

## Independent Auditor's Report



### TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED

創科實業有限公司

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Techtronic Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 64 to 154, which comprise the consolidated and Company statements of financial position as at December 31, 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong

March 19, 2014

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2013

	Notes	2013 USD'000	2012 USD'000
Turnover	6	<b>4,299,755</b>	3,852,418
Cost of sales		<b>(2,827,445)</b>	(2,563,176)
Gross profit		<b>1,472,310</b>	1,289,242
Other income	7	<b>4,242</b>	3,391
Interest income	8	<b>11,836</b>	8,629
Selling, distribution, advertising and warranty expenses		<b>(562,835)</b>	(532,534)
Administrative expenses		<b>(505,394)</b>	(421,340)
Research and development costs		<b>(107,079)</b>	(79,515)
Finance costs	9	<b>(36,682)</b>	(45,627)
Profit before taxation		<b>276,398</b>	222,246
Taxation charge	10	<b>(29,036)</b>	(22,139)
Profit for the year	11	<b>247,362</b>	200,107
Other comprehensive loss:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligations		<b>(9,143)</b>	(9,629)
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on foreign currency forward contracts in hedge accounting		<b>101</b>	(1,254)
Exchange differences on translation of foreign operations		<b>(740)</b>	4,209
Other comprehensive loss for the year		<b>(9,782)</b>	(6,674)
Total comprehensive income for the year		<b>237,580</b>	193,433
Profit for the year attributable to:			
Owners of the Company		<b>250,284</b>	200,991
Non-controlling interests		<b>(2,922)</b>	(884)
		<b>247,362</b>	200,107
Total comprehensive income attributable to:			
Owners of the Company		<b>240,502</b>	194,340
Non-controlling interests		<b>(2,922)</b>	(907)
		<b>237,580</b>	193,433
Earnings per share (US cents)	15		
Basic		<b>13.68</b>	11.42
Diluted		<b>13.62</b>	11.26

# Consolidated Statement of Financial Position

As at December 31, 2013

	Notes	2013 USD'000	2012 USD'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	383,949	384,154
Lease prepayments	17	36,364	36,133
Goodwill	18	532,488	531,160
Intangible assets	19	459,440	399,067
Interests in associates	22	15,766	17,724
Available-for-sale investments	23	520	1,270
Derivative financial instruments	29	12,647	—
Deferred tax assets	44	79,064	73,892
		<b>1,520,238</b>	1,443,400
<b>Current assets</b>			
Inventories	24	884,230	688,576
Trade and other receivables	25	783,795	688,923
Deposits and prepayments		76,057	73,621
Bills receivable	26	26,054	48,644
Tax recoverable		15,375	8,534
Trade receivables from an associate	28	2,590	46
Derivative financial instruments	29	5,073	5,706
Held-for-trading investments	30	1,000	5,980
Bank balances, deposits and cash	31	698,147	617,648
		<b>2,492,321</b>	2,137,678
<b>Current liabilities</b>			
Trade and other payables	32	1,039,923	710,491
Bills payable	33	40,613	39,222
Warranty provision	34	52,628	42,395
Tax payable		50,197	18,698
Derivative financial instruments	29	13,082	11,697
Restructuring provision	35	—	527
Obligations under finance leases - due within one year	36	977	1,154
Discounted bills with recourse	37	116,704	432,633
Unsecured borrowings - due within one year	40	454,624	298,890
Bank overdrafts	31	7,887	7,087
		<b>1,776,635</b>	1,562,794
Net current assets		<b>715,686</b>	574,884
Total assets less current liabilities		<b>2,235,924</b>	2,018,284

# Consolidated Statement of Financial Position

As at December 31, 2013

	Notes	2013 USD'000	2012 USD'000
<b>Capital and Reserves</b>			
Share capital	41	<b>23,471</b>	23,461
Reserves		<b>1,717,242</b>	1,525,416
Equity attributable to Owners of the Company		<b>1,740,713</b>	1,548,877
Non-controlling interests		<b>4,723</b>	7,645
Total equity		<b>1,745,436</b>	1,556,522
<b>Non-current Liabilities</b>			
Obligations under finance leases - due after one year	36	<b>3,173</b>	4,071
Unsecured borrowings - due after one year	40	<b>374,744</b>	348,692
Retirement benefit obligations	43	<b>106,296</b>	93,322
Deferred tax liabilities	44	<b>6,275</b>	15,677
		<b>490,488</b>	461,762
Total equity and non-current liabilities		<b>2,235,924</b>	2,018,284

The financial statements on pages 64 to 154 were approved and authorised for issue by the Board of Directors on March 19, 2014 and are signed on its behalf by:

**Chi Chung Chan**  
Group Executive Director

**Stephan Horst Pudwill**  
Group Executive Director

# Statement of Financial Position

As at December 31, 2013

	Notes	2013 USD'000	2012 USD'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	1,431	2,122
Intangible assets	19	—	5,909
Investments in subsidiaries	21	412,256	404,481
Loans to subsidiaries	21	560,129	546,422
Interests in associates	22	14,478	16,436
Available-for-sale investments	23	196	218
		<b>988,490</b>	975,588
<b>Current assets</b>			
Inventories	24	—	573
Other receivables	25	6,207	8,005
Deposits and prepayments		5,385	3,803
Amounts due from subsidiaries	27	1,241,483	961,475
Derivative financial instruments	29	653	49
Held-for-trading investments	30	1,000	5,980
Bank balances, deposits and cash	31	52,462	44,978
		<b>1,307,190</b>	1,024,863
<b>Current liabilities</b>			
Trade and other payables	32	26,403	20,966
Tax payable		2,700	—
Derivative financial instruments	29	7,578	5,970
Amounts due to subsidiaries	27	579,524	513,587
Unsecured borrowings - due within one year	40	371,072	118,023
		<b>987,277</b>	658,546
Net current assets		<b>319,913</b>	366,317
Total assets less current liabilities		<b>1,308,403</b>	1,341,905
<b>Capital and Reserves</b>			
Share capital	41	23,471	23,461
Reserves	42	1,005,509	1,064,695
		<b>1,028,980</b>	1,088,156
<b>Non-current Liabilities</b>			
Unsecured borrowings - due after one year	40	279,423	253,749
Total equity and non-current liabilities		<b>1,308,403</b>	1,341,905

**Chi Chung Chan**  
Group Executive Director

**Stephan Horst Pudwill**  
Group Executive Director

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2013

	Attributable to Owners of the Company										Attributable to non- controlling Interests	
	Share capital USD'000	Share premium USD'000	Capital redemption reserve USD'000	Convertible bonds equity reserve USD'000	Translation reserve USD'000	Employee share-based compensation reserve USD'000	Defined benefit obligations remeasurement reserve USD'000	Hedging reserve USD'000	Retained profits USD'000	Total USD'000	Share of net assets of subsidiaries USD'000	Total USD'000
At January 1, 2012	20,533	460,372	127	8,833	(3,113)	6,608	13,841	—	738,375	1,245,576	8,552	1,254,128
Profit (loss) for the year	—	—	—	—	—	—	—	—	200,991	200,991	(884)	200,107
Remeasurement of defined benefit obligations	—	—	—	—	—	—	(9,629)	—	—	(9,629)	—	(9,629)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	—	—	(1,254)	—	(1,254)	—	(1,254)
Exchange differences on translation of foreign operations	—	—	—	—	4,232	—	—	—	—	4,232	(23)	4,209
Other comprehensive income (loss) for the year	—	—	—	—	4,232	—	(9,629)	(1,254)	—	(6,651)	(23)	(6,674)
Total comprehensive income (loss) for the year	—	—	—	—	4,232	—	(9,629)	(1,254)	200,991	194,340	(907)	193,433
Shares issued at premium on exercise of options	107	9,388	—	—	—	(1,772)	—	—	—	7,723	—	7,723
Buy-back of shares	(56)	—	56	—	—	—	—	—	(5,653)	(5,653)	—	(5,653)
Recognition of equity-settled share-based payments	—	—	—	—	—	578	—	—	—	578	—	578
Lapse of share options	—	—	—	—	—	(2,201)	—	—	2,201	—	—	—
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	—	—	2,962	—	—	2,962	—	2,962
Conversion of convertible bonds	2,877	143,330	—	(8,833)	—	—	—	—	—	137,374	—	137,374
Final dividend - 2011	—	—	—	—	—	—	—	—	(18,185)	(18,185)	—	(18,185)
Interim dividend - 2012	—	—	—	—	—	—	—	—	(15,838)	(15,838)	—	(15,838)
At December 31, 2012	23,461	613,090	183	—	1,119	3,213	7,174	(1,254)	901,891	1,548,877	7,645	1,556,522
Profit (loss) for the year	—	—	—	—	—	—	—	—	250,284	250,284	(2,922)	247,362
Remeasurement of defined benefit obligations	—	—	—	—	—	—	(9,143)	—	—	(9,143)	—	(9,143)
Fair value gain on foreign currency forward contracts in hedge accounting	—	—	—	—	—	—	—	101	—	101	—	101
Exchange differences on translation of foreign operations	—	—	—	—	(740)	—	—	—	—	(740)	—	(740)
Other comprehensive income (loss) for the year	—	—	—	—	(740)	—	(9,143)	101	—	(9,782)	—	(9,782)
Total comprehensive income (loss) for the year	—	—	—	—	(740)	—	(9,143)	101	250,284	240,502	(2,922)	237,580
Shares issued at premium on exercise of options	52	4,473	—	—	—	(840)	—	—	—	3,685	—	3,685
Buy-back of shares	(42)	—	42	—	—	—	—	—	(7,158)	(7,158)	—	(7,158)
Recognition of equity-settled share-based payments	—	—	—	—	—	366	—	—	—	366	—	366
Lapse of share options	—	—	—	—	—	(6)	—	—	6	—	—	—
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	—	—	3,325	—	—	3,325	—	3,325
Final dividend - 2012	—	—	—	—	—	—	—	—	(25,330)	(25,330)	—	(25,330)
Interim dividend - 2013	—	—	—	—	—	—	—	—	(23,554)	(23,554)	—	(23,554)
At December 31, 2013	23,471	617,563	225	—	379	2,733	1,356	(1,153)	1,096,139	1,740,713	4,723	1,745,436

# Consolidated Statement of Cash Flow

For the year ended December 31, 2013

Note	2013 USD'000	2012 USD'000
<b>Operating Activities</b>		
Profit before taxation	<b>276,398</b>	222,246
Adjustments for:		
Amortisation/write-off of intangible assets	<b>66,972</b>	56,690
Amortisation of lease prepayments	<b>804</b>	783
Depreciation on property, plant and equipment	<b>74,232</b>	73,115
Gain on a bargain purchase	<b>(38,319)</b>	—
Employee share-based expense	<b>366</b>	578
Fair value gain on interest rate swap	<b>(1,465)</b>	(101)
Fair value loss on a warrant	<b>—</b>	222
Fair value loss on foreign currency forward contracts	<b>1,081</b>	4,481
Fair value loss on held-for-trading investments	<b>4,324</b>	2,308
Finance costs	<b>36,682</b>	45,627
Gain on disposal of an associate	<b>—</b>	(1,149)
Impairment loss on available-for-sale investments	<b>723</b>	—
Impairment loss on held-for-trading investments	<b>1,402</b>	—
Impairment loss on trade receivables	<b>3,923</b>	3,428
Impairment loss on property, plant and equipment	<b>19,344</b>	—
Impairment of goodwill	<b>3,390</b>	—
Interest income	<b>(11,836)</b>	(8,629)
Loss on disposal of property, plant and equipment	<b>10,114</b>	4,392
Write down of inventories	<b>30,532</b>	15,280
Operating cash flows before movements in working capital	<b>478,667</b>	419,271
Increase in inventories	<b>(215,765)</b>	(3,092)
Increase in trade and other receivables, deposits and prepayments	<b>(99,414)</b>	(24,143)
Decrease (increase) in bills receivable	<b>22,725</b>	(12,492)
(Increase) decrease in trade receivables from an associate	<b>(2,544)</b>	159
Increase in trade and other payables	<b>326,292</b>	95,635
Increase (decrease) in bills payable	<b>1,390</b>	(3,765)
Decrease in restructuring provision	<b>(531)</b>	(3,202)
Increase (decrease) in warranty provision	<b>5,908</b>	(2,709)
Decrease in trade payable to an associate	<b>—</b>	(4,037)
Increase in retirement benefit obligations	<b>3,831</b>	598
Cash generated from operations	<b>520,559</b>	462,223
Interest paid	<b>(36,682)</b>	(44,982)
Hong Kong Profits Tax paid	<b>(1,410)</b>	(7,406)
Overseas tax paid	<b>(24,343)</b>	(22,448)
Hong Kong Profits Tax refunded	<b>716</b>	6,491
Overseas tax refunded	<b>5,222</b>	7,092
<b>Net Cash from Operating Activities</b>	<b>464,062</b>	400,970

# Consolidated Statement of Cash Flow

For the year ended December 31, 2013

	Note	2013 USD'000	2012 USD'000
<b>Investing Activities</b>			
Acquisition of businesses	45	(21,823)	—
Additions to intangible assets		(89,109)	(84,482)
Increase in held-for-trading investments		(1,000)	—
Interest received		11,836	8,629
Proceeds from disposal of an associate		—	2,000
Proceeds from disposal of held-for-trading investments		253	—
Proceeds from disposal of property, plant and equipment		6,386	4,231
Purchase of property, plant and equipment		(104,615)	(102,427)
Repayment from associates		1,957	1,635
<b>Net Cash Used in Investing Activities</b>		<b>(196,115)</b>	<b>(170,414)</b>
<b>Financing Activities</b>			
Decrease in discounted bills with recourse		(317,097)	(86,211)
Decrease in trust receipt loans		(1,050)	(2,828)
Dividends paid		(48,884)	(34,023)
New bank loans obtained		1,111,936	792,931
Proceeds from issue of shares		3,685	7,723
Repayment of bank loans		(890,039)	(703,842)
Repayment of fixed interest rate notes		(39,375)	(30,000)
Repayment of obligations under finance leases		(1,198)	(1,773)
Buy-back of shares		(7,158)	(5,653)
<b>Net Cash Used in Financing Activities</b>		<b>(189,180)</b>	<b>(63,676)</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>78,767</b>	<b>166,880</b>
<b>Cash and Cash Equivalents at Beginning of the Year</b>		<b>610,561</b>	<b>439,678</b>
<b>Effect of Foreign Exchange Rate Changes</b>		<b>932</b>	<b>4,003</b>
<b>Cash and Cash Equivalents at End of the Year</b>		<b>690,260</b>	<b>610,561</b>
<b>Analysis of the Balances of Cash and Cash Equivalents</b>			
Represented by:			
Bank balances, deposits and cash		698,147	617,648
Bank overdrafts		(7,887)	(7,087)
		<b>690,260</b>	<b>610,561</b>



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 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 24/F., CDW Building, 388 Castle Peak Road, Tsuen Wan, N.T., 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 Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group and the Company have applied the following revised and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”):

Amendments to HKFRS	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the revised and amendments to HKFRSs in the current year has had no material impact on the Group’s and the Company’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements. Besides, the Group has early applied HKAS 19 *Retirement Benefits* in 2012 in advance of its effective date and consistently reported for both years.

### HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transition, provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 39.3 for 2013 disclosures). The application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

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

### Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group’s ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### New and revised HKFRSs issued but not yet effective

The Group have not early applied the following new and revised HKFRSs that have been issued but are not yet effective as at January 1, 2013:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle <sup>4</sup>
HKFRS 9	Financial Instrument <sup>2</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>2</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>1</sup>
Amendments to HKFRS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKFRS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKFRS 39	Novation of Derivatives and Contribution of Hedge Accounting <sup>1</sup>
HK(IFRIC) – Int 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2014.

<sup>2</sup> Available for application – the mandatory effective date will be determined when the outstanding phase of HKFRS 9 are finalised.

<sup>3</sup> Effective for annual periods beginning on or after July 1, 2014, with limited exceptions.

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2014.

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

### Annual Improvements to HKFRSs 2010-2012 Cycle

The “Annual Improvements to HKFRSs 2010-2012 Cycle” include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of ‘vesting condition’ and ‘market condition’; and (ii) add definitions for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after July 1, 2014.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the “Annual Improvements to HKFRSs 2010-2012 Cycle” will have a material effect on the Group’s consolidated financial statements.

### Annual Improvements to HKFRSs 2011-2013 Cycle

The “Annual Improvements to HKFRSs 2011-2013 Cycle” include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The directors do not anticipate that the application of the amendments included in the “Annual Improvements to HKFRSs 2011-2013 Cycle” will have a material effect on the Group’s consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

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

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- With regards to financial assets, HKFRS 9 requires 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting 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. The adoption of HKFRS 9 will require the Group's and the Company's available-for-sale investments that are currently measured at cost less impairment to be measured at fair value instead of being measured at cost.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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 and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements.

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

### Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group’s consolidated financial statements as the Group does not have any material financial assets and financial liabilities that qualify for offset.

### Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group’s consolidated financial statements.

### Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any material effect on the Group’s consolidated financial statements as the Group does not have any derivatives that are subject to novation.

### HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group’s consolidated financial statements as the Group does not have any material levy arrangements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, 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.

### 3. Significant Accounting Policies *(continued)*

#### Basis of Consolidation *(continued)*

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.

#### 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 interests 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 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 and any non-controlling interests. 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, 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 3. Significant Accounting Policies *(continued)*

### Business Combinations *(continued)*

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the 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.

### 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.

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.



### 3. Significant Accounting Policies *(continued)*

#### Investments in Subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### 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 profit or 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 or a joint venture. 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, 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 in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 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 such 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 (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.

### 3. Significant Accounting Policies *(continued)*

#### Leasing

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

#### The Group and the Company as lessee

Assets held under finance leases are recognised as assets of the Group and the Company 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 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, such 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 and the Company assess 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 or the Company, 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 payments" 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.

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 value, using the straight-line method. The estimated useful lives, residual values and defined 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 3. Significant Accounting Policies *(continued)*

### Property, Plant and Equipment *(continued)*

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

An item of property, plant and equipment is 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.

### 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 and the Company review 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. 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.

### 3. Significant Accounting Policies *(continued)*

#### Financial Instruments *(continued)*

##### Financial Assets

The Group's and the Company'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, amounts due from associates, bills receivable, trade receivables from an associate, loans to subsidiaries, amounts due from subsidiaries 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).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 3. Significant Accounting Policies *(continued)*

### Financial Instruments *(continued)*

#### Financial Assets *(continued)*

##### **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).

##### **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 and the Company'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.

### 3. Significant Accounting Policies *(continued)*

#### Financial Instruments *(continued)*

##### Financial Assets *(continued)*

##### *Impairment of financial assets (continued)*

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.

##### **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 and the Company after deducting all of its liabilities. Equity instruments issued by the Group and the Company 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, bank overdrafts and amounts due to subsidiaries) 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 3. Significant Accounting Policies *(continued)*

### Financial Instruments *(continued)*

#### 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.

#### 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 hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

#### Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company 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 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 in accordance with the revenue recognition policy.

#### Derecognition

The Group and the Company derecognise 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 and the Company neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company continue to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group and the Company retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continue 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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised 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.



### 3. Significant Accounting Policies *(continued)*

#### Provisions

Provisions are recognised when the Group and the Company have a present obligation as a result of a past event and it is probable that the Group and the Company 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.

A provision for restructuring is recognised in the consolidated statement of financial position on condition that the Group has a detailed formal plan and has raised a valid expectation to those affected that the plan will be carried out, either by starting to implement that plan or by announcing its main features to those affected.

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.

#### Revenue Recognition

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

Turnover 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 3. Significant Accounting Policies *(continued)*

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company'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 and the Company expect, 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, 2013

## 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 and the Company revise 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 premium. 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.

### 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 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 retained earnings and will not be reclassified to profit or loss. 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. 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 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.

### 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.

## 4. Key Sources of Accounting Estimates

In the application of the Group's and the Company's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, 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.

### 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 the value in use 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, 2013, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately USD532,488,000 (2012: USD531,160,000) and approximately USD213,934,000 (2012: USD177,555,000) respectively. Details of the recoverable amount calculation are disclosed in Note 20.

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

As at December 31, 2013, the carrying amount of deferred development costs of the Group and the Company is USD207,977,000 (2012: USD182,571,000) and Nil (2012: USD5,909,000) respectively. 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 such adjustments are appropriate.

### 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, 2013, the Group's and the Company's carrying amount of property, plant and equipment are USD383,949,000 (2012: USD384,154,000) and USD1,431,000 (2012: USD2,122,000) respectively. The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life that the Group and the Company place the equipment into production reflects the directors' estimate of the periods that the Group and the Company intend to derive future economic benefits from the use of the Group's and the Company'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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

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

### Income Taxes

As at December 31, 2013, a deferred tax asset of approximately USD39,747,000 (2012: USD53,704,000) in relation to unused tax losses and approximately USD32,860,000 (2012: USD25,242,000) 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 assets 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 USD7,913,000 (2012: USD10,109,000) 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 and the Company take 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). When the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2013, the Group's and the Company's carrying amount of trade and other receivables, bills receivable and trade receivables/amounts due from associates is USD828,205,000 (net of allowance for doubtful debts of USD18,168,000) (2012: USD755,337,000 (net of allowance for doubtful debts of USD13,987,000)) and USD20,685,000 (net of allowance for doubtful debts of nil) (2012: USD24,441,000 (net of allowance for doubtful debts of nil)).

## 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®, 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® brand and ORECK® plus OEM customers.

Information regarding the above segments is reported below.

### Segment turnover and results

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

#### For the year ended December 31, 2013

	Power Equipment USD'000	Floor Care and Appliances USD'000	Eliminations USD'000	Consolidated USD'000
<b>Segment turnover</b>				
External sales	3,143,915	1,155,840	—	4,299,755
Inter-segment sales	—	2,384	(2,384)	—
<b>Total segment turnover</b>	<b>3,143,915</b>	<b>1,158,224</b>	<b>(2,384)</b>	<b>4,299,755</b>

Inter-segment sales are charged at prevailing market rates.

<b>Result</b>				
Segment results before finance costs	261,340	51,740	—	313,080
Finance costs				(36,682)
Profit before taxation				276,398
Taxation charge				(29,036)
<b>Profit for the year</b>				<b>247,362</b>

The accounting policies of the operating segments are the same as the Group’s accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of 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, 2013

## 5. Segment Information *(continued)*

### Other segment information

For the year ended December 31, 2013

Amounts included in the measure of segment profit or loss:

	Power Equipment USD'000	Floor Care and Appliances USD'000	Consolidated USD'000
Loss on disposal of property, plant and equipment	9,281	833	10,114
Impairment loss on property, plant and equipment	—	19,344	19,344
Write down of inventories	11,572	18,960	30,532
Impairment loss on trade receivables	3,557	366	3,923
Depreciation and amortisation	94,288	44,163	138,451

### Segment turnover and results

For the year ended December 31, 2012

	Power Equipment USD'000	Floor Care and Appliances USD'000	Eliminations USD'000	Consolidated USD'000
<b>Segment turnover</b>				
External sales	2,864,586	987,832	—	3,852,418
Inter-segment sales	13,977	854	(14,831)	—
Total segment turnover	2,878,563	988,686	(14,831)	3,852,418

Inter-segment sales are charged at prevailing market rates.

<b>Result</b>				
Segment results before finance costs	228,783	39,090	—	267,873
Finance costs				(45,627)
Profit before taxation				222,246
Taxation charge				(22,139)
Profit for the year				200,107



## 5. Segment Information *(continued)*

### Other segment information

For the year ended December 31, 2012

Amounts included in the measure of segment profit or loss:

	Power Equipment USD'000	Floor Care and Appliances USD'000	Consolidated USD'000
Loss on disposal of property, plant and equipment	3,428	964	4,392
Write down of inventories	12,354	2,926	15,280
Impairment loss on trade receivables	1,773	1,655	3,428
Depreciation and amortisation	89,971	39,115	129,086

### Turnover from major products

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

	2013 USD'000	2012 USD'000
Power Equipment	3,143,915	2,864,586
Floor Care and Appliances	1,155,840	987,832
Total	4,299,755	3,852,418

### Geographical information

The Group's turnover 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:

	Turnover from external customers		Non-Current Assets*	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
North America	3,120,251	2,806,909	805,065	775,165
Europe	870,119	767,967	93,726	87,962
Other countries	309,385	277,542	513,450	487,387
Total	4,299,755	3,852,418	1,412,241	1,350,514

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

### Information about major customer

During the years ended December 31, 2013 and 2012, the Group's largest customer contributed total turnover of USD1,622,819,000 (2012: USD1,459,450,000), of which USD1,568,856,000 (2012: USD1,425,259,000) was under the Power Equipment segment and USD53,963,000 (2012: USD34,191,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total turnover.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 6. Turnover

Turnover 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:

	2013 USD'000	2012 USD'000
Sale of goods	4,287,773	3,843,411
Commission and royalty income	11,982	9,007
	<b>4,299,755</b>	3,852,418

## 7. Other Income

Other income in 2013 mainly comprises the net of gain on a bargain purchase of USD38,319,000, sales of scrap materials, claims and reimbursements from customers and vendors, impairment losses on property, plant and equipment and inventories and other costs arising from the integration of floor care and appliances manufacturing operations of USD34,659,000 and goodwill impairment of USD3,390,000.

Other income in 2012 mainly comprises of the gain on disposal of an associate, sales of scrap materials and claims and reimbursements from customers and vendors.

## 8. Interest Income

Interest income represents interest earned on bank deposits.

## 9. Finance Costs

	2013 USD'000	2012 USD'000
Interest on:		
Bank borrowings and overdrafts wholly repayable within five years	27,290	28,973
Obligations under finance leases	355	449
Fixed interest rate notes	9,037	10,867
Effective interest expense on convertible bonds	—	5,338
	<b>36,682</b>	45,627

## 10. Taxation Charge

	2013 USD'000	2012 USD'000
Current tax:		
Hong Kong profits tax	(909)	(440)
Underprovision in prior years	(3,403)	(305)
	<b>(4,312)</b>	(745)
Overseas taxation	<b>(16,057)</b>	(14,059)
Underprovision in prior years	<b>(23,512)</b>	(13,117)
	<b>(39,569)</b>	(27,176)
Deferred tax (Note 44):		
Current year	<b>14,845</b>	5,782
	<b>(29,036)</b>	(22,139)

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 periods 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 such amounts cannot be reliably estimated at this stage.

The tax charges for the year are reconciled as follows:

	2013 USD'000	2013 %	2012 USD'000	2012 %
Profit before taxation	<b>276,398</b>		222,246	
Tax at Hong Kong Profits Tax rate	<b>(45,606)</b>	<b>16.5%</b>	(36,671)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>48,259</b>	<b>(17.5%)</b>	36,564	(16.4%)
Tax effect of expenses not deductible for tax purposes	<b>(7,114)</b>	<b>2.6%</b>	(5,474)	2.5%
Tax effect of income not taxable for tax purposes	<b>13,846</b>	<b>(5.0%)</b>	7,994	(3.6%)
Tax effect of tax losses and deductible temporary differences not recognised	<b>(9,099)</b>	<b>3.3%</b>	(9,781)	4.4%
Underprovision in respect of prior years	<b>(26,915)</b>	<b>9.7%</b>	(13,422)	6.0%
Others	<b>(2,407)</b>	<b>0.9%</b>	(1,349)	0.6%
Tax charge for the year	<b>(29,036)</b>	<b>10.5%</b>	(22,139)	10.0%

Details of deferred tax are set out in Note 44.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 11. Profit for the Year

	2013 USD'000	2012 USD'000
Profit for the year has been arrived at after charging (crediting):		
Amortisation of intangible assets	63,415	55,188
Amortisation of lease prepayments	804	783
Auditors' remuneration	3,251	3,027
Cost of inventories recognised as an expense	2,827,445	2,563,176
Depreciation and amortisation on property, plant and equipment		
Owned assets	73,185	71,474
Assets held under finance leases	1,047	1,641
Fair value gain on interest rate swap	(1,465)	(101)
Fair value loss on a warrant	—	222
Fair value loss on foreign currency forward contracts	1,081	4,481
Fair value loss on held-for-trading investments	4,324	2,308
Gain on disposal of an associate	—	(1,149)
Impairment loss on available-for-sale investments	723	—
Impairment loss on held-for-trading investments	1,402	—
Impairment loss on property, plant and equipment	19,344	—
Impairment loss on trade receivables	3,923	3,428
Impairment of goodwill	3,390	—
Loss on disposal of property, plant and equipment	10,114	4,392
Net exchange (gain) loss	(14,951)	3,360
Operating lease expenses recognised in respect of:		
Motor vehicles	14,588	13,589
Plant and machinery	6,115	4,700
Premises	29,704	26,700
Other assets	2,740	2,516
Unconditional government grants	(70)	(43)
Write off of intangible assets	3,557	1,502
Write down of inventories	30,532	15,280
Staff costs		
Directors' remuneration		
Fees	234	216
Other emoluments	22,313	18,558
Other staff costs	22,547	18,774
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)	483,940	433,127
Defined contribution plans	2,506	4,733
Defined benefit plans (Note 43)	3,724	4,142
	<b>512,717</b>	460,776

Staff costs disclosed above do not include an amount of USD87,871,000 (2012: USD77,584,000) relating to research and development activities.

## 12. Director's Emoluments

The emoluments paid or payable to each of the eleven (2012: eleven) directors were as follows:

### For the year ended December 31, 2013

	Other emoluments					Total USD'000
	Fees USD'000	Basic salaries and allowances USD'000	Contributions to retirement benefits schemes USD'000	Bonus paid USD'000	Share-based payments USD'000	
Mr Horst Julius Pudwill	—	1,602	2	3,849	68	5,521
Mr Joseph Galli Jr	—	1,505	2	11,344	—	12,851
Mr Kin Wah Chan	—	688	2	666	—	1,356
Mr Chi Chung Chan	—	686	2	707	—	1,395
Mr Stephan Horst Pudwill	—	327	2	379	120	828
Prof Roy Chi Ping Chung BBS JP	39	8	—	—	—	47
Mr Joel Arthur Schleicher	39	39	—	—	36	114
Mr Christopher Patrick Langley OBE	39	21	—	—	36	96
Mr Manfred Kuhlmann	39	45	—	—	33	117
Mr Peter David Sullivan	39	48	—	—	36	123
Mr Vincent Ting Kau Cheung	39	24	—	—	36	99
<b>Total</b>	<b>234</b>	<b>4,993</b>	<b>10</b>	<b>16,945</b>	<b>365</b>	<b>22,547</b>

### For the year ended December 31, 2012

	Other emoluments					Total USD'000
	Fees USD'000	Basic salaries and allowances USD'000	Contributions to retirement benefits schemes USD'000	Bonus paid USD'000	Share-based payments USD'000	
Mr Horst Julius Pudwill	—	1,557	2	2,941	108	4,608
Mr Joseph Galli Jr	—	1,200	2	9,298	—	10,500
Mr Kin Wah Chan	—	660	2	466	—	1,128
Mr Chi Chung Chan	—	660	2	500	—	1,162
Mr Stephan Horst Pudwill	—	316	2	245	125	688
Prof Roy Chi Ping Chung BBS JP	36	6	—	—	—	42
Mr Joel Arthur Schleicher	36	38	—	—	59	133
Mr Christopher Patrick Langley OBE	36	21	—	—	59	116
Mr Manfred Kuhlmann	36	45	—	—	54	135
Mr Peter David Sullivan	36	48	—	—	59	143
Mr Vincent Ting Kau Cheung	36	24	—	—	59	119
<b>Total</b>	<b>216</b>	<b>4,575</b>	<b>10</b>	<b>13,450</b>	<b>523</b>	<b>18,774</b>

The bonuses paid were based on performance of the Group.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2012: three) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2012: two) individual for the year ended December 31, 2013 was as follows:

	<b>2013</b>	2012
	<b>USD'000</b>	USD'000
Basic salaries and allowances	<b>590</b>	1,056
Contributions to retirement benefits schemes	<b>9</b>	80
Bonus paid	<b>885</b>	1,323
Other benefit	<b>28</b>	14
Share-based payments	<b>—</b>	11
	<b>1,512</b>	2,484

The emoluments of this one (2012: two) highest paid individual for the year ended December 31, 2013 was within the following bands:

	<b>No. of persons</b>	
USD	<b>2013</b>	2012
1,000,001 to 1,500,000	<b>—</b>	2
1,500,001 to 2,000,000	<b>1</b>	—

During each of the two years ended December 31, 2013 and 2012, 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

	2013 USD'000	2012 USD'000
Dividends recognised as distributions during the year:		
Final dividend paid:		
2012: HK10.75 cents (approximately US1.38 cents) (2011: HK7.75 cents (approximately US1.00 cent)) per share	<b>25,330</b>	18,185
Interim dividend paid:		
2013: HK10.00 cents (approximately US1.29 cents) (2012: HK6.75 cents (approximately US0.87 cent)) per share	<b>23,554</b>	15,838
	<b>48,884</b>	34,023

The final dividend of HK13.75 cents (approximately US1.77 cents) per share with a total of approximately USD32,382,000 in respect of the year ended December 31, 2013 (2012: final dividend of HK10.75 cents (approximately US1.38 cents) per share in respect of the year ended December 31, 2012) 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:

	2013 USD'000	2012 USD'000
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to Owners of the Company	<b>250,284</b>	200,991
Effect of dilutive potential ordinary shares:		
Effective interest on convertible bonds	—	5,128
Earnings for the purpose of diluted earnings per share	<b>250,284</b>	206,119
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,829,954,083</b>	1,760,169,540
Effect of dilutive potential ordinary shares:		
Share options	<b>7,168,529</b>	5,390,842
Convertible bonds	—	64,489,800
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,837,122,612</b>	1,830,050,182

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 16. Property, Plant and Equipment

	Freehold land and buildings outside Hong Kong (Note) USD'000	Leasehold improvements USD'000	Office equipment, furniture and fixtures USD'000	Plant and machinery USD'000	Motor vehicles USD'000	Moulds and tooling USD'000	Vessels USD'000	Construction in progress USD'000	Total USD'000
<b>The Group</b>									
<b>Cost</b>									
At January 1, 2012	142,662	51,966	144,433	196,450	4,674	213,436	2,298	61,574	817,493
Currency realignment	912	488	1,448	1,363	5	606	—	260	5,082
Additions	45	1,192	7,944	8,549	625	15,681	—	68,928	102,964
Disposals	(4,897)	(473)	(4,383)	(2,625)	(498)	(38,532)	—	(3,707)	(55,115)
Reclassification	8,723	11,117	5,313	4,247	162	39,265	—	(68,827)	—
At December 31, 2012	147,445	64,290	154,755	207,984	4,968	230,456	2,298	58,228	870,424
Currency realignment	1,142	888	821	1,905	(75)	1,060	—	494	6,235
Additions	2,060	1,166	7,635	9,699	493	7,879	—	75,683	104,615
Acquisition of businesses	—	—	95	760	—	—	—	—	855
Disposals	(12,610)	(6,575)	(11,711)	(19,730)	(484)	(61,564)	—	(2,985)	(115,659)
Impairment	(15,362)	—	(4,056)	(23,005)	(161)	(20,585)	—	—	(63,169)
Reclassification	2,061	441	5,994	9,963	464	29,884	—	(48,807)	—
<b>At December 31, 2013</b>	<b>124,736</b>	<b>60,210</b>	<b>153,533</b>	<b>187,576</b>	<b>5,205</b>	<b>187,130</b>	<b>2,298</b>	<b>82,613</b>	<b>803,301</b>
<b>Depreciation and impairment</b>									
At January 1, 2012	39,776	19,161	113,590	120,127	3,375	160,656	726	—	457,411
Currency realignment	247	203	948	583	19	236	—	—	2,236
Provided for the year	5,815	4,022	12,109	16,006	423	34,280	460	—	73,115
Eliminated on disposals	(2,592)	(395)	(3,697)	(2,279)	(439)	(37,090)	—	—	(46,492)
At December 31, 2012	43,246	22,991	122,950	134,437	3,378	158,082	1,186	—	486,270
Currency realignment	115	187	366	719	(16)	463	—	—	1,834
Provided for the year	6,699	4,316	12,450	15,425	517	34,365	460	—	74,232
Eliminated on disposals	(6,904)	(5,770)	(10,746)	(18,787)	(344)	(56,608)	—	—	(99,159)
Impairment	(6,020)	—	(3,541)	(17,968)	(137)	(16,159)	—	—	(43,825)
<b>At December 31, 2013</b>	<b>37,136</b>	<b>21,724</b>	<b>121,479</b>	<b>113,826</b>	<b>3,398</b>	<b>120,143</b>	<b>1,646</b>	<b>—</b>	<b>419,352</b>
<b>Carrying amounts</b>									
<b>At December 31, 2013</b>	<b>87,600</b>	<b>38,486</b>	<b>32,054</b>	<b>73,750</b>	<b>1,807</b>	<b>66,987</b>	<b>652</b>	<b>82,613</b>	<b>383,949</b>
At December 31, 2012	104,199	41,299	31,805	73,547	1,590	72,374	1,112	58,228	384,154

Note: Buildings with a carrying amount of USD23,474,000 (2012: USD23,599,000) are erected on leasehold land that is presented as lease prepayments on the consolidated statement of financial position.



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

	Buildings outside Hong Kong USD'000	Leasehold improvements USD'000	Office equipment, furniture and fixtures USD'000	Plant and machinery USD'000	Motor vehicles USD'000	Moulds and tooling USD'000	Total USD'000
<b>The Company</b>							
<b>Cost</b>							
At January 1, 2012	3,998	2,908	12,541	3,354	647	5,251	28,699
Additions	—	139	1,017	—	195	—	1,351
Disposals	(3,998)	(293)	(1,252)	(164)	(96)	(408)	(6,211)
At December 31, 2012	—	2,754	12,306	3,190	746	4,843	23,839
Additions	—	—	242	—	—	—	242
Disposals	—	(2,682)	(5,438)	(3,190)	—	(3,681)	(14,991)
Transfer to subsidiaries	—	—	—	—	—	(1,162)	(1,162)
<b>At December 31, 2013</b>	<b>—</b>	<b>72</b>	<b>7,110</b>	<b>—</b>	<b>746</b>	<b>—</b>	<b>7,928</b>
<b>Depreciation</b>							
At January 1, 2012	2,111	2,868	11,044	3,004	647	5,251	24,925
Provided for the year	134	33	724	341	16	—	1,248
Eliminated on disposals	(2,245)	(293)	(1,250)	(164)	(96)	(408)	(4,456)
At December 31, 2012	—	2,608	10,518	3,181	567	4,843	21,717
Provided for the year	—	46	735	9	49	—	839
Eliminated on disposals	—	(2,614)	(5,412)	(3,190)	—	(3,681)	(14,897)
Transfer to subsidiaries	—	—	—	—	—	(1,162)	(1,162)
<b>At December 31, 2013</b>	<b>—</b>	<b>40</b>	<b>5,841</b>	<b>—</b>	<b>616</b>	<b>—</b>	<b>6,497</b>
<b>Carrying amounts</b>							
<b>At December 31, 2013</b>	<b>—</b>	<b>32</b>	<b>1,269</b>	<b>—</b>	<b>130</b>	<b>—</b>	<b>1,431</b>
At December 31, 2012	—	146	1,788	9	179	—	2,122

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
Buildings	2 $\frac{1}{5}$ % - 6 $\frac{2}{3}$ %
Leasehold improvements	6 $\frac{2}{3}$ % - 25%
Office equipment, furniture and fixtures	10% - 33 $\frac{1}{3}$ %
Plant and machinery	9% - 33%
Motor vehicles	10% - 33%
Moulds and tooling	18% - 33 $\frac{1}{3}$ %
Vessels	20%

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

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

The net book values of properties shown above comprise:

	The Group	
	2013 USD'000	2012 USD'000
Land and buildings are situated outside Hong Kong and are analysed as follows:		
Freehold	64,126	80,600
Medium-term lease	23,474	23,599
	<b>87,600</b>	104,199

The net book values of the Group's property, plant and equipment include amounts of approximately USD3,416,000 (2012: USD4,790,000) in respect of assets held under finance leases.

The gross carrying amount of the Group's and the Company's property, plant and equipment include amounts of approximately USD217,407,000 and USD4,752,000 (2012: USD274,410,000 and USD20,269,000) respectively in respect of fully depreciated property, plant and equipment that are still in use.

## 17. Lease Prepayments

	The Group USD'000
<b>Cost</b>	
At January 1, 2012	39,148
Currency realignment	530
At December 31, 2012	39,678
Currency realignment	1,149
<b>At December 31, 2013</b>	<b>40,827</b>
<b>Amortisation</b>	
At January 1, 2012	2,716
Currency realignment	46
Provided for the year	783
At December 31, 2012	3,545
Currency realignment	114
Provided for the year	804
<b>At December 31, 2013</b>	<b>4,463</b>
<b>Carrying amounts</b>	
<b>At December 31, 2013</b>	<b>36,364</b>
At December 31, 2012	36,133

All lease prepayments are medium-term leases outside Hong Kong.

## 18. Goodwill

	The Group USD'000
At January 1, 2012	530,856
Currency realignment	304
At December 31, 2012	531,160
Currency realignment	857
Arising on acquisition of a business (Note 45)	3,861
Goodwill impairment	(3,390)
<b>At December 31, 2013</b>	<b>532,488</b>

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

## 19. Intangible Assets

	Deferred development costs USD'000	Patents USD'000	Trademarks USD'000	Manufacturing know-how USD'000	Retailer and service relationships USD'000	Non compete agreement USD'000	Total USD'000
<b>The Group</b>							
<b>Cost</b>							
At January 1, 2012	315,736	43,275	192,370	453	6,500	—	558,334
Currency realignment	15	(1)	1	—	—	—	15
Additions	69,631	4,214	3	—	—	10,634	84,482
Written off in the year	(4,175)	(25)	(10)	—	—	—	(4,210)
At December 31, 2012	381,207	47,463	192,364	453	6,500	10,634	638,621
Currency realignment	67	—	—	—	—	—	67
Additions	83,691	5,418	—	—	—	—	89,109
Acquisition of businesses	—	1,857	36,379	—	—	—	38,236
Written off in the year	(12,120)	(28)	—	—	—	—	(12,148)
<b>At December 31, 2013</b>	<b>452,845</b>	<b>54,710</b>	<b>228,743</b>	<b>453</b>	<b>6,500</b>	<b>10,634</b>	<b>753,885</b>
<b>Amortisation</b>							
At January 1, 2012	153,404	23,905	7,997	453	1,300	—	187,059
Currency realignment	18	(1)	(2)	—	—	—	15
Provided for the year	47,887	4,611	1,124	—	325	1,241	55,188
Eliminated on write off	(2,673)	(25)	(10)	—	—	—	(2,708)
At December 31, 2012	198,636	28,490	9,109	453	1,625	1,241	239,554
Currency realignment	67	—	—	—	—	—	67
Provided for the year	54,728	5,111	1,124	—	325	2,127	63,415
Eliminated on write off	(8,563)	(28)	—	—	—	—	(8,591)
<b>At December 31, 2013</b>	<b>244,868</b>	<b>33,573</b>	<b>10,233</b>	<b>453</b>	<b>1,950</b>	<b>3,368</b>	<b>294,445</b>
<b>Carrying Amounts</b>							
<b>At December 31, 2013</b>	<b>207,977</b>	<b>21,137</b>	<b>218,510</b>	<b>—</b>	<b>4,550</b>	<b>7,266</b>	<b>459,440</b>
At December 31, 2012	182,571	18,973	183,255	—	4,875	9,393	399,067

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 19. Intangible Assets *(continued)*

	Deferred development costs USD'000	Patents USD'000	Total USD'000
<b>The Company</b>			
<b>Cost</b>			
At January 1, 2012	70,808	6,700	77,508
<b>At December 31, 2012 and December 31, 2013</b>	<b>70,808</b>	<b>6,700</b>	<b>77,508</b>
<b>Amortisation</b>			
At January 1, 2012	56,100	6,698	62,798
Provided for the year	8,799	2	8,801
At December 31, 2012	64,899	6,700	71,599
Provided for the year	5,909	—	5,909
<b>At December 31, 2013</b>	<b>70,808</b>	<b>6,700</b>	<b>77,508</b>
<b>Carrying Amounts</b>			
<b>At December 31, 2013</b>	—	—	—
At December 31, 2012	5,909	—	5,909

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.

Included in trademarks of the Group, USD213,934,000 (2012: USD177,555,000) are trademarks with indefinite useful lives as considered by the management of the Group as having an indefinite useful life because they are expected to contribute to 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%
Non compete agreement	20%

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

As explained in Note 5, the Group uses the types of goods sold for operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 18 and 19 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, 2013 allocated to these units are as follows:

	Goodwill		Trademarks	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Power Equipment – MET	402,424	402,424	115,907	115,907
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	25,483	24,626	—	—
Power Equipment – Baja	9,017	9,017	3,200	3,200
Floor Care and Appliances – RAM/Hoover/VAX	75,748	75,748	64,179	27,800
Others	12,324	11,853	—	—
	<b>532,488</b>	531,160	<b>213,934</b>	177,555

During the year ended December 31, 2013, management of the Group determined to impair goodwill which originally generated from a CGU under “Others” amounting to USD3,390,000. No goodwill impairment has been recognised for the year ended December 31, 2012.

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 11.5% (2012: 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 estimation 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% (2012: 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 12.0% (2012: 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 estimation 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 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% (2012: 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 estimation 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 without considering any 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 13.0% (2012: 13.0%) 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 estimation 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% (2012: 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 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% (2012: 15.3%) 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 estimation 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% (2012: nil) 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.

## 21. Investments in Subsidiaries/Loans to Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2013 and December 31, 2012 are set out in Note 52.

Loans to subsidiaries are unsecured, bear fixed interest at 5.275% to 10.150% per annum (2012: 5.275% to 10.150%) and are fully repayable by 2022.

## 22. Interests in Associates

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Unlisted shares, at cost less impairment loss recognised	—	—	—	—
Share of net assets	—	—	—	—
Amounts due from associates	<b>15,766</b>	17,724	<b>14,478</b>	16,436
	<b>15,766</b>	17,724	<b>14,478</b>	16,436

Particulars of the associates as at December 31, 2013 and December 31, 2012 are set out in Note 53.

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

At the end of the reporting period, amongst the associates, the Group 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 gain (loss) for the year and cumulatively, extracted from the relevant management accounts of the associates, are USD1,025,000 (2012: (USD831,000)) and (USD5,380,000) (2012: (USD6,405,000)) respectively.

## 23. Available-for-sale Investments

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Unlisted equity securities and club membership debentures, at cost less impairment loss recognised	<b>520</b>	1,270	<b>196</b>	218

As at December 31, 2013, 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.

## 24. Inventories

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Raw materials	<b>95,186</b>	84,315	—	—
Work in progress	<b>11,505</b>	12,523	—	—
Finished goods	<b>777,539</b>	591,738	—	573
	<b>884,230</b>	688,576	—	573

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 25. Trade and other Receivables

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Trade receivables	770,033	658,929	—	—
Less: Allowances for doubtful debts	(18,168)	(13,987)	—	—
	<b>751,865</b>	644,942	—	—
Other receivables	31,930	43,981	6,207	8,005
	<b>783,795</b>	688,923	<b>6,207</b>	8,005

The aged 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:

	The Group	
	2013 USD'000	2012 USD'000
0 to 60 days	625,004	557,158
61 to 120 days	95,120	61,899
121 days or above	31,741	25,885
Total trade receivables	<b>751,865</b>	644,942

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 USD110,082,000 (2012: USD99,381,000) 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 96 days (2012: 88 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

	The Group	
	2013 USD'000	2012 USD'000
1 — 60 days	91,864	77,416
61 — 120 days	4,326	10,433
121 — 365 days	4,433	4,587
1 — 2 years	3,557	3,820
Over 2 years	5,902	3,125
Total	<b>110,082</b>	99,381



## 25. Trade and other Receivables *(continued)*

### Movement in the allowance for doubtful debts

	The Group	
	2013 USD'000	2012 USD'000
Balance at beginning of the year	13,987	14,680
Currency realignment	271	258
Impairment losses recognised on receivables	3,923	3,428
Acquisition of businesses	2,696	—
Amounts written off as uncollectible	(1,848)	(3,701)
Amounts recovered during the year	(861)	(678)
Balance at end of the year	18,168	13,987

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to USD18,168,000 (2012: USD13,987,000) 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)

	2013 USD'000	2012 USD'000
0 - 120 days	2,592	2,474
121 - 365 days	8,419	4,647
1 - 2 years	5,778	5,575
Over 2 years	1,379	1,291
Total	18,168	13,987

Under certain receivables purchase agreements, a percentage in various pools of 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 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 USD74,952,000 (2012: USD75,000,000) were recognised as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

## 26. Bills Receivable

All the Group's bills receivable at December 31, 2013 and 2012 are due within 120 days.

## 27. Amounts Due from/(to) Subsidiaries

The amounts are unsecured, interest-free and payable on demand.

## 28. Trade Receivables from an Associate

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 29. Derivative Financial Instruments

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
<b>Assets</b>				
Acquisition right of certain property, plant and equipment	12,647	—	—	—
Foreign currency forward contracts – under hedge accounting	5,034	49	653	49
Foreign currency forward contracts – not under hedge accounting	39	5,657	—	—
	<b>17,720</b>	5,706	<b>653</b>	49
<b>Liabilities</b>				
Foreign currency forward contracts – under hedge accounting	9,603	1,303	4,376	1,303
Foreign currency forward contracts – not under hedge accounting	277	5,727	—	—
Interest rate swap	3,202	4,667	3,202	4,667
	<b>13,082</b>	11,697	<b>7,578</b>	5,970

### Acquisition right of certain property, plant and equipment

As at December 31, 2013, the Group owned a right to acquire certain property, plant and equipment fair valued at USD12,647,000 (2012: nil) which was acquired as part of the acquisition of the Oreck business from the Oreck Bankruptcy Estate as disclosed in Note 45. The fair value of the property, plant and equipment was valued on July 25, 2013 by KPMG, an independent valuer not related to the Group. The right is expected to be exercised in 2032.

### 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.

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

#### The Group

##### 2013

Notional amount	Maturity	Exchange rates
Sell EUR 108M, Buy USD	January 30, 2014 to December 31, 2014	USD 1.3211 to 1.3682 : EUR 1
Buy USD 30M, Sell AUD	February 28, 2014 to June 30, 2014	AUD 0.9012 to 0.9088 : USD 1
Sell USD 280M, Buy RMB	January 19, 2014 to December 31, 2014	RMB 6.1162 to 6.2285 : USD 1
Buy USD 91M, Sell GBP	January 6, 2014 to September 15, 2014	GBP 0.6085 to 0.6489 : USD 1
Sell USD 48.2M, Buy EUR	January 15, 2014 to October 3, 2014	USD 1.3020 to 1.3794 : EUR 1

## 29. Derivative Financial Instruments *(continued)*

### Foreign Currency Forward Contracts under hedge accounting *(continued)*

#### The Company

2013

Notional amount	Maturity	Exchange rates
Sell EUR 108M, Buy USD	January 30, 2014 to December 31, 2014	USD 1.3211 to 1.3682 : EUR 1
Buy USD 30M, Sell AUD	February 28, 2014 to June 30, 2014	AUD 0.9012 to 0.9088 : USD 1

#### The Group and the Company

2012

Notional amount	Maturity	Exchange rates
Sell EUR 82.5M, Buy USD	January 31, 2013 to December 31, 2013	USD 1.2894 to 1.3273 : EUR 1

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

#### The Group

2013

Notional amount	Maturity	Exchange rates
Buy USD 12.3M, Sell NZD	January 20, 2014 to December 22, 2014	USD 0.800: NZD 1
Sell CHF 0.6M, Buy EUR	January 23, 2014 to June 20, 2014	CHF 1.2374 to 1.2386 : EUR 1
Sell SEK 30M, Buy EUR	January 23, 2014 to June 20, 2014	SEK 8.7453 to 8.7820 : EUR 1
Buy USD 6M, Sell GBP	January 15, 2014 to December 2, 2014	GBP 0.6144 to 0.6438 : USD 1

2012

Notional amount	Maturity	Exchange rates
Sell PLN 9M, Buy EUR	January 24, 2013 to September 19, 2013	PLN 4.2247 to 4.3310 : EUR 1
Buy USD 1.39M, Sell NZD	January 22, 2013 to February 22, 2013	NZD 1.2237 to 1.2259 : USD 1
Buy USD 19.25M, Sell AUD	January 22, 2013 to February 22, 2013	USD 1.0372 to 1.0399 : AUD 1
Buy USD 159M, Sell RMB	January 9, 2013 to October 15, 2013	RMB 6.2840 to 6.4530 : USD 1
Buy USD 72M, Sell GBP	January 2, 2013 to December 14, 2013	USD 0.6171 to 0.6392 : GBP 1
Sell EUR 31M, Buy USD	January 15, 2013 to August 1, 2013	USD 1.2436 to 1.3137 : EUR 1
Sell USD 189M, Buy RMB	January 9, 2013 to December 31, 2013	RMB 6.3440 to 6.4985 : USD 1

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 29. Derivative Financial Instruments *(continued)*

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

The fair value of the interest rate swap of the Group and the Company is 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 are as follows:

#### The Group and the Company

##### 2013

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

##### 2012

Notional amount	Maturity	Receive floating	Pay fixed
USD 62,000,000	December 31, 2013 to May 4, 2016	LIBOR	1.2% - 3.1%

## 30. Held-for-Trading Investments

The Group's and the Company's held-for-trading investments at December 31, 2013 and 2012 are carried at fair value using the market bid prices on the reporting date.

Held-for-trading investments include:

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Equity securities:				
– Listed in US	—	5,980	—	5,980
– Unlisted investment funds	1,000	—	1,000	—
	1,000	5,980	1,000	5,980

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

Bank balances carry interest at market rates which range from 0.05% to 0.17% (2012: 0.10% to 0.27%) per annum. Bank overdrafts carry interest at market rates which range from 3.25% to 5.00% (2012: 3.25% to 5.00%) per annum.

## 32. Trade and other Payables

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

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
0 to 60 days	467,635	309,719	—	—
61 to 120 days	148,839	80,517	—	—
121 days or above	29,502	1,557	5	5
Total trade payables	645,976	391,793	5	5
Other payables	393,947	318,698	26,398	20,961
	<b>1,039,923</b>	710,491	<b>26,403</b>	20,966

The credit period on the purchase of goods ranges from 30 days to 120 days (2012: 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.

## 33. Bills Payable

All the Group's bills payable at December 31, 2013 and 2012 are due within 120 days.

## 34. Warranty Provision

	The Group USD'000
At January 1, 2012	44,748
Currency realignment	356
Additional provision in the year	87,872
Utilisation of provision	(90,581)
At December 31, 2012	42,395
Currency realignment	94
Additional provision in the year	91,118
Acquisition of businesses	4,231
Utilisation of provision	(85,210)
<b>At December 31, 2013</b>	<b>52,628</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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 35. Restructuring Provision

	<b>The Group USD'000</b>
At January 1, 2012	3,743
Currency realignment	(14)
Utilisation of provision	(3,202)
At December 31, 2012	527
Currency realignment	4
Utilisation of provision	(531)
<b>At December 31, 2013</b>	<b>—</b>

The provision related to the restructuring of the Group's manufacturing facilities in Germany.

## 36. Obligations under Finance Leases

It is the Group's policy to lease certain of its land and buildings, plant and machinery, fixtures and equipment and motor vehicles under finance leases, with lease terms ranging from 3 years to 20 years. Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 7.5% to 22.4% (December 31, 2012: 6.7% to 22.4%). No arrangements have been entered into that include contingent rental payments.

The maturity of obligations under finance leases is as follows:

	<b>The Group</b>			
	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>2013 USD'000</b>	2012 USD'000	<b>2013 USD'000</b>	2012 USD'000
Amounts payable under finance leases:				
Within one year	<b>1,245</b>	1,518	<b>977</b>	1,154
In more than one year but not more than two years	<b>1,330</b>	1,301	<b>1,137</b>	1,028
In more than two years but not more than three years	<b>785</b>	1,199	<b>663</b>	1,007
In more than three years but not more than four years	<b>298</b>	785	<b>202</b>	663
In more than four years but not more than five years	<b>298</b>	298	<b>218</b>	202
More than five years	<b>1,099</b>	1,397	<b>953</b>	1,171
	<b>5,055</b>	6,498	<b>4,150</b>	5,225
Less: future finance charges	<b>(905)</b>	(1,273)	<b>—</b>	—
Present value of lease obligations	<b>4,150</b>	5,225	<b>4,150</b>	5,225
Less: Amount due within one year shown under current liabilities			<b>(977)</b>	(1,154)
Amount due after one year			<b>3,173</b>	4,071

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

## 37. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 1.53% per annum (2012: 1.79% per annum) have maturity profiles of less than 120 days.

## 38. 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 net 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:

	<b>2013</b> <b>USD'000</b>	2012 USD'000
Debt <sup>(i)</sup>	<b>883,157</b>	1,017,527
Bank balances, deposits and cash	<b>(698,147)</b>	(617,648)
Net debt	<b>185,010</b>	399,879
Equity <sup>(ii)</sup>	<b>1,740,713</b>	1,548,877
Net debt to equity ratio	<b>10.63%</b>	25.82%

(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 25, 31, 36, 37 and 40 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, 2013

## 39. Financial Instruments

### 39.1 Categories of financial instruments

	2013 USD'000	2012 USD'000
<b>The Group</b>		
<b>Financial assets</b>		
<i>Fair value through profit or loss</i>		
Held-for-trading investments	1,000	5,980
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	12,647	—
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	5,034	49
<i>Derivative financial instruments – not under hedge accounting</i>		
Foreign currency forward contracts	39	5,657
	<b>17,720</b>	5,706
<i>Available-for-sale investments</i>	520	1,270
<i>Loans and receivables (including cash and cash equivalents)</i>		
Trade and other receivables	783,795	688,923
Bills receivable	26,054	48,644
Trade receivables from an associate	2,590	46
Bank balances, deposits and cash	698,147	617,648
	<b>1,510,586</b>	1,355,261
<b>Financial liabilities</b>		
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	9,603	1,303
<i>Derivative financial instruments – not under hedge accounting</i>		
Foreign currency forward contracts	277	5,727
Interest rate swap	3,202	4,667
	<b>13,082</b>	11,697
<i>Other financial liabilities</i>		
Trade and other payables	1,039,923	710,491
Bills payable	40,613	39,222
Discounted bills with recourse	116,704	432,633
Unsecured borrowings	829,368	647,582
Bank overdrafts	7,887	7,087
	<b>2,034,495</b>	1,837,015



## 39. Financial Instruments *(continued)*

### 39.1 Categories of financial instruments *(continued)*

	2013 USD'000	2012 USD'000
<b>The Company</b>		
<b>Financial assets</b>		
<i>Fair value through profit or loss</i>		
Held-for-trading investments	1,000	5,980
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	653	49
<i>Available-for-sale investments</i>	196	218
<i>Loans and receivables (including cash and cash equivalents)</i>		
Other receivables	6,207	8,005
Bank balances, deposits and cash	52,462	44,978
Loans to/Amounts due from subsidiaries	1,801,612	1,507,897
	<b>1,860,281</b>	1,560,880
<b>Financial liabilities</b>		
<i>Derivative financial instruments – under hedge accounting</i>		
Foreign currency forward contracts	4,376	1,303
<i>Derivative financial instruments – not under hedge accounting</i>		
Interest rate swap	3,202	4,667
	<b>7,578</b>	5,970
<i>Other financial liabilities</i>		
Trade and other payables	26,403	20,966
Amounts due to subsidiaries	579,524	513,587
Unsecured borrowings	650,495	371,772
	<b>1,256,422</b>	906,325

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 39. Financial Instruments *(continued)*

### 39.2 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.

#### 39.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 24.6% (2012: 24.5%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 44.1% (2012: 38.2%) of purchases are denominated in the group entity's respective functional currency.

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

	Liabilities		Assets	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
<b>The Group</b>				
Foreign Currency				
EURO	<b>37,671</b>	31,263	<b>194,941</b>	150,462

	Liabilities		Assets	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
<b>The Company</b>				
Foreign Currency				
EURO	<b>23,395</b>	2,485	<b>365,022</b>	344,295

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 denominated monetary liabilities amounting to USD148,845,000 (2012: USD108,826,000). 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 29 for details).

## 39. Financial Instruments *(continued)*

### 39.2 Financial Risk Management Objectives and Policies *(continued)*

#### 39.2.1 Foreign Currency Risk Management *(continued)*

##### **Sensitivity analysis**

The Group and the Company are mainly exposed to the effects of rate fluctuations in the EURO to USD.

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:USD 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 reporting date. A positive number below indicates an increase in profit for the year where the United States dollar weakens 5% against the EURO.

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Impact of EURO Profit for the year <sup>(i)</sup>	7,037	5,960	15,287	17,091

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

#### 39.2.2 Interest Rate Risk Management

The Group's and the Company's cash flow interest rate risk relates primarily to variable-rate borrowing (see Note 40 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 29 for details). The management continuously monitors interest rate fluctuations and will consider further hedging interest rate risk should the need arise.

The Group's and the Company'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 and the Company's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") arising from the Group's and the Company's Hong Kong dollar denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk is insignificant.

The Group's fair value interest rate risk related primarily to its fixed-rate bank borrowings (see Note 40 for details of these borrowings). The Company's fair value interest rate risk related primarily to its loan to subsidiaries (see Note 21).

During the year, the Group obtained new bank borrowings in the amount of USD1,112 million (2012: USD793 million) which are either LIBOR or Hong Kong best lending rates based. The proceeds were used for refinancing the Group's borrowings including the repayment of fixed interest rate notes of USD39,375,000 and other borrowings.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 39. Financial Instruments *(continued)*

### 39.2 Financial Risk Management Objectives and Policies *(continued)*

#### 39.2.2 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 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 profit for the year ended December 31, 2013 would decrease/increase by USD4,293,000 (2012: decrease/increase by USD4,765,000). The Company's profit for the year ended December 31, 2013 would decrease/increase by USD3,252,000 (2012: decrease/increase by USD1,859,000). This is mainly attributable to the Group's and the Company's exposure to interest rates on its variable-rate borrowings.

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

#### 39.2.3 Other Price Risk

The Group and the Company are 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/lower the profit for the year ended December 31, 2013 of the Group and the Company would increase/decrease by USD100,000 (2012: USD598,000) and USD100,000 (2012: USD598,000) as a result of the changes in fair value of held-for-trading investments.

#### 39.2.4 Credit Risk Management

As at December 31, 2013, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group and the Company 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 and the Company as disclosed in Note 48.

## 39. Financial Instruments *(continued)*

### 39.2 Financial Risk Management Objectives and Policies *(continued)*

#### 39.2.4 Credit Risk Management *(continued)*

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 and the Company review 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 and the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited 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 62.7% (2012: 65.7%) of the total trade receivables as at December 31, 2013 are located.

The Group has concentration of credit risk at 43.4% (2012: 23.7%) and 57.4% (2012: 36.8%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

#### 39.2.5 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, 2013, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately USD67 million (2012: USD65 million) and USD1,824 million (2012: USD1,290 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 39. Financial Instruments (continued)

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

#### 39.2.5 Liquidity Risk Management (continued)

##### Liquidity tables (continued)

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 consider 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 USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2013 USD'000
<b>The Group</b>								
<b>2013</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (Note)	—	1,000	—	—	—	—	1,000	1,000
Available-for-sale investments (Note)	—	520	—	—	—	—	520	520
Trade and other receivables	—	607,266	133,537	42,992	—	—	783,795	783,795
Bills receivable	—	14,994	10,692	368	—	—	26,054	26,054
Trade receivables from an associate	—	2,580	3	7	—	—	2,590	2,590
Bank balances, deposits and cash	0.05% - 0.17%	688,836	9,313	—	—	—	698,149	698,147
		1,315,196	153,545	43,367	—	—	1,512,108	1,512,106
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(621,013)	(313,378)	(105,532)	—	—	(1,039,923)	(1,039,923)
Bills payable	—	(15,180)	(25,433)	—	—	—	(40,613)	(40,613)
Discounted bills with recourse	1.53%	(89,447)	(20,757)	(6,628)	—	—	(116,832)	(116,704)
Variable rate borrowings	0.97% - 4.23%	(20,860)	(284,885)	(147,961)	(119,837)	(176,315)	(749,858)	(734,047)
Fixed rate borrowings	7.44%	—	(3,562)	(3,562)	(99,312)	—	(106,436)	(95,321)
Bank overdrafts	3.25% - 5.00%	(7,887)	—	—	—	—	(7,887)	(7,887)
Financial guarantee contracts		(9,099)	—	—	—	—	(9,099)	—
		(763,486)	(648,015)	(263,683)	(219,149)	(176,315)	(2,070,648)	(2,034,495)

## 39. Financial Instruments *(continued)*

### 39.2 Financial Risk Management Objectives and Policies *(continued)*

#### 39.2.5 Liquidity Risk Management *(continued)*

##### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2013 USD'000
<b>The Group</b>								
<b>2013</b>								
<b>Derivatives - net settlement</b>								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	12,647	12,647	12,647
Interest rate swap	0.25% - 1.47%	—	(357)	(1,040)	(1,226)	(446)	(3,069)	(3,202)
Foreign currency forward contracts								
– NZD	—	(5)	(13)	(9)	—	—	(27)	(27)
		(5)	(370)	(1,049)	(1,226)	12,201	9,551	9,418
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– AUD	—	—	7,528	22,472	—	—	30,000	30,000
– EUR	—	2,899	20,998	29,686	—	—	53,583	53,583
– RMB	—	18,298	40,780	225,522	—	—	284,600	284,600
– GBP	—	32,521	20,993	43,511	—	—	97,025	97,025
– USD	—	11,933	23,872	108,277	—	—	144,082	144,082
		65,651	114,171	429,468	—	—	609,290	609,290
– outflow								
– AUD	—	—	(7,364)	(21,983)	—	—	(29,347)	(29,347)
– EUR	—	(2,930)	(21,685)	(30,447)	—	—	(55,062)	(55,062)
– RMB	—	(17,946)	(39,925)	(222,348)	—	—	(280,219)	(280,219)
– GBP	—	(33,524)	(22,357)	(45,103)	—	—	(100,984)	(100,984)
– USD	—	(12,369)	(24,737)	(111,352)	—	—	(148,458)	(148,458)
		(66,769)	(116,068)	(431,233)	—	—	(614,070)	(614,070)
		(1,118)	(1,897)	(1,765)	—	—	(4,780)	(4,780)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 39. Financial Instruments (continued)

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

#### 39.2.5 Liquidity Risk Management (continued)

##### Liquidity tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2012 USD'000
<b>The Group</b>								
<b>2012</b>								
<b>Non-derivative</b>								
<b>financial assets</b>								
Held-for-trading investments (Note)	—	5,980	—	—	—	—	5,980	5,980
Available-for-sale investments (Note)	—	1,270	—	—	—	—	1,270	1,270
Trade and other receivables	—	322,801	315,498	50,624	—	—	688,923	688,923
Bills receivable	—	35,369	12,883	392	—	—	48,644	48,644
Trade receivables from an associate	—	18	14	14	—	—	46	46
Bank balances, deposits and cash	0.10% - 0.27%	525,119	92,548	—	—	—	617,667	617,648
		890,557	420,943	51,030	—	—	1,362,530	1,362,511
<b>Non-derivative financial</b>								
<b>liabilities</b>								
Trade and other payables	—	(473,782)	(204,800)	(31,909)	—	—	(710,491)	(710,491)
Bills payable	—	(9,580)	(29,508)	(134)	—	—	(39,222)	(39,222)
Discounted bills with recourse	1.79%	(160,018)	(162,816)	(111,598)	—	—	(434,432)	(432,633)
Variable rate borrowings	1.01% - 4.36%	(98,321)	(110,793)	(48,294)	(162,150)	(104,738)	(524,296)	(513,375)
Fixed rate borrowings	6.70% - 7.44%	—	(3,562)	(44,256)	(7,124)	(99,312)	(154,254)	(134,207)
Bank overdrafts	3.25% - 5.00%	(7,087)	—	—	—	—	(7,087)	(7,087)
Financial guarantee contracts	—	(12,691)	—	—	—	—	(12,691)	—
		(761,479)	(511,479)	(236,191)	(169,274)	(204,050)	(1,882,473)	(1,837,015)



## 39. Financial Instruments (continued)

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

#### 39.2.5 Liquidity Risk Management (continued)

##### Liquidity tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2012 USD'000
<b>Derivatives - net settlement</b>								
Interest rate swap	0.76% - 2.63%	—	(491)	(1,462)	(1,334)	(1,745)	(5,032)	(4,667)
Foreign currency forward contracts								
– RMB	—	(303)	(531)	(2,986)	—	—	(3,820)	(3,820)
– AUD	—	—	39	—	—	—	39	39
– NZD	—	—	(10)	—	—	—	(10)	(10)
		(303)	(993)	(4,448)	(1,334)	(1,745)	(8,823)	(8,458)
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– EUR	—	2,312	14,621	25,841	—	—	42,774	42,774
– RMB	—	17,417	34,753	142,449	—	—	194,619	194,619
– GBP	—	7,750	11,500	52,750	—	—	72,000	72,000
– USD	—	—	29,088	78,483	—	—	107,571	107,571
		27,479	89,962	299,523	—	—	416,964	416,964
– outflow								
– EUR	—	(2,355)	(15,222)	(26,309)	—	—	(43,886)	(43,886)
– RMB	—	(17,000)	(34,000)	(138,000)	—	—	(189,000)	(189,000)
– GBP	—	(7,834)	(11,804)	(53,148)	—	—	(72,786)	(72,786)
– USD	—	—	(29,680)	(79,145)	—	—	(108,825)	(108,825)
		(27,189)	(90,706)	(296,602)	—	—	(414,497)	(414,497)
		290	(744)	2,921	—	—	2,467	2,467

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 39. Financial Instruments (continued)

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

#### 39.2.5 Liquidity Risk Management (continued)

##### Liquidity tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2013 USD'000
<b>The Company</b>								
<b>2013</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (Note)	—	1,000	—	—	—	—	1,000	1,000
Available-for-sale investments (Note)	—	196	—	—	—	—	196	196
Other receivables	—	5	—	6,202	—	—	6,207	6,207
Bank balances, deposits and cash	0.05% - 0.17%	52,462	—	—	—	—	52,462	52,462
Loan to/Amounts due from subsidiaries (Note)	5.28% - 10.15%	8,551	8,311	1,274,486	49,865	1,312,182	2,653,395	1,801,612
		62,214	8,311	1,280,688	49,865	1,312,182	2,713,260	1,861,477
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(2,519)	(4,518)	(19,366)	—	—	(26,403)	(26,403)
Amounts due to subsidiaries	—	—	—	(579,524)	—	—	(579,524)	(579,524)
Unsecured borrowings	1.87% - 2.70%	(26,896)	(284,574)	(61,722)	(116,923)	(172,657)	(662,772)	(650,495)
Financial guarantee contracts	—	(128,574)	(60,063)	(69,217)	(38,128)	(57,193)	(353,175)	—
		(157,989)	(349,155)	(729,829)	(155,051)	(229,850)	(1,621,874)	(1,256,422)

## 39. Financial Instruments *(continued)*

### 39.2 Financial Risk Management Objectives and Policies *(continued)*

#### 39.2.5 Liquidity Risk Management *(continued)*

##### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2013 USD'000
<b>Derivatives - net settlement</b>								
Interest rate swap	0.25% - 1.47%	—	(357)	(1,040)	(1,226)	(446)	(3,069)	(3,202)
		—	(357)	(1,040)	(1,226)	(446)	(3,069)	(3,202)
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– USD	—	11,933	23,872	108,277	—	—	144,082	144,082
– AUD	—	—	7,528	22,472	—	—	30,000	30,000
		11,933	31,400	130,749	—	—	174,082	174,082
– outflow								
– USD	—	(12,369)	(24,737)	(111,352)	—	—	(148,458)	(148,458)
– AUD	—	—	(7,364)	(21,983)	—	—	(29,347)	(29,347)
		(12,369)	(32,101)	(133,335)	—	—	(177,805)	(177,805)
		(436)	(701)	(2,586)	—	—	(3,723)	(3,723)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 39. Financial Instruments (continued)

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

#### 39.2.5 Liquidity Risk Management (continued)

##### Liquidity tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2012 USD'000
<b>The Company</b>								
<b>2012</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (Note)	—	5,980	—	—	—	—	5,980	5,980
Available-for-sale investments (Note)	—	218	—	—	—	—	218	218
Trade and other receivables	—	100	350	7,555	—	—	8,005	8,005
Bank balances, deposits and cash	0.10% - 0.27%	44,978	—	—	—	—	44,978	44,978
Loan to/Amounts due from subsidiaries (Note)	5.28% - 10.15%	4,115	8,231	998,513	49,383	1,340,310	2,400,552	1,507,897
		55,391	8,581	1,006,068	49,383	1,340,310	2,459,733	1,567,078
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(2,308)	(3,644)	(15,014)	—	—	(20,966)	(20,966)
Amounts due to subsidiaries	—	—	—	(513,587)	—	—	(513,587)	(513,587)
Unsecured borrowings	1.81% - 2.76%	—	(73,078)	(45,911)	(157,876)	(103,943)	(380,808)	(371,772)
Financial guarantee contracts	—	(293,741)	(229,079)	(149,680)	—	(94,943)	(767,443)	—
		(296,049)	(305,801)	(724,192)	(157,876)	(198,886)	(1,682,804)	(906,325)

## 39. Financial Instruments *(continued)*

### 39.2 Financial Risk Management Objectives and Policies *(continued)*

#### 39.2.5 Liquidity Risk Management *(continued)*

##### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand USD'000	1-3 months USD'000	4 months- 1 year USD'000	1-2 years USD'000	2+ years USD'000	Total undiscounted cash flows USD'000	Total carrying amount at December 31, 2012 USD'000
<b>Derivatives - net settlement</b>								
Interest rate swap	0.76% - 2.63%	—	(491)	(1,462)	(1,334)	(1,745)	(5,032)	(4,667)
		—	(491)	(1,462)	(1,334)	(1,745)	(5,032)	(4,667)
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– USD	—	—	29,088	78,483	—	—	107,571	107,571
		—	29,088	78,483	—	—	107,571	107,571
– outflow								
– USD	—	—	(29,680)	(79,145)	—	—	(108,825)	(108,825)
		—	(29,680)	(79,145)	—	—	(108,825)	(108,825)
		—	(592)	(662)	—	—	(1,254)	(1,254)

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 and the Company 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 and the Company 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 39. Financial Instruments *(continued)*

### 39.3 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 is 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).

## 39. Financial Instruments *(continued)*

### 39.3 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	Significant unobservable input	Relationship of unobservable inputs to fair value
	2013	2012				
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	Acquisition right of certain property, plant and equipment: USD12,647,000	—	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.	N/A	N/A
2) Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	Assets – USD5,073,000; and Liabilities – USD9,880,000	Assets – USD5,706,000; and Liabilities – USD7,030,000	Level 2	Quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.	N/A	N/A
3) Held-for-trading non-derivative financial assets classified as held-for-trading investments in the consolidated statement of financial position	Unlisted investment fund: USD1,000,000	—	Level 2	Quoted prices based on the prices of stocks invested by the investment fund.	N/A	N/A
4) Interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	Liabilities (not designated for hedging) – USD3,202,000;	Liabilities (not designated for hedging) – USD4,667,000	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.	N/A	N/A
5) Held-for-trading non-derivative financial assets classified as held-for-trading investments in the consolidated statement of financial position	—	Listed equity securities in US: – Technology industry – USD5,980,000	Level 1	Quoted bid prices in an active market.	N/A	N/A

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, 2013

## 39. Financial Instruments *(continued)*

### 39.3 Fair Value *(continued)*

Fair value measurements recognised in the statement of financial position *(continued)*

	Level 1 USD'000	Level 2 USD'000	Total USD'000
<b>The Group</b>			
<b>2013</b>			
<b>Financial assets</b>			
Acquisition right of certain property, plant and equipment	—	12,647	12,647
Foreign currency forward contracts	—	5,073	5,073
Held-for-trading investments	—	1,000	1,000
<b>Total</b>	<b>—</b>	<b>18,720</b>	<b>18,720</b>
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(9,880)	(9,880)
Interest rate swap	—	(3,202)	(3,202)
<b>Total</b>	<b>—</b>	<b>(13,082)</b>	<b>(13,082)</b>
<b>2012</b>			
<b>Financial assets</b>			
Foreign currency forward contracts	—	5,706	5,706
Held-for-trading investments	5,980	—	5,980
<b>Total</b>	<b>5,980</b>	<b>5,706</b>	<b>11,686</b>
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(7,030)	(7,030)
Interest rate swap	—	(4,667)	(4,667)
<b>Total</b>	<b>—</b>	<b>(11,697)</b>	<b>(11,697)</b>



## 39. Financial Instruments *(continued)*

### 39.3 Fair Value *(continued)*

#### Fair value measurements recognised in the statement of financial position *(continued)*

	Level 1 USD'000	Level 2 USD'000	Total USD'000
<b>The Company</b>			
<b>2013</b>			
<b>Financial assets</b>			
Foreign currency forward contracts	—	653	653
Held-for-trading investments	—	1,000	1,000
<b>Total</b>	—	1,653	1,653
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(4,376)	(4,376)
Interest rate swap	—	(3,202)	(3,202)
<b>Total</b>	—	(7,578)	(7,578)
<b>2012</b>			
<b>Financial assets</b>			
Foreign currency forward contracts	—	49	49
Held-for-trading investments	5,980	—	5,980
<b>Total</b>	5,980	49	6,029
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(1,303)	(1,303)
Interest rate swap	—	(4,667)	(4,667)
<b>Total</b>	—	(5,970)	(5,970)

### 39.4 Transfer of financial assets

The following were the Group's financial assets as at December 31, 2013 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 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 37) and unsecured borrowings - due within one year (see Note 40). 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:

	2013 USD'000	2012 USD'000
Carrying amount of transferred assets	191,656	507,633
Carrying amount of associated liabilities	(191,656)	(507,633)
Net position	—	—

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 40. Unsecured Borrowings

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Trust receipt loans	—	1,050	—	—
Bank advance from factored trade receivables	74,952	75,000	—	—
Bank loans	659,095	437,325	650,495	371,772
Bank borrowings	734,047	513,375	650,495	371,772
Fixed interest rate notes (Note)	95,321	134,207	—	—
Total borrowings	829,368	647,582	650,495	371,772

The borrowings of the Group and the Company are repayable as follows:

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
<b>Fixed rate</b>				
Within one year	—	39,264	—	—
In more than one year but not more than two years	95,321	—	—	—
In more than two years but not more than five years	—	94,943	—	—
<b>Floating rate</b>				
Within one year	454,624	259,626	371,072	118,023
In more than one year but not more than two years	113,730	144,785	113,730	144,785
In more than two years but not more than five years	165,693	108,964	165,693	108,964
	829,368	647,582	650,495	371,772
Less: Amount due within one year shown under current liabilities	(454,624)	(298,890)	(371,072)	(118,023)
Amount due after one year	374,744	348,692	279,423	253,749

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

	2013	2012
Effective interest rate:		
Fixed-rate borrowings	7.44%	6.70% to 7.44%
Variable-rate borrowings	0.97% to 4.23%	1.01% to 4.36%

#### 40. Unsecured Borrowings (continued)

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

	USD'000
As at December 31, 2013	<b>210,807</b>
As at December 31, 2012	66,603

Note: In 2003, the Group issued fixed interest rate notes, through its wholly-owned subsidiary in the US, for an aggregate principal amount of USD145,000,000. The notes were issued in two fixed rate tranches, being USD120,000,000 for 10 years at 6.70% per annum and USD25,000,000 for 7 years at 6.09% per annum. The proceeds were used to refinance existing medium term debts and for general working capital purposes. During the year, the Group repaid USD39,375,000 (2012: nil) of the first tranche and the first tranche was then fully repaid. The second tranche was fully repaid in 2010.

In 2005, the Group issued additional fixed interest rate notes, through its wholly-owned subsidiary in the US, for an aggregate principal amount of USD200,000,000. The notes were issued in two fixed rate tranches of USD150,000,000 for 10 years at 7.44% per annum and USD50,000,000 for 7 years at 7.17% per annum. The proceeds were used to finance the acquisition of subsidiaries. During 2012, the Group repaid USD30,000,000 (2013: nil) of the second tranche and the second tranche was then fully repaid.

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

#### 41. Share Capital

	2013 Number of shares	2012 Number of shares	2013 USD'000	2012 USD'000
<b>Ordinary shares</b>				
Authorised shares:	<b>2,400,000,000</b>	2,400,000,000	<b>30,769</b>	30,769
Issued and fully paid:				
At the beginning of the year	<b>1,829,080,941</b>	1,601,564,252	<b>23,461</b>	20,533
Issue of shares upon exercise of share options	<b>4,103,000</b>	8,289,000	<b>52</b>	107
Buy-back of shares	<b>(3,300,000)</b>	(4,330,000)	<b>(42)</b>	(56)
Conversion of convertible bonds	—	223,557,689	—	2,877
At the end of the year	<b>1,829,883,941</b>	1,829,080,941	<b>23,471</b>	23,461

Details of the share options are set out in Note 49.

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

Month of buy-back	No. of ordinary shares	Price per share		Aggregate consideration paid USD'000
		Highest HKD	Lowest HKD	
January 2013	1,300,000	14.68	14.34	2,430
July 2013	250,000	18.38	18.16	590
August 2013	1,250,000	18.34	17.74	2,911
September 2013	250,000	19.02	18.82	612
November 2013	250,000	19.16	18.96	615
	3,300,000			7,158

The shares bought back were cancelled and accordingly the issued share capital of the Company was reduced by USD42,000, and the same amount was transferred to the capital redemption reserve. The consideration paid on the buy-back of shares of approximately USD7,158,000 was charged to retained profits.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 42. Reserves

	Share premium USD'000	Capital redemption reserve USD'000	Convertible bonds equity reserve USD'000	Employee share-based compensation reserve USD'000	Hedging reserve USD'000	Retained profits USD'000	Total USD'000
<b>The Company</b>							
At January 1, 2012	460,372	127	8,833	6,608	—	504,080	980,020
Loss for the year	—	—	—	—	—	(17,142)	(17,142)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	(1,254)	—	(1,254)
Other comprehensive loss for the year	—	—	—	—	(1,254)	—	(1,254)
Total comprehensive loss for the year	—	—	—	—	(1,254)	(17,142)	(18,396)
Shares issued at premium on exercise of options	9,388	—	—	(1,772)	—	—	7,616
Buy-back of shares	—	56	—	—	—	(5,653)	(5,597)
Recognition of equity settled share-based payments	—	—	—	578	—	—	578
Lapse of share options	—	—	—	(2,201)	—	2,201	—
Conversion of convertible bonds	143,330	—	(8,833)	—	—	—	134,497
Final dividend - 2011	—	—	—	—	—	(18,185)	(18,185)
Interim dividend - 2012	—	—	—	—	—	(15,838)	(15,838)
At December 31, 2012	613,090	183	—	3,213	(1,254)	449,463	1,064,695
Loss for the year	—	—	—	—	—	(4,715)	(4,715)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	(2,470)	—	(2,470)
Other comprehensive loss for the year	—	—	—	—	(2,470)	—	(2,470)
Total comprehensive loss for the year	—	—	—	—	(2,470)	(4,715)	(7,185)
Shares issued at premium on exercise of options	4,473	—	—	(840)	—	—	3,633
Buy-back of shares	—	42	—	—	—	(7,158)	(7,116)
Recognition of equity settled share-based payments	—	—	—	366	—	—	366
Lapse of share options	—	—	—	(6)	—	6	—
Final dividend - 2012	—	—	—	—	—	(25,330)	(25,330)
Interim dividend - 2013	—	—	—	—	—	(23,554)	(23,554)
<b>At December 31, 2013</b>	<b>617,563</b>	<b>225</b>	<b>—</b>	<b>2,733</b>	<b>(3,724)</b>	<b>388,712</b>	<b>1,005,509</b>

As at December 31, 2013, the Company's reserves available for distribution to shareholders comprised the retained profits of USD388,712,000 (2012: USD449,463,000).

## 43. 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 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 maximum amount of HKD15,000 (2012: HKD13,750) 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 USD2,506,000 (2012: USD4,733,000) 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>2013</b>	2012
	<b>USD’000</b>	USD’000
Pension plan obligations (Note i)	<b>95,476</b>	82,588
Post-retirement, medical and dental plan obligations (Note ii)	<b>383</b>	602
Life and medical insurance plan (Note ii)	<b>1,549</b>	1,861
Post-employment benefit plan obligations (Note iii)	<b>7,694</b>	7,862
Others	<b>1,194</b>	409
	<b>106,296</b>	93,322

#### 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 per cent 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 October 22, 2013, by BDO Deutsche Warentreuhand Aktiengesellschaft, Germany.

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

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on January 7, 2014 by Willis North America, Inc.

#### 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 17, 2014 by CBIZ Benefits & Insurance Services.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 43. 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 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	
	2013	2012	2013	2012	2013	2012	2013	2012
Discount rate	3.00%	3.70%	0.75%	0.75%	3.50%	2.75%	3.70%	3.70%
Expected rate of salary increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	3.70%	4.04%
Future pension increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Medical cost trend rates	N/A	N/A	5.00%	5.00%	5.00%	5.00%	N/A	N/A

The actuarial valuation showed that the market value of plan assets was USD4,489,000 (2012: USD5,838,000) and that the actuarial value of these assets represented 36.8% (2012: 42.6%) 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	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Current service cost and interest cost	N/A	N/A	—	—	3	4	N/A	N/A
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	5	10	91	128	N/A	N/A

### 43. 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	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Service cost:								
Current service cost	348	258	—	—	—	—	—	—
Net interest on defined benefit liabilities	3,032	3,534	4	12	49	69	291	269
<b>Components of defined benefit costs recognised in profit or loss</b>	<b>3,380</b>	<b>3,792</b>	<b>4</b>	<b>12</b>	<b>49</b>	<b>69</b>	<b>291</b>	<b>269</b>
Remeasurement on the net defined benefit liability:								
Actuarial losses (gains) arising from changes in financial assumptions	10,033	9,024	(99)	(240)	(332)	(100)	(459)	945
<b>Components of defined benefit costs recognised in other comprehensive income</b>	<b>10,033</b>	<b>9,024</b>	<b>(99)</b>	<b>(240)</b>	<b>(332)</b>	<b>(100)</b>	<b>(459)</b>	<b>945</b>
<b>Total</b>	<b>13,413</b>	<b>12,816</b>	<b>(95)</b>	<b>(228)</b>	<b>(283)</b>	<b>(31)</b>	<b>(168)</b>	<b>1,214</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	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Present value of funded obligations	—	—	—	—	—	—	12,183	13,700
Fair value of plan assets	—	—	—	—	—	—	(4,489)	(5,838)
Present value of unfunded obligations	95,476	82,588	383	602	1,549	1,861	7,694	7,862
	<b>95,476</b>	<b>82,588</b>	<b>383</b>	<b>602</b>	<b>1,549</b>	<b>1,861</b>	<b>7,694</b>	<b>7,862</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 43. 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	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
At January 1	82,588	72,989	602	840	1,861	1,940	13,700	14,049
Exchange differences	4,203	1,286	—	—	—	—	—	—
Current service cost	348	258	—	—	—	—	—	—
Actuarial losses (gains)	10,033	9,024	(99)	(240)	(332)	(100)	(657)	669
Interest cost	3,032	3,534	4	12	49	69	482	541
Benefit paid	(4,728)	(4,503)	(124)	(10)	(29)	(48)	(1,342)	(1,559)
At December 31	95,476	82,588	383	602	1,549	1,861	12,183	13,700

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	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	5,838	7,401
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	191	272
Actuarial losses	N/A	N/A	N/A	N/A	N/A	N/A	(198)	(276)
Contribution from employer	N/A	N/A	N/A	N/A	N/A	N/A	—	—
Benefit paid	N/A	N/A	N/A	N/A	N/A	N/A	(1,342)	(1,559)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	4,489	5,838

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 3.70% (2012: 4.04%).

The actual return on plan assets was USD198,000 (2012: USD276,000).

Significant actuarial assumptions for the determination of the defined obligation is discount rate, if the discount rate is 100 basis points higher (lower), the effect on defined benefit obligation would be immaterial.

The Group expects to make a contribution of USD4,500,000 (2012: USD2,000,000) to the defined benefit plans during the next financial year.



#### 44. 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 USD'000	Warranty provision USD'000	Convertible bonds equity reserve USD'000	Employee related provision USD'000	Tax losses USD'000	Inventory provision and LIFO USD'000	Others USD'000	Total USD'000
<b>The Group</b>								
At January 1, 2012	(6,810)	3,040	(2,917)	11,257	57,095	(1,396)	(14,609)	45,660
Currency realignment	45	42	—	28	445	8	536	1,104
Credit (charge) to profit or loss	5,162	295	210	10,995	(3,836)	2,836	(9,880)	5,782
Credit to equity	—	—	2,707	2,962	—	—	—	5,669
At December 31, 2012	(1,603)	3,377	—	25,242	53,704	1,448	(23,953)	58,215
Currency realignment	(45)	(164)	—	(83)	485	(22)	(330)	(159)
Credit (charge) to profit or loss	(251)	942	—	4,376	(14,442)	3,716	20,504	14,845
Credit to equity	—	—	—	3,325	—	—	—	3,325
Acquisition of businesses (Note 45)	—	—	—	—	—	—	(3,437)	(3,437)
<b>At December 31, 2013</b>	<b>(1,899)</b>	<b>4,155</b>	<b>—</b>	<b>32,860</b>	<b>39,747</b>	<b>5,142</b>	<b>(7,216)</b>	<b>72,789</b>

	Tax loss USD'000	Accelerated tax depreciation USD'000	Convertible bonds equity reserve USD'000	Total USD'000
<b>The Company</b>				
At January 1, 2012	2,767	(474)	(2,917)	(624)
(Charge) credit to profit or loss	(2,589)	296	210	(2,083)
Credit to equity	—	—	2,707	2,707
At December 31, 2012	178	(178)	—	—
(Charge) credit to profit or loss	(48)	48	—	—
<b>At December 31, 2013</b>	<b>130</b>	<b>(130)</b>	<b>—</b>	<b>—</b>

Note: Included in Others are the deferred tax impact of the restructuring provision, intellectual properties and other temporary differences.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 44. Deferred Tax Assets (Liabilities) *(continued)*

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:

	The Group	
	2013 USD'000	2012 USD'000
Deferred tax assets	79,064	73,892
Deferred tax liabilities	(6,275)	(15,677)
	<b>72,789</b>	58,215

At the end of the reporting period, the Group has unused tax losses of USD553 million (2012: USD510 million) available for the offset against future taxable profits that carry forward for at least fourteen years. No deferred tax asset has been recognised in respect of tax losses of USD413 million (2012: USD324 million) due to the lack of probable future taxable profits.

## 45. Acquisition of Businesses

In July 2013, the Group acquired certain assets, liabilities and business from the Oreck Bankruptcy Estate ("Oreck") for a total consideration of approximately USD17.2 million. Oreck business was acquired so as to continue the expansion of the Group's Floor Care and Appliance business. Oreck is engaged in trading of floor care products and is included in Floor Care and Appliances segment.

In October 2013, the Group acquired certain assets and business from Gimelli Laboratories Company Limited ("G Lab"), a related party, for a total consideration of approximately USD4.6 million. G Lab business was acquired so as to create synergy on the Group's Power Equipment business. G Lab is engaged in manufacture and trading of electrical and dental care products and is included in Power Equipment segment.

	Fair value USD'000
<b>Net Assets Acquired</b>	
Property, plant and equipment	855
Intangible assets	38,236
Acquisition right of property, plant and equipment	12,647
Deferred tax assets	2,055
Inventories	11,383
Trade and other receivables, deposits and prepayments	2,859
Trade and other payables	(1,890)
Warranty provision	(4,231)
Deferred tax liabilities	(5,492)
Obligation under finance lease – due after one year	(141)
	<b>56,281</b>
Gain on a bargain purchase	(38,319)
Goodwill arising on acquisition of a business	3,861
Cash consideration paid during the year	<b>21,823</b>
Net cash outflow arising on acquisition:	
Cash consideration paid during the year	<b>21,823</b>
Net outflow of cash and cash equivalents in respect of the acquisition of businesses	<b>21,823</b>

#### 45. Acquisition of Businesses *(continued)*

The goodwill arising on acquisition of the G Lab business is attributable to the anticipated profitability of the distribution of the Group's Power Equipment products in new markets and the anticipated future operating synergies from the combination.

The acquisition of Oreck was a bargain purchase which gave rise to a gain on a bargain purchase of approximately USD38.3 million and this amount had been included in other income.

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

The businesses acquired contributed approximately USD30,096,000 to the Group's turnover, and approximately USD532,000 increase in the Group's profit before taxation for the period between the respective dates of acquisition and the reporting date as at December 31, 2013.

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

#### 46. Major Non-Cash Transactions

During the year ended December 31, 2013, the Group did not enter into finance lease arrangements in respect of assets at the inception of the finance leases (2012: USD536,000).

#### 47. Lease Commitments

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

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Within one year	<b>31,635</b>	29,662	<b>780</b>	707
In the second to fifth year inclusive	<b>55,989</b>	62,398	—	—
After five years	<b>26,989</b>	28,707	—	—
	<b>114,613</b>	120,767	<b>780</b>	707

Operating lease payments represent rentals payable by the Group and the Company 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 17 years.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 48. Contingent Liabilities

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Guarantees given to banks in respect of credit facilities utilised by associates	9,099	12,691	9,099	12,691

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, 2013 amounted to USD344,076,000 (2012: USD754,752,000).

## 49. Share Options

### Scheme adopted on May 29, 2007 ("Scheme D")

Following the termination of Scheme C, a new share option scheme 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 HKD1.00 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.

## 49. Share Options (continued)

The following table discloses movements in the Company's share options during the year:

2013

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 HKD	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	16.11.2009	D	600,000	—	—	—	600,000	6.770	16.11.2009 - 15.11.2019
	26.11.2010	D	600,000	—	—	—	600,000	8.310	26.11.2010 - 25.11.2020
	21.5.2012	D	570,000	—	—	—	570,000	8.742	21.5.2012 - 20.5.2022
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Kin Wah Chan	16.11.2009	D	1,000,000	—	(1,000,000)	—	—	6.770	16.11.2009 - 15.11.2019
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2012 - 20.5.2022
Prof Roy Chi Ping Chung BBS JP	16.11.2009	D	600,000	—	(600,000)	—	—	6.770	16.11.2009 - 15.11.2019
Mr Joel Arthur Schleicher	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2011 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2012 - 20.5.2022
Mr Christopher Patrick Langley OBE	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2011 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2012 - 20.5.2022
Mr Manfred Kuhlmann	23.5.2011	D	100,000	—	—	—	100,000	9.872	23.5.2011 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2012 - 20.5.2022
Mr Peter David Sullivan	16.11.2009	D	400,000	—	(200,000)	—	200,000	6.770	16.11.2009 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2011 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2012 - 20.5.2022
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2011 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2012 - 20.5.2022
<b>Total for directors</b>			<b>8,720,000</b>	<b>—</b>	<b>(2,000,000)</b>	<b>—</b>	<b>6,720,000</b>		

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 49. Share Options (continued)

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

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 HKD	Exercise period
Employees	24.8.2007	D	1,180,000	—	(200,000)	—	980,000	8.390	24.8.2007 - 23.8.2017
	16.10.2007	D	75,000	—	(15,000)	—	60,000	8.810	16.10.2007 - 15.10.2017
	7.11.2007	D	40,000	—	—	—	40,000	8.088	7.11.2007 - 6.11.2017
	14.1.2008	D	605,000	—	(87,000)	—	518,000	7.566	14.1.2008 - 13.1.2018
	17.4.2008	D	775,000	—	(175,000)	(25,000)	575,000	7.780	17.4.2008 - 16.4.2018
	14.5.2008	D	40,000	—	—	—	40,000	7.500	14.5.2008 - 13.5.2018
	30.5.2008	D	426,000	—	(76,000)	—	350,000	7.546	30.5.2008 - 29.5.2018
	11.9.2008	D	50,000	—	(50,000)	—	—	7.430	11.9.2008 - 10.9.2018
	1.12.2008	D	100,000	—	(100,000)	—	—	2.340	1.12.2008 - 30.11.2018
	16.11.2009	D	3,570,000	—	(1,350,000)	—	2,220,000	6.770	16.11.2009 - 15.11.2019
	7.12.2009	D	100,000	—	—	—	100,000	6.790	7.12.2009 - 6.12.2019
	21.12.2009	D	50,000	—	(50,000)	—	—	6.350	21.12.2009 - 20.12.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2009 - 27.12.2019
	13.9.2010	D	500,000	—	—	—	500,000	7.390	13.9.2010 - 12.9.2020
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2011 - 16.1.2021
<b>Total for employees</b>			<b>7,561,000</b>	<b>—</b>	<b>(2,103,000)</b>	<b>(25,000)</b>	<b>5,433,000</b>		
<b>Total for all categories</b>			<b>16,281,000</b>	<b>—</b>	<b>(4,103,000)</b>	<b>(25,000)</b>	<b>12,153,000</b>		

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Option type	Outstanding at January 1, 2013	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding at December 31, 2013
Scheme D	16,281,000	—	(4,103,000)	(25,000)	12,153,000
	<b>16,281,000</b>	<b>—</b>	<b>(4,103,000)</b>	<b>(25,000)</b>	<b>12,153,000</b>
<b>Exercisable at the end of the year</b>					<b>10,743,000</b>

Option type	Outstanding at January 1, 2012	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding at December 31, 2012
Scheme C	5,475,000	—	—	(5,475,000)	—
Scheme D	23,730,000	2,820,000	(8,289,000)	(1,980,000)	16,281,000
	<b>29,205,000</b>	<b>2,820,000</b>	<b>(8,289,000)</b>	<b>(7,455,000)</b>	<b>16,281,000</b>
<b>Exercisable at the end of the year</b>					<b>12,951,000</b>

## 49. Share Options (continued)

Details of the share options held by the directors included in the above table are as follows:

	Outstanding at January 1	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at December 31
2013	8,720,000	—	(2,000,000)	—	6,720,000
	Outstanding at January 1	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at December 31
2012	9,800,000	2,820,000	(2,900,000)	(1,000,000)	8,720,000

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

Date of grant	Exercise price HKD	Expected life of share options	Expected volatility based on historical volatility of share prices	Hong Kong Exchange Fund Notes rate	Expected annual dividend yield
For the year ended December 31, 2012					
21.5.2012	8.742	3 years	41%	0.298%	1.5%

The share options are vested in parts over 3 years from the date of grant.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and 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 prices of shares immediately before the options grant date during 2012 were HKD8.65.

The closing price of the Company's shares immediately before date of grant was HKD8.65 in 2012.

The weighted average closing prices of the Company's shares immediately before various dates during 2013 and 2012 on which the share options were exercised were HKD18.22 and HKD14.12 respectively.

The Group recognised a total expense of USD366,000 for the year ended December 31, 2013 (2012: USD578,000) in relation to share options granted by the Company.

The fair values of the share options granted in 2012 measured at date of grant was HKD2.11 per option.

The Company had 12,153,000 share options outstanding, which represented approximately 0.66% of the issued share capital of the Company as at December 31, 2013. No option was granted and cancelled during the year.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 50. Capital Commitments

	The Group		The Company	
	2013 USD'000	2012 USD'000	2013 USD'000	2012 USD'000
Capital expenditure in respect of the purchase of property, plant and equipment:				
Contracted for but not provided	<b>17,613</b>	16,669	<b>27</b>	79
Authorised but not contracted for	<b>1,134</b>	1,297	<b>—</b>	—

## 51. 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:

	2013 USD'000	2012 USD'000
Sales income	<b>4,730</b>	19
Equipment charge income	<b>—</b>	115
Purchases	<b>858</b>	—
Acquisition of certain assets and business (Note 45)	<b>4,621</b>	—
Tenancy compensation	<b>2,000</b>	—

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

	2013 USD'000	2012 USD'000
Short-term benefits	<b>34,377</b>	29,424
Post-employment benefits	<b>214</b>	190
Share-based payments	<b>365</b>	575
	<b>34,956</b>	30,189

Details of the balances and transactions with related parties are set out in the statements of financial position and Notes 21, 22, 27, 28 and 48.



## 52. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2013 and December 31, 2012 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 %	
AC (Macao Commercial Offshore) Limited	Macau	MOP 780,000	—	100	Trading of power equipment, floor care and outdoor power equipment products
Baja, Inc.	US	USD 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	USD 10	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	USD 1	—	100	Trading and manufacture of floor care products
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HKD 100,000	100	—	Trading of household electronic and electrical products
Milwaukee Electric Tool Corporation	US	USD 50,000,000	—	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	US	USD 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	USD 1	—	100	Trading and manufacture of floor care products
Sang Tech Industries Limited	Hong Kong	HKD 1,000,000	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HKD 2,000,000	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HKD 2,000,000	75.725	—	Manufacture of electronic products

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

## 52. 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 Floor Care Technology Limited	BVI	USD 1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd.#	PRC	USD 47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NTD 5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP 4,000,000	—	100	Trading of power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AUD 19,400,000	—	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 1,200,000,000	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN 50,000 (Serie I) MXN 53,290,717 (Serie II)	—	100	Trading of power equipment, floor care and outdoor power equipment products

## 52. 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 N.Z. Limited	New Zealand	NZD 1,165,500	100	—	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries North America, Inc.	US	USD 10	98.4	1.6	Investment holding
Techtronic Outdoor Products Technology Limited	Bermuda	USD 12,000	100	—	Investment and intellectual properties holding
Techtronic Power Tools Technology Limited	BVI	USD 1	100	—	Investment and intellectual properties holding
Techtronic Product Development Limited	Hong Kong	HKD 2	100	—	Engage in research & development activities
Techtronic Trading Limited	Hong Kong	HKD 2	100	—	Trading of power equipment, floor care and outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HKD 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

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

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

Principal activities	Principal place of business	Number of subsidiaries	
		31/12/2013	31/12/2012
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US	6	6
Trading of power equipment, floor care and other power equipment product	Canada, Europe, HK, Latin America, PRC, US	30	30
Investment Holding	Australia, BVI, Europe, HK, US	20	20
Dormant	BVI, Europe, HK, US	13	13

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

## 53. Particulars of Associates

Particulars of the associates 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
			2013 %	2012 %	
Gimelli International (Holdings) Limited	The Cayman Islands	USD 6,250	40.8	40.8	Investment holding

# Financial Summary

## Results

	Year ended December 31,				2013 USD'000
	2009 USD'000 (Restated)	2010 USD'000 (Restated)	2011 USD'000 (Restated)	2012 USD'000	
Turnover	3,074,955	3,382,838	3,667,058	3,852,418	<b>4,299,755</b>
Profit before restructuring, share of results of associates and taxation	57,362	123,165	161,704	222,246	<b>276,398</b>
Restructuring costs	—	(26,653)	—	—	—
Share of results of associates	(127)	(155)	(347)	—	—
Profit before taxation	57,235	96,357	161,357	222,246	<b>276,398</b>
Taxation (charge) credit	8,036	70	(9,242)	(22,139)	<b>(29,036)</b>
Profit for the year	65,271	96,427	152,115	200,107	<b>247,362</b>
Attributable to:					
Owners of the Company	65,079	95,556	152,009	200,991	<b>250,284</b>
Non-controlling interests	192	871	106	(884)	<b>(2,922)</b>
Profit for the year	65,271	96,427	152,115	200,107	<b>247,362</b>
Basic earnings per share (US cents)	4.23	5.97	9.47	11.42	<b>13.68</b>

## Assets and Liabilities

	Year ended December 31,				2013 USD'000
	2009 USD'000	2010 USD'000	2011 USD'000	2012 USD'000	
Total assets	3,049,276	3,265,912	3,369,616	3,581,078	<b>4,012,559</b>
Total liabilities	1,999,049	2,136,205	2,115,488	2,024,556	<b>2,267,123</b>
	1,050,227	1,129,707	1,254,128	1,556,522	<b>1,745,436</b>
Equity attributable to Owners of the Company	1,036,149	1,114,759	1,245,576	1,548,877	<b>1,740,713</b>
Non-controlling interests	14,078	14,948	8,552	7,645	<b>4,723</b>
	1,050,227	1,129,707	1,254,128	1,556,522	<b>1,745,436</b>