieve this result, the Group enters into interest rate swap contracts to hedge against part of its exposure to potential variability of cash flows arising from changes in floating rates (see Note 27 for details). The management continuously monitors interest rate fluctuations and will consider further hedging interest rate risk should the need arise.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") arising from the Group's Hong Kong dollar denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk is insignificant.

During the year, the Group obtained new bank borrowings of US\$1,669 million (2015: US\$2,405 million) which are either at LIBOR or Hong Kong best lending rates based. The proceeds were used for refinancing the Group's borrowings.

## 36. Financial Instruments (continued)

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

#### 36.2.2 Interest Rate Risk Management (continued)

##### *Sensitivity analysis*

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2016 would decrease/increase by US\$4,598,000 (2015: decrease/increase by US\$5,156,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

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

#### 36.2.3 Other Price Risk

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

##### *Sensitivity analysis*

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

If the prices of the respective equity instruments had been 10% higher the profit for the year ended December 31, 2016 of the Group would not increase (2015: increase by US\$112,000) as a result of the changes in fair value of held-for-trading investments.

#### 36.2.4 Credit Risk Management

As at December 31, 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

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

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

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

The Group's concentration of credit risk by geographical location is mainly in North America, where 65.9% (2015: 62.2%) of the total trade receivables as at December 31, 2016 are located.

The Group has concentration of credit risk as 28.0% (2015: 25.9%) and 39.2% (2015: 38.7%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 36. Financial Instruments (continued)

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

#### 36.2.5 Liquidity Risk Management

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

As at December 31, 2016, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately US\$256 million (2015: US\$103 million) and US\$1,559 million (2015: US\$1,583 million) respectively.

#### Liquidity Tables

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

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

	Weighted average effective interest rate %	Less than 1 month/ on demand US\$'000	1-3 months US\$'000	4 months- 1 year US\$'000	1-2 years US\$'000	2+ years US\$'000	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2016 US\$'000
<b>2016</b>								
<b>Non-derivative financial assets</b>								
Available-for-sale investments (Note)	—	539	3	71	—	—	613	613
Trade and other receivables	—	666,428	265,688	18,766	—	—	950,882	950,882
Bills receivable	—	10,927	263	—	—	—	11,190	11,190
Trade receivables from an associate	—	4	2,945	591	—	—	3,540	3,540
Bank balances, deposits and cash	0.001% - 0.70%	789,722	15,028	—	—	—	804,750	804,741
		1,467,620	283,927	19,428	—	—	1,770,975	1,770,966
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(874,630)	(390,748)	(65,429)	—	—	(1,330,807)	(1,330,807)
Bills payable	—	(13,226)	(40,911)	—	—	—	(54,137)	(54,137)
Discounted bills with recourse	1.80%	(48,035)	(45,725)	(277)	—	—	(94,037)	(93,897)
Variable rate borrowings	0.72% - 2.60%	(10,668)	(254,860)	(140,731)	(117,165)	(387,657)	(911,081)	(894,277)
Bank overdrafts	3.50% - 5.00%	(1,656)	—	—	—	—	(1,656)	(1,656)
Financial guarantee contracts	—	(9,545)	—	—	—	—	(9,545)	—
		(957,760)	(732,244)	(206,437)	(117,165)	(387,657)	(2,401,263)	(2,374,774)

## 36. Financial Instruments (continued)

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

#### 36.2.5 Liquidity Risk Management (continued)

##### Liquidity Tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand US\$'000	1-3 months US\$'000	4 months- 1 year US\$'000	1-2 years US\$'000	2+ years US\$'000	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2016 US\$'000
<b>2016</b>								
<b>Derivatives - net settlement</b>								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,986	9,986	9,986
	—	—	—	—	—	9,986	9,986	9,986
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– EUR	—	1,417	19,928	29,276	—	—	50,621	50,621
– GBP	—	5,498	11,034	44,852	—	—	61,384	61,384
– US\$	—	20,318	69,258	305,010	—	—	394,586	394,586
– AU\$	—	1,408	2,526	4,552	—	—	8,486	8,486
– NZ\$	—	2,000	4,000	18,000	—	—	24,000	24,000
		30,641	106,746	401,690	—	—	539,077	539,077
– outflow								
– EUR	—	(1,450)	(18,762)	(27,551)	—	—	(47,763)	(47,763)
– GBP	—	(5,398)	(10,787)	(43,179)	—	—	(59,364)	(59,364)
– US\$	—	(20,521)	(67,973)	(292,282)	—	—	(380,776)	(380,776)
– AU\$	—	(1,420)	(2,562)	(4,627)	—	—	(8,609)	(8,609)
– NZ\$	—	(2,114)	(4,230)	(18,197)	—	—	(24,541)	(24,541)
		(30,903)	(104,314)	(385,836)	—	—	(521,053)	(521,053)
		(262)	2,432	15,854	—	—	18,024	18,024



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 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, 2015 US\$'000
<b>2015</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (Note)	—	1,116	—	—	—	—	1,116	1,116
Available-for-sale investments (Note)	—	492	3	—	—	—	495	495
Trade and other receivables	—	619,098	168,996	61,394	—	—	849,488	849,488
Bills receivable	—	14,967	7,349	4,961	—	—	27,277	27,277
Trade receivables from an associate	—	4	1,362	1,315	—	—	2,681	2,681
Bank balances, deposits and cash	0.03% - 0.05%	749,966	24,657	—	—	—	774,623	774,608
		1,385,643	202,367	67,670	—	—	1,655,680	1,655,665
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(627,965)	(370,181)	(162,348)	—	—	(1,160,494)	(1,160,494)
Bills payable	—	(12,648)	(24,792)	—	—	—	(37,440)	(37,440)
Discounted bills with recourse	1.43%	(30,618)	(35,657)	(11,561)	—	—	(77,836)	(77,629)
Variable rate borrowings	0.51% - 2.58%	(8,347)	(462,181)	(120,379)	(85,989)	(383,495)	(1,060,391)	(1,045,021)
Bank overdrafts	3.25% - 5.00%	(3,837)	—	—	—	—	(3,837)	(3,837)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(692,292)	(892,811)	(294,288)	(85,989)	(383,495)	(2,348,875)	(2,324,421)

## 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, 2015 US\$'000
<b>2015</b>								
<b>Derivatives - net settlement</b>								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	10,544	10,544	10,544
Interest rate swap	0.00% - 0.62%	—	(388)	(310)	—	—	(698)	(660)
Foreign currency forward contracts								
– AU\$	—	108	42	(150)	—	—	—	—
– NZ\$	—	90	(50)	(921)	—	—	(881)	(881)
		198	(396)	(1,381)	—	10,544	8,965	9,003
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– DKK	—	—	—	460	—	—	460	460
– EUR	—	8,333	13,405	33,795	—	—	55,533	55,533
– RMB	—	61,394	71,468	317,586	—	—	450,448	450,448
– GBP	—	6,000	18,002	25,997	—	—	49,999	49,999
– US\$	—	46,007	70,362	407,284	—	—	523,653	523,653
		121,734	173,237	785,122	—	—	1,080,093	1,080,093
– outflow								
– DKK	—	—	—	(450)	—	—	(450)	(450)
– EUR	—	(8,178)	(13,094)	(32,936)	—	—	(54,208)	(54,208)
– RMB	—	(62,198)	(72,734)	(325,776)	—	—	(460,708)	(460,708)
– GBP	—	(5,664)	(17,024)	(24,545)	—	—	(47,233)	(47,233)
– US\$	—	(43,912)	(68,500)	(395,154)	—	—	(507,566)	(507,566)
		(119,952)	(171,352)	(778,861)	—	—	(1,070,165)	(1,070,165)
		1,782	1,885	6,261	—	—	9,928	9,928

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

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

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

## 36. Financial Instruments (continued)

### 36.3 Fair Value

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

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

The fair value of financial assets and financial liabilities carried at amortised cost approximate their carrying amounts.

#### **Fair Value Measurements Recognised in the Statement of Financial Position**

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (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 Recognised in the Statement of Financial Position (continued)

Financial assets / financial liabilities	Fair value		Fair value hierarchy	Valuation techniques and key inputs
	2016	2015		
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\$9,986,000</b>	Acquisition right of certain property, plant and equipment: US\$10,544,000	Level 2	Measured at the fair value of the land and buildings associated with the acquisition right which is based on a valuation by 3 <sup>rd</sup> party independent valuer at the end of the financial year.
2) Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	<b>Assets – US\$20,199,000; and Liabilities – US\$2,175,000</b>	Assets – US\$22,415,000; and Liabilities – US\$13,368,000	Level 2	Quoted forward exchange rates matching maturities of the contracts.
3) Held-for-trading non-derivative financial assets classified as held-for-trading investments in the consolidated statement of financial position	<b>Unlisted investment fund: Nil</b>	Unlisted investment fund: US\$1,116,000	Level 2	Quoted prices provided by the fund administrator based on the prices of stocks invested by the investment fund.
4) Interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	<b>Liabilities (not designate for hedging) – Nil</b>	Liabilities (not designated for hedging) – US\$660,000	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.

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 36. Financial Instruments (continued)

#### 36.3 Fair Value (continued)

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

	Level 2 Total US\$'000
<b>2016</b>	
<b>Financial assets</b>	
Acquisition right of certain property, plant and equipment	9,986
Foreign currency forward contracts	20,199
<b>Total</b>	<b>30,185</b>
<b>Financial liabilities</b>	
Foreign currency forward contracts	(2,175)
<b>Total</b>	<b>(2,175)</b>
<b>2015</b>	
<b>Financial assets</b>	
Acquisition right of certain property, plant and equipment	10,544
Foreign currency forward contracts	22,415
Held-for-trading investments	1,116
<b>Total</b>	<b>34,075</b>
<b>Financial liabilities</b>	
Foreign currency forward contracts	(13,368)
Interest rate swap	(660)
<b>Total</b>	<b>(14,028)</b>

#### 36.4 Transfer of Financial Assets

The following were the Group's financial assets as at December 31, 2016 that were transferred to banks by discounting or factoring those trade and bills receivables on a full recourse basis. As the Group has not transferred all of the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised 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 amortised cost in the Group's consolidated statement of financial position.

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

	2016 US\$'000	2015 US\$'000
Carrying amount of transferred assets	168,897	152,629
Carrying amount of associated liabilities	(168,897)	(152,629)
Net position	—	—

## 37. Unsecured Borrowings

	2016 US\$'000	2015 US\$'000
Bank advance from factored trade receivables	75,000	75,000
Bank loans	819,277	970,021
<b>Total borrowings</b>	<b>894,277</b>	1,045,021

The borrowings of the Group are repayable as follows:

	2016 US\$'000	2015 US\$'000
<b>Floating rate</b>		
Within one year	403,825	588,341
In more than one year but not more than two years	115,941	86,701
In more than two years but not more than five years	374,511	369,979
	<b>894,277</b>	1,045,021
Less: Amount due within one year shown under current liabilities	<b>(403,825)</b>	(588,341)
Amount due after one year	<b>490,452</b>	456,680

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

	2016	2015
Effective interest rate:		
Variable-rate borrowings	<b>0.72% to 2.60%</b>	0.51% to 2.58%

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, 2016</b>	<b>265,387</b>
As at December 31, 2015	390,904

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 38. Share Capital

	2016 Number of shares	2015 Number of shares	2016 US\$'000	2015 US\$'000
<b>Ordinary shares</b>				
Authorised shares	2,400,000,000	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the year	1,833,736,941	1,831,346,941	647,109	643,914
Issue of shares upon exercise of share options	1,660,000	2,390,000	2,105	3,195
Buy-back of shares	(1,500,000)	—	—	—
At the end of the year	1,833,896,941	1,833,736,941	649,214	647,109

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

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

Month of buy-back	No. of ordinary shares	Price per share		Aggregate consideration paid US\$'000
		Highest HK\$	Lowest HK\$	
November 2016	1,000,000	28.00	27.60	3,593
December 2016	500,000	28.60	28.00	1,832
	1,500,000			5,425

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$5,425,000 was charged to retained profits.

## 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, 2015	(2,441)	3,954	21,087	1,566,566	1,589,166
Loss for the year	—	—	—	(47,502)	(47,502)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	(21,087)	—	(21,087)
Other comprehensive loss for the year	—	—	(21,087)	—	(21,087)
Total comprehensive loss for the year	—	—	(21,087)	(47,502)	(68,589)
Shares issued at premium on exercise of options	—	(637)	—	—	(637)
Vesting of awarded shares	813	(813)	—	—	—
Shares for share award scheme	(7,626)	—	—	—	(7,626)
Recognition of equity settled share-based payments	—	3,546	—	—	3,546
Final dividend – 2014	—	—	—	(44,799)	(44,799)
Interim dividend – 2015	—	—	—	(37,726)	(37,726)
At December 31, 2015	(9,254)	6,050	—	1,436,539	1,433,335
Loss for the year	—	—	—	<b>(92,062)</b>	<b>(92,062)</b>
Other comprehensive income for the year	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	<b>(92,062)</b>	<b>(92,062)</b>
Shares issued at premium on exercise of options	—	<b>(401)</b>	—	—	<b>(401)</b>
Buy-back of shares	—	—	—	<b>(5,425)</b>	<b>(5,425)</b>
Vesting of awarded shares	<b>8,087</b>	<b>(8,087)</b>	—	—	—
Shares for share award scheme	<b>(9,309)</b>	—	—	—	<b>(9,309)</b>
Recognition of equity settled share-based payments	—	<b>9,448</b>	—	—	<b>9,448</b>
Final dividend – 2015	—	—	—	<b>(54,881)</b>	<b>(54,881)</b>
Interim dividend – 2016	—	—	—	<b>(47,240)</b>	<b>(47,240)</b>
<b>At December 31, 2016</b>	<b>(10,476)</b>	<b>7,010</b>	—	<b>1,236,931</b>	<b>1,233,465</b>

As at December 31, 2016, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$1,236,931,000 (2015: US\$1,436,539,000).



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 40. Retirement Benefit Obligations

### Defined Contribution Plans:

The Company and its subsidiaries operating in Hong Kong have participated in the Mandatory Provident Fund Schemes (“MPF Schemes”) registered under the Mandatory Provident Fund Schemes Ordinance since December 2000. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the MPF Schemes with a maximum amount of HK\$18,000 (2015: HK\$18,000) per employee per annum, which contribution is matched by the employee.

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

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

The total expense recognised in profit or loss of US\$9,160,000 (2015: US\$7,996,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

### Defined Benefits Plans:

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

	<b>2016</b>	2015
	<b>US\$'000</b>	US\$'000
Pension plan obligations (Note i)	<b>78,020</b>	77,871
Post-retirement, medical and dental plan obligations (Note ii)	<b>68</b>	126
Life and medical insurance plan (Note ii)	<b>1,630</b>	1,109
Post-employment benefit plan obligations (Note iii)	<b>11,234</b>	9,813
Others	<b>17,215</b>	10,977
	<b>108,167</b>	99,896

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the employees are entitled to retirement benefits varying between 10% and 20% of final salary (based on the average of the last three years) on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out on January 1, 2017, by BDO AG Wirtschaftsprüfungsgesellschaft, Germany.

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

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on December 19, 2016 by Willis Towers Watsons.

Note iii: Post-employment benefit plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on January 13, 2017 by CBIZ Benefits & Insurance Services.

## 40. Retirement Benefit Obligations (continued)

### Defined Benefits Plans:(continued)

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

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

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

The main actuarial assumptions used were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate	<b>2.00%</b>	2.70%	<b>0.75%</b>	1.00%	<b>2.75%</b>	3.25%	<b>4.11%</b>	3.71%
Expected rate of salary increases	<b>2.00%</b>	2.00%	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A
Expected return on plan assets	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>4.11%</b>	3.71%
Future pension increases	<b>2.00%</b>	2.00%	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A
Medical cost trend rates	<b>N/A</b>	N/A	<b>5.00%</b>	5.00%	<b>5.00%</b>	5.00%	<b>N/A</b>	N/A

The actuarial valuation showed that the market value of plan assets was US\$7,102,000 (2015: US\$5,637,000) and that the actuarial value of these assets represented 38.7% (2015: 36.5%) of the benefits that had accrued to members.

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Current service cost and interest cost	<b>N/A</b>	N/A	—	—	<b>3</b>	2	<b>N/A</b>	N/A
Accumulated post-employment benefit obligations for medical costs	<b>N/A</b>	N/A	—	1	<b>106</b>	66	<b>N/A</b>	N/A

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 40. Retirement Benefit Obligations (continued)

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Service cost:								
Current service cost	418	300	—	—	—	—	—	—
Net interest on defined benefit liabilities	1,463	2,022	1	1	34	34	295	232
<b>Components of defined benefit costs recognised in profit or loss</b>	<b>1,881</b>	<b>2,322</b>	<b>1</b>	<b>1</b>	<b>34</b>	<b>34</b>	<b>295</b>	<b>232</b>
Remeasurement on the net defined benefit liability:								
Actuarial losses (gains) arising from changes in financial assumptions	4,838	744	(45)	(80)	550	43	4,625	3,920
<b>Components of defined benefit costs recognised in other comprehensive income</b>	<b>4,838</b>	<b>744</b>	<b>(45)</b>	<b>(80)</b>	<b>550</b>	<b>43</b>	<b>4,625</b>	<b>3,920</b>
<b>Total</b>	<b>6,719</b>	<b>3,066</b>	<b>(44)</b>	<b>(79)</b>	<b>584</b>	<b>77</b>	<b>4,920</b>	<b>4,152</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 plans is as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Present value of funded obligations	—	—	—	—	—	—	18,336	15,450
Fair value of plan assets	—	—	—	—	—	—	(7,102)	(5,637)
Present value of unfunded obligations	78,020	77,871	68	126	1,630	1,109	11,234	9,813
	<b>78,020</b>	<b>77,871</b>	<b>68</b>	<b>126</b>	<b>1,630</b>	<b>1,109</b>	<b>11,234</b>	<b>9,813</b>

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

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2016	2015	2016	2015	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1	77,871	87,027	126	220	1,109	1,100	15,450	13,106
Exchange differences	(2,923)	(8,374)	—	—	—	—	—	—
Current service cost	418	300	—	—	—	—	—	—
Actuarial losses (gains)	4,838	744	(45)	(80)	550	43	4,332	3,666
Interest cost	1,463	2,022	1	1	34	34	600	482
Benefit paid	(3,647)	(3,848)	(14)	(15)	(63)	(68)	(2,046)	(1,804)
At December 31	78,020	77,871	68	126	1,630	1,109	18,336	15,450

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2016	2015	2016	2015	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	5,637	7,445
Exchange differences	N/A	N/A	N/A	N/A	N/A	N/A	—	—
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	304	250
Actuarial losses	N/A	N/A	N/A	N/A	N/A	N/A	(293)	(254)
Contribution from employer	N/A	N/A	N/A	N/A	N/A	N/A	3,500	—
Benefit paid	N/A	N/A	N/A	N/A	N/A	N/A	(2,046)	(1,804)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	7,102	5,637

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 4.11% (2015: 4.57%).

The actual return on plan assets was US\$293,000 (2015: US\$254,000).

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

The Group expects to make no contribution (2015: a contribution of US\$3,500,000) to the defined benefit plans during the next financial year.

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### 41. Deferred Tax Assets (Liabilities)

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

	Accelerated tax depreciation US\$'000	Warranty provision US\$'000	Employee related provision US\$'000	Tax losses US\$'000	Inventory provision and LIFO US\$'000	Others US\$'000	Total US\$'000
At January 1, 2015	3,823	6,256	38,241	47,119	8,283	(21,176)	82,546
Currency realignment	(11)	(185)	(151)	(15)	(59)	(62)	(483)
(Charge) credit to profit or loss	(10,481)	5,583	3,748	60,742	5,057	(13,653)	50,996
Credit to equity	—	—	1,823	—	—	482	2,305
At December 31, 2015	(6,669)	11,654	43,661	107,846	13,281	(34,409)	135,364
Currency realignment	(42)	(56)	(134)	513	(17)	(831)	(567)
(Charge) credit to profit or loss	(6,169)	2,015	1,767	(18,407)	(2,430)	21,327	(1,897)
Credit (charge) to equity	—	—	2,905	—	42	(21)	2,926
<b>At December 31, 2016</b>	<b>(12,880)</b>	<b>13,613</b>	<b>48,199</b>	<b>89,952</b>	<b>10,876</b>	<b>(13,934)</b>	<b>135,826</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:

	2016 US\$'000	2015 US\$'000
Deferred tax assets	178,191	146,064
Deferred tax liabilities	(42,365)	(10,700)
	<b>135,826</b>	135,364

At the end of the reporting period, the Group has unused tax losses of US\$848 million (2015: US\$715 million) available for the offset against future taxable profits that carry forward for at least twenty years. No deferred tax asset has been recognised in respect of tax losses of US\$618 million (2015: US\$443 million) due to the lack of probable future taxable profits.

### 42. Major Non-Cash Transactions

During the year ended December 31, 2016, the Group entered into finance lease arrangements in respect of assets at the inception of the finance leases of US\$3,850,000 (2015: US\$1,878,000).

### 43. Lease Commitments

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

	2016 US\$'000	2015 US\$'000
Within one year	52,824	46,908
In the second to fifth year inclusive	138,994	109,604
After five years	63,242	48,228
	<b>255,060</b>	204,740

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

## 44. Contingent Liabilities

	2016 US\$'000	2015 US\$'000
Guarantees given to banks in respect of credit facilities utilised by associates	9,545	8,877

In addition, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries as at December 31, 2016 amounted to US\$235,920,000 (2015: US\$207,031,000).

## 45. Share Options

### Scheme adopted on May 29, 2007 (“Scheme D”)

Scheme D was adopted pursuant to a resolution passed on May 29, 2007 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on May 28, 2017. Under Scheme D, 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) non-executive Directors (including Independent Non-executive Directors or Officers); or
- (iii) secondees; or
- (iv) business partners, agents, consultants; or
- (v) suppliers or customers; or
- (vi) any person or entity that provides research, development or other technological support; or
- (vii) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1.00 in cash by way of consideration 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; or the nominal value of shares on the date of offer.

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 45. Share Options (continued)

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

### 2016

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 - 10.9.2025
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 - 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Prof Roy Chi Ping Chung BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Christopher Patrick Langley OBE	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Manfred Kuhlmann	23.5.2011	D	100,000	—	(100,000)	—	—	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	(400,000)	—	—	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
<b>Total for directors</b>			<b>8,748,000</b>	<b>—</b>	<b>(950,000)</b>	<b>—</b>	<b>7,798,000</b>		
<b>Employees</b>	24.8.2007	D	730,000	—	(60,000)	—	670,000	8.390	24.8.2008 - 23.8.2017
	16.10.2007	D	50,000	—	(35,000)	—	15,000	8.810	16.10.2008 - 15.10.2017
	7.11.2007	D	40,000	—	(40,000)	—	—	8.088	7.11.2008 - 6.11.2017
	14.1.2008	D	505,000	—	(75,000)	—	430,000	7.566	14.1.2009 - 13.1.2018
	17.4.2008	D	350,000	—	(100,000)	—	250,000	7.780	17.4.2009 - 16.4.2018
	14.5.2008	D	40,000	—	—	—	40,000	7.500	14.5.2009 - 13.5.2018
	30.5.2008	D	250,000	—	(250,000)	—	—	7.546	30.5.2009 - 29.5.2018
	16.11.2009	D	1,570,000	—	(150,000)	—	1,420,000	6.770	16.11.2010 - 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 - 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 - 16.1.2021
	<b>Total for employees</b>			<b>3,585,000</b>	<b>—</b>	<b>(710,000)</b>	<b>—</b>	<b>2,875,000</b>	
<b>Total for all categories</b>			<b>12,333,000</b>	<b>—</b>	<b>(1,660,000)</b>	<b>—</b>	<b>10,673,000</b>		
<b>Exercisable at the end of the year</b>							<b>9,839,000</b>		

## 45. Share Options (continued)

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

2015

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	26.11.2010	D	600,000	—	(600,000)	—	—	8.310	26.11.2011 - 25.11.2020
	21.5.2012	D	570,000	—	(570,000)	—	—	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	168,000	—	—	168,000	29.650	11.9.2016 - 10.9.2025
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	250,000	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 - 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	250,000	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	250,000	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Prof Roy Chi Ping Chung BBS JP	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Christopher Patrick Langley OBE	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Manfred Kuhlmann	23.5.2011	D	100,000	—	—	—	100,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Joel Arthur Schleicher	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 - 20.5.2022
Total for directors			8,700,000	1,668,000	(1,620,000)	—	8,748,000		



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## 45. Share Options (continued)

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

2015

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
Employees	24.8.2007	D	830,000	—	(100,000)	—	730,000	8.390	24.8.2008 - 23.8.2017
	16.10.2007	D	60,000	—	(10,000)	—	50,000	8.810	16.10.2008 - 15.10.2017
	7.11.2007	D	40,000	—	—	—	40,000	8.088	7.11.2008 - 6.11.2017
	14.1.2008	D	505,000	—	—	—	505,000	7.566	14.1.2009 - 13.1.2018
	17.4.2008	D	400,000	—	(50,000)	—	350,000	7.780	17.4.2009 - 16.4.2018
	14.5.2008	D	40,000	—	—	—	40,000	7.500	14.5.2009 - 13.5.2018
	30.5.2008	D	250,000	—	—	—	250,000	7.546	30.5.2009 - 29.5.2018
	16.11.2009	D	1,680,000	—	(110,000)	—	1,570,000	6.770	16.11.2010 - 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 - 27.12.2019
	13.9.2010	D	500,000	—	(500,000)	—	—	7.390	13.9.2011 - 12.9.2020
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 - 16.1.2021
Total for employees			4,355,000	—	(770,000)	—	3,585,000		
Total for all categories			13,055,000	1,668,000	(2,390,000)	—	12,333,000		
Exercisable at the end of the year							9,050,000		

## 45. Share Options (continued)

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

Date of grant	Exercise price HK\$	Expected life of share options	Expected volatility based on historical volatility of share prices	Hong Kong Exchange Fund Notes rate/Yields of Hong Kong Government Bonds	Expected annual dividend yield
For the year ended December 31, 2015 11.9.2015	29.650	3 years	40%	0.523%	1.5%

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural 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 shares immediately before the options grant date during 2015 was HK\$29.80.

The closing price of the Company's shares immediately before the date of grant was HK\$29.80 in 2015.

The weighted average closing prices of the Company's shares immediately before various dates during 2016 and 2015 on which the share options were exercised were HK\$30.75 and HK\$29.83 respectively.

The Group recognised a total expense of US\$1,069,000 for the year ended December 31, 2016 (2015: US\$1,189,000) in relation to share options granted by the Company.

The fair value of the share options granted in 2015 measured at the date of grant was HK\$7.39 per option.

The Company had 10,673,000 share options outstanding, which represented approximately 0.58% of the issued share capital of the Company as at December 31, 2016. No option was cancelled during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.21% of the issued shares of the Company as at December 31, 2016.

## Notes to the Consolidated Financial Statements

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### 46. Share Award Scheme

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

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

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

Recognition of share-based payment expenses under the share award scheme during the year was US\$8,379,000 (2015: US\$2,357,000). During 2016, 2,324,500 shares (2015: 274,500) 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	
	2016	2015
At January 1	2,349,500	824,000
Awarded (Note (a))	1,000,000	1,800,000
Vested	(2,324,500)	(274,500)
<b>At December 31 (Note (b))</b>	<b>1,025,000</b>	2,349,500

Notes:

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

(b) At the end of the year, the average fair value per share is HK\$29.22 (2015: HK\$26.00). 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	
	2016	2015
Less than 1 year	1,025,000	1,324,500
More than 1 year	—	1,025,000
	<b>1,025,000</b>	2,349,500

## 47. Capital Commitments

	<b>2016</b> <b>US\$'000</b>	2015 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>32,828</b>	20,942

## 48. Related Party Transactions

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

	<b>2016</b> <b>US\$'000</b>	2015 US\$'000
Sales income	<b>7,281</b>	9,305
Purchases	<b>7,204</b>	7,003

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

	<b>2016</b> <b>US\$'000</b>	2015 US\$'000
Short-term benefits	<b>43,225</b>	46,078
Post-employment benefits	<b>717</b>	607
Share-based payments	<b>6,942</b>	3,546
	<b>50,884</b>	50,231

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

## 49. Statement of Financial Position of the Company

As at December 31, 2016

	Note	2016 US\$'000	2015 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		4,132	3,594
Intangible assets		7	10
Investments in subsidiaries		1,147,043	1,020,765
Loans to subsidiaries		791,656	856,681
Interests in associates		2,376	5,298
Available-for-sale investments		228	183
		<b>1,945,442</b>	1,886,531
<b>Current assets</b>			
Other receivables		—	4,372
Deposits and prepayments		10,056	8,483
Amounts due from subsidiaries		2,043,260	1,863,707
Derivative financial instruments		—	35
Held-for-trading investments		—	1,116
Bank balances, deposits and cash		267,280	220,712
		<b>2,320,596</b>	2,098,425
<b>Current liabilities</b>			
Trade and other payables		42,530	32,486
Tax payable		2,700	2,700
Derivative financial instruments		—	684
Amounts due to subsidiaries		1,530,083	911,746
Unsecured borrowings - due within one year		317,594	500,216
		<b>1,892,907</b>	1,447,832
Net current assets		<b>427,689</b>	650,593
Total assets less current liabilities		<b>2,373,131</b>	2,537,124
<b>Capital and Reserves</b>			
Share capital		649,214	647,109
Reserves	39	1,233,465	1,433,335
		<b>1,882,679</b>	2,080,444
<b>Non-current Liabilities</b>			
Unsecured borrowings - due after one year		490,452	456,680
Total equity and non-current liabilities		<b>2,373,131</b>	2,537,124

The Company's statements of financial position was approved and authorised for issue by the Board of Directors on March 14, 2017 and are signed on its behalf by:

**Chi Chung Chan**  
Group Executive Director

**Stephan Horst Pudwill**  
Vice Chairman

## 50. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2016 and December 31, 2015 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Baja, Inc.	US	US\$ 17.36	—	100	Trading of outdoor power equipment products
DreBo Werkzeugfabrik GmbH *	Germany	EUR 1,000,000	—	100	Trading and manufacture of power equipment products
Homelite Consumer Products, Inc.	US	US\$ 10	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	US\$ 1	—	100	Trading and manufacture of floor care products
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK\$ 100,000	100	—	Trading of household electronic and electrical products
Milwaukee Electric Tool Corporation	US	US\$ 50,000,000	—	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	US	US\$ 10	—	100	Trading of power equipment products
Royal Appliance International GmbH	Germany	EUR 2,050,000	100	—	Trading of floor care products
Royal Appliance Mfg. Co.	US	US\$ 1	—	100	Trading and manufacture of floor care products
Sang Tech Industries Limited	Hong Kong	HK\$ 1,000,000	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$ 2,000,000	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK\$ 2,000,000	75.725	—	Manufacture of electronic products
Techtronic Floor Care Technology Limited	BVI	US\$ 1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd.#	PRC	US\$ 47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT\$ 5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP 4,000,000	—	100	Trading of power equipment products

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

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

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Techtronic Industries Australia Pty. Limited	Australia	AU\$ 25,575,762	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR 25,600	—	100	Trading of power equipment products
Techtronic Industries ELC GmbH*	Germany	EUR 25,000	—	100	Trading of power equipment products and outdoor power equipment products
Techtronic Industries France SAS	France	EUR 14,919,832	—	100	Trading of power equipment products
Techtronic Industries GmbH	Germany	EUR 20,452,500	—	100	Trading and manufacture of power equipment products
Techtronic Industries Korea Limited	Korea	KRW 3,400,000,000	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN 50,000 (Serie I) MXN362,720,990 (2015: MXN53,290,717) (Serie II)	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZ\$ 4,165,500	100	—	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries North America, Inc.	US	US\$ 10	100	—	Investment holding
Techtronic Outdoor Products Technology Limited	Bermuda	US\$ 12,000	100	—	Investment and intellectual properties holding
Techtronic Power Tools Technology Limited	BVI	US\$ 1	100	—	Investment and intellectual properties holding
Techtronic Product Development Limited	Hong Kong	HK\$ 2	100	—	Engage in research and development activities
Techtronic Trading Limited	Hong Kong	HK\$ 2	100	—	Trading of power equipment, floor care and outdoor power equipment products

## 50. Particulars of Principal Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
TTI (Macao Commercial Offshore) Limited (formerly known as AC (Macao Commercial Offshore) Limited name changed on September 29, 2016)	Macau	MOP 780,000	—	100	Trading of power equipment, floor care and outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HK\$ 2	100	—	Investment holding
Vax Limited	United Kingdom	GBP 30,000 (Ordinary A shares) GBP 2,500 (Ordinary B shares)	100	—	Trading of household electrical and floor care products

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

# A wholly foreign owned enterprise.

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

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

Principal activities	Principal place of business	Number of subsidiaries	
		2016	2015
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US	5	5
Trading of power equipment, floor care and outdoor power equipment product	Canada, Europe, HK, Latin America, PRC, US	33	33
Investment holding	Australia, BVI, Europe, HK, US	23	23
Dormant	BVI, Europe, HK, US	13	12

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



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

### 51. Particulars of Principal Associate

Particulars of the principal associate are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company directly		Principal activities
			2016 %	2015 %	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$ 6,250	40.8	40.8	Investment holding