JS Global

JS 环球生活有限公司
JS GLOBAL LIFESTYLE COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability) Stock code: 1691

2019
Annual Report

Table of Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Wang Xuning *(Chairman and Chief Executive Officer)*
Han Run *(Chief Financial Officer)*
Huang Shuling

Non-executive Directors
Hui Chi Kin Max
Stassi Anastas Anastassov

Independent Non-executive Directors
Wong Tin Yau Kelvin
Timothy Roberts Warner
Yang Xianxiang

AUDIT COMMITTEE

Wong Tin Yau Kelvin *(Chairman)*
Timothy Roberts Warner
Yang Xianxiang

NOMINATION COMMITTEE

Wang Xuning *(Chairman)*
Wong Tin Yau Kelvin
Yang Xianxiang

REMUNERATION COMMITTEE

Timothy Roberts Warner *(Chairman)*
Han Run
Yang Xianxiang

STRATEGY COMMITTEE

Wang Xuning *(Chairman)*
Hui Chi Kin Max
Stassi Anastas Anastassov
Wong Tin Yau Kelvin
Timothy Roberts Warner
Yang Xianxiang

AUTHORISED REPRESENTATIVES

Han Run
Shan Minqi

COMPANY SECRETARY

Shan Minqi

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

21/F
238 Des Voeux Road Central
Sheung Wan
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

21/F
238 Des Voeux Road Central
Sheung Wan
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPLIANCE ADVISER

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong and US laws
Paul Hastings
21–22/F, Bank of China Tower
1 Garden Road
Hong Kong

As to Cayman Islands laws
Maples and Calder (Hong Kong) LLP
53/F, The Center
99 Queen's Road Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

PRINCIPAL BANK

Industrial and Commercial Bank of China (Asia) Limited

STOCK CODE

1691

COMPANY'S WEBSITE

www.jsgloballife.com

DATE OF LISTING

December 18, 2019

Four Year Financial Summary

	2019 USD'000	2018 USD'000	2017 USD'000	2016 USD'000
Results				
Revenue	**3,016,094**	2,681,914	1,563,428	1,102,979
Gross profit	**1,126,526**	999,043	519,135	351,402
Profit before tax	**118,980**	140,393	101,918	142,184
Profit for the year	**85,177**	112,123	140,949	122,410
Profit attributable to the owners of the parent	**42,134**	34,883	48,207	51,935
Total comprehensive income for the year	**81,705**	79,305	188,662	71,230
Total comprehensive income attributable to the owners of the parent	**38,069**	19,566	71,147	27,468
Adjusted EBITDA[1]	**367,391**	312,055	197,083	135,071
Adjusted profit[2]	**195,789**	151,105	139,687	101,944

(1) EBITDA is defined as profit before tax plus finance costs, depreciation and amortization, less interest income, see "— Non-IFRS Measures" below.

(2) Adjusted profit is defined as profit for the year adjusted for certain items that do not affect the Company's ongoing operating performance, including items arising from acquisition and relating to the reorganization in preparation for the global offering and non-recurring items and items not related to the Company's ordinary course of business (each without considering tax effect), see "— Non-IFRS Measures" below.

	2019 USD'000	2018 USD'000	2017 USD'000	2016 USD'000
Assets:				
Non-current assets	**1,999,419**	1,889,354	1,896,449	279,621
Current assets	**1,775,373**	1,411,345	1,388,536	680,974
Total assets	**3,774,792**	3,300,699	3,284,985	960,595
Equity and liabilities:				
Equity attributable to owners of the parent	**1,287,821**	(103,717)	15,757	314,051
Non-controlling interests	**245,540**	566,721	582,048	331,540
Total equity	**1,533,361**	463,004	597,805	645,591
Non-current liabilities	**1,250,973**	1,557,020	2,026,059	7,006
Current liabilities	**990,458**	1,280,675	661,121	307,998
Total liabilities	**2,241,431**	2,837,695	2,687,180	315,004
Total equity and liabilities	**3,774,792**	3,300,699	3,284,985	960,595

Chairman's Statement

Dear Shareholders,

On December 18, 2019, the Company was successfully listed on the Stock Exchange. In February 2020, the Company was successfully included in the Constituent Stock of the Hang Seng Composite Index. Amid the challenge of the Sino-US trade war in 2019, the Company still achieved remarkable results. The total revenue of the Company amounted to US$3,016 million throughout the year of 2019, representing a year-on-year increase of 12.5%.

SUSTAINED STRONG PERFORMANCE OF THE COMPANY AS A WHOLE

Throughout the year of 2019, the SharkNinja segment achieved a revenue of US$1,736 million, representing a year-on-year increase of 17.5%, while the Joyoung segment achieved a revenue of US$1,280 million, representing a year-on-year increase of 8.6%. From the perspective of product categories, cooking appliances increased by 37.4%, food preparation appliances increased by 3.2% and cleaning appliances increased by 5.6%.

The revenue growth contributed from the SharkNinja segment was primarily a result of increased sales in North America within the cooking appliances category and strong growth within the Company's European market. The growth in the cooking appliances was mainly due to positive market feedback received for the Foodi series of products launched under the Company's global research and development platform.

The increase in revenue of the Joyoung segment was mainly attributable to its user centric and demand oriented strategy, introducing a series of innovative as well as adorable and stylish products targeting young people to the market. In addition, it grasped the opportunities from the growing trend of online live streaming in the PRC market, and actively explored marketing channels such as new retail. Meanwhile, with growing synergy effects between Joyoung and SharkNinja, Joyoung drove growth through increased sales in cleaning appliances.

REMARKABLE FINANCIAL PERFORMANCE

Gross profit of the Group for the year ended December 31, 2019 was approximately US$1,127 million, representing a year-on-year increase of 12.8%, while gross profit margin was 37.4%. Adjusted EBITDA increased by 17.7% year-on-year to approximately US$367.4 million. Adjusted profit attributed to owners of the parent for the year ended December 31, 2019 increased by 127.8% year-on-year to approximately US$136.2 million. The Board resolved to declare a special dividend of HK$0.5717 (equivalent to US$7.34 cent) per share.

OUTSTANDING RESULTS IN NEW PRODUCT DEVELOPMENT AND INTERNATIONAL MARKET EXPANSION

JS Global Lifestyle is a global leader in high-quality, innovative small household appliances. Our success is centered around our deep understanding of consumer needs, and is built on our strong product innovation and design capability powered by a global research and development platform, marketing strengths driving high brand engagement, and an omni-channel distribution coverage with high penetration. We continuously develop new products and expand into new categories. Through our diverse product portfolio, we cultivate markets, create consumer demand, innovate our product categories by building up market anticipation around product launches, and reshape consumer behaviors and lifestyles around the world. With our trusted market-leading brands, Joyoung, Shark and Ninja, we continue to maintain our leadership in the global small household appliance markets.

With regards to product innovation, we continually seek to expand the product portfolio within the categories that we are already in. The robotic vacuums launched in 2019 included advanced features such as navigation and home mapping and a self-empty base. We believe that robotic vacuums present a large opportunity globally and we seek to bring additional products and technologies to market in this category in 2020. Our Foodi series of products also received positive market feedback. In addition, we plan to launch a hard floor cleaning product that combines vacuuming and mopping technology, a new series of cookware products, a new series of cordless vacuums and new products in additional categories in 2020.

With regards to the construction of market channels, JS Global Lifestyle focuses on international expansion. At present, JS Global Lifestyle has secured the leading position in the two largest global small household appliance markets, and has established differentiated channel strategies and a robust omni-channel sales, marketing and distribution network that are tailored to the respective local markets. Meanwhile, the global expansion of JS Global Lifestyle has also extended its footprint to other international markets including Canada, the United Kingdom, France, Germany, Japan, and Australia. We have achieved outstanding results in international market expansion. Revenue generated from the European market in 2019 increased by approximately 67.8% compared to that of in 2018.

HUMILITY AND GOODNESS, THE BEGINNING OF PUBLIC WELFARE

While striving to do a good job in management, the subsidiaries of JS Global Lifestyle have also been actively participating in social governance, assuming social responsibilities and creating social values.

In the United States, the SharkNinja segment cooperated with a number of charitable organizations to make donations in the field of health, and the employees of the Company also actively participated in community volunteer services.

In China, the Joyoung segment has been participating in China's public charities in the fields of education and health. Over the past ten years, Joyoung established the "Joyoung Hope Fund" based on the platform of the China Youth Foundation of Hope Project, through which, it has donated RMB50 million in building more than 1,000 Joyoung Hope Kitchens in 222 counties in 27 provinces and regions across the country. Half a million students are enjoying the meals provided by Joyoung Hope Kitchens per day, and the number of direct beneficiaries in the past decade has exceeded 2.6 million.

In 2020, the sudden outbreak of the COVID-19 epidemic across the world took us by surprise. The Joyoung segment provided immediate assistance to the epidemic areas. Emergency supplies such as Joyoung water purifiers, Shark sanitizing steam mops and medical protective head covers with a market value of RMB5 million have been donated in several batches to severely-effected areas including Wuhan, Xiaogan, Jingzhou and Huanggang in Hubei Province, so as to ensure enough supplies are provided to the battle against the epidemic in the frontline.

Humility and goodness are the beginning of public welfare. In 2020, we will initiate the registration and establishment of the Joyoung Charity Foundation, which will take kitchen charity as the core and focus on the growth of teenagers, and will extend to the fields of public charities such as national health, rural revitalization and public outreach.

FUTURE OUTLOOK

Looking ahead, uncertainties will still cloud the macro environment, and countries around the world are facing the challenges of the pandemic. However, we estimate that consumers will have more time to cook at home and put more efforts on household cleaning as a result of the pandemic, so we will continue to upgrade product research and development and launch products that satisfy consumers' needs.

With our existing channel advantages in the world markets and capability in expanding new markets, rich product portfolio and innovative capability and the synergies between Joyoung segment and SharkNinja segment, we will be in a better position to handle various micro-environment risks and achieve further growth.

Thanks again for your support. We will continue to positively impact the quality of daily lives of families around the world through transformational, innovative and design-driven smart home products, and create healthy and safe family environments and user experiences to those families.

Wang Xuning
Chairman

Hong Kong, March 31, 2020

The following discussion should be read in conjunction with the consolidated financial information of the Group, including the related notes, set forth on the pages 80 to 209 of this annual report.

BUSINESS OVERVIEW

Our mission is to positively impact people's lives around the world every day through transformational, innovative and design-driven smart home products.

We are a global leader in high-quality, innovative small household appliances and our success is centered around the deep understanding of consumer needs, and is built on the strong product innovation and design capability powered by a global research and development platform, marketing strengths driving high brand engagement, and an omni-channel distribution coverage with high penetration. Through continuously creating new products, expanding and diversifying our product portfolio to stimulate consumers' demand and grow the market, we are the leader of the market, reshaping the consumer behavior and their lifestyle globally. With trusted market-leading brands, Shark, Ninja and Joyoung, we continue to maintain the leadership in the global small household appliance market.

We focus on three core competencies: (i) developing transformational innovative products with appealing designs; (ii) effecting multi-form brand marketing; and (iii) building a global omni-channel sales network. They are supported by operational infrastructure, including a global research and development platform which utilizes consumer engagement to amass information on consumer preferences and behaviors that informs and influences the product development process, a centralized supply chain with a global reach and a comprehensive information management system across the entire value chain.

We offered our transformational innovative small household appliances under the brand name of Joyoung prior to the acquisition of SharkNinja in September 2017 and have expanded our business significantly since then, operating two business segments during the Reporting Period:

- the SharkNinja segment focuses on home environment appliances and kitchen appliances which are sold in North America, Europe, Japan and various other countries throughout the world. The Shark and Ninja brands maintain leading market share in a number of product categories and in a number of countries through an intense focus on quality, reliability, consumer satisfaction and accessible innovation to consumers.

- the Joyoung segment continues offering small household appliances, focusing on kitchen appliances. In China, our Joyoung brand maintains the largest market share in several innovative product categories.

INDUSTRY OVERVIEW

The global small household appliance market, which can be classified into four categories (i.e., food preparation appliances, cooking appliances, home environment appliances including cleaning appliances and personal care appliances), has witnessed tremendous growth in recent years, fueled by elevated household income and wealth, strong consumer aspiration for a quality lifestyle, and technology-driven product innovations.

This trend has shaped a new consumption behavior — New retail, which refers to the emerging consumer-centric retail business model to gradually eliminate the boundary between offline and online channels, allowing consumers to have convenient, smooth and personalized shopping experience across multiple channels with the same level of ease, access to inventory and services along with the rapid evolving of e-commerce business and comeback of traditional retail channel. Although online sales penetration has witnessed rapid growth globally, the brick-and-mortar retail still has significant impact on multiple industries in respect to brand marketing, customer approaching and distribution network.

With the improvement of consumers' consumption level, standardized products can no longer fulfill personalized needs of consumers. Diversification of categories and products upgrading are becoming new trends in the market. Products are expected to be well-designed and customized to satisfy specific needs of customers. In this case, the amount of customer-centric data being collected and the ability to analyze it and provide more targeted propositions and better understanding the shift of consumer behaviors are key trends reshaping the future of global retail market. Diversified products with integration of aesthetics and functionality are increasingly favored by the market and will also continuously create competitive advantages for brands through forming unique brand symbols, which will ultimately stimulate demands.

U.S.

In the U.S., frequent product upgrades in terms of technology, functionality, features and design are the main drivers for the increasing demand for product replacements, which provide new growth opportunities in the U.S. small household appliance market.

The development of online sales channels has boosted retail sales of small household appliances in the U.S. over the past years. Attributed to the increasing internet penetration and the adoption of mobile devices such as smartphones and tablets, consumers now rely more on digital channels to compare and purchase products. Small household appliances are popular online among consumers because of high product standardization and low average selling price. Most of the leading U.S. retailers have begun operating their online platforms/websites to capture such growth. Companies are expected to further develop omni-channels to create seamless customer experiences in the future.

China

Given the vast potential in respect of population and economic growth, Asia-Pacific is set to become the backbone of the world's economy as well as a strong driving force for global retail market. The continuous growth in expenditure will result in growing consumer markets, especially given China's reorientation toward domestic consumptions. The stable and gradual high-quality economic growth in China led to more and more obvious consumption upgrading phenomenon. Paying for interests and enjoyment of life is no longer only the privilege of small consumer segments.

The increase of household disposable income and rising living standards in China are expected to continue to drive the demand for small household appliances as consumers are more motivated to pursue a quality lifestyle with more comforts, greater convenience and healthier options. On the supply side, with smaller number of product categories in China compared to developed markets and the relative ease to launch new products in the small household appliance market, leading industry players will continue to drive category expansion, stimulating further demand for small household appliances.

U.K.

Similar to the U.S. small household appliance market, the U.K. market sees noticeable trends including the growth of online channels, the increased use of social media, the shift toward premium and high value-added products, the increased demand for high esthetic appearance and the rise of Internet of Things technology.

Because online sales channels reduce the costs of maintaining warehouses and means of transportation, the development of third-party logistics and e-commerce infrastructure is now a key driver in online sales for small household appliance-focused companies to scale up business.

Moreover, by selecting appropriate social influencers based on the characteristics of the fan base and the audience that the influencers can reach, small household appliance companies are able to reach target consumers more efficiently, effectively and inexpensively, compared to the costs of promotions conducted by celebrities. Finally, the increases in disposable income levels and the continuous improvements in product quality and designs lead to an increase in consumer demand for premium and high value-added appliances.

In view of the industry trend in China, the U.S. and the U.K., we have adopted a diverse portfolio of innovative products which allows us to maintain sustainable growth, create new product categories, grow our market share, lead the consumption upgrade and position the Group at the forefront of future trends for smart home products.

Also, the Group continues to secure a leading position in the U.S. and China, the two largest global small household appliance markets, and has established differentiated channel strategies and a robust omni-channel sales, marketing and distribution network that are tailored to the respective local markets. The Group's global expansion has also extended its footprint to other international markets including Canada, the UK, France, Germany, Japan, and Australia.

FINANCIAL REVIEW

Overall performance

During the year ended December 31, 2019, the total revenue of the Group was US$3,016.1 million, representing a year-on-year increase of 12.5%. Gross profit was US$1,126.5 million, a year-on-year increase of 12.8%. Gross profit margin was 37.4%, remaining relatively consistent compared to 37.3% in 2018. Profit for the year ended December 31, 2019 decreased by 24.0% year-on-year to approximately US$85.2 million. EBITDA[1] for the year ended December 31, 2019 decreased by 4.6% year-on-year to approximately US$290.0 million and Adjusted EBITDA[2] for the year ended December 31, 2019 increased by 17.7% year-on-year to approximately US$367.4 million. Adjusted profit[3] for the year ended December 31, 2019 increased by 29.6% year-on-year to approximately US$195.8 million. Profit attributable to owners of the parent increased by approximately 20.8% year-on-year to approximately US$42.1 million. The Board resolved to declare a special dividend of HK$0.5717 (equivalent to US$7.34 cent) per share.

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1 EBITDA is defined as profit before taxation plus finance costs, depreciation and amortization, less interest income. For a reconciliation of profit before tax for the year to EBITDA as defined, see "— Non-IFRS Measures" below.

2 For a reconciliation of EBITDA for the year ended December 31, 2019 to adjusted EBITDA as defined, see "— Non-IFRS Measures" below.

3 Adjusted profit is defined as profit for the year adjusted for certain items that do not affect the Company's ongoing operating performance, including items arising from acquisition and relating to the reorganization in preparation for the global offering and non-recurring items and items not related to the Company's ordinary course of business (each without considering tax effect). For a reconciliation of profit for the years to Adjusted profit, see "— Non-IFRS Measures" below.

Revenue

For the year ended December 31, 2019, the Group recorded a total revenue of US$3,016.1 million (2018: US$2,681.9 million), representing a year-on-year increase of 12.5%.

The following table sets forth the breakdown of the revenue of the Group by business segment:

	For the year ended December 31,			
	2019		2018	
	Amount	**%**	Amount	%
	(in US$ millions, except percentages)			
Joyoung segment	**1,280.0**	**42.4**	1,179.0	44.0
SharkNinja segment	**1,736.1**	**57.6**	1,477.4	55.1
Other segment	**–**	**–**	25.5	0.9
Total	**3,016.1**	**100.0**	2,681.9	100.0

The Joyoung segment represents the Group's Joyoung business unit, which focuses on kitchen appliances in China. The SharkNinja segment represents the Group's SharkNinja business unit, which distributes its products in the United States, Europe and other markets around the world and is focused on cleaning appliances and kitchen appliances.

The other segment represented the Jiuyang Bean business unit, which primarily sold soymilk powder and commercial soymilk makers. In August 2018, the Group entered into a share transfer agreement to dispose of a majority of its equity interest in Jiuyang Bean to a related party, ceased to consolidate it as a subsidiary and no longer have the other segment since then.

Revenue from the SharkNinja segment was US$1,736.1 million (2018: US$1,477.4 million), up by 17.5% year-on-year, accounting for 57.6% of the total revenue of the Group; revenue from the Joyoung segment was US$1,280.0 million (2018: US$1,179.0 million), up by 8.6% year-on-year, accounting for approximately 42.4% of the total revenue of the Group.

The revenue growth contributed from the SharkNinja segment was primarily a result of increased sales in North America within the cooking appliances category and strong growth within our European and Japanese businesses. The growth in the cooking appliances category was due to the tremendous success of the Foodi series of products which were launched in 2018 and greeted with great demand from the retail partners and consumers. Sales growth in Europe and Japan came predominantly from the cleaning appliances category including corded and cordless vacuums in the United Kingdom, and cordless vacuums in Japan.

In 2019, the increase in revenue of the Joyoung segment was mainly attributable to our user centric and demand oriented strategy, introducing a series of innovative as well as adorable and stylish products targeting young people to the market, for instance, gradually positioning the price range of our core product SKY at a level generally accepted by the extensive consumer groups. In addition, it grasped the opportunities from the growing trend of online live streaming in the PRC market, and actively explored marketing channels such as new retail. Meanwhile, with gradual synergy effects realized between Joyoung and SharkNinja, Joyoung drove growth through increased sales in cleaning appliances.

The following table sets forth the breakdown of the revenue by brand of the Group:

	For the year ended December 31,			
	2019		2018	
	Amount	**%**	Amount	%
	(in US$ millions, except percentages) (Unaudited)			
Shark	**1,144.1**	**37.9**	1,092.4	40.7
Ninja	**606.7**	**20.1**	388.1	14.5
Joyoung	**1,265.3**	**42.0**	1,201.4	44.8
Total	**3,016.1**	**100.0**	2,681.9	100.0

For the year ended December 31, 2019, the revenue contributed by the Shark brand was US$1,144.1 million (2018: US$1,092.4 million), representing a year-on-year increase of approximately 4.7%. The increase was primarily attributable to an increase in sales of cleaning appliances in North America, Europe and other international markets totaling US$34.2 million plus sales of the Shark brand in China which increased from US$2.9 million in 2018 to US$14.6 million in 2019. These increases were partially offset by decreases in the garment care products in North America as we have chosen to invest in product categories with higher selling points and higher gross margins.

For the year ended December 31, 2019, the revenue contributed by the Ninja brand was US$606.7 million (2018: US$388.1 million), representing a year-on-year increase of approximately 56.3%. The increase in the Ninja brand's sales were driven by an increase in cooking appliances, partially offset by a decrease in sales of food preparation appliances. The increase in sales of cooking appliances was a result of the tremendous success of our Foodi series of products since we launched the original Foodi Pressure Cooker, which combines pressure cooking and air frying in one multifunctional cooker, and an air fryer in the second half of 2018. 2019 was the first full year of sales for those products. In addition, in 2019, we launched the Ninja Foodi 5-in-1 Indoor Grill and the Ninja Foodi Digital Air Fry Oven which were also greeted with great demand from our retail partners and consumers in both North America and the United Kingdom.

For the year ended December 31, 2019, the revenue contributed by the Joyoung brand was US$1,265.3 million (2018: US$1,201.4 million), representing a year-on-year increase of approximately 5.3%. The increase was primarily attributable to the increasing demand and standard of cooking appliances because of the rising health awareness by people, especially the products in relation to healthy cooking; and also the introduction of new SKY series and stylish products which are popular among the young consumers, such as S-series uncoated steam rice cookers, K-series auto-clean soymilk maker and Y-series auto-clean high-performance multi-functional blender. Due to the trade war between the United States and China, the depreciation of RMB has reduced the nominal amount of sales growth in US$. The average exchange rate used to translate the Joyoung segment's revenue was RMB6.9014 to US$1.00 in 2019, and RMB6.6192 to US$1.00 in 2018, representing a decrease of approximately 4.1%. The Joyoung segment's revenue growth would have been higher if reported in RMB.

The following table sets forth the breakdown of the revenue by geography of the Group:

	For the year ended December 31,			
	2019		2018	
	Amount	%	Amount	%
	(in US$ millions, except percentages)			
China	**1,270.4**	**42.1**	1,189.7	44.4
North America	**1,457.8**	**48.3**	1,310.5	48.9
Europe	**221.7**	**7.4**	132.1	4.9
Other markets	**66.2**	**2.2**	49.6	1.8
Total	**3,016.1**	**100.0**	2,681.9	100.0

Growth of China sales in 2019 was primarily attributable to our commitment to strategies such as high value and value-based marketing in view of the complicated and ever-changing market environment. We launched a new series of products to meet the demands of consumers with different social status, and proactively explored emerging sales and communication channels including new retail and online live streaming, which were well recognized by consumers and received positive market feedback.

Growth of North American sales in 2019 was generated primarily through our Ninja Foodi series of cooking appliances, which launched in 2018. 2019 was the first full year of sales for the Foodi lineup of products, to which we added several additional new products in 2019.

Revenue growth in Europe came primarily in the United Kingdom in 2019. Sales growth in the United Kingdom came primarily from cordless and corded vacuum cleaners. We have successfully secured additional product placements at key retailers in the United Kingdom as the strength of our brands and reputation for our products continues to grow in that market. We have also grown our direct to consumer sales through the use of digital advertising. In addition, we launched the Ninja Foodi series of products in the United Kingdom during 2019 which also contributed to the growth in that market.

Sales growth in other markets came primarily in Japan in 2019, where we launched our business in 2018. We had previously relied on distributors in Japan, but in 2018 we hired our own sales and marketing team and set up an operations infrastructure. Sales in Japan have come mainly from cordless stick vacuums and cordless handheld vacuums to date.

The following table sets forth the breakdown of the revenue by product category of the Group:

	For the year ended December 31,			
	2019		2018	
	Amount	**%**	Amount	%
	(in US$ millions, except percentages) (Unaudited)			
Cleaning appliances	**1,130.3**	**37.5**	1,070.1	39.9
Food preparation appliances	**810.1**	**26.9**	785.0	29.3
Cooking appliances	**930.0**	**30.8**	677.0	25.2
Others	**145.7**	**4.8**	149.8	5.6
Total	**3,016.1**	**100.0**	2,681.9	100.0

Cleaning appliances include upright vacuums, steam mop, robotic vacuums, cordless and corded stick vacuums and other floor care products. Food preparation appliances include high-performance multifunctional blenders, soymilk makers, food processors and other small household appliances that facilitate the food preparation process. Cooking appliances include rice cookers, pressure cookers, induction cookers, air fryers, counter top grills, counter top ovens, coffee and tea makers and other appliances for cooking. Others product category includes small household appliances ranging from water purifiers, ventilators and water heaters to garment care and thermos.

Revenue from sales of cleaning appliances increased by 5.6% in 2019 primarily due to significant sales growth in Europe in addition to sales in Japan where we launched our business in 2018. Such increases were partially offset by decreases in sales of our cordless vacuums in North America which were primarily due to relatively slower sales of older generation products. We have launched new series of both cordless vacuums and advanced navigation robotic vacuums which contributed to growth in the second half of 2019. We are also investing in additional cordless and robotic vacuums for launch in 2020. In addition, sales of cleaning appliances within China increased from US$2.9 million to US$14.6 million in 2019.

Sales of cooking appliances increased by 37.4% in 2019 as a result of the strong reception that our Foodi series of products have received since being launched in North America in 2018 and the United Kingdom in 2019. Cooking appliance sales within the SharkNinja segment have increased by US$239.7 million, or 219.5%, in 2019 as compared to 2018. Within the Joyoung business, sales of cooking appliances have increased by US$13.3 million, mainly driven by the increased sales of electrical cookers, air fryers and other products.

Revenue from sales of food preparation appliances increased by 3.2% in 2019 due to increased sales of high-performance multifunctional blenders within the Joyoung segment.

Cost of sales

In 2019, the cost of sales of the Group was approximately US$1,889.6 million (2018: US$1,682.9 million), representing a year-on-year increase of approximately 12.3%. The increase was primarily attributable to the increase in revenue.

The following table sets forth the breakdown of the cost of sales of the Group by business segment:

	For the year ended December 31,			
	2019		2018	
	Amount	**%**	Amount	%
	(in US$ millions, except percentages)			
Joyoung segment	**854.0**	**45.2**	797.9	47.4
SharkNinja segment	**1,035.6**	**54.8**	868.1	51.6
Other segment	**–**	**–**	16.9	1.0
Total	**1,889.6**	**100.0**	1,682.9	100.0

For the year ended December 31, 2019, the Joyoung segment recorded a total cost of sales of approximately US$854.0 million (2018: US$797.9 million), representing a year-on-year increase of approximately 7.0%. The increase was primarily attributable to an increase in revenue during the year.

For the year ended December 31, 2019, the SharkNinja segment recorded a total cost of sales of approximately US$1,035.6 million (2018: US$868.1 million), representing a year-on-year increase of approximately 19.3%. The increase was the result of increased sales. In addition, as a result of the trade war between the United States and China and the increase in tariffs on goods made in China imported into the United States, the amount of tariff expense recognized in 2019 increased by US$56.5 million to US$75.8 million as compared to US$19.3 million in 2018. The additional tariffs were offset by negotiating lower costs with suppliers, particularly in light of a devalued RMB, and by raising prices where competitively feasible. As a result, tariffs became a more significant portion of the cost of sales in 2019 relative to the actual cost of the product. With respect to the increased tariffs, we first saw a 10% tariff implemented on vacuums and air fryers imported into the United States from China starting on September 24, 2018. That tariff was increased to 25% on June 1, 2019 and a 15% tariff was implemented on coffee makers imported from China to the United States on October 1, 2019. On November 29, 2019 the Office of the United States Trade Representative announced certain exclusions from these new tariffs, including vacuum cleaners, bagless, upright, each with self-contained electric motor of a power not exceeding 1,500 W and having a dust receptacle capacity not exceeding 1 liter. We believe this exclusion applies to a number of our vacuum cleaner products and, accordingly, we have applied for refunds for tariffs paid back to September 24, 2018, of which US$13 million was recognized in 2019.

Gross profit

In 2019, the gross profit of the Group was approximately US$1,126.5 million (2018: US$999.0 million), representing a year-on-year increase of approximately 12.8%. The increase was primarily attributable to the increase in revenue.

Gross profit margin in 2019 remained stable, at 37.4%, compared to 37.3% in 2018.

The following table sets forth the Group's gross profit and gross margin by business segment:

	For the year ended December 31,			
	2019		2018	
	Gross Profit	**Gross Margin %**	Gross Profit	Gross Margin %
	(in US$ millions, except percentages)			
Joyoung segment	**426.0**	**33.3**	381.1	32.3
SharkNinja segment	**700.5**	**40.3**	609.3	41.2
Other segment	**–**	**–**	8.6	33.9
Total	**1,126.5**	**37.4**	999.0	37.3

For the year ended December 31, 2019, Joyoung segment recorded a gross profit of approximately US$426.0 million (2018: US$381.1 million), representing a year-on-year increase of approximately 11.8%. The gross profit margin increased 1.0% in 2019. The increase of gross profit and gross profit margin were primarily due to Joyoung's adjustment of its product portfolio through enhanced R&D efforts on innovative products with profound insights, and as a result, sales of its high-margin products increased during the year.

For the year ended December 31, 2019, SharkNinja segment recorded a gross profit of approximately US$700.5 million (2018: US$609.3 million), representing a year-on-year increase of approximately 15.0%. The gross margin percentage decreased 0.9% in 2019 as a result of higher sales of lower gross margin products including cooking appliances and robotic vacuums which are both relatively new product lines that do not have the full benefit of cost optimizations that the more mature product categories have, in addition to increased tariffs recognized in the cost of sales. As a result of increased tariffs, SharkNinja increased the selling prices on a number of products, replaced older products with new products that commanded a higher gross margin and leveraged the devaluation of the RMB to negotiate lower product costs from the suppliers in China.

Other income and gains

Other income and gains of the Group primarily include (i) gain on financial assets at their fair value, (ii) government grants (mainly relating to research activities, innovation and patents); and (iii) bank interest income.

The following table sets forth the breakdown of the Group's other income and gains:

	For the year ended December 31, 2019	2018
	(in US$ millions)	
Other income		
Bank interest income	**5.9**	2.2
Rental income	**1.8**	1.0
Government grants	**8.1**	10.3
Others	**1.3**	1.0
Subtotal	**17.1**	14.5
Gains		
Gain on disposal of items of property, plant and equipment	**0.1**	16.3
Gain on disposal of an investment property	**–**	1.9
Gain on financial assets at fair value through profit or loss, net	**8.1**	0.7
Gain on disposal of subsidiaries, net	**–**	9.8
Others	**3.3**	1.3
Subtotal	**11.5**	30.0

In 2019, other income and gains of the Group was approximately US$28.6 million (2018: US$44.5 million), representing a year-on-year decrease of approximately 35.7%. The decrease was primarily attributable to the recognition of a gain on disposal of items of property, plant and equipment in 2018, whereas in 2019, there was no material disposal of property, plant and equipment.

Selling and distribution expenses

Selling and distribution expenses of the Group primarily consist of (i) advertising expenses; (ii) warehousing and transportation expenses for sales of products; (iii) staff cost in relation to sales and distribution staff; (iv) trade marketing expenses in relation to marketing and branding expenses primarily at sales channel; (v) business development expenses; and (vi) office expenses and others.

The following table sets forth the breakdown of the Group's selling and distribution expenses:

	For the year ended December 31,	
	2019	2018
	(in US$ millions, except percentages) (Unaudited)	
Advertising expenses	**188.8**	207.5
Warehousing and transportation expenses	**95.7**	75.4
Trade marketing expenses	**75.3**	65.1
Staff cost	**81.8**	72.9
Business development expenses	**28.0**	25.5
Office expenses and others	**37.2**	31.2
Total	**506.8**	477.6

The Group's selling and distribution expenses increased by approximately 6.1% year-on-year from approximately US$477.6 million in 2018 to approximately US$506.8 million in 2019. Within selling and distribution expenses, advertising expenses decreased as a result of reduced television advertising by the Joyoung segment. The increase in warehousing and transportation expenses was driven by increased sales, higher inventory balances throughout most of 2019 as compared to 2018, growth in the Group's direct to consumer sales which require a higher cost as a percentage of sales to handle and ship and a reduction in the amount of direct import sales, whereby retailers take title to inventory at the port in China rather than its warehouse, due to tariffs. The increase in trade marketing expenses, staff costs, business development expenses and office expenses and others are a result of the increase in sales.

Administrative expenses

Administrative expenses primarily consist of (i) staff cost in relation to product development and administrative staff; (ii) depreciation and amortization; (iii) professional service fees primarily consisting of (a) legal fees, (b) tax and audit advisory fees, and (c) engineering consulting fees; (iv) office expenses; (v) other expenses; and (vi) listing expenses.

The following table sets forth the breakdown of the Group's administrative expenses:

	For the year ended December 31,	
	2019	2018
	(in US$ millions)	**(Unaudited)**
Staff cost	**212.1**	157.2
Professional service fee	**45.7**	38.7
Depreciation and amortization	**50.7**	44.8
Office expenses	**24.1**	25.5
Other[4]	**61.6**	51.4
Listing expense	**21.4**	–
Total	**415.6**	317.6

The Group's administrative expenses increased by approximately 30.9% year-on-year from approximately US$317.6 million in 2018 to approximately US$415.6 million in 2019. The increase was primarily attributable to the expenses incurred in relation to the initial public offering (the "**Global Offering**") in 2019 of approximately US$21.4 million, and the increase in staff costs as a result of salary increases in 2019 as well as continued investment in R&D staff to support new products and technologies development. The increase in depreciation and amortization is primarily a function of additional computer equipment and office equipment needed to support higher levels of headcount.

4 Other expenses primarily include prototype expenses, bank transaction fees, traveling expenses and patent fee.

Finance costs

Finance costs primarily represent (i) interest expenses on bank loans; (ii) interest expenses on lease liabilities in relation to the lease agreements; (iii) amortization of deferred finance costs, representing amortization of various fees associated with the bank loans, such as upfront arrangement fees and professional parties fees; and (iv) other finance costs.

The following table sets forth the breakdown of the Group's finance costs:

	For the year ended December 31, 2019	2018
	(in US$ millions)	
Interest on bank loans	**62.2**	61.8
Interest on lease liabilities	**3.0**	3.0
Amortization of deferred finance costs	**13.6**	9.5
Other finance costs[5]	**4.9**	4.0
Total	**83.7**	78.3

Finance costs of the Group increased by approximately 6.9% year-on-year from approximately US$78.3 million in 2018 to approximately US$83.7 million in 2019. The increase was primarily attributable to the increase of amortization of deferred finance costs from the restructuring of new loans.

Income tax

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which its entities are domiciled and operate. Subsidiaries located in mainland China were mainly subject to PRC corporate income tax at a rate of 25% on the assessable profits generated during 2019. The Group's subsidiary, Hangzhou Joyoung Household Electric Appliances Limited, currently qualified as a high and new technology enterprise under the PRC income tax law, was entitled to preferential corporate income tax rate during 2019.

During 2019, the Group's U.S. subsidiaries were subject to U.S. federal income tax at the rate of 21%, and to various US state income taxes at rates ranging from 0.38% to 11.5%.

Income tax expense of the Group increased by approximately 19.4% year-on-year from approximately US$28.3 million in 2018 to approximately US$33.8 million in 2019. The increase was primarily attributable to the increase of income tax expenses in the Group's U.S. subsidiaries.

5 Other finance costs primarily include transaction fees for bill discounting.

Net profit

As a result of the foregoing reasons, net profit for the Group for the year ended December 31, 2019 decreased by approximately 24.0% from approximately US$112.1 million in 2018 to approximately US$85.2 million in 2019.

NON-IFRS MEASURES

To supplement the Group's consolidated statements of profit or loss which are presented in accordance with IFRS, the Group also uses adjusted profit, EBITDA and adjusted EBITDA as non-IFRS measures, which are unaudited and not required by, or presented in accordance with, IFRS. The Group believes that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to potential investors and management in facilitating a comparison of the Group's operating performance from period to period by eliminating potential impacts of certain items that do not affect the Group's ongoing operating performance, including expenses arising from the acquisition of SharkNinja and the reorganization in preparation for the Global Offering (the "**Reorganization**"), and non-operational or one-off expenses and gains (each without considering tax effect). Such non-IFRS measures allow investors to consider matrices used by the Group's management in evaluating the Group's performance. From time to time in the future, there may be other items that the Group may exclude in reviewing the Group's financial results. The use of the non-IFRS measures has limitations as an analytical tool, and it should not be considered in isolation from, or as a substitute for or superior to analysis of, the Group's results of operations or financial condition as reported under IFRS. In addition, the non-IFRS financial measures may be defined differently from similar terms used by other companies.

The following table shows the Group's adjusted profit, EBITDA and adjusted EBITDA:

	For the year ended December 31,	
	2019	2018
	(in US$ millions)	**(unaudited)**
Profit for the year	**85.2**	112.1
Add:		
Items arising from acquisition and relating to the Reorganization	***63.8***	*60.7*
Changes in carrying amount of financial liabilities associated with the put option	**29.0**	28.8
Amortization of intangible assets and deferred financing costs arising from the acquisition of SharkNinja	**27.0**	30.9
Reorganization-related expenses including deferred financing cost	**7.8**	1.0
Non-recurring items and items not related to the Company's ordinary course of business	***46.8***	*(21.7)*
Stock-based compensation	**30.3**	5.1
Gain on disposal of property, plant and equipment, investment property and subsidiaries	**(0.1)**	(27.9)
Gain on fair value change from equity investments	**(4.8)**	1.1
Listing expenses	**21.4**	—
Adjusted profit	**195.8**	151.1
Attributable to:		
Owners of the parent	**136.2**	59.8
Non-controlling interests	**59.6**	91.3
	195.8	151.1

	For the year ended December 31, 2019	2018
	(in US$ millions)	(unaudited)
Profit before tax	**119.0**	140.4
Add:		
Finance cost	**83.7**	78.3
Depreciation	**55.0**	51.9
Amortization	**38.2**	35.6
Bank interest income	**(5.9)**	(2.2)
EBITDA	**290.0**	304.0
Add:		
Items arising from acquisition and relating to the Reorganization	***30.6***	29.8
Changes in carrying amount of financial liabilities associated with the put option	**29.0**	28.8
Reorganization-related expenses	**1.6**	1.0
Non-recurring items and items not related to the Company's ordinary course of business	***46.8***	(21.7)
Stock-based compensation	**30.3**	5.1
Gain on disposal of property, plant and equipment, investment property and subsidiaries	**(0.1)**	(27.9)
Gain on fair value change from equity investments	**(4.8)**	1.1
Listing expenses	**21.4**	—
Adjusted EBITDA	**367.4**	312.1

The non-IFRS measures used by the Group adjusted for, among other things, (i) changes in carrying amount of financial liabilities associated with the put option, (ii) reorganization-related expenses, (iii) amortization of intangible assets and deferred financing costs arising from the acquisition of SharkNinja, (iv) stock-based compensation, (v) gain on disposal of property, plant and equipment, investment property and subsidiaries, (vi) gain on fair value change from equity investments and (vii) listing expenses which may be considered recurring in nature but are neither considered by the Group as related to the Group's ordinary course of business nor indicative of the Group's ongoing core operating performance. Therefore, the Group believes that these items should be adjusted for when calculating adjusted EBITDA and adjusted profit, as applicable, in order to provide potential investors with a complete and fair understanding of the Group's core operating results and financial performance, so that potential investors can assess the Group's underlying core performance undistorted by items unrelated to the Group's ordinary course of business operations, especially in (i) making period-to-period comparisons of, and assessing the profile of, the Group's operating and financial performance, and (ii) making comparisons with other comparable companies with similar business operations but without any material acquisition.

Liquidity and financial resources

During the year ended December 31, 2019, the Group funded its operations, working capital, capital expenditure and other capital requirements primarily from (i) capital contributions by the shareholders of the Company and third-party investors; (ii) bank borrowings; (iii) proceeds from Global Offering; and (iv) cash generated from operations.

As of December 31, 2019, the Group had cash and cash equivalents of approximately US$421.3 million as compared to US$180.9 million as of December 31, 2018, as a result of the proceeds from the Global Offering. The cash and cash equivalents of the Group are mainly denominated in HK$, RMB and US$.

As of December 31, 2019, the Group's total borrowings amounted to approximately US$1,075.3 million, representing a decrease of approximately 9.3% compared to approximately US$1,185.3 million as of December 31, 2018. As at December 31, 2019, 10.6% and 89.4% of the Group's borrowings were denominated in RMB and US$, respectively, and the majority of the borrowings were based on floating interest rates.

The following table sets forth a breakdown of the bank borrowings of the Group as of December 31, 2019.

	As of December 31, 2019 (in US$ millions)
Interest-bearing bank borrowings (current portion)	**26.2**
Interest-bearing bank borrowings (non-current portion)	**1,049.1**
Total	**1,075.3**

The table below sets forth the aging analysis of the repayment terms of interest-bearing borrowings as of December 31, 2019.

	As of December 31, 2019 (in US$ millions)
Repayable within one year	**26.2**
Repayable within one year to two years	**109.5**
Repayable within two to five years	**939.6**
Total	**1,075.3**

As of December 31, 2019, the Group had total bank facilities of approximately US$1,216.3 million (2018: approximately US$1,305.3 million), of which bank facilities of approximately US$141.0 million were unutilized (2018: approximately US$120.0 million).

Gearing ratio

As of December 31, 2019, the Group's gearing ratio (calculated as the total debt (including interest-bearing bank borrowings and lease liabilities) divided by total equity was 74.2%, representing a decrease of 195.5 percentage points as compared with 269.7% as of December 31, 2018. The decrease was primarily attributable to the decrease in financial liabilities associated with put option and the decrease in deficit of put option reserve, which arose from the termination of put option upon the consummation of the Global Offering.

For further information on put option, see note 31 to the consolidated financial information.

Foreign exchange risk

The Group's currency exposures arise from sales or purchases by business units in currencies other than their respective functional currencies. Approximately 1.5% of the Group's sales in 2019 were denominated in currencies other than the functional currencies of the business units making the sales.

As of December 31, 2019, the Group had not entered into any hedging transactions. The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with floating interest rates. As the borrowings of the Group are preliminarily denominated in RMB and US$, the interest rates on its borrowings are primarily affected by the benchmark interest rates set by the PBOC, HIBOR and LIBOR, respectively.

The Group manages its interest rate risk by closely monitoring and regulating the debt portfolio of the Group and will consider entering into interest rate swap contracts should the need arise.

Charge on assets

As of December 31, 2019, certain assets of the Group's subsidiaries and certain deposits had been pledged to secure the Group's borrowings of a total amount of US$1,075 million and total pledged assets accounted for approximately 40.6% of the total assets of the Group. As of December 31, 2019, the equity interest of certain of the Group's subsidiaries had been pledged to secure the Group's borrowings.

Capital expenditures

The capital expenditures of the Group primary consist of additions to property, plant and equipment, investment properties, prepaid land lease payments, right-of-use assets and other intangible assets. For the year ended December 31, 2019, capital expenditures of the Group amounted to approximately US$95.4 million (2018: US$97.7 million).

OUTLOOK AND STRATEGY

Impact of COVID-19

The novel coronavirus ("**COVID-19**") outbreak has caused a global health emergency that is impacting our business in a number of ways. The health and safety of our employees and their families, suppliers and other business partners and customers has been our top priority throughout this pandemic so we have proactively implemented preventative health measures.

The extent and duration of the COVID-19 outbreak is uncertain at this time and its full impact is not yet known.

Factories in China were temporarily closed for a certain period following the end of the Chinese New Year holidays on February 10, 2020. Luckily, all of our suppliers are located outside the Hubei province of China, where the COVID-19 outbreak has been the most severe, and production in China has since begun a slow return toward normal levels. As far as the international markets excluding China are concerned, we estimate the disruption to our supply chain was 4 to 6 weeks on average. For our businesses in North America and Europe, we typically carry about two months' worth of inventory in our warehouses which has helped to minimize the supply impact that the COVID-19 outbreak has caused except for certain products that launched in 2019 and outperformed our expectations which left us with lower than average inventory levels on those products at the start of 2020. As a result, we have not been able to fully meet the demand for those products.

For Joyoung's business within China, the COVID-19 outbreak has impacted its business in the first quarter of 2020. In particular, offline sales has suffered considerably, and to some extent, online sales was also affected due to logistic issues. Yet, because of the inventory we have stocked up for Chinese New Year, our inventory level is still sufficient and positively helps the, which was sales on domestic e-commerce platforms. Overall, domestic sales in China in the first quarter will be lower than expected, and hopefully, it will gradually recover in the second quarter.

With the continued spread of COVID-19 to Europe and North America, we are closely monitoring the end-consumer demand in those markets. Consumers are staying home, and retailers have announced the closure of offline stores. In addition, logistics may be impacted including the ability of the Group's distribution centers to operate. As a result, we are starting to see more of a shift to online sales channels.

Given the inherent uncertainty about the future impacts of COVID-19, it is not possible for us to reliably predict the impact on our results for the balance of the year. We do expect there to be a negative impact on the results of operations in 2020. However, we believe many of our product lines including those within our cooking appliances category are well positioned in light of consumers' likely desire to cook at home rather than eat at restaurants. In addition, strong sales at the end of 2019 led to high demand from retailers in North America and Europe at the beginning of 2020 which will also help to mitigate the impact of COVID-19 on our first half results. We will monitor the situation and update Shareholders and potential investors as and when appropriate.

Growth Strategies

The Company is committed to driving sustainable long-term growth and strengthening the market position as a global leader in small household appliances through the following strategies:

- Develop and commercialize innovative products, combining powerful technology and appealing designs;
- Drive sustainable long-term growth through sales network and product category expansion;
- Maximize synergies between Joyoung segment and SharkNinja segment;
- Strengthen the Group's brand recognition and enhance consumer engagement; and
- Pursue strategic partnerships and acquisitions.

With respect to growth through our sales network, we focused on expanding internationally including further growth within the United Kingdom and Japan, as well as the launch of the SharkNinja segment into Germany and France where we have begun to hire local sales teams and work with major retailers in those countries to have the products placed.

With regards to product innovation, we continually seek to expand the product portfolio within the categories that we are already in. In particular in 2020, we are working to further expand the Foodi series of products, in addition to the robotic vacuum product line. The robotic vacuums launched in 2019 included advanced features such as navigation and home mapping a self-empty base. We believe that robotic vacuums present a large opportunity globally and we seek to bring additional products and technologies to market in this category in 2020. In addition, we plan to launch a hard floor cleaning product that combines vacuuming and mopping technology, a new series of cookware products, a new series of cordless vacuums and other new products in additional categories.

We are also very focused on continuing to drive synergies between the SharkNinja and Joyoung businesses on both the cost side and the sales side. With respect to the cost side, the supply chain and engineering teams have been working closely to identify common materials and components used by both businesses in order to use combined volumes to negotiate lower costs. In addition, finished goods suppliers are being shared by both segments in order to increase the total number of suppliers available to both segments and help create a more competitive supplier landscape. On the sales side, we continue to expand the product portfolio under the Shark brand in China. In 2020, we are working on launching a new series of cordless vacuums which will be our first product designed specifically for consumers in China.

Also, we have announced Joyoung's new brand proposition of "Enjoying Health" in 2019, in order to attract a younger customer base. In the future, we will continue to focus on innovating small household appliances in order to launch mainstream products and categories with a customer-centric focus. Joyoung will continue to employ the development strategy of "for kitchens and upgrading kitchens", while Shark within China will position itself in the household cleaning area, and strive to gain the same level of brand recognition and reputation for innovation and quality as it has in North America and other parts of the world.

The era for commercial use of 5G has arrived, where 5G will inevitably become a "new infrastructure" in the process of economic development within China. In this context, it is of great importance to explore new retail models for the future by fully implementing the digitalized transformation towards mobile and Internet. As far as we are concerned, we will focus our efforts on the two main growth drivers of products development and sales channels expansion. Driven by the demands from users, we are always committed to creating handy, stylish and innovative products, smart and convenient experiences, and scientific collocations of appliances and consumables, to attract the attention of more consumers of the new era. We will also proactively capture business opportunities to be brought about with the new economies and live streaming in the future, so as to actively meet the new preferences and needs of consumers; and will steadily advance to the new digitalized and fragmented retail trend, in an effort to acquire new users, attract new fans and establish new channels, so as to build a new retail operation model suitable for our own development.

Going forward, we will also continue to explore expansion-based development. To this end, we will seek for suitable expansion opportunities around the world in order to lay a strategical foundation in respect of, among others, brand, resource, product, technology, channel and talent for our long-term sustainable development.

Go-Forward Impact of Trade War

As a result of increased tariffs on goods imported from China into the United States, primarily 25% tariffs on vacuums, we have begun to source finished goods from outside of China with suppliers in Vietnam and Thailand. While finished goods from those countries generally are more expensive to buy than in China, there is still a substantial cost savings that comes from mitigating the 25% tariff. In addition, on November 29, 2019, the Office of the United States Trade Representative announced certain exclusions from these new tariffs, including vacuum cleaners, bagless, upright, each with self-contained electric motor of a power not exceeding 1,500 W and having a dust receptacle capacity not exceeding 1 liter. We believe this exclusion applies to a number of our vacuum cleaner products and, accordingly, we have applied for refunds for tariffs paid back to September 24, 2018, of which US$13 million was recognized in 2019. We are also seeking additional refunds of as a result of these exclusions which will be recognized when collection of these refunds becomes virtually certain. We are also planning to change product assortments at retailers in order to maximize the percentage of the sales that comes from products excluded form tariffs. As a result, we expect tariffs to result in a lower portion of the cost of sales in 2020 than in 2019.

Debt Refinancing

Amidst the challenging operating environment, we are fully committed to generating greater value to the Shareholders and stakeholders by improving our operating performance whilst reducing operating expenses. In March 2020, the Company and Global Appliance LLC (a wholly owned subsidiary of the Company) entered into a facilities agreement for the loan facilities of an aggregate amount of US$1,200 million (the "**Facilities**"). The proceeds of the Facilities will be and have been primarily used to refinance the Group's existing indebtedness.

The interest rate of the Facilities is below LIBOR+180 bps. The actual financing costs for loans (interest expenses and amortization expenses) amounted to US$78 million in 2019 of which interest expenses was approximately US$62 million and amortization expenses was approximately US$16 million.

It is expected that LIBOR may be lower during 2020 than it was in 2019, which would lead to a further reduction in the Company's financing costs.

For further information on the loans of the Company in 2019, see note 29 to the consolidated financial information.

DIRECTORS

Executive Directors

Mr. Wang Xuning (王旭寧), age 51, has been the Chairman and Chief Executive Officer since June 25, 2019, the executive Director of the Company since July 2018, and the Global Chief Executive Officer of Compass since September 2017. He has been the Chairman of the Strategy Committee and Nomination Committee of the Company since the Listing Date. Mr. Wang has held several positions within the Group, including serving as a director of SharkNinja Operating LLC since April 2019, a director of SharkNinja Sales Company since September 2017, and the Chairman of Joyoung since September 2007. He also served as the General Manager and the President of Joyoung from September 2007 to March 2019. In 1994, Mr. Wang founded our Group by first conducting research and development on fully automatic soymilk maker. Mr. Wang received several awards and recognitions for his industry expertise, including being awarded the Ernst & Young (China) Entrepreneur Award (安永(中國)企業家獎) in 2012, being listed as one of the "Top Ten Innovative Figures in Household Appliance Industry of China (中國家電十大創新人物)" by people.com.cn (人民網) in December 2008 and he received the Highest Technology Award of Jinan (濟南市科技最高獎) in 2011. Mr. Wang was recognized as a senior engineer in October 1999.

Mr. Wang received a Bachelor's degree in electric traction and transmission control from Beijing Jiaotong University (北京交通大學) (formerly known as North Jiaotong University (北方交通大學)) in China in July 1991, and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) in China in October 2003.

Ms. Han Run (韓潤), age 41, has been an executive Director, the Chief Financial Officer since June 25, 2019 and a member of the Remuneration Committee of the Company since the Listing Date. Ms. Han has held several positions within the Group, including serving as the Vice Chairwoman of Joyoung since April 2019, and a director of Compass since September 2017. She also served as the Board Secretary and Vice General Manager of Joyoung from March 2015 to March 2019, the Vice President of Joyoung from March 2007 to March 2015, the Director of legal department of the board and the Chief Officer of the administrative center of Shandong Joyoung Small Appliance Limited from March 2005 to March 2007, and the Manager of the administrative center of Shandong Joyoung Small Appliance Limited from February 2004 to April 2005. Ms. Han also holds several positions within non-commercial organizations. She has served as the Vice President of China Household Electrical Appliances Association (中國家用電器協會) since December 2015, and successively served as a member of the eighth and ninth sessions of the Huaiyin District Committee of the CPPCC (政協槐蔭區委員會) since 2012. Ms. Han was granted the "New Fortune Gold Medal Board Secretary (新財富金牌董秘)" by New Fortune magazine in April 2019, the "Industry Elite Award (行業精英獎)" at the 30th anniversary ceremony of the China Household Electrical Appliances Association (中國家用電器協會) in December 2018, the "Advanced Individual of Enterprise Intellectual Property (企業知識產權工作先進個人)" by the State Intellectual Property Office (國家知識產權局) in December 2016, as well as the "First Award of the Science and Technology Progress of China Light Industry Council (中國輕工業聯合會科學技術進步一等獎)" by the China Light Industry Council (中國輕工業聯合會) in 2014.

Ms. Han received an Executive Master of Business Administration from Guanghua School of Management of Peking University (北京大學光華管理學院) in China in January 2014.

Ms. Huang Shuling (黃淑玲), age 56, has been an executive Director of the Company since June 25, 2019. Ms. Huang has also been an executive director of Shanghai Lihong since November 2010, and the Chairwoman and General Manager of Shanghai Lihong since December 2018. She served as the Vice Chairwoman of Joyoung from September 2007 to March 2019, and the Chairwoman of Shandong Joyoung Small Appliance Limited from July 2002 to September 2007. Ms. Huang co-founded our Group in October 1994. She has also held several other positions within non-commercial organizations, including serving as a standing committee member of the Twelfth Session of Executive Committee of All-China Federation of Industry and Commerce (中華全國工商業聯合會第十二屆執行委員會) since November 2017. She is also currently the Vice Chairwoman of the Association of Industry and Commerce of Shandong (山東省工商業聯合會) and a standing committee member of the twelfth session of the Shandong Committee of the CPPCC (政協山東省委員會).

Ms. Huang received a Bachelor of Economics in planning statistics from Shandong University of Finance and Economics (山東財經大學) (formerly known as Shandong Economic School (山東經濟學院)) in Shandong, China in July 1987, and an Executive Master of Business Administration in senior management business administration from Cheung Kong School of Business (長江商學院) in Beijing, China in September 2007.

Non-executive Directors

Mr. Hui Chi Kin Max (許志堅), age 47, has been a non-executive Director since June 25, 2019 and a member of the Strategy Committee of the Company since the Listing Date, and has also served as a director of Compass, primarily responsible for company oversight and formation since July 2017. Mr. Hui has more than 20 years of experience in investment and fund management. He has served as the Chief Executive Officer and a managing director of CDH Investment Advisory Private Limited in Singapore since July 2013, primarily responsible for fund management business. Mr. Hui also served as a non-executive director of China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司), a company listed on the Stock Exchange (Stock Code: 01117), for corporate development and strategic planning from 2009 to 2017. Prior to joining CDH Investments in 2003, Mr. Hui worked with the investment banking department of Schroders & Co in New York and the private equity division of Morgan Stanley Dean Witter Asia in Hong Kong from 1999 to 2003. Prior to working in the financial industry, Mr. Hui was an Engineer at the oil and gas pipeline division of Bechtel Corporation in San Francisco from 1997 to 1998.

Mr. Hui received a Bachelor's degree in chemical engineering from the University of California, Berkeley in December 1996, and a Master of Engineering from Princeton University in June 1999.

Mr. Stassi Anastas Anastassov, age 58, has been a non-executive Director since June 25, 2019 and a member of the Strategy Committee of the Company since the Listing Date. He has served as a Senior Consultant in Total Shareholder Return Limited, a private equity-focused advisory firm, since July 2015. He served as the U.S.A. Global President and Chief Executive Officer of Duracell Company, a former division of Procter & Gamble ("**P&G**"), from November 2010 to January 2015. From 2001 to November 2010 he served as a Vice President at P&G, being responsible for babycare products, feminine care products and snacks in the Central Europe, Eastern Europe, Middle East and Africa markets. From July 1999 to June 2001 he was a General Manager of P&G responsible for Near East Markets (including Lebanon, Jordan, Syria and Israel) and the Eastern Europe market (Moscow). From May 1987 to August 1999 he held different positions within P&G, successively serving as an Assistant Brand Manager being responsible for babycare products in France, a Brand Manager being responsible for paper and dish products in Nordic, a Marketing Manager being responsible for laundry and cleaning products in Nordic, a Marketing Director in charge of marketing operations in Russia and a General Manager being responsible for Russian business operations covering laundry, cleaning, baby and feminine products.

Mr. Anastassov received a Bachelor's degree in business administration and economics from Uppsala University in Sweden in June 1987.

Independent Non-Executive Directors

Dr. Wong Tin Yau Kelvin (黃天祐), Justice of the Peace, age 59, has been an independent non-executive director since October 11, 2019, and has been the Chairman of the Audit Committee and a member of the Strategy Committee and Nomination Committee of the Company since the Listing Date.

Dr. Wong is an executive director and deputy managing director of COSCO SHIPPING Ports Limited (中遠海運港口有限公司), a company listed on the Stock Exchange (Stock Code: 01199), since July 1996. He has served as an independent non-executive director of Yangtze Optical Fibre and Cable Joint Stock Limited Company (長飛光纖光纜股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 601869) and the Stock Exchange (Stock Code: 6869), since January 2020; as an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. (新疆金風科技股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 02202) and the Stock Exchange (Stock Code: 02208), since October 2016; as an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd (上海復星醫藥(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600196) and the Stock Exchange (Stock Code: 02196), since June 2015; as an independent non-executive director of China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司), a company listed on the Stock Exchange (Stock Code: 01728), since November 2010; and as an independent non-executive director of I.T Limited, a company listed on the Stock Exchange (Stock Code: 00999), since August 2007. Dr. Wong also served as an independent non-executive director of Bank of Qingdao Co., Ltd. (青島銀行股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002948) and the Stock Exchange (Stock Code: 03866), from April 2015 to February 2020, as an independent non-executive director of Huarong International Financial Holdings Limited (華融國際金融控股有限公司), a company listed on the Stock Exchange (Stock Code: 00993), from October 2015 to December 2019, as an independent non-executive director of Mingfa Group (International) Company Limited (明發集團(國際)有限公司), a company listed on the Stock Exchange (Stock Code: 00846), from September 2018 to March 2019, and as an independent non-executive director of Asia Investment Finance Group Limited (亞投金融集團有限公司) (now known as China Cloud Cooper Company Limited (中國雲銅股份有限公司)), a company listed on the Stock Exchange (Stock Code: 00033), from October 2016 to February 2018.

Dr. Wong obtained a Master of Business Administration degree from Andrews University in the United States in August 1992 and a Doctorate of Business Administration degree from The Hong Kong Polytechnic University in December 2007.

Mr. Timothy Roberts Warner, age 69, has been an independent non-executive Director since October 11, 2019, and the Chairman of the Remuneration Committee and a member of the Strategy Committee and Audit Committee of the Company since the Listing Date. Mr. Warner has extensive experience in corporate finance and management operations. He has also served as the Chairman of the board of the Tuition Plan Consortium, a national prepaid tuition plan for private colleges and universities in the United States, and has served as the Co-President of Board of Trustees of the Western Reserve Academy since 2010. He has been a Vice Provost for budget and auxiliaries management at Stanford University since 1994, primarily responsible for strategic and financial planning and the line management of several large important service organizations within Stanford University.

Mr. Warner received a Bachelor of Arts with honors in history from Wesleyan University in the United States in May 1973, and a Master of Business Administration from the Graduate School of Business of Stanford University in the United States in June 1977.

Mr. Yang Xianxiang (楊現祥), age 53, has been an independent non-executive Director since October 11, 2019, and a member of the Strategy Committee, Audit Committee, Nomination Committee and Remuneration Committee of the Company since the Listing Date. Mr. Yang has been the chief executive officer of SITC International Holdings Co., Ltd, a company listed on the Stock Exchange (Stock Code: 1308) since January 2008. He has over 30 years of experience in the shipping industry through his employment in the shipping companies. From July 1987 to July 1997, Mr. Yang served for Lufeng Shipping Co., Ltd. Mr. Yang has served successively as general manager, executive vice president and president of SITC since 1997.

Mr. Yang received an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in China in April 2006.

SENIOR MANAGEMENT

Mr. Wang Xuning (王旭寧), age 51, is the Chairman, Chief Executive Officer and an executive Director of the Company, the Chairman of Joyoung and the Global Chief Executive officer of Compass. See "— Directors — Executive Directors."

Ms. Han Run (韓潤), age 41, is an executive Director and the Chief Financial Officer of the Company and the Vice Chairwoman of Joyoung. See "— Directors — Executive Directors" above.

Mr. Mark Adam Barrocas, age 48, has served as the Global President of the Company since June 2019. He has also served in various other positions within the Group, including serving as the President of SharkNinja Operating LLC since September 2008 with responsibility for all of its subsidiaries. Prior to joining the Group, Mr. Barrocas served as the President of the Wearguard Division of Aramark Uniform Services from November 2005 to September 2008, and also served as Sale and Marketing President, Alpha Division and Executive Vice President of Broder Bros., Co. from December 2003 to February 2005, and President of Broder Bros., Co. from February 2005 to November 2005, respectively.

Mr. Barrocas received a Bachelor's degree in general studies from the University of Michigan, US in August 2004.

Ms. Yang Ningning (楊寧寧), age 41, has served as the General Manager and a director of Joyoung since March 2019 and October 2010, respectively, and the Chairwoman of SharkNinja (China) Technology Co., Ltd. since August 2018. She also served as the Vice General Manager of Joyoung from April 2014 to March 2019, and the Chief Financial Officer of Joyoung from September 2007 to October 2013.

Ms. Yang received the Executive Master of Business Administration from the City University of Hong Kong in October 2019.

Mr. Qiu Jiandiao (裘劍調), age 47, has served as the Chief Financial Officer of Joyoung since April 2014. He also served as the Chief Financial Officer and Financial Manager of Joyoung Household Appliances, a subsidiary of the Company, from February 2009 to April 2014 and from April 2005 to February 2009, respectively.

Mr. Qiu received an Associate in Accounting from Zhejiang University of Finance and Economics (浙江財經大學) (formerly known as Zhejiang School of Finance and Economics (浙江財經學院)) in Zhejiang, China in December 1995, and a Master of Business Administration from Asia Metropolitan University in Selangor Darul Ehsan, Malaysia in July 2018.

Mr. David William Stevenson, age 42, has served as the Chief Financial Officer of Compass, the parent company of the SharkNinja group of companies, since April 2019. He had successively held several positions in SharkNinja, including as Interim Chief Financial Officer from December 2018 to April 2019, Senior Vice President of Finance and the Chief Accounting Officer from September 2017 to December 2018, Vice President of Finance from June 2015 to September 2017 and Corporate Controller from July 2013 to June 2015. Prior to joining SharkNinja, Mr. Stevenson served as a senior manager in the audit practice of Grant Thornton LLP from December 2011 to June 2013, and held various positions at the accounting firm CCR LLP from September 2002 to November 2011 with the eventual title of partner.

Mr. Stevenson received a Bachelor of Science in business and economics from Lehigh University in Pennsylvania, US in June 2000.

Report of the Directors

The Board is pleased to present this annual report and the audited financial statements of the Group for the year ended December 31, 2019.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on July 26, 2018 as an exempted company with limited liability. The Shares were listed on the Main Board of the Stock Exchange on December 18, 2019 through the Global Offering. The Company issued 499,830,000 Shares at an offer price HK$5.20 per share on the Stock Exchange by the Global Offering. On December 30, 2019, the Company further issued 74,974,500 Shares pursuant to the full exercise of the over-allotment option at a price of HK$5.20 per share.

SHARE CAPITAL

Details of the share capital of the Company during the year ended December 31, 2019 are set out in note 33 to the financial statement.

PRINCIPAL BUSINESSES AND ACTIVITIES

The Group is a global leader in high-quality, innovative small household appliances with a number of successful and trusted brands worldwide, including Joyoung, Shark and Ninja. By catering to local needs in different international markets, the Group's business is rooted in the PRC and the U.S., the two largest small household appliance markets in the world. In addition, the Group has also expanded its business footprint into other developed markets around the world.

BUSINESS REVIEW

A fair review of the Group's business is set out in the Chairman's Statement, Business Overview, Industry Overview, Financial Review and Outlook and Strategy sections of this Annual Report.

DIVIDEND POLICY

The declaration and payment of dividends shall be determined at the sole discretion of the Board. The Board shall also take into account the following factors when considering whether to propose dividends and determining the dividend amount:

(i.) the Group's actual and expected financial performance;

(ii.) retained earnings and distributable reserves of the Company and each of the members of the Group;

(iii.) the Group's working capital requirements, capital expenditure requirements and future expansion plans;

(iv.) the Group's liquidity position;

(v.) contractual restrictions under the facilities agreement on the payment of dividends by the Company to the Shareholders or by the Company's subsidiaries to the Company;

(vi.) taxation considerations;

(vii.) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(viii.) other factors that the Board deems relevant.

PAYMENT OF SPECIAL DIVIDEND

The Board resolved to declare a special dividend of HK$0.5717 (equivalent to US$7.34 cent) per share for the year ended December 31, 2019 (the "**Special Dividend**") which is expected to be paid on April 29, 2020. The translation of HK$ into US$ is made at the exchange rate of US$1 = HK$7.7894 as at December 31, 2019. Shareholders whose names appear on the register of members of the Company at the close of business on April 21, 2020 will be entitled to the Special Dividend. The Special Dividend will be paid in Hong Kong dollars.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement of the Shareholders to attend and vote at the Annual General Meeting

The register of members of the Company will be closed from June 2, 2020 to June 5, 2020 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to determine the identity of members who are entitled to attend and vote at the Annual General Meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on June 1, 2020.

(b) For determining the entitlement to the Special Dividend

The register of members of the Company will be closed from April 16, 2020 to April 21, 2020 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to determine the entitlement of the Special Dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on April 15, 2020.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on June 5, 2020. The notice of the Annual General Meeting will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsgloballife.com) and despatched to the Shareholders in due course.

AUDIT COMMITTEE

The Audit Committee, consisting of three independent non-executive Directors, namely, Dr. Wong Tin Yau Kelvin (Chairman), Mr. Timothy Roberts Warner and Mr. Yang Xianxiang, has reviewed the Group's 2019 annual results announcement and the audited financial statements for the year ended December 31, 2019 prepared in accordance with the IFRS.

RESERVES

Details of movements in the reserves of the Company during the year ended December 31, 2019 are set out in note 45 of the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at December 31, 2019, the amount of reserves available for distribution of the Company was approximately US$647,128,000.

DONATIONS

During the year ended December 31, 2019, the Company and its subsidiaries made charitable donations of approximately US$1,519,000.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company's shares have been listed on the Main Board of the Stock Exchange since December 18, 2019. Net proceeds from the initial public offering (after the full exercise of the over-allotment option) received by the Company were approximately US$354 million after deducting the underwriting fees and commission and relevant expenses.

As at December 31, 2019, (i) approximately US$178 million of the net proceeds had been utilized in line with the proposed use of proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus; and (ii) unutilized proceeds of approximately US$176 million were deposited with a licensed bank.

The following table sets forth a breakdown of the utilization and proposed utilization of net proceeds as at December 31, 2019:

Purpose		Percentage of total amount (approx.)	Net proceeds US$ million	Utilised amount US$ million	Unutilised amount US$ million	Expected timeline for usage of proceeds
1.	Repayment of a bank loan	50%	178	178	–	–
2.	Research and development of new products and integration and development of the Company's supply chain	20%	71	–	71	By December 2022
3.	Market expansion and brand enhancement	20%	71	–	71	By December 2022
4.	Working capital and general corporate purposes	10%	34	–	34	By December 2022
Total		100%	354	178	176	

The net proceeds have been and will be used according to the purposes as stated in the Prospectus, and there are no material change or delay in the use of proceeds.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2019, the Group's five largest customers accounted for less than 30% of the Group's total revenue.

For the year ended December 31, 2019, purchases from the Group's largest supplier accounted for 14.5% and five largest suppliers accounted for 42.2% of the Group's total purchases.

During the year ended December 31, 2019, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares) had interests in the five largest suppliers or customers of the Company.

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

The Company did not have any significant investment, acquisition and disposal for the year ended December 31, 2019.

DIRECTORS

The Directors for the year ended December 31, 2019 and up to the Latest Practicable Date were:

Executive Directors

Wang Xuning (Chairman and Chief Executive Officer)

Han Run (Chief Financial Officer) (appointed on June 25, 2019)

Huang Shuling (appointed on June 25, 2019)

Non-executive Directors

Hui Chi Kin Max (appointed on June 25, 2019)

Stassi Anastas Anastassov (appointed on June 25, 2019)

Independent Non-executive Directors

Wong Tin Yau Kelvin (appointed on October 11, 2019)

Timothy Roberts Warner (appointed on October 11, 2019)

Yang Xianxiang (appointed on October 11, 2019)

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

SERVICE CONTRACTS OF DIRECTORS

The Company has entered into service contracts or appointment letters with all executive Directors and non-executive Directors for a term of three years since October 9, 2019, and with all independent non-executive Directors for a term of three years since October 11, 2019, or which shall be terminated pursuant to relevant terms of respective contracts or letters of appointment.

None of the Directors has entered into any service contract with the Company or any of its subsidiaries which was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Non-Exempt Continuing Connected Transactions" below, there were no other transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or the controlling shareholders of the Company had a material interest, whether directly or indirectly, as at December 31, 2019 or during the Reporting Period.

MANAGEMENT CONTRACTS

During the year ended December 31, 2019, the Company did not enter into any contract, other than the contracts of service with the Directors or any person engaged in the full-time employment of the Company, whereby any individual, firm or body corporate undertakes the management and administration of the whole, or any substantial part of any business of the Company.

INTERESTS OF DIRECTORS IN BUSINESSES COMPETING WITH THE COMPANY

To the best knowledge of the Directors, save as disclosed below, none of the Directors had any interest in any business which directly or indirectly competes or is likely to compete with the business of the Group:

(i) Hangzhou Lexiu: As of the Latest Practicable Date, Hangzhou Lexiu Electrical Technology Company Limited (杭州樂秀電子科技有限公司) ("**Hangzhou Lexiu**") was held as to 10% by Ningbo Meishan Free Trade Port Area Xuning Innovation Investment Partnership (Limited Partnership) (寧波梅山保税港區旭寧創新投資合夥企業(有限合夥)), whose general partner is Ningbo Meishan Free Trade Port Area Xuning Investment Limited (寧波梅山保税港區旭寧投資有限公司), which was 99% held by Mr. Wang Xuning, an executive Director. Hangzhou Lexiu is primarily engaged in the industry of personal care appliances;

(ii) Jiuyang Bean: As of the Latest Practicable Date, Hangzhou Jiuyang Bean Industry Limited (杭州九陽豆業有限公司) ("**Jiuyang Bean**"), was owned as to 50%, 30% and 20% by Ningbo Meishan Free Trade Port Area Lihao Investment Limited, Joyoung and an independent third party, respectively. Ningbo Meishan Free Trade Port Area Lihao Investment Limited was controlled by the Controlling Shareholders Group. Jiuyang Bean generally provides soymilk powder and commercial soymilk makers; and

(iii) Hangzhou Yibei: As of the Latest Practicable Date, Hangzhou Yibei Food Technology Company Limited (杭州易杯食品科技有限公司) ("**Hangzhou Yibei**") was directly held as to approximately 54.08% by Mr. Wang Xuning and his close associate. Hangzhou Yibei primarily provides capsule machines, drinks capsules and other capsule machine accessories.

On the basis that (i) the Group has different product categories with Hangzhou Lexiu, as the Group is primarily engaged in the kitchen and cleaning appliance market, while Hangzhou Lexiu is primarily engaged in the personal care appliance market; (ii) the Group's products have different usage scenarios from the products of Jiuyang Bean, as the Group's products are generally for home use and targeted at individual customers while Jiuyang Bean generally provides soymilk powder and commercial soymilk makers to factories, schools, stores and restaurants; and (iii) the Group's household appliance products, especially soymilk makers and blenders have different usage scenarios as Hangzhou Yibei's capsule machines, as our soymilk makers and blenders are primarily used in household kitchens to make soymilk, juice and other drinks, while Hangzhou Yibei's capsule machines mainly target at hotels, restaurants and offices to produce drinks such as coffee and milk tea, the Directors are of the view that these businesses would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of December 31, 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

(i) Interest in Shares of the Company

Name of Director or chief executive	Nature of interest	Long position/ short position	Number of Shares	Approximate percentage of interest in the Company
Mr. Wang Xuning[1][2][3]	Interest in controlled corporations, interest held jointly with other persons	Long position	1,971,882,576	57.87%
	Beneficial interest	Long position	45,317,890	1.33%
Ms. Han Run[1][4]	Interest in controlled corporations, interest held jointly with other person	Long position	1,603,578,331	47.06%
	Beneficial interest	Long position	11,329,472	0.33%
Ms. Huang Shuling[1]	Interest in controlled corporations, interest held jointly with other person	Long position	1,603,578,331	47.06%

Notes:

(1) Hezhou Company Limited ("**Hezhou**") was the general partner exercising operational control over JS Holding Limited Partnership ("**JS Holding**"). Tong Zhou Company Limited ("**Tong Zhou**") was its limited partner with close to 100% of the limited partnership interest. Hezhou was wholly-owned by Xuning Company Limited ("**XNL**"), which was wholly-owned by Mr. Wang Xuning. Tong Zhou was wholly-owned by the investment entities of the Controlling Shareholders Group (which comprises Directors Mr. Wang Xuning, Ms. Han Run and Ms. Huang Shuling, and other individuals). Therefore, each of Mr. Wang Xuning, Ms. Han Run and Ms. Huang Shuling was deemed to be interested in the 1,603,578,331 Shares held by JS Holding for the purpose of Part XV of the SFO.

(2) Sol Target Limited ("**STL**"), which was wholly-owned by XNL, held 100 management shares in Sol Omnibus SPC ("**Sol SPC**"). Therefore, Mr. Wang Xuning was deemed to be interested in the 368,304,245 Shares held by Sol SPC for the purpose of Part XV of the SFO.

(3) Mr. Wang Xuning was interested in 45,317,890 restricted stock units granted to him under the RSU Plan entitling him to receive up to 45,317,890 Shares, subject to vesting.

(4) Ms. Han Run was interested in 11,329,472 restricted stock units granted to her under the RSU Plan entitling her to receive up to 11,329,472 Shares, subject to vesting.

(ii) Interest in associated corporations

Name of Director or chief executive	Nature of interest	Long position/ short position	Associated corporations	Percentage of shareholding in the associated corporation
Mr. Wang Xuning[1][2]	Beneficial interest	Long position	Shanghai Lihong	8.414%
	Interest in controlled corporations	Long position	Shanghai Lihong	0.003%
Ms. Han Run[1]	Beneficial interest	Long position	Shanghai Lihong	0.162%
Ms. Huang Shuling[1]	Beneficial interest	Long position	Shanghai Lihong	0.794%

Notes:

(1) Shanghai Lihong was directly held as to 8.414%, 0.162% and 0.794% by Mr. Wang Xuning, Ms. Han Run and Ms. Huang Shuling, respectively.

(2) Shanghai Lihong was directly held as to 0.003% by Shanghai Hezhou Investment Co., Ltd ("**Shanghai Hezhou**"), which was in turn held as to 61.85% by Mr. Wang Xuning. Therefore, Mr. Wang Xuning was deemed to be interested in the equity interests in Shanghai Lihong held by Shanghai Hezhou for the purpose of Part XV of the SFO.

Save as disclosed above, so far as the Directors are aware, as of December 31, 2019, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of December 31, 2019, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Name of shareholder	Nature of interest	Long position/ short position	Number of shares held	Approximate percentage of shareholding in the Company
JS Holding[1]	Beneficial interest	Long position	1,603,578,331	47.06%
Hezhou[1]	Interest in controlled corporation	Long position	1,603,578,331	47.06%
Tong Zhou[1]	Interest in controlled corporation	Long position	1,603,578,331	47.06%
Jin Cheng Company Limited ("**Jin Cheng**")[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Mr. Zhu Hongtao[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Fortune Spring Company Limited ("**Fortune Spring**")[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Mr. Zhu Zechun[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Tuo Ge Company Limited ("**Tuo Ge**")[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Ms. Yang Ningning[2][3]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
	Beneficial interest	Long position	11,329,472	0.33%
Yuan Jiu Company Limited ("**Yuan Jiu**")[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Xi Yu Company Limited ("**Xi Yu**")[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Jin Yu Company Limited ("**Jin Yu**")[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Mr. Jiang Guangyong[2]	Interest held jointly with other persons	Long position	1,603,578,331	47.06%
Sol Omnibus SPC[4]	Beneficial interest	Long position	368,304,245	10.81%
Sol Target Limited[4]	Interest in controlled corporation	Long position	368,304,245	10.81%
XNL[1][2][4]	Interest in controlled corporations, interest held jointly with other persons	Long position	1,971,882,576	57.87%
Easy Home Limited ("**Easy Home**")[5]	Beneficial interest	Long position	296,004,139	8.69%
CDH Fund V, L.P.[5]	Interest in controlled corporation	Long position	361,560,305	10.61%

Name of shareholder	Nature of interest	Long position/ short position	Number of shares held	Approximate percentage of shareholding in the Company
CDH V Holdings Company Limited[5]	Interest in controlled corporation	Long position	361,560,305	10.61%
China Diamond Holdings V Limited[5]	Interest in controlled corporation	Long position	361,560,305	10.61%
China Diamond Holdings Company Limited[5]	Interest in controlled corporation	Long position	361,560,305	10.61%
MR Investor[6]	Beneficial interest	Long position	209,014,116	6.13%
Mr. Mark Rosenzweig[6]	Interest in controlled corporations, family interest	Long position	274,570,282	8.05%

Notes:

(1) JS Holding directly held 1,603,578,331 Shares. Hezhou is the general partner exercising operational control over JS Holding. Tong Zhou is the limited partner of JS Holding with close to 100% of its limited partnership interest. In addition, Hezhou is a wholly-owned subsidiary of XNL. Therefore, each of Hezhou, Tong Zhou and XNL was deemed to be interested in the 1,603,578,331 Shares held by JS Holding for the purpose of Part XV of the SFO.

(2) XNL was wholly-owned by Mr. Wang Xuning, Jin Cheng was wholly-owned by Mr. Zhu Hongtao, Fortune Spring was wholly-owned by Mr. Zhu Zechun, Tuo Ge was wholly-owned by Ms. Yang Ningning, Yuan Jiu was wholly-owned by Ms. Huang Shuling, Xi Yu was wholly-owned by Ms. Han Run, and Jin Yu was wholly-owned by Mr. Jiang Guangyong. Mr. Wang Xuning, Mr. Zhu Hongtao, Mr. Zhu Zechun, Ms. Yang Ningning, Ms. Huang Shuling, Ms. Han Run and Mr. Jiang Guangyong, respectively through XNL, Jin Cheng, Fortune Spring, Tuo Ge, Yuan Jiu, Xi Yu and Jin Yu commonly hold their interest in the Company through JS Holding and formed the Controlling Shareholders Group. As such, each of Mr. Wang Xuning, Mr. Zhu Hongtao, Mr. Zhu Zechun, Ms. Yang Ningning, Ms. Huang Shuling, Ms. Han Run and Mr. Jiang Guangyong is deemed to be interested in the Shares held by other members of the Controlling Shareholders Group, and each of the Controlling Shareholders Group is deemed to be interested in the 1,603,578,331 Shares held by JS Holding for the purpose of Part XV of the SFO.

(3) Ms. Yang Ningning was interested in 11,329,472 restricted stock units granted to her under the RSU Plan entitling her to receive up to 11,329,472 Shares, subject to vesting.

(4) Sol Target Limited ("**STL**"), which is wholly-owned by XNL, had 100% control in Sol Omnibus SPC ("**Sol SPC**"). Therefore, each of STL and XNL was deemed to be interested in the 368,304,245 Shares held by Sol SPC for the purpose of Part XV of the SFO. XNL was deemed to be interested in 1,971,882,576 Shares in aggregate held by JS Holding and Sol SPC. See note (2) above.

(5) Easy Home and Comfort Home Limited ("**Comfort Home**") directly held 296,004,139 and 65,556,166 Shares, respectively. Each of Easy Home and Comfort Home was a wholly-owned subsidiary of CDH Fund V, L.P. whose general partner was CDH V Holdings Company Limited. CDH V Holdings Company Limited is held as to 80% by China Diamond Holdings V Limited, which is in turn wholly-owned by China Diamond Holdings Company Limited. Therefore, each of CDH Fund V, L.P., CDH V Holdings Limited, China Diamond Holdings V Limited and China Diamond Holdings Company Limited were deemed to be interested in 361,560,305 Shares in aggregate held by Easy Home and Comfort Home for the purpose of Part XV of the SFO.

(6) MR Investor directly held 209,014,116 Shares. MR Investor was wholly-owned by Mr. Mark Rosenzweig. Therefore, Mr. Mark Rosenzweig was deemed to be interested in the 209,014,116 Shares held by MR Investor for the purpose of Part XV of the SFO. As of December 31, 2019, MR Trust Investor directly held 65,556,166 Shares, which were held for the benefit of the family interest of Mr. Mark Rosenzweig. Therefore, Mr. Mark Rosenzweig was deemed to be interested in 274,570,282 Shares in aggregate held by MR Investor and MR Trust Investor for the purpose of Part XV of the SFO.

Save as disclosed herein, as of December 31, 2019, the Company had not been notified by any person (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or the underlying Shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "RSU Plan" and the section headed "Share Award Scheme of Joyoung" below, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate during the Reporting Period.

EQUITY-LINKED AGREEMENT

The Company did not enter into any equity-linked agreement during the Reporting Period.

PERMITTED INDEMNITY PROVISION

Pursuant to the Memorandum and Articles of Association and subject to the applicable laws and regulations, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has maintained appropriate liability insurance for its Directors and senior management.

SHARE OPTION SCHEME

The Company has not adopted any share option scheme since its incorporation.

RSU PLAN

Summary

The following is a summary of the principal terms of the restricted stock unit plan (the "**RSU Plan**") of the Company as approved by the Board on October 9, 2019. The terms of the RSU Plan are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Plan will not involve the grant of options by the Company to subscribe for the Shares.

Administration

The RSU Plan shall be subject to the administration of the administrator (the "**Administrator**"), being (i) prior to the Listing, the Board, and (ii) immediately after the consummation of the Listing, the Board or a committee comprising of certain members of our Board as authorized by our Board from time to time for the purpose of administering the RSU Plan, in accordance with the terms and conditions of the RSU Plan. The Administrator may, from time to time, select the participants to whom restricted stock units may be granted (the "**Awards**").

The Administrator shall have the sole and absolute right to (a) interpret and construe the provisions of RSU Plan, (b) determine the persons who will be granted Awards under the RSU Plan, the terms and conditions on which Awards are granted and when the Awards granted pursuant to the RSU Plan may vest, (c) make such appropriate and equitable adjustments to the terms of the Awards granted under the RSU Plan as it deems necessary; and (d) make such other decisions or determinations as it shall deem appropriate or desirable in respect of the foregoing matters stated (a), (b) and (c).

Who may join

Those eligible to participate in the RSU Plan (the "**Participants**") include: (a) full-time employees (including directors, officers and members of senior management) of our Group; and (b) any person who, in the sole opinion of the Administrator, has contributed or will contribute to any member of our Group (including business partners of any member of our Group, such as suppliers, clients, or any persons who provide technical support, consultancy, advisory or other services to any member of the Group).

Maximum number of Shares

The total number of Shares underlying the RSU Plan ("**RSU Limit**") shall not exceed the aggregate of 141,618,409 Shares, representing 5% of the issued Shares immediately prior to the completion of the Global Offering and 4.2% of the issued Shares as of the Latest Practicable Date. Vistra Trust (Hong Kong) Limited has been appointed as the trustee (the "**Trustee**") pursuant to the trust deed to assist the Administrator with the administration of the RSU Plan. The Trustee will hold the Shares issued by the Company pursuant to the RSU Plan on trust for the grantees through its wholly-owned entities, namely Golden Tide International Limited and Grand Riches Ventures Limited.

Consideration

The consideration (if any) payable by a selected Participant to the trustee for acceptance of the Awards under the RSU Plan shall be determined at the sole and absolute discretion of the Administrator and any such consideration shall be held by the trustee as income of the trust funds and be applied by the trustee as it deems appropriate or desirable in accordance with the terms of the RSU Plan and the trust deed.

Vesting

(a) Vesting Notice

Upon fulfillment or waiver (by the Administrator in its sole and absolute discretion) of the vesting period and vesting conditions (if any) applicable to a grantee or a grant, a vesting notice will be sent to the grantee by the Administrator, or by the Trustee under the authorization and instruction by the Administrator, confirming (a) the extent to which the vesting period and vesting conditions have been fulfilled or waived; (b) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip dividends in respect of these Shares) or the amount of cash the grantee will receive; and (c) where the grantee will receive Shares, the lock-up arrangements for such Shares (if applicable). The grantee may be required to execute, after receiving the vesting notice, certain documents set out in the vesting notice that the Administrator considers necessary (which may include, without limitation, a certification that he or she has complied with all the terms and conditions set out in the RSU Plan and the relevant award agreement). In the event that the grantee fails to execute the required documents within 30 business days after receiving the vesting notice (if the documents to be executed by the grantee is set out in the vesting notice), the vested restricted stock units ("**RSUs**") will lapse.

(b) RSUs which have vested

Subject to the execution of documents by the grantee as set out above, the RSUs which have vested shall be satisfied, at the Administrator's sole and absolute discretion within a reasonable period from the vesting date of such RSUs, either by:

- subject to the above paragraph 8, the Administrator directing and procuring the Trustee to transfer our Shares underlying the RSUs (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the grantee or his wholly-owned entity (as represented by the grantee) from the trust fund; and/or

- the Administrator directing and procuring the Trustee to pay to the grantee in cash an amount which is equivalent to the market value of our Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) set out in the paragraph (i) above by making on-market sales of such Shares and/or utilizing the cash in the trust fund according to the Administrator's instruction and after deduction or withholding of any tax, fines, levies, stamp duty and other charges applicable to the entitlement of the grantee and the sales of any Shares to fund such payment and in relation thereto.

The Administrator shall have the sole and absolute discretion to determine whether or not a grantee shall have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying a RSU prior to vesting of the RSU.

Details of the RSUs granted under the RSU Plan

As of December 31, 2019, the aggregate number of Shares underlying the granted RSUs was 129,265,801, representing approximately 3.79% of the issued share capital of the Company.

Details of the RSUs granted pursuant to the RSU Plan to the Directors and senior management of the Company are set out below:

Grantee	Position in the Group	Grant Date	Granted during the year	Cancelled or lapsed during the year	Number of Shares underlying the RSUs granted as at December 31, 2019	Approximate percentage of shareholding as at December 31, 2019
Mr. Wang Xuning	Chief Executive Officer of the Company, Global Chief Executive Officer of Compass	October 12, 2019	45,317,890	–	45,317,890	1.33%
Ms. Han Run	Chief Financial Officer of the Company	October 12, 2019	11,329,472	–	11,329,472	0.33%
Mr. Mark Adam Barrocas	Global President of the Company; President of SharkNinja Operating LLC	October 12, 2019	31,156,049	–	31,156,049	0.91%
Ms. Yang Ningning	General Manager of Joyoung	October 12, 2019	11,329,472	–	11,329,472	0.33%
Mr. Qiu Jiandiao	Chief Financial Officer of Joyoung	October 12, 2019	1,500,000	–	1,500,000	0.04%
Mr. David William Stevenson	Chief Financial Officer of Compass	October 12, 2019	3,115,604	–	3,115,604	0.09%
29 other employees	–	October 12, 2019	25,517,314	(1,841,039)	23,676,275	0.71%
Total			129,265,801	(1,841,039)	127,424,762	3.74%

SHARE AWARD SCHEME OF JOYOUNG

The following is a summary of the principal terms of the share award scheme of Joyoung (the "**Share Award Scheme**"). The terms of the Share Award Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Share Award Scheme will not involve the grant of options by the Company or the Company's subsidiary to subscribe for Shares.

The Share Award Scheme was established in November 2017 by Joyoung for the purpose of providing incentives and rewards to eligible participants who contribute to the success of its operations. Eligible participants of the Share Award Scheme include directors and employees of Joyoung.

The maximum number of restricted stock shares (the "**RSS**") currently permitted to be awarded under the Share Award Scheme is an amount equivalent to 10% of the shares of Joyoung in issue at any time. The maximum number of RSS issuable to each eligible participant in the Share Award Scheme within any 12-month period is limited to 1% of the shares of Joyoung in issue at any time. Any further award of RSS in excess of this limit is subject to shareholders' approval in a general meeting.

On operation of the Share Award Scheme, Joyoung repurchased a total of 4,999,960 ordinary shares listed on the Shenzhen Stock Exchange to award certain eligible participants, among which 4,800,000 RSS were granted on June 8, 2018, and 199,960 RSS were granted on December 7, 2018, both upon payment of grant price at RMB1.00 per share by the grantees.

For the 4,800,000 RSS granted to the eligible participants on June 8, 2018, 30% of the shares shall vest after the 12-month locked-in period from the grant date, on the condition that Joyoung achieves a 6% growth of revenue and a 2% growth of profit in 2018 compared with year 2017. 24 months after the grant date, a further 30% of the RSS shall vest if Joyoung achieves an 11% growth of revenue and an 8% growth of profit in 2019 compared with year 2018. The final 40% of the RSS shall vest 36 months after the grant, upon meeting the performance goals of a 17% revenue increase and a 15% profit increase in 2020 compared with year 2019. The RSS expires 48 months after the grant date.

For the 199,960 RSS granted on December 7, 2018, 50% of the RSS shall vest after the 12-month locked-in period, and the remainder shall vest 24 months after the grant date. Performance conditions are the same as the above arrangement for 4,800,000 RSS granted on June 8, 2018.

If Joyoung does not meet the performance goals, or certain eligible participants resign, the board of directors of Joyoung will decide whether to repurchase the relevant RSS. The repurchase price of RSS is the lowest of (i) the grant price after adjustment of dividends; (ii) the average stock price of Joyoung's shares for the 20 trading days immediately preceding the date of repurchase; and (iii) the average stock price of Joyoung's shares for the day immediately preceding the date of repurchase.

In the first 12-month vesting period, the RSS do not confer rights of dividends and voting to the eligible participants. After the first 12 months, the eligible participants are entitled to rights of dividends only.

As at December 31, 2019, Joyoung had 3,402,960 outstanding RSS, which represented approximately 0.44% of Joyoung's shares in issue.

Details of the RSS granted pursuant to the Share Award Scheme to the Directors, senior management and other employees of the Company during the year ended December 31, 2019 are set out below:

	As at January 1, 2019	Granted during the year	Vested during the year	Forfeited or canceled during the year	As at December 31, 2019
Ms. Han Run	200,000	–	(60,000)	–	140,000
Ms. Huang Shuling	150,000	–	–	–	150,000
Ms. Yang Ningning	500,000	–	(150,000)	–	350,000
Mr. Qiu Jiandiao	60,000	–	(18,000)	–	42,000
Other employees	3,989,960	–	(1,170,000)	(99,000)	2,720,960
	4,899,960	–	(1,398,000)	(99,000)	3,402,960

SUFFICIENCY OF PUBLIC FLOAT

The Stock Exchange has granted the Company a waiver from the minimum public float requirement under Rule 8.08(1) of the Listing Rules such that the Company is subject to a minimum public float public float of 17.16%.

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the Latest Practicable Date, the public float of the Company complied with such requirement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date up to December 31, 2019.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of Cayman Islands, which would oblige the Company to offer new shares of the Company on a pro-rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

(i) For impact of COVID-19 after the Reporting Period, please refer to the paragraph in this report headed "MANAGEMENT DISCUSSION AND ANALYSIS — OUTLOOK AND STRATEGY — Impact of COVID-19" above.

(ii) On January 6, 2020, SharkNinja Venus Technology Company Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, entered into a share purchase agreement with all the shareholders of Qfeeltech (Beijing) Co., Ltd. (the "**Vendors**"), pursuant to which the Purchaser has conditionally agreed to purchase and the Vendors have conditionally agreed to sell the 100% equity interest in Qfeeltech (Beijing) Co., Ltd. at a cash consideration of not more than RMB210 million (the "**Acquisition**"). The Acquisition will be completed in several steps and the completion is expected to take place in 2023.

(iii) On March 17, 2020, Global Appliance LLC, an indirect wholly-owned subsidiary of the Company, and the Company as borrowers, entered into a facilities agreement with a bank as arranger and agent, for loan facilities in the aggregate amount of US$1,200,000,000. The final maturity date of the Facilities shall be the date falling 60 months after the date of initial utilization.

EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2019, the Group had approximately 4,434 employees in total, in which approximately 3,459 employees were with its China operation, approximately 680 employees were with its U.S. operations, and approximately 295 employees were with other countries or regions operations. For the year ended December 31, 2019, the Group recognized staff costs of US$293.9 million (2018: US$230.1 million).

The Group implements training programs for all of its employees, from entry-level employees to management on subjects such as corporate culture, research and development, strategies, policy and internal control, internal systems and business skills. Some of the Group's subsidiaries have labor unions that protect employees' rights, help fulfill the subsidiaries' economic objectives, encourage employee participation in management decisions and assist in mediating disputes between the subsidiaries and union members. The remuneration package for employees generally includes salary and bonuses. Employees typically receive welfare benefits, including medical care, pension, occupational injury insurance and other miscellaneous benefits.

In order to recognize and reward the management and employees of the Company for their contribution, to attract the best available talents, and to provide additional incentives to them to remain with and further promote the success of business, the Company adopted the RSU Plan on October 9, 2019 and issued and allotted 141,618,409 ordinary shares with a par value of US$0.00001 pursuant to the RSU Plan on October 25, 2019, which represent approximately 4.2% of the issued share capital of the Company as at the date of this report. As of December 31, 2019, the Company had granted an aggregate of 129,265,801 restricted stock units.

CONTINGENT LIABILITIES

As at December 31, 2019, the Group had no material contingent liabilities.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group during the Reporting Period constituted non-exempt continuing connected transactions for the Company (the "**Non-exempt Continuing Connected Transactions**"). For further details, please refer to the section "Connected Transactions — Non-exempt Continuing Connected Transactions" of the Prospectus.

1. Purchasing Distribution Agreement

   Shenzhen SharkNinja Technology Co., Ltd (as supplier), one of our wholly-owned subsidiaries, entered into a purchasing distribution agreement (the "**Purchasing Distribution Agreement**") with SharkNinja (China) Technology Co., Ltd. ("**SharkNinja (China)**") (as distributor) on March 1, 2018, pursuant to which SharkNinja (China) would purchase the small household appliances from Shenzhen SharkNinja Technology Co., Ltd for distribution. The initial term of the Purchasing Distribution Agreement commenced on March 1, 2018 and will expire on December 31, 2020, subject to renewal upon the mutual consent of both parties.

   SharkNinja (China) is owned as to 51% and 49% by Joyoung and SharkNinja (Hong Kong) Company Limited ("**SharkNinja (Hong Kong)**"), respectively. Joyoung is owned as to 50.11% by Shanghai Lihong. Shanghai Lihong is a non-wholly owned subsidiary of our Company which is owned as to 13.60% by the Controlling Shareholders Group. Accordingly, each of Joyoung and SharkNinja (China) is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules. Therefore, the transactions under the Purchasing Distribution Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has followed the pricing policies as disclosed in the Prospectus for the transactions conducted during the year.

2. Commissioned Manufacturing Framework Agreement

   SharkNinja (Hong Kong) (as purchaser) entered into a commissioned manufacturing framework agreement (the "**Commissioned Manufacturing Framework Agreement**") with Joyoung (as manufacturer) on October 10, 2019, pursuant to which SharkNinja (Hong Kong) will commission Joyoung and/or its subsidiaries to manufacture, or commission Joyoung and/or its subsidiaries to engage their OEM suppliers to manufacture, small household products and SharkNinja (Hong Kong) in return will pay purchase fees to Joyoung and/or its subsidiaries for the products manufactured. The initial term of the Commissioned Manufacturing Framework Agreement commenced on the Listing Date and will end on December 31, 2021, subject to renewal upon the mutual consent of both parties. As Joyoung is a connected subsidiary of the Company, the transactions under the Commissioned Manufacturing Framework Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has followed the pricing policies as disclosed in the Prospectus for the transactions conducted during the year.

The following sets forth the annual caps and actual transaction amounts for the Non-Exempt Continuing Connected Transactions for the year ended December 31, 2019:

Non-Exempt Continuing Connected Transactions	Annual cap for the year ended December 31, 2019	Actual transaction amount for the year ended December 31, 2019
Purchasing Distribution Agreement	RMB95 million	RMB86.238 million
Commissioned Manufacturing Framework Agreement	RMB450 million	RMB381.443 million

Confirmation by independent non-executive Directors

The independent non-executive Directors have reviewed the Non-exempt Continuing Connected Transactions and confirmed that such transactions:

(a) were entered into in the ordinary and usual course of business of the Group;

(b) were on normal commercial terms or better to the Group; and

(c) were in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation by the auditor

The auditor of the Company has been engaged to report on the continuing connected transactions of the Company in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified assurance report containing their conclusions in respect of the Non-exempt Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the auditor's assurance report to the Stock Exchange.

In respect of the Non-Exempt Continuing Connected Transactions, the auditor of the Company has confirmed that:

(a) nothing has come to their attention that cause them to believe that the Non-Exempt Continuing Connected Transactions have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to their attention that causes them to believe that the Non-Exempt Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the Non-Exempt Continuing Connected Transactions; and

(d) with respect to the aggregate actual transaction amount of each of the Non-Exempt Continuing Connected Transactions, nothing has come to their attention that causes them to believe that such actual transaction amounts had exceeded the relevant annual caps.

Related Party Transactions

A summary of the related party transactions entered into by the Group during the Reporting Period is contained in note 40 to the consolidated financial statements of the Group in this annual report. Such transactions fall under the definition of "connected transactions" under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Group had not been and were not involved in any non-compliance incidents that led to fines, enforcement actions or other penalties that could, individually or in the aggregate, had a material adverse effect on the Group's business, financial condition or results of operations. As far as the Company is aware, the Group had complied, in all material respects, with all relevant laws and regulations in the jurisdictions which the Group operated in during the year ended December 31, 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business may be materially and adversely affected by these risks, including the following:

- global markets for its products are highly competitive and subject to rapid technological changes, and we may be unable to compete effectively in relevant markets;

- if the Group fails to successfully manage frequent product introductions and transitions, we may not remain competitive or be able to stimulate customer demand;

- any trade or import protection policies may materially and adversely affect its business;

- its global operations are subject to various risks;

- maintaining the trusted brand image of its products is critical to its success, and any failure to do so could severely damage its reputation and brand, which would have a material adverse effect on its business, financial condition and results of operations;

- if the Group is unable to manage its growth or execute its strategies effectively, its business and prospects may be materially and adversely affected;

- the Group faces risks related to sales through distributors, as it does not exercise complete control over the practice and manner of the ultimate retail sales by its distributors;

- the Group recorded a significant amount of goodwill and other intangible assets following the acquisition of SharkNinja and its net profit could be adversely affected if it recognizes impairment losses on such goodwill or other intangible assets;

- the Group faces risks and uncertainties related to the outbreak of COVID-19 which may affect its business; and

- the Group faces financial risks such as interest rate risk and financial performance risk related to its financial covenants under the faculty agreements entered by the Group.

RELATIONSHIP WITH STAKEHOLDERS

The Group acknowledges the importance of stakeholders to corporate development and pays attention to matters of concern to stakeholders including the government and regulators, shareholders and investors, employees, business partners, suppliers, customers and the community. The Group maintains transparent and bilateral exchange, strengthens mutual trust and cooperation and establishes harmonious relationship with its stakeholders.

The Group treats compliance with laws and regulations as a basic requirement for operations, and maintains good communication with the government and regulatory agencies through voluntary reporting, cooperating with reviews and investigations, and recommending industry standard improvement. The Group treats the realization of the interests of Shareholders and investors as an important business objective, establishes communication channels such as shareholder meetings and timely announcements, and delivers sound financial performance to shareholders and investors. The Group regards employees as valuable assets, motivates employees with a competitive salary and transparent promotion mechanism, and provides them with a fair working environment. The Group also supports their career development skills with various forms of training support. The Group is engaged in regular visits, communication and industry exchange with its business partners, and maintains real-time interaction in daily operations with them in order to develop long-term and stable cooperation. The Group innovates to meet customers' needs and is committed to providing customers with high-quality and reliable services. The Group provides various online and offline channels to enable timely and accurate communication with customers, assisting them in their long-term development. The Group also maintains a sound communication mechanism with the suppliers, community, develops innovative models, conducts public welfare activities, and promotes the stable development of the community.

By order of the Board
JS Global Lifestyle Company Limited
Wang Xuning
Chairman

Hong Kong, March 31, 2020

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2019.

CORPORATE GOVERNANCE PRACTICES

The Company and management of the Group are committed to maintenance of good corporate governance practices and procedures. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders. The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code.

Save for compliance with A.2.1 of the CG Code as described below, the Company had complied with all applicable code provisions set out in the CG Code during the period from the Listing Date up to December 31, 2019.

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

Delegation of Management Function

The major powers and functions of the Board include, but are not limited to, convening the general meetings, implementing the resolutions passed at the general meetings, formulating the Company's strategic development plans, formulating financial budgets, formulating profit distribution plans, and exercising other powers and functions as conferred by the Memorandum and Articles of Association and applicable laws and regulations.

All Directors have full and timely access to all the information of the Company and advice from the senior management and company secretary of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board is responsible for making decision with respect to the strategic plans, major investment decisions and other significant operational matters of the Company, while responsibilities with respect to the implementation of the decisions of the Board, day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to entering into any significant transactions.

Composition of the Board

The Board currently comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. A list of members of the Board, their positions and dates of appointment, and each Director's biography have been set out in the section headed "Biographies of the Directors and Senior Management".

All Directors, including non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Wang Xuning currently holds both positions.

After taking into consideration the factors below, the Board considers that vesting the roles of the Chairman and Chief Executive Officer in the same person, being Mr. Wang Xuning, is beneficial to the Group's business prospects and operational coordination between Joyoung and SharkNinja: Mr. Wang Xuning is responsible for formulating the overall business strategies and conducting general management of the Group. He has been the key person contributive to the development and business expansion of Joyoung since the invention of the soymilk maker in 1990s. Also, since the acquisition of SharkNinja, being the chairman of Joyoung and Global Chief Executive Officer of Compass Cayman SPV Limited (the holding company of SharkNinja), he has acted as the main point of communication between the corporate operation of Joyoung and SharkNinja. Regarding the rapidly evolving small household appliance industry in which the Group operates, the Chairman and Chief Executive Officer need to have a profound understanding and be equipped with extensive industry knowledge to stay abreast of market changes, so as to facilitate the Group's business development.

Independent Non-executive Directors

During the period from the Listing Date to December 31, 2019, the Company had three independent non-executive Directors, in compliance with the Rules 3.10(1) and 3.10(2) of the Listing Rules, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors accounts for more than one-third of the number of the Board members.

Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 of the CG Code states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Memorandum and Articles of Association.

Pursuant to Article 16.2 of the Articles of Association, any Director who is appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. In addition, pursuant to Article 16.19 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director required to stand for re-election pursuant to Article 16.2 shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation. A retiring Director shall be eligible for re-election.

Compliance with Model Code regarding Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, which applies to all Directors and relevant employees of the Company who are likely to possess inside information in relation to the Company or its securities due to his/her office or employment.

The Company has made specific enquiries with each Director, and each of them confirmed that he/she had complied with all required standards under the Model Code during the period from the Listing Date up to December 31, 2019.

Training and Continuous Professional Development of Directors

Each newly appointed director shall be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the Listing Rules, relevant laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company have from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

During the Reporting Period, all Directors attended the training on the obligations of a Hong Kong listed company and its directors given by its Hong Kong legal advisor.

According to records provided by the Directors, a summary of training received by the Directors for the year ended December 31, 2019 is as follows:

Name of Director	Training
Wang Xuning	✓
Han Run	✓
Huang Shuling	✓
Hui Chi Kin Max	✓
Stassi Anastas Anastassov	✓
Wang Tin Yau Kelvin	✓
Timothy Roberts Warner	✓
Yang Xianxiang	✓

Each of the Directors has participated in training courses arranged by the Company held on June 25, 2019, which were related to connected transactions, corporate governance, liabilities of the directors and the continuing obligations of listed companies and their directors. In addition to the above training, each of the Directors has also studied the information prepared by external professional consultants on the same subject.

Directors' Responsibility on Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the financial year ended December 31, 2019.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with.

Board Meetings and General Meetings

No Board meeting or general meeting was held by the Company during the period from the Listing Date up to December 31, 2019. Subsequent to the end of 2019 and up to the Latest Practicable Date, two Board meetings were held on March 16, 2020 and March 31, 2020 for approving various matters, including but not limited to refinancing, reviewing and approving the financial statements for year ended December 31, 2019, etc. All Directors attended these meetings.

Notices of regular Board meetings are served to all of the Directors at least 14 days before the meetings. For other Board and Board committee meetings, reasonable notices were generally given. Meeting papers together with all relevant information are sent to the Directors at least three days before each Board meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. Minutes of meetings are kept by the company secretary with copies circulated to all Directors or Board committee members for information and records within a reasonable time after the date of the meeting. Directors who have conflicts of interest in a resolution are required to abstain from voting.

BOARD COMMITTEES

The Company has established four Board committees in accordance with the relevant laws and regulations and the corporate governance practice under the Listing Rules, including the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee.

Strategy Committee

The Strategy Committee of the Company consists of six members, including one executive Director, namely Mr. Wang Xuning, two non-executive Directors, namely Mr. Hui Chi Kin Max and Mr. Stassi Anastas Anastassov, and three independent non-executive Directors, namely Dr. Wong Tin Yau Kelvin, Mr. Timothy Roberts Warner and Mr. Yang Xianxiang. Mr. Wang Xuning currently serves as the Chairman of the Strategy Committee. The primary duties of the Strategy Committee are as follows:

- researching and making recommendations to the Board on the long-term development strategies and plans of the Company;
- researching and making recommendations to the Board on the major financing plans of the Company and other major strategic issues influencing the development of the Company; and
- reviewing the implementation of the above matters.

No meeting was held by the Strategy Committee during the year ended December 31, 2019 as the Shares were only listed on the Main Board of the Stock Exchange on December 18, 2019. From the Listing Date and up to the Latest Practicable Date, one Strategy Committee meeting was held on March 31, 2020 to discuss the Company's strategy. All members of the Strategy Committee attended this meeting.

Audit Committee

The Audit Committee of the Company consists of three members, including three independent non-executive Directors, namely Dr. Wong Tin Yau Kelvin, Mr. Timothy Roberts Warner and Mr. Yang Xianxiang. Dr. Wong Tin Yau Kelvin currently serves as the Chairman of the Audit Committee. The primary duties of the Audit Committee are as follows:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- monitoring integrity of the Company's financial statements, annual reports and accounts, interim reports;
- reviewing the Company's financial controls, risk management and internal control systems;

- discussing the risk management and internal control systems with the Senior Management to ensure that the senior management has performed their duties to establish effective systems, and reviewing the effectiveness, adequacy and appropriateness of those systems annually;

- conducting research on major investigation findings on risk management and internal control matters and the senior management's response to these findings; and

- reviewing the Company's financial and accounting policies and practices;

No meeting was held by the Audit Committee during the year ended December 31, 2019 as the Shares were only listed on the Main Board of the Stock Exchange on December 18, 2019. From the Listing Date and up to Latest Practicable Date, two Audit Committee meetings were held on February 4, 2020 and March 31, 2020 to, amongst other things, review the audit plan, the annual financial results and report, major internal audit issues, re-appointment of external auditors, and the effectiveness of the risk management and internal control systems of the Group. All members of the Audit Committee attended these meetings.

The Audit Committee has reviewed the remuneration of the auditor for the year ended December 31, 2019 and has recommended the Board to re-appoint Ernst & Young as the auditor of the Company for the year ending December 31, 2020, subject to approval by the Shareholders at the Annual General Meeting.

Nomination Committee

The Nomination Committee of the Company consists of three members, including one executive Director, namely Mr. Wang Xuning, and two independent non-executive Directors, namely Dr. Wong Tin Yau Kelvin and Mr. Yang Xianxiang. Mr. Wang Xuning currently serves as the Chairman of the Nomination Committee. The primary duties of the Nomination Committee are as follows:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board in line with the Company's corporate strategy;

- making recommendations to the Board on the appointment or re-appointment of Directors and succession plans for Directors;

- identifying individuals suitably qualified to become Board members and selecting and nominating the relevant individuals to serve as Directors or making recommendations to the Board on the selection and nomination of individuals for directorship; and

- making recommendations to the Board concerning, amongst other things, formulating succession plans for Directors, assessing the independence of independent non-executive Directors, membership of the Company's audit and remuneration committees (in consultation with the chairpersons of committees); the re-appointment of any non-executive Director at the conclusion of the specific term of office, having given due regard to his performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required; and the continuation in office of any Director who has reached the age of 70.

In evaluating and selecting any candidate for directorship, the Nomination Committee and the Board shall consider the following criteria, including, among other things, diversity, independence, experience, qualifications, skills, knowledge and any potential contributions the candidate can bring to the Board together with the willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s). In addition, the Nomination Committee and the Board shall have due regard to the Board Diversity Policy adopted by the Company.

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information and other relevant details of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship with a ranking of the candidates (if applicable) by order of preference based on the needs of the Company and reference check of each candidate.

Under the Board Diversity Policy, selection of director candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience.

The Company considers the Board possesses a good gender diversity with two women on the Board (representing two out of three executive directors). It also believes the Board members have diversified cultural background (including Chinese, Chinese (Hong Kong), USA, Singaporean and Swedish) and language skills, as well as a broad range of educational background (including degrees in engineering, economics, business administration, English literature and history) and working experience in different countries and regions. The Directors also have a balanced mix of knowledge and skills, such as overall management and strategic development, sales and marketing, administration, fund management, corporate finance and financial management. The Board has three independent non-executive Directors with different industry backgrounds.

No meeting was held by the Nomination Committee during the year ended December 31, 2019 as the Shares were only listed on the Main Board of the Stock Exchange on December 18, 2019. From the Listing Date and up to the Latest Practicable Date, one Nomination Committee meeting was held on March 31, 2020 to review the Board Diversity Policy, review the structure, size and composition of the Board, assess the independence of independent non-executive Directors, consider the Director Nomination Policy and make recommendation to the Board on the re-election of the retiring Directors. All members of the Nomination Committee attended this meeting.

Remuneration Committee

The Remuneration Committee of the Company consists of one executive Director, namely Ms. Han Run, and two independent non-executive Directors, namely Mr. Timothy Roberts Warner and Mr. Yang Xianxiang. Mr. Timothy Roberts Warner currently serves as the Chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are as follows:

- making recommendations to the Board on the Company's remuneration policy and structure for all Directors and Senior Management and on the establishment of formal and transparent procedures for developing remuneration policy;

- being responsible for either (i) determining, with delegated responsibility by the Board, the remuneration packages of individual executive Directors and Senior Management; or (ii) making recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management;

- making recommendations to the Board on the remuneration of non-executive Directors; and

- reviewing and approving the Senior Management's remuneration proposals with reference to the Board's corporate goals and objectives.

No meeting was held by the Remuneration Committee during the year ended December 31, 2019 as the Shares were only listed on the Main Board of the Stock Exchange on December 18, 2019. From the Listing Date and up to the Latest Practicable Date, one Remuneration Committee meeting was held on March 31, 2020 considering the remuneration policy and structure, the remuneration plan of Directors and senior management and RSU related matters. All members of the Remuneration Committee attended this meeting.

Pursuant to the code provision B.1.5 of the CG Code, the following table sets forth the remuneration of the members of senior management categorized by remuneration group for the year ended December 31, 2019:

Remuneration	Number of Individuals
HK$3,000,001 to HK$3,500,000 (equivalent to US$388,001 to US$452,000)	1
HK$10,500,001 to HK$11,000,000 (equivalent to US$1,355,001 to US$1,420,000)	1
HK$22,000,001 to HK$22,500,000 (equivalent to US$2,839,001 to US$2,904,000)	1
HK$26,000,001 to HK$26,500,000 (equivalent to US$3,355,001 to US$3,420,000)	1
HK$75,000,001 to HK$75,500,000 (equivalent to US$9,549,001 to US$9,613,000)	1
HK$78,000,001 to HK$78,500,000 (equivalent to US$9,830,001 to US$9,893,000)	1
	6

Further details of the Directors' emoluments and the top five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules are set out in notes 9 and 10 to the financial statements.

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of Directors, which include:

- to formulate and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to formulate, review and monitor the code of conduct and compliance manual (if any) applicable to employees and the Directors; and
- to review the Company's compliance with the Listing Rules and disclosure in the Corporate Governance Report.

The Board has adopted a dividend policy, and has reviewed and monitored the training and continuous professional development of directors of the Company and reviewed the Company's compliance with the CG Code, the Model Code and the disclosure requirements in the Corporate Governance Report during the year ended December 31, 2019.

COMPANY SECRETARY

Mr. Shan Minqi has been our company secretary since June 25, 2019. He has served as the director of investment department of Joyoung since March 2017, primarily responsible for domestic and foreign investment. Prior to joining the Group, he served as an assistant vice president in DBS Bank in Hong Kong and Singapore from April 2014 to March 2017 and as a staff accountant and senior accountant in Ernst & Young in Hong Kong from September 2008 to September 2011. Mr. Shan has been a member of the Hong Kong Institute of Certified Public Accountants since November 2011.

Mr. Shan received a Bachelor of Business Administration in accounting and finance from the University of Hong Kong in November 2008 and a Master of Business Administration from the Hong Kong University of Science and Technology in May 2013.

Mr. Shan confirmed that he took no less than 15 hours of relevant professional training during the year ended December 31, 2019 pursuant to Rule 3.29 of the Listing Rules.

AUDITOR'S REMUNERATION

The fees paid/payable to the external auditor in respect of audit and audit related services and non-audit services for the year ended December 31, 2019 are analyzed below. The amount of audit and audit related services fees also included the service fees in connection with the Global offering of the company. The non-audit services mainly include professional services on tax filing and advisory services.

Type of services provided by the external auditor	Fees paid/payable USD'000
Audit and audit related services	3,621
Non-audit services	1,219
Total	4,840

RISK MANAGEMENT AND INTERNAL CONTROL

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies, procedures and risk management methods that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as quality control, financial reporting, information system, internal control, human resources and information system risk management.

Quality Control and Product Safety Internal Control

We are committed to maintaining the highest level of quality in our products and we therefore implement quality control measures throughout our operational flow. Our quality control team formulates our quality control policy and ensures our compliance with all applicable regulations, standards and internal policies at all times. Our quality control process generally comprises:

(i) research and development quality control; (ii) quality control of component and raw material suppliers and OEM suppliers; and (iii) market feedback quality control.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policies, budget management policies, financial statement preparation policies and finance department and staff management policies. We have various procedures in place to implement accounting policies. Our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department staff to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

The Company is committed to establishing high level risk management and internal control systems to safeguard the Company's interests and shareholders' investment. The Company has established robust, comprehensive and technology-driven risk management to effectively manage and mitigate risks inherent in the business to protect the Company, its clients and partners, as well as to meet regulatory obligations. The Board assumes the ultimate responsibility for the Company's risk management, internal control and compliance.

The statement of the external auditor of the Company about its reporting responsibilities for the Consolidated Financial Statements is set out in the "Independent Auditor's Report". There was no change in the auditor of the Company in the preceding three financial years.

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our internal control and internal audit team works closely with our business units to: (i) perform risk assessments and give advice on risk management strategies; (ii) improve business process efficiency and monitor internal control effectiveness; and (iii) promote risk awareness throughout our Company.

In accordance with our procedures, our in-house legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations under our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

We also have detailed internal procedures in place to ensure that our in-house quality and legal departments review our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our in-house quality and legal departments are responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

For IP-related issues, we have an in-house legal team and an IP team supported by devoted and specialized outside IP legal advisors, to assist us in registering, applying and reviewing the relevant patent and trademark rights of our IPs.

We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

Human Resources Risk Management

We set out systematic internal rules and guidelines for our employees, including best commercial practice, work ethics and a prevention mechanism to avoid fraud, negligence and corruption. We provide employees with regular training and resources to keep them abreast of the guidelines contained in the employee handbook. We formulate the recruitment plan for the upcoming year based on current turnover rate and our future business plan, and we constantly improve our recruitment process with the aid of information technology. We also have a rigorous background check process for our incoming employees.

In addition, we provide regular and specialized trainings tailored to the needs of our employees in different departments. Through such training, we ensure that our employees' skill sets remain up-to-date.

We also have in place an Anti-Corruption Policy to safeguard against corruption within our Company. We have an internal reporting channel that is open and available for our employees to report any suspected corrupt acts. Our employees can also make anonymous reports to our internal anti-corruption department. We have a team that is responsible for investigating the reported incidents and taking appropriate measures.

Information System Risk Management

Sufficient maintenance, storage and protection of consumer data and our business data are critical to our success. We have implemented relevant internal procedures and controls to ensure that such data is protected and that leakage and loss of such data is avoided. During the Reporting Period, we did not experience any material information leakage or loss of consumer or business data.

Audit Committee Experience and Qualification and Board Oversight

We have established the Audit Committee to monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations.

We also maintain an internal audit department which is responsible for reviewing the effectiveness of internal controls and reporting to the Audit Committee on issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the Audit Committee to ensure that major issues identified thus are channeled to the Audit committee on a timely basis. The Audit Committee then discusses the issues and reports to the Board if necessary.

Information Disclosure

The Company has strict internal controls on the treatment and release of inside information in accordance with relevant requirements of the Listing Rules and the SFO and prohibits any unauthorized use or release of confidential or inside information. The Directors and senior management of the Company have adopted reasonable measures to ensure proper precautionary measures are in place to prevent the Company from violating relevant disclosure requirements.

The Board is responsible for the risk management and internal control systems of the Company and for reviewing their effectiveness. The Board has conducted an annual review of the risk management and internal control system of the Group for the year ended December 31, 2019 and was of the opinion that the risk management and internal control system of the Group was adequate and effective.

INVESTOR RELATIONS

General Meetings and Shareholders' Rights

The Company shall hold an annual general meeting each year.

The Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to table resolutions at a general meeting. However, these rights may be provided in the Memorandum and Articles of Association (please refer to the aforesaid procedures for shareholders to requisition a general meeting). The Memorandum and Articles of Association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Communication with Shareholders and Investors

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions.

To promote effective communication, the Company publishes up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsgloballife.com).

The general meetings of the Company provide a forum and an important channel for communication between the Board and the Shareholders. The chairman of the Board as well as chairpersons of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available normally at the annual general meetings and other relevant general meetings to answer questions. Shareholders are also encouraged to attend general meetings held by the Company and are invited to express their views and raise questions thereat.

Shareholders should direct their enquiries about their shareholdings to the company secretary of the Company or Tricor Investor Services Limited ("**Tricor**"), the Company's branch share registrar in Hong Kong. The contact details of Tricor are set forth below:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Telephone: (852) 2980 1333
Facsimile: (852) 2861 1465

The contact details for Shareholders' enquiries with the Company and for putting forward requisitions are set forth below:

Mailing address: 21/F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong
Telephone number: (852) 2310 8035
E-mail address: ir@jsgloballife.com

AMENDMENTS TO CONSTITUTIONAL DOCUMENT

Except for the adoption of the Amended and Restated Memorandum and Articles of Association by the Company with effect from the Listing Date, there had been no changes in constitutional documents of the Company during the period for the year ended December 31, 2019.

Ernst & Young
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To the shareholders of JS Global Lifestyle Company Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of JS Global Lifestyle Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 80 to 209, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group's revenue for the year ended December 31, 2019 amounted to US$3,016 million. There is a risk that revenue may be overstated because of fraud. Revenue as an important key performance indicator of how the Group measures its performance creates financial incentives and excessive pressures that entice management to falsify accounting records. Some contracts for the sale of products provide customers with rights of return and sales rebates. The rights of return and sales rebates give rise to variable consideration. Consideration payable to a customer also includes credit that can be applied against amounts owed to the Group. The Group accounts for consideration payable to a customer as a reduction of the transaction price unless the payment to the customer is in exchange for a distinct good or service. Judgments required by management to estimate variable consideration and consideration payable to a customer are complex due to the diverse range of contractual agreements and commercial practice across the Group's markets. The Group's disclosures about revenue recognition are included in note 2.3 *Summary of significant accounting policies, note 3 Significant accounting judgments and estimates* and note 5 *Revenue* to the financial statements.	Our audit procedures included but not limited to the following: We reviewed the key terms of major contracts with customers and assessed the accounting policy applied by the Group; We performed walkthroughs to understand the design of the revenue cycle for all significant streams and tested controls in the revenue recognition; We performed confirmation procedures to confirm revenue and balances of trade receivables for certain customers; We assessed the reasonableness of the estimation of the contractually agreed sales rebate, rights of return, as well as payments to customers not for a distinct good or service; We performed substantive analytical reviews to understand how the revenue has trended over the year and detailed testing on transactions during the year by tracing to agreement, invoice and shipment records; We tested revenue transactions close to the year end to verify whether they were recorded in the correct periods; We tested journal entries related to revenue recognition focusing on unusual or irregular transactions; and We evaluated the adequacy of related disclosures in the financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill and intangible assets with indefinite useful lives	
Goodwill and trademarks recorded in other intangible assets with indefinite lives acquired through business combinations are allocated to the relevant cash-generating unit ("**CGU**") for impairment testing. As at December 31, 2019, the carrying amount of goodwill and trademarks were US$840 million and US$384 million, respectively, with no impairment provided. The recoverable amount of the relevant CGU is determined based on a value in use calculation using cash flow projections based on financial budgets, and corroborated by the market approach. The assumptions and methodologies used by the Group, in particular those assumptions relating to the budgeted gross margin, the growth rates and the discount rate have the most significant effect on the determination of the recoverable amount of the relevant CGU to which goodwill and trademarks are allocated. The Group's disclosures about impairment testing of goodwill and intangible assets with indefinite useful lives are included in note 2.3 *Summary of significant accounting policies*, note 3 *Significant accounting judgments and estimates*, note 18 *Goodwill* and note 19 *Other intangible assets* to the financial statements.	Our audit procedures included but not limited to the following: We assessed the historical accuracy of the prior year's assumptions and estimates made by management; We compared the cash flow forecasts to the approved budgets, obtained an understanding of the current and expected future developments of the CGU and assessed factors that might affect key assumptions on cash flow projections and discount rates; We evaluated the objectivity, independence, capabilities and competence of the external valuers engaged by the Group; We involved our internal valuation specialists to assist in evaluating methodologies used and certain key assumptions and estimates made by management and/or the external valuers, including, inter alia, the specific discount rate and long-term growth rate of the CGU for the assessment of value in use, with reference to relevant historical and market information; We evaluated management's assessment about reasonable possible changes in relevant key assumptions and estimates; and We evaluated the adequacy of related disclosures in the financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Share-based payment	
In October 2019, the Company granted restricted share units (the "**RSU**") to eligible participants who contributed to the success of the Group's operations. Eligible participants of the RSU scheme include directors and employees of the Group. The accounting treatment of RSU is judgmental in nature, including management's determination of the fair value of the awards using a pricing model and the interpretation of complex terms in the scheme agreements. It also involves estimating performance conditions and service conditions. External valuers were involved in the fair value estimation. The Group's disclosures about share-based payment are included in note 2.3 *Summary of significant accounting policies*, note 3 *Significant accounting judgments and estimates* and note 34 *Share-based payments* to the financial statements.	Our audit procedures included but not limited to the following: We obtained and reviewed each of the RSU agreement by checking that they were appropriately authorized and classified as equity or cash settled; We evaluated the objectivity, independence, capabilities and competence of the external valuers engaged by the Group; We obtained valuation reports from the external valuers and involved our internal valuation specialists in assessing the appropriateness of the valuation techniques and key inputs. We also assessed the reasonableness of the estimates in relation to performance conditions and service conditions; We checked whether the RSU charges were spread in accordance with the relevant periods of the RSU plan; and We evaluated the adequacy of related disclosures in the financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Melody Lam Siu Wah.

Ernst & Young
Certified Public Accountants
Hong Kong
March 31, 2020

Consolidated Statement of Profit or Loss

For the year ended December 31, 2019

	Notes	2019 US$'000	2018 US$'000
REVENUE	5	**3,016,094**	2,681,914
Cost of sales		**(1,889,568)**	(1,682,871)
Gross profit		**1,126,526**	999,043
Other income and gains	6	**28,621**	44,462
Selling and distribution expenses		**(506,795)**	(477,608)
Administrative expenses		**(415,630)**	(317,585)
Impairment losses on financial assets		**(1,627)**	(4,062)
Other expenses		**(30,849)**	(31,393)
Finance costs	8	**(83,716)**	(78,273)
Share of profits and losses of associates	20	**2,450**	5,809
PROFIT BEFORE TAX	7	**118,980**	140,393
Income tax expense	11	**(33,803)**	(28,270)
PROFIT FOR THE YEAR		**85,177**	112,123
Attributable to:			
Owners of the parent		**42,134**	34,883
Non-controlling interests		**43,043**	77,240
		85,177	112,123
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
— Basic		**US3.8 cents**	US7.0 cents
— Diluted		**US3.7 cents**	US7.0 cents

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019

	2019 US$'000	2018 US$'000
PROFIT FOR THE YEAR	**85,177**	112,123
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,129)**	(37,105)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(4,129)**	(37,105)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Financial assets designated at fair value through other comprehensive income:		
Changes in fair value	**923**	5,055
Income tax effect	**(266)**	(768)
	657	4,287
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**657**	4,287
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(3,472)**	(32,818)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**81,705**	79,305
Attributable to:		
Owners of the parent	**38,069**	19,566
Non-controlling interests	**43,636**	59,739
	81,705	79,305

Consolidated Statement of Financial Position

As of December 31, 2019

	Notes	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**206,617**	191,314
Investment properties	15	**25,788**	28,250
Prepaid land lease payments	16	**15,588**	16,130
Right-of-use assets	17	**56,695**	58,840
Goodwill	18	**839,767**	839,767
Other intangible assets	19	**548,830**	558,651
Investments in associates	20	**35,606**	36,003
Financial assets at fair value through profit or loss	21	**58,677**	60,794
Financial assets designated at fair value through other comprehensive income	21	**38,318**	35,643
Deferred tax assets	30	**44,895**	46,532
Pledged deposits	26	**114,913**	—
Other non-current assets	22	**13,725**	17,430
Total non-current assets		**1,999,419**	1,889,354
CURRENT ASSETS			
Inventories	23	**393,081**	349,862
Trade and bills receivables	24	**804,250**	772,660
Prepayments, other receivables and other assets	25	**67,793**	65,510
Financial assets at fair value through profit or loss	21	**25,811**	15,853
Pledged deposits	26	**63,122**	26,588
Cash and cash equivalents	26	**421,316**	180,872
Total current assets		**1,775,373**	1,411,345

As of December 31, 2019

	Notes	2019 US$'000	2018 US$'000
CURRENT LIABILITIES			
Trade and bills payables	27	**530,137**	408,632
Other payables and accruals	28	**411,046**	364,098
Interest-bearing bank borrowings	29	**26,176**	485,544
Lease liabilities	17	**9,450**	10,980
Tax payable		**13,649**	11,421
Total current liabilities		**990,458**	1,280,675
NET CURRENT ASSETS		**784,915**	130,670
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,784,334**	2,020,024
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	**1,049,119**	699,721
Lease liabilities	17	**52,777**	52,612
Deferred tax liabilities	30	**133,787**	133,578
Financial liabilities associated with put option	31	**–**	656,650
Other non-current liabilities	32	**15,290**	14,459
Total non-current liabilities		**1,250,973**	1,557,020
Net assets		**1,533,361**	463,004
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**33**	–
Share premium		**923,911**	–
Capital reserve		**69,415**	69,035
Reserves/(deficits)	35	**294,462**	(172,752)
		1,287,821	(103,717)
Non-controlling interests		**245,540**	566,721
Total equity		**1,533,361**	463,004

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

	Attributable to owners of the parent											
	Issued capital US$'000 (note 33)	Share premium US$'000	Capital reserve US$'000	Statutory reserve US$'000 (note 35)	Share award reserve US$'000 (note 34)	Put option reserve (a) US$'000 (note 31, note 35)	Fair value reserve US$'000	Foreign currency translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2019	–	–	69,035	54,475*	2,222*	(344,548)*	1,117*	(10,768)*	124,750*	(103,717)	566,721	463,004
Profit for the year	–	–	–	–	–	–	–	–	42,134	42,134	43,043	85,177
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(4,452)	–	(4,452)	323	(4,129)
Change in fair value of financial assets designated at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	387	–	–	387	270	657
Total comprehensive income for the year	–	–	–	–	–	–	387	(4,452)	42,134	38,069	43,636	81,705
Issue of shares (b)	6	374,572	–	–	–	–	–	–	–	374,578	–	374,578
Capital injection to a subsidiary with non-controlling interests (c)	–	(11,054)	–	–	–	–	–	–	–	(11,054)	11,054	–
Acquisition of non-controlling interests (d)	27	560,393	–	–	–	(243,168)	–	–	–	317,252	(317,252)	–
Equity-settled share award scheme	–	–	83	–	27,307	–	–	–	–	27,390	3,078	30,468
Cancelation of a subsidiary's shares	–	–	297	–	–	–	–	–	–	297	(297)	–
Settlement of share award scheme (e)	–	–	–	–	(5,388)	–	–	–	3,348	(2,040)	1,626	(414)
Dividends declared by subsidiaries (f)	–	–	–	–	–	–	–	–	(35,953)	(35,953)	(65,682)	(101,635)
Termination of put option	–	–	–	–	–	587,716	–	–	95,283	682,999	2,656	685,655
At December 31, 2019	33	923,911	69,415	54,475*	24,141*	–	1,504*	(15,220)*	229,562*	1,287,821	245,540	1,533,361

	Attributable to owners of the parent									
	Owner's equity US$'000	Statutory reserve US$'000 (note 35)	Share award reserve US$'000 (note 34)	Put option reserve (a) US$'000 (note 31, note 35)	Fair value reserve US$'000	Foreign currency translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2018	99,187	54,475	90	(344,548)	(682)	6,348	200,887	15,757	582,048	597,805
Profit for the year	–	–	–	–	–	–	34,883	34,883	77,240	112,123
Exchange differences on translation of foreign operations	–	–	–	–	–	(17,116)	–	(17,116)	(19,989)	(37,105)
Change in fair value of financial assets designated at fair value through other comprehensive income, net of tax	–	–	–	–	1,799	–	–	1,799	2,488	4,287
Total comprehensive income for the year	–	–	–	–	1,799	(17,116)	34,883	19,566	59,739	79,305
Disposal of subsidiaries (note 37)	–	–	–	–	–	–	–	–	(6,224)	(6,224)
Acquisition of non-controlling interests	(28,794)	–	–	–	–	–	–	(28,794)	(8,097)	(36,891)
Repurchase of a subsidiary's shares for share award scheme	(1,358)	–	–	–	–	–	–	(1,358)	(1,881)	(3,239)
Equity-settled share award scheme	–	–	2,132	–	–	–	–	2,132	2,976	5,108
Dividends declared by subsidiaries (f)	–	–	–	–	–	–	(111,020)	(111,020)	(62,590)	(173,610)
Capital reserve arising from other shareholders	–	–	–	–	–	–	–	–	750	750
At December 31, 2018	69,035	54,475*	2,222*	(344,548)*	1,117*	(10,768)*	124,750*	(103,717)	566,721	463,004

Notes:

* The reserve accounts comprise the consolidated reserves of US$294,462,000 (2018: deficits of US$172,752,000) in the consolidated statement of financial position.

(a) A put option was granted to Compass Aggregator, Ltd., a non-controlling shareholder, due to the acquisition of Euro-Pro Holdco, LLC and its subsidiaries (the "**Euro-Pro Group**"). The put option attributable to owners of the parent and other non-controlling interests amounted to US$344,548,000 and US$243,168,000, respectively, according to their shareholdings. The amounts attributed to other non-controlling interests were transferred to the put option reserve upon the reorganization in June 2019. The put option expired upon the initial public offering of the Company in December 2019, therefore financial liabilities associated with put option were transferred to equity. For details, refer to note 31.

(b) In December 2019, upon its listing on the Main Board of the Stock Exchange of Hong Kong Limited, the Company issued 574,804,500 ordinary shares at par value of US$0.00001 per share for a cash consideration of HK$5.20 each, and raised gross proceeds of approximately US$386,864,000. The respective issued capital amount was approximately US$6,000 and share premium arising from the issuance was approximately US$374,572,000 after deducting incremental costs of approximately US$12,286,000 that are directly attributable to the issue of the new shares.

(c) As a reorganization step, in April 2019, Sunshine Rise Company Limited, a wholly-owned subsidiary of the Company injected US$106,087,000 to Shanghai Lihong Enterprises Management Co., Ltd., a partially-owned subsidiary of the Company, which increased the non-controlling interest's share of net assets of the Group.

(d) In April 2019, a shareholder of a non-controlling interest of Joyoung Co., Ltd. (Bilting Development Limited ("**Bilting**")) entered into a share subscription agreement with the Company, pursuant to which the shareholder exchanged his 100% equity interest in Bilting with the Company in consideration for the ordinary shares issued by the Company. In June 2019, shareholders of non-controlling interests of Compass Cayman SPV, Limited ("**Compass**") entered into a series of share subscription agreements with the Company, pursuant to which each shareholder agreed to exchange their respective indirect shares in Compass with the Company in consideration for the ordinary shares issued by the Company. Upon completion of the share exchange mentioned above, Bilting and Compass became wholly-owned subsidiaries of the Company.

(e) The share award reserve was transferred to retained profits upon vested.

(f) Dividends were declared and paid by subsidiaries prior to the incorporation of the Company.

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**118,980**	140,393
Adjustments for:			
Finance costs	8	**83,716**	78,273
Share of profits and losses of associates	20	**(2,450)**	(5,809)
Interest income	6	**(5,932)**	(2,183)
Gain on disposal of items of property, plant and equipment	6	**(93)**	(16,293)
Gain on disposal of an investment property	6	**–**	(1,863)
Gain on disposal of subsidiaries, net	6	**–**	(9,755)
Gain on financial assets at fair value through profit or loss, net	6	**(8,101)**	(742)
Depreciation of property, plant and equipment	7	**52,823**	49,551
Depreciation of investment properties	7	**2,130**	2,355
Depreciation of right-of-use assets	7	**14,855**	12,946
Amortization of prepaid land lease payments	7	**397**	468
Amortization of other intangible assets	7	**22,990**	22,178
Impairment of inventories	7	**159**	69
Impairment of trade receivables, net	7	**2,800**	3,759
(Reversal of impairment)/impairment of financial assets included in prepayments, other receivables and other assets	7	**(1,173)**	303
Equity-settled share award expense		**30,266**	5,108
Listing expenses	7	**21,394**	–
Exchange losses/(gains)	7	**141**	(298)
Changes in carrying amount of financial liabilities associated with put option	7	**29,005**	28,817
Increase in inventories		**(43,373)**	(79,201)
Increase in trade and bills receivables		**(34,390)**	(187,767)
Decrease in prepayments, other receivables and other assets		**3,816**	28,455
Recognition of right-of-use assets		**(12,698)**	(7,418)
Recognition of lease liabilities		**12,480**	7,418
Decrease/(increase) in other non-current assets/liabilities		**3,138**	(12,137)
Increase in trade and bills payables		**85,805**	172,484
Increase in other payables and accruals		**37,720**	18,503

For the year ended December 31, 2019

	Notes	2019 US$'000	2018 US$'000
Cash generated from operations		**414,405**	247,614
Interest received		**5,932**	2,183
Income tax paid		**(40,554)**	(15,907)
Net cash flows from operating activities		**379,783**	233,890
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(74,151)**	(67,268)
Additions to other intangible assets	19	**(13,186)**	(15,872)
Disposal of subsidiaries	37	**3,641**	8,313
Purchases of shareholdings in associates		**–**	(257)
Disposal of investments in associates		**435**	–
Purchases of financial assets at fair value through profit or loss		**(302,204)**	(170,345)
Dividends/interest received from financial assets at fair value through profit or loss		**8,377**	7,488
Proceeds from disposal of financial assets at fair value through profit or loss		**293,199**	187,468
Dividends received from associates		**2,173**	9,065
Decrease in amounts due from shareholders		**887**	3,528
Proceeds from disposal of property, plant and equipment, prepaid land lease payments, intangible assets other than goodwill		**307**	28,025
Increase in pledged deposits		**(37,186)**	–
Net cash flows used in investing activities		**(117,708)**	(9,855)

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**374,578**	–
Listing expenses		**(21,394)**	–
Increase in other payables and accruals		**13,672**	–
Payment of lease liabilities		**(16,787)**	(13,868)
Repurchase of a subsidiary's shares for share award scheme		**–**	(3,239)
Cancelation of a subsidiary's shares		**(504)**	–
Cash received from equity-settled share award scheme		**–**	727
New bank loans		**1,075,663**	93,151
Bills endorsed		**114,702**	30,970
Repayment of bank loans		**(1,201,429)**	(121,125)
Repayment of bills payable		**(79,003)**	(30,970)
Increase in amounts due from shareholders		**(5,172)**	–
Acquisition of non-controlling interests		**(414)**	(36,891)
Advance from shareholders		**477,114**	2,266
Settlement of advance from shareholders		**(477,114)**	–
Increase in pledged deposits		**(114,913)**	(20,658)
Dividends paid		**(94,876)**	(83,135)
Interest paid		**(62,250)**	(78,016)
Net cash flows used in from financing activities		**(18,127)**	(260,788)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**243,948**	(36,753)
Cash and cash equivalents at beginning of year		**180,872**	211,003
Effect of foreign exchange rate changes, net		**(3,504)**	6,622
CASH AND CASH EQUIVALENTS AT END OF YEAR		**421,316**	180,872
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**421,316**	180,872

1 Corporate and group information

JS Global Lifestyle Company Limited (JS环球生活有限公司, the "**Company**") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "**Group**") were involved in the following principal activities:

- Design, manufacture, marketing, export and distribution of small kitchen electrical appliances under the brand of "Joyoung".

- Design, marketing, manufacture, export, import and distribution of a full range of floor care products, hard-surface steam cleaning products, small kitchen appliances and garment care products under the brands of "Shark" and "Ninja".

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company is JS Holding Limited Partnership ("**JS Holding**"), which is incorporated in the Cayman Islands.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
JY-SN Company Limited ("**JY-SN**")	British Virgin Islands	HK$1	100	–	Investment holding
Bilting Development Limited ("**Bilting**")	British Virgin Islands	US$50,000	100	–	Investment holding
Easy Appliance Limited	British Virgin Islands	US$50,000	100	–	Investment holding
Easy Appliance Hong Kong Limited	Hong Kong	HK$1	–	100	Investment holding
Sunshine Rise Company Limited ("**Sunshine Rise**")	Hong Kong	HK$1	–	100	Investment holding
Shanghai Lihong Enterprises Management Co., Ltd.* ("上海力鴻企業管理有限公司") ("**Shanghai Lihong**")	PRC/Mainland China	RMB321.4 million	–	84	Enterprise management, retailing of home appliance products, import and export business

1 Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
SharkNinja Operating LLC	United States	–	–	100	Manufacture and sale of home appliance products
SharkNinja Management LLC	United States	–	–	100	Manufacture and sale of home appliance products
SharkNinja Sales Company	United States	–	–	100	Retailing of home appliance products
SharkNinja (Hong Kong) Company Limited	Hong Kong	HK$1	–	100	Home appliances research and development, import and export business and equity investment
SharkNinja Venus Technology Company Limited	Hong Kong	HK$1	–	100	Investment holding
Euro-Pro Commerce Consulting (Shenzhen) Co., Ltd.* ("歐優普洛商務諮詢(深圳)有限公司")	PRC/Mainland China	RMB100,000	–	100	Manufacture and sale of home appliance products, marketing, supply chain management and consultancy
Shenzhen SharkNinja Technology Co., Ltd.* ("深圳尚科寧家科技有限公司")	PRC/Mainland China	RMB13.5 million	–	100	Manufacture and sale of home appliance products, marketing, supply chain management and consultancy
Suzhou SharkNinja Technology Co., Ltd.* ("蘇州尚科寧家科技有限公司")	PRC/Mainland China	US$1 million	–	100	Manufacture and sale of home appliance products, marketing, supply chain management and consultancy
Hangzhou SharkNinja Commerce Consulting Co., Ltd.* ("杭州尚科寧家商務諮詢有限公司")	PRC/Mainland China	US$100,000	–	100	Manufacture and sale of home appliance products, marketing, supply chain management and consultancy
SharkNinja UK Ltd.	United Kingdom	–	–	100	Investment holding
SharkNinja EPE Ltd.	United Kingdom	–	–	100	Investment holding

1 Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Global Appliance UK HoldCo Limited	United Kingdom	GBP109	–	100	Investment holding
Compass Cayman SPV, Limited ("**Compass**")	Cayman Islands	US$50,000	30	70	Investment holding
Compass Cayman SPV2 Limited	Cayman Islands	US$50,000	–	100	Investment holding
Global Appliance LLC	United States	US$0.1	–	100	Investment holding
Euro-Pro HoldCo, LLC	United States	–	–	100	Investment holding
EP Midco LLC	United States	–	–	100	Investment holding
Euro-Pro International Holding Company	United States	–	–	100	Investment holding
Euro-Pro Europe Ltd.	United Kingdom	GBP100	–	100	Manufacture and sale of home appliance products
SharkNinja Co., Ltd.	Japan	JPY1 million	–	100	Manufacture and sale of home appliance products
UK Euro-Pro Limited	United Kingdom	GBP100	–	100	Manufacture and sale of home appliance products
Euro-Pro Hong Kong Limited	Hong Kong	HK$10,000	–	100	Investment holding and provision of consulting services
Euro-Pro Suzhou Technical Advisory Services Co., Ltd.* ("蘇州歐優普洛技術諮詢服務有限公司")	PRC/Mainland China	RMB250,000	–	100	Provision of design services, technical consulting services and strategic planning services
Zheng Hong Development Company Limited ("**Zheng Hong**")	Hong Kong	EUR41 million	–	84	Investment holding
Chen Hong Company Limited ("**Chen Hong**")	British Virgin Islands	US$1	–	84	Investment holding
Xiang Hong Company Limited ("**Xiang Hong**")	British Virgin Islands	US$1	–	100	Investment holding
Global Appliance 1 Limited	Cayman Islands	US$50,000	30	70	Investment holding

1 Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Global Appliance 2 Limited	Cayman Islands	US$50,000	–	100	Investment holding
Joyoung Co., Ltd.** ("九陽股份有限公司")	PRC/Mainland China	RMB768.5 million	–	59	Manufacture and sale of home appliance products, housing leasing, advertising and consultancy
Hangzhou Joyoung Household Electric Appliances Limited* ("杭州九陽小家電有限公司")	PRC/Mainland China	RMB976.3 million	–	59	Research and development, manufacture and sale of home appliance products, import and export business
Hangzhou Joyoung Life Electric Co., Limited* ("杭州九陽生活電器有限公司")	PRC/Mainland China	RMB3 million	–	59	Manufacture and sale of home appliance products
Hangzhou Joyoung Water Purification System Co., Limited* ("杭州九陽淨水系統有限公司")	PRC/Mainland China	RMB81 million	–	55	Research and development, manufacture and sale of water purification equipment, import and export business
Hangzhou Joyoung Electronic Technology Co., Limited* ("杭州九陽電子信息技術有限公司")	PRC/Mainland China	RMB50 million	–	59	IT technology development, e-commerce, manufacture, wholesale and retailing of home appliance products
Joyoung Holdings (Hong Kong) Limited ("九陽股份(香港)有限公司")	Hong Kong	US$900,000	–	59	Manufacture and sale of home appliance products, marketing, supply chain management, consultancy and import and export business
Jinan Joyoung Wanjia Real Estate Co., Limited* ("濟南九陽萬家置業有限公司")	PRC/Mainland China	RMB5 million	–	59	Property management services, real estate development, conference and exhibition and consultancy

1 Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
SharkNinja (China) Technology Co., Limited* ("尚科寧家(中國)科技有限公司")	PRC/Mainland China	RMB50 million	–	79	Sale, installation and maintenance of home appliance products, e-commerce, import and export business
Tonglu Joyoung Electronic Commerce Co., Limited* ("桐廬九陽電子商務有限公司")	PRC/Mainland China	RMB3 million	–	59	E-commerce, manufacture and sale of home appliance products

* Registered as limited liability companies under PRC law.

** Joyoung Co., Ltd. is a company registered in the PRC on July 8, 2002 and its A shares have been listed on the Shenzhen Stock Exchange since April 28, 2008 under the stock code 002242. The general meeting of shareholders of Joyoung Co., Ltd. is the highest authority of Joyoung Co., Ltd. Immediately before April 16, 2019, Joyoung Co., Ltd. was held by Shanghai Lihong as to 48.77%. The remaining shares of Joyoung Co., Ltd. were widely held, and no party had interest of sufficient size either by itself or in aggregate with a small number of others to vote against Shanghai Lihong in the general meeting of Joyoung Co., Ltd. As such, Shanghai Lihong was considered as having achieved control over Joyoung Co., Ltd. and its subsidiaries before April 16, 2019.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"), which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Standing Interpretations Committee interpretations issued and approved by the International Accounting Standards Board (the "**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from January 1, 2019, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the consolidated financial statements. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial liabilities associated with put option which have been measured at fair value. These financial statements are presented in United States dollars ("**US$**") and all values are rounded to the nearest thousand (US$'000) except when otherwise indicated.

2.1 Basis of preparation (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Issued but not yet effective international financial reporting standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

(1) Effective for annual periods beginning on or after January 1, 2020.

(2) No mandatory effective date yet determined but available for adoption.

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from January 1, 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.2 Issued but not yet effective international financial reporting standards (continued)

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from January 1, 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Summary of significant accounting policies

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.3 Summary of significant accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.3 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss, financial assets designated at fair value through other comprehensive income and financial liabilities associated with put option at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

2.3 Summary of significant accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.3 Summary of significant accounting policies (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.3 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5% to 19.0%
Leasehold improvements	Over the shorter of the lease terms and estimated useful life
Furniture and fixtures	9.0% to 50.0%
Machinery	9.0% to 33.3%
Motor vehicles	9.0% to 23.8%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the Group's buildings, leasehold improvements, furniture and fixtures and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.3 Summary of significant accounting policies (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life of 20 to 40 years.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its carrying amount at the date of change in use and vice versa. No gain or loss is recognized in profit or loss during the change in use of the property.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic lives of 2.5 to 12.5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.3 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks

The cost of trademarks acquired in the business combination is the fair value at the date of acquisition. The Group intends to continuously renew the trademarks and such renewal is expected to be at little costs. Thus, the useful lives of these trademarks are considered to be indefinite as it is expected to contribute to net cash inflow of the Group indefinitely. Considering their indefinite useful lives, the trademarks are not amortized and individually tested for impairment annually. The useful life of trademark is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents

Purchased patents are stated at cost less any impairment losses and are amortized on the straight-line basis over their remaining legal lives of 2.5 to 12.5 years since being purchased.

The patents acquired in business combinations included a wide range of portfolio of patents which covers and protects the design and utility for the technology that were applied in the Euro-Pro Group's products. Each patent can contribute to several products and can be used for several generations of products. The Group's technology is considered one of the successful factors to the business and operation. Based on the historical lives of the Group's products and technology, the technology content growth is slow and existing technology will be gradually developed and replaced by new technology. Management expected most of the estimated economic benefit would be realized in 10 years even though the remaining legal terms of individual registered patents are 15 years. The patents acquired in business combinations are subsequently amortized on the straight-line basis of 10 years, which is the shorter of the legal terms and the estimated useful life.

2.3 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Retailer relationships

The Euro-Pro Group sells goods to most of the major retailers in the US and Canada. This retailer base has been very stable for many years. The retailer relationships can ensure that the Company has shelf space at these retailers. The Company expected most of the estimated economic benefit will be realized in 9 years based on yearly attrition in revenue generated from these existing relationships. The retailer relationships acquired in business combinations are subsequently amortized on the straight-line basis over their estimated useful lives of 9 years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Certain external consulting, prototype and legal expenditures incurred on projects to develop new core components of new product categories are capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

Product development expenditure which does not meet these criteria is expensed when incurred. Deferred development costs are stated at cost less any impairment losses and are amortized on the straight-line basis from the date when they are available for use over their estimated useful lives of 10 years with reference to the historical life cycle of core components of a similar kind which can be utilized in several generations of products.

Software

Purchased software is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful lives of 5 to 10 years.

Leases

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

2.3 Summary of significant accounting policies (continued)

Leases (continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on the straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings	2 to 12 years
Motor vehicles	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.3 Summary of significant accounting policies (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognized as an expense on the straight-line basis over the lease term.

2.3 Summary of significant accounting policies (continued)

Leases (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Prepaid land lease payments

Prepaid land lease payments represent land use rights paid to the PRC governmental authorities and are amortized on the straight-line basis over the respective lease agreement periods.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

2.3 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.3 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as financial assets designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividends will flow to the Group and the amount of the dividends can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Financial assets designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

2.3 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognized as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividends will flow to the Group and the amount of the dividends can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.3 Summary of significant accounting policies (continued)

Impairment of financial assets

The Group recognizes an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.3 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

General approach (continued)

Financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities (other than those associated with put option)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

2.3 Summary of significant accounting policies (continued)

Financial liabilities (other than those associated with put option) (continued)

Initial recognition and measurement (continued)

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss.

Financial liabilities associated with put option

Put option are financial instruments granted by the Group whereby counterparties may have the rights to request the Group to purchase their own equity interests or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial assets under the put option, the Group has to recognize a financial liability at the present value of the estimated future cash outflows under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. At the end of each reporting period, the Group recalculates the carrying amount by computing the present value of the revised estimated future cash outflows at the financial instrument's effective interest rate and adjusting to its carrying amount is to be recognized as income or expenses in profit or loss. If the put option expires without being exercised, the carrying amount of the liability will be reclassified as equity.

2.3 Summary of significant accounting policies (continued)

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognized directly in equity at cost. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancelation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including current deposits, which are not restricted as to use.

2.3 Summary of significant accounting policies (continued)

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain products and the provision of services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognized based on sales volume and past experience of the level of repairs and returns.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.3 Summary of significant accounting policies (continued)

Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each 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 deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.3 Summary of significant accounting policies (continued)

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred revenue account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

Revenue from the sale of products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of products provide customers with rights of return and sales rebate. The Group provides extended warranties which are accounted for as service-type warranties. The rights of return and sales rebates give rise to variable consideration. Consideration payable to a customer also includes credit that can be applied against amounts owed to the Group. The Group accounts for consideration payable to a customer as a reduction of the transaction price unless the payment to the customer is in exchange for a distinct good or service.

(i) Variable consideration

(a) Rights of return

For contracts which provide a customer with a right to return the goods, either the expected value method or the most likely amount method is used to estimate the goods for different contracts that will not be returned. The selected method best predicts the amount of variable consideration to which the Group will be entitled for different contracts and customers. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognized. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

(b) Sales rebates

Various types of sales rebates may be provided to different customers. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used because this method best predicts the amount of variable consideration in the contract, given the large number of customer contracts that have similar characteristics. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognized.

2.3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(ii) Consideration payable to a customer

The Group accounts for consideration payable to a customer as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group. If the consideration payable to a customer includes a variable amount, the Group estimates the transaction price, including assessing whether the estimate of variable consideration is constrained. To estimate the variable consideration, the most likely amount method is used, as this method best predicts the amount of variable consideration, given the large number of customer contracts that have similar characteristics.

(iii) Extended warranties

The Group generally provides warranties for general repairs of defects that existed at the time of sale, as required by law. As such, most warranties are assurance-type warranties. However, in certain contracts, the Group provides extended warranties. Such warranties are accounted for as service-type warranties and, therefore, are accounted for as separate performance obligations to which the Group recognizes contract liabilities for the unfulfilled extended warranties by allocating a portion of the transaction price based on the relative stand-alone selling price. Revenue is subsequently recognized over time based on the time elapsed.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognized on a time proportion basis over the lease terms.

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividends will flow to the Group and the amount of the dividend can be measured reliably.

2.3 Summary of significant accounting policies (continued)

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Right-of-return assets

A right-of-return asset is recognized for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

Some subsidiaries of the Company operate share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer, further details of which are given in note 34 to the financial statements.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

2.3 Summary of significant accounting policies (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market condition or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is canceled, it is treated as if it had vested on the date of cancelation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the canceled award, and is designated as a replacement award on the date that it is granted, the canceled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding restricted shares is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

PRC contribution plan

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a retirement benefit scheme organized by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefit scheme are charged to profit or loss as incurred.

2.3 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Defined contribution plan

Some subsidiaries of the Group maintain a defined contribution retirement plan under Section 401(k) of the United States Internal Revenue Code. The plan covers all United States full-time employees of the Group. An eligible employee may elect to make a before-tax contribution of 100% of his other compensation through payroll deductions with a dollar limit of US$19,000 and US$18,500 for the years ended December 31, 2019 and 2018, respectively. The Group matches the first 3% of participant contributions at 100% and the next 2% of contributions at 50%, for a maximum matching percentage of 4%.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Termination benefits

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when 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 capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3 Summary of significant accounting policies (continued)

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in US$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than US$. As at the end of the reporting period, the assets and liabilities of these entities are translated into US$ at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into US$ at the weighted average exchange rates for the year.

2.3 Summary of significant accounting policies (continued)

Foreign currencies (continued)

The resulting exchange differences are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into US$ at the weighted average exchange rates for the year.

3 Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Revenue from contracts with customers

The Group applied the following judgments that significantly affect the determination of the amount of revenue from contracts with customers:

Certain contracts for the sale of products include a right of return and sales rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

3 Significant accounting judgments and estimates (continued)

Judgments (continued)

Revenue from contracts with customers (continued)

The Group determined that using a combination of the most likely amount and the expected value method is appropriate in estimating the variable consideration for the sale of products with rights of return. The selected method best predicts the amount of variable consideration to which the Group will be entitled for different contracts and customers. In estimating the variable consideration for the sale of products with sales rebates and consideration payable to a customer, the Group determined that using the most likely amount method is appropriate.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Estimation uncertainty

The 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, are described below.

Variable consideration for returns, sales rebates and consideration payable to a customer

The Group estimates variable consideration to be included in the transaction price for the sale of products with rights of return, sales rebates and consideration payable to a customer.

3 Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Variable consideration for returns, sales rebates and consideration payable to a customer (continued)

The Group developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected sales rebates are analyzed on a per customer basis for contracts that are subject to different percentages of gross purchase by product categories. Determining whether a customer will likely be entitled to a sales rebates depends on the customer's historical rebate entitlement and accumulated purchases to date and the negotiated terms of the sales rebates programs.

The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group's expected consideration payable to customers is analyzed on a per customer basis. Determining whether a customer will likely be entitled to the payment and whether the payment will be for a distinct good or service from the customer depends on the customer's historical entitlement and the negotiated terms of the different promotion programs.

The Group updates its assessment of expected returns, sales rebates and consideration payable to a customer monthly and the refund liabilities are adjusted accordingly. Estimates of expected returns, sales rebates and consideration payable to a customer are sensitive to changes in circumstances and the Group's past experience regarding returns, sales rebates and consideration payable to a customer entitlement may not be representative of customers' actual returns, sales rebates and consideration payable to a customer entitlement in the future. The amount recognized as refund liabilities as at December 31, 2019 was US$140,222,000 (2018: US$134,411,000) for the expected returns, sales rebates and consideration payable to a customer.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at December 31, 2019 was US$839,767,000 (2018: US$839,767,000). Further details are given in note 18 to the financial statements.

3 Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in notes 18 and 19 to the financial statements.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses at December 31, 2019 was US$4,294,000 (2018: US$3,400,000). The amount of unrecognized tax losses at December 31, 2019 was US$43,571,000 (2018: US$24,806,000).

3 Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Fair value of financial assets

Where the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimates is required in establishing fair values. The estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Group classifies the fair value of these financial assets as Level 3. The fair value of the financial assets at December 31, 2019 was US$122,623,000 (2018: US$112,290,000). Further details are included in note 21 to the financial statements.

Equity-settled share award schemes

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the discounted cash flow method and guideline company method, which involve estimating performance conditions, service conditions and leaver rate as detailed in note 34 to the financial statements.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

3 Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs in note 2.3 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At December 31, 2019, the best estimate of the carrying amount of capitalized development costs was US$27,696,000 (2018: US$17,878,000).

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

4 Operating segment information

For management purposes, the Group is organized into business units based on its operations and has three reportable operating segments of Joyoung, SharkNinja and Other.

(a) the Joyoung segment was involved in the design, manufacture, marketing, export and distribution of small kitchen electrical appliances;

(b) the SharkNinja segment was involved in the design, marketing, manufacture, export, import and distribution of a full range of floor care products, hard-surface steam cleaning products, small kitchen appliances and garment care products; and

(c) the "Other" segment was involved in the manufacture and distribution of commercial soymilk makers, production and sales of soymilk powder. This segment was disposed of in August 2018.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except the head office and corporate income and expenses which are excluded from such measurement. The head office and corporate income and expenses include exchange gain or loss, interest income, non-lease-related finance costs, and other unallocated corporate income and expenses.

4 Operating segment information (continued)

Year ended December 31, 2019	Joyoung US$'000	SharkNinja US$'000	Total US$'000
Segment revenue			
Sales to external customers	1,279,984	1,736,110	3,016,094
Intersegment sales	55,348	12,496	67,844
	1,335,332	1,748,606	3,083,938
Reconciliation:			
Elimination of intersegment sales			(67,844)
Revenue (note 5)			3,016,094
Segment results	133,749	99,976	233,725
Reconciliation:			
Interest income			2,175
Exchange loss			(1,741)
Unallocated income			1,684
Finance costs			(78,001)
Corporate and other unallocated expenses			(38,862)
Profit before tax			118,980
Other segment information			
Share of profits and losses of associates	2,450	–	2,450
Impairment losses recognized in profit or loss	(736)	2,522	1,786
Depreciation and amortization	15,313	77,860	93,173
Interest income	3,621	136	3,757
Finance costs	3,056	2,659	5,715
Investments in associates	35,606	–	35,606
Capital expenditure*	18,560	76,876	95,436

4 Operating segment information (continued)

Year ended December 31, 2018	Joyoung US$'000	SharkNinja US$'000	Other US$'000	Total US$'000
Segment revenue				
Sales to external customers	1,178,970	1,477,445	25,499	2,681,914
Intersegment sales	31,100	3,475	395	34,970
	1,210,070	1,480,920	25,894	2,716,884
Reconciliation:				
Elimination of intersegment sales				(34,970)
Revenue (note 5)				2,681,914
Segment results	129,869	79,597	3,270	212,736
Reconciliation:				
Interest income				242
Exchange gain				62
Loss on disposal of a subsidiary				(1,905)
Unallocated income				4,810
Finance costs (other than interest on lease liabilities)				(71,617)
Corporate and other unallocated expenses				(3,935)
Profit before tax				140,393
Other segment information				
Share of profits and losses of associates	5,809	—	—	5,809
Impairment losses recognized/(reversed) in profit or loss	1,277	3,050	(196)	4,131
Depreciation and amortization	13,777	73,646	75	87,498
Interest income	1,794	100	47	1,941
Finance costs	3,815	2,841	—	6,656
Gain on disposal of subsidiaries, net	9,755	—	—	9,755
Investments in associates	36,003	—	—	36,003
Capital expenditure*	21,886	75,848	—	97,734

* Capital expenditure consists of additions to property, plant and equipment, investment properties, prepaid land lease payments, right-of-use assets and other intangible assets.

4 Operating segment information (continued)

Geographical information

(a) Revenue from external customers

	2019 US$'000	2018 US$'000
Mainland China	**1,270,440**	1,189,742
North America	**1,457,781**	1,310,458
Europe	**221,654**	132,127
Other countries/regions	**66,219**	49,587
	3,016,094	2,681,914

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019 US$'000	2018 US$'000
Mainland China	**152,890**	151,572
North America	**680,652**	683,636
Europe	**5,988**	1,765
Other countries/regions	**13,988**	16,212
	853,518	853,185

The non-current asset information above is based on the locations of the assets and included property, plant and equipment, investment properties, prepaid land lease payments, right-of-use assets, intangible assets other than goodwill.

Information about major customers

During the years ended December 31, 2019 and 2018, the Group had a large number of customers, none of whom contributed 10% or more to the Group's revenue.

5 Revenue

An analysis of revenue is as follows:

	2019 US$'000	2018 US$'000
Revenue from contracts with customers		
Sale of goods and provision of extended warranties	**3,016,094**	2,681,914

Revenue from contracts with customers

(a) Disaggregated revenue information

	2019 US$'000	2018 US$'000
Geographical markets		
Mainland China	**1,270,440**	1,189,742
North America	**1,457,781**	1,310,458
Europe	**221,654**	132,127
Other countries/regions	**66,219**	49,587
Total revenue from contracts with customers	**3,016,094**	2,681,914

	2019 US$'000	2018 US$'000
Timing of revenue recognition		
Goods transferred at a point in time	**3,015,532**	2,681,297
Services transferred over time	**562**	617
Total revenue from contracts with customers	**3,016,094**	2,681,914

The following table shows the amounts of revenue recognized in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 US$'000	2018 US$'000
Sale of goods and provision of extended warranties	**60,668**	19,185

5 Revenue (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations

Information about the Group's performance obligations is summarized below:

Sale of home appliance products

The performance obligation is satisfied upon delivery of the home appliance products and payment is generally due within 30 to 60 days from delivery. Some contracts provide customers with a right of return, sales rebates and extended warranties which give rise to variable consideration subject to constraint.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31 are as follows:

	2019 **US$'000**	2018 US$'000
Amounts expected to be recognized as revenue:		
Within one year	**53,386**	60,668
More than one year	**1,385**	1,224
	54,771	61,892

6 Other income and gains

	2019 US$'000	2018 US$'000
Other income		
Bank interest income	**5,932**	2,183
Net rental income from investment property operating leases	**1,805**	969
Government grants	**8,115**	10,272
Others	**1,261**	1,066
	17,113	14,490
Gains		
Gain on disposal of items of property, plant and equipment	**93**	16,293
Gain on disposal of an investment property	**–**	1,863
Gain on financial assets at fair value through profit or loss, net	**8,101**	742
Gain on disposal of subsidiaries, net (note 37)	**–**	9,755
Others	**3,314**	1,319
	11,508	29,972
	28,621	44,462

7 Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2019 US$'000**	2018 US$'000
Cost of inventories sold		**1,889,568**	1,682,871
Depreciation of property, plant and equipment	14	**52,823**	49,551
Depreciation of investment properties	15	**2,130**	2,355
Depreciation of right-of-use assets	17	**14,855**	12,946
Amortization of prepaid land lease payments	16	**397**	468
Amortization of other intangible assets (excluding capitalized development costs)*	19	**20,097**	22,040
Research and development costs:			
Amortization of capitalized development costs	19	**2,893**	138
Current year expenditure		**133,548**	118,942
		136,441	119,080
Lease payments not included in the measurement of lease liabilities		**4,683**	2,873
Auditor's remuneration		**1,346**	1,082
Listing expenses		**21,394**	—
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		**252,405**	184,944
Equity-settled share award expense		**19,672**	4,839
Pension scheme contributions		**8,167**	8,022
		280,244	197,805
Foreign exchange differences, net		**141**	(298)
Changes in carrying amount of financial liabilities associated with put option**	31	**29,005**	28,817
Impairment of inventories	23	**159**	69
Impairment of financial assets, net:			
Impairment of trade receivables, net	24	**2,800**	3,759
Impairment/(reversal of impairment) of financial assets included in prepayments, other receivables and other assets		**(1,173)**	303
		1,627	4,062

7 Profit before tax (continued)

	Notes	2019 US$'000	2018 US$'000
Product warranty provision:			
Additional provision		**12,414**	8,862
Gain on disposal of items of property, plant and equipment		**93**	16,293
Gain on disposal of an investment property		**–**	1,863
Gain on financial assets at fair value through profit or loss, net		**8,101**	742
Gain on disposal of subsidiaries, net	37	**–**	9,755
Government grants***		**8,115**	10,272

Notes:

* The amortization of patents, retailer relationship and software for the year are included in "Administrative expenses" and "Selling and distribution expenses" in the consolidated statement of profit or loss.

** During the year, the Group has recorded expenses of US$29,005,000 (2018: US$28,817,000) related to changes in carrying amount of financial liabilities associated with put option, which are included in other expenses in the consolidated statement of profit or loss. For details, refer to note 31 to the financial statements.

*** Various government grants have been received for setting up research activities and alleviating unemployment in Mainland China. There are no unfulfilled conditions or contingencies relating to those grants that have been recognized.

8 Finance costs

An analysis of finance costs is as follows:

	2019 US$'000	2018 US$'000
Interest on bank loans	**62,250**	61,827
Interest on lease liabilities	**2,996**	2,964
Amortization of deferred finance costs	**13,589**	9,518
Other finance costs	**4,881**	3,964
	83,716	78,273

9 Directors' and chief executive's remuneration

Mr. Wang Xuning was appointed as an executive director of the Company in July 2018 and the chief executive officer of the Company in June 2019. Ms. Han Run and Ms. Huang Shuling were appointed as executive directors of the Company in June 2019. Mr. Hui Chi Kin Max and Mr. Stassi Anastas Anastassov were appointed as non-executive directors of the Company in June 2019. Dr. Wong Tin Yau Kelvin, Mr. Timothy Roberts Warner and Mr. Yang Xianxiang were appointed as independent non-executive directors of the Company in October 2019.

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 **US$'000**	2018 US$'000
Fees	**98**	17
Salaries, allowances and benefits in kind	**603**	616
Performance-related bonuses*	**2,335**	690
Pension scheme contributions	**13**	15
Share award expense**	**10,594**	269
	13,643	1,607

Notes:

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the Group's net profit plus a percentage of the Group's revenue.

** During the year, certain directors were granted share awards, in respect of their services to the Group, under the share award schemes of the Group, further details of which are set out in note 34 to the financial statements. The fair value of such awards, which has been recognized in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

9 Directors' and chief executive's remuneration (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 US$'000	2018 US$'000
Dr. Wong Tin Yau Kelvin	**11**	–
Mr. Timothy Roberts Warner	**9**	–
Mr. Yang Xianxiang	**9**	–
	29	–

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors, non-executive directors and the chief executive

2019

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance-related bonuses US$'000	Pension scheme contributions US$'000	Share award expense US$'000	Total US$'000
Executive directors						
Mr. Wang Xuning	**–**	**230**	**1,142**	**5**	**8,217**	**9,594**
Ms. Han Run	**–**	**170**	**973**	**5**	**2,239**	**3,387**
Ms. Huang Shuling	**–**	**203**	**220**	**3**	**138**	**564**
	–	**603**	**2,335**	**13**	**10,594**	**13,545**
Non-executive directors						
Mr. Hui Chi Kin Max	**–**	**–**	**–**	**–**	**–**	**–**
Mr. Stassi Anastas Anastassov	**69**	**–**	**–**	**–**	**–**	**69**
	69	**–**	**–**	**–**	**–**	**69**
	69	**603**	**2,335**	**13**	**10,594**	**13,614**

9 Directors' and chief executive's remuneration (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

2018

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance-related bonuses US$'000	Pension scheme contributions US$'000	Share award expense US$'000	Total US$'000
Executive directors						
Mr. Wang Xuning	–	238	258	5	–	501
Ms. Han Run	–	162	198	5	154	519
Ms. Huang Shuling	–	216	234	5	115	570
	–	616	690	15	269	1,590
Non-executive directors						
Mr. Hui Chi Kin Max	–	–	–	–	–	–
Mr. Stassi Anastas Anastassov	17	–	–	–	–	17
	17	–	–	–	–	17
	17	616	690	15	269	1,607

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. No remuneration was paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group distinguishing between contractual and other payments.

10 Five highest paid employees

The five highest paid employees during the year included two (2018: nil) directors, details of whose remuneration are set out above in note 9 above. Details of the remuneration for the year for the remaining three (2018: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 US$'000	2018 US$'000
Salaries, allowances and benefits in kind	**2,641**	3,511
Performance-related bonuses	**7,117**	4,515
Pension scheme contributions	**28**	42
Share award expense	**7,212**	385
	16,998	8,453

No remuneration was paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of any office in connection with the management of the affairs of any member of the group distinguishing between contractual payments and other payments (excluding the amounts as disclosed in the table above). The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK$6,000,001 to HK$6,500,000 (equivalent to US$758,001 to US$821,000)	**–**	1
HK$6,500,001 to HK$7,000,000 (equivalent to US$821,001 to US$884,000)	**–**	1
HK$7,500,001 to HK$8,000,000 (equivalent to US$947,001 to US$1,010,000)	**–**	1
HK$22,500,001 to HK$23,000,000 (equivalent to US$2,837,001 to US$2,900,000)	**–**	1
HK$23,000,001 to HK$23,500,000 (equivalent to US$2,900,001 to US$2,963,000)	**–**	1
HK$24,000,001 to HK$24,500,000 (equivalent to US$3,026,001 to US$3,089,000)	**1**	–
HK$32,500,001 to HK$33,000,000 (equivalent to US$4,097,001 to US$4,160,000)	**1**	–
HK$78,000,001 to HK$78,500,000 (equivalent to US$9,830,001 to US$9,893,000)	**1**	–
	3	5

10 Five highest paid employees (continued)

During the year and in prior years, share awards were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such share awards, which has been recognized in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

11 Income tax

	2019	2018
	US$'000	US$'000
Current income tax charge/(credit):		
In Mainland China	**18,382**	23,177
In the United States	**14,544**	6,117
In the United Kingdom	**(3,835)**	91
Elsewhere	**3,257**	120
Deferred income tax (note 30):		
In Mainland China	**2,397**	(2,610)
In the United States	**(942)**	1,375
Total tax charge for the year	**33,803**	28,270

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2018: 25%) on their respective taxable income. During the year, one (2018: one) of the Group's entities obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

The Group realized tax benefits during the year through applying the preferential corporate income tax rates and the corporate income tax exemptions. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to assessment by the relevant PRC tax authorities.

11 Income tax (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

2019

	Mainland China US$'000	%	The United States US$'000	%	The United Kingdom US$'000	%	Others US$'000	%	Total US$'000	%
Profit/(loss) before tax	130,637		43,705		(14,083)		(41,279)		118,980	
Tax at the statutory tax rates	32,659	25.0	9,178	21.0	(2,676)	19.0	1,379	(3.3)	40,540	34.1
(Lower)/higher tax charges for specific provinces or enacted by local authority	(10,480)	(8.0)	2,909	6.7	–	–	(689)	1.7	(8,260)	(6.9)
Effect of withholding tax at 10% on the distributable profits of a Group's PRC subsidiary	1,962	1.5	–	–	–	–	–	–	1,962	1.6
Effect on opening deferred tax of decrease in tax rates	–	–	–	–	(374)	2.7	–	–	(374)	(0.3)
Adjustments in respect of current tax of prior years	(154)	(0.1)	–	–	–	–	–	–	(154)	(0.1)
Expenses not deductible for tax	1,981	1.5	6,539	15	–	–	–	–	8,520	7.2
Income not subject to tax	–	–	(1,958)	(4.5)	(447)	3.2	103	(0.2)	(2,302)	(1.9)
Profits and losses attributable to associates	(612)	(0.5)	–	–	–	–	–	–	(612)	(0.5)
Super deduction on research and development costs	(5,535)	(4.2)	(3,066)	(7.0)	(338)	2.4	–	–	(8,939)	(7.5)
Tax losses utilized from previous years	(660)	(0.5)	–	–	–	–	(679)	1.6	(1,339)	(1.1)
Tax losses not recognized	1,618	1.2	–	–	–	–	3,143	(7.6)	4,761	4.0
Tax charge/(credit) at the Group's effective tax rate	20,779	15.9	13,602	31.2	(3,835)	27.3	3,257	(7.8)	33,803	28.6

11 Income tax (continued)

2018

	Mainland China US$'000	%	The United States US$'000	%	The United Kingdom US$'000	%	Others US$'000	%	Total US$'000	%
Profit/(loss) before tax	132,665		20,571		3,116		(15,959)		140,393	
Tax at the statutory tax rates	33,166	25.0	4,320	21.0	592	19.0	(3,076)	19.3	35,002	24.9
(Lower)/higher tax charges for specific provinces or enacted by local authority	(8,439)	(6.4)	2,331	11.3	–	–	82	(0.5)	(6,026)	(4.3)
Effect on opening deferred tax of decrease in tax rates	–	–	(2,426)	(11.8)	–	–	–	–	(2,426)	(1.7)
Adjustments in respect of current tax of prior years	10	–	(155)	(0.8)	(118)	(3.8)	52	(0.3)	(211)	(0.2)
Expenses not deductible for tax	777	0.6	5,118	24.9	–	–	–	–	5,895	4.2
Profits and losses attributable to associates	(1,452)	(1.1)	–	–	–	–	–	–	(1,452)	(1.0)
Super deduction on research and development costs	(4,967)	(3.7)	(1,696)	(8.2)	(383)	(12.3)	–	–	(7,046)	(5.0)
Tax losses utilized from prior years	(90)	(0.1)	–	–	–	–	–	–	(90)	(0.1)
Tax losses not recognized	1,562	1.2	–	–	–	–	3,062	(19.2)	4,624	3.3
Tax charge at the Group's effective tax rate	20,567	15.5	7,492	36.4	91	2.9	120	(0.7)	28,270	20.1

The share of tax attributable to associates amounting to US$612,000 (2018: US$1,452,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

12 Dividends

	2019 **US$'000**	2018 US$'000
Proposed special — US$0.0734 (equivalent to HK$0.5717) (2018: nil) per ordinary share	**250,068**	—

The proposed special dividend for the year were approved by the board of directors of the Company on March 31, 2020.

13 Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,263,127,000 in issue during the year, as adjusted to reflect the shares subdivision during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the dilutive effect arising from the share award scheme of Joyoung Co., Ltd., a subsidiary of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2019 **US$'000**	2018 US$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**85,177**	112,123
Effect of dilution — impact arising from the share award scheme of Joyoung Co., Ltd.	**(134)**	—
	85,043	112,123

13 Earnings per share attributable to ordinary equity holders of the parent (continued)

	Number of shares 2019 '000	Number of shares 2018 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,263,127**	1,603,578
Effect of dilution — weighted average number of ordinary shares:		
Share award scheme	**6,701**	—
	2,269,828	1,603,578

14 Property, plant and equipment

	Buildings US$'000	Leasehold improvements US$'000	Furniture and fixtures US$'000	Machinery US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
December 31, 2019							
At January 1, 2019:							
Cost	121,117	28,708	75,018	148,391	4,830	9,887	387,951
Accumulated depreciation	(25,086)	(12,300)	(48,704)	(107,137)	(3,410)	–	(196,637)
Net carrying amount	96,031	16,408	26,314	41,254	1,420	9,887	191,314
At January 1, 2019, net of accumulated depreciation	96,031	16,408	26,314	41,254	1,420	9,887	191,314
Additions	1,103	1,417	22,417	5,214	712	38,689	69,552
Transfer from construction in progress	318	1,842	6,693	30,572	–	(39,425)	–
Disposals	–	–	(85)	(42)	(87)	–	(214)
Depreciation provided during the year	(5,539)	(3,814)	(17,880)	(24,908)	(682)	–	(52,823)
Exchange realignment	(1,142)	–	(17)	(24)	(12)	(17)	(1,212)
At December 31, 2019, net of accumulated depreciation	90,771	15,853	37,442	52,066	1,351	9,134	206,617
At December 31, 2019:							
Cost	121,036	27,881	96,918	154,952	4,405	9,134	414,326
Accumulated depreciation	(30,265)	(12,028)	(59,476)	(102,886)	(3,054)	–	(207,709)
Net carrying amount	90,771	15,853	37,442	52,066	1,351	9,134	206,617

14 Property, plant and equipment (continued)

	Buildings US$'000	Leasehold improvements US$'000	Furniture and fixtures US$'000	Machinery US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
December 31, 2018							
At January 1, 2018:							
Cost	113,328	25,805	64,049	119,794	5,947	8,751	337,674
Accumulated depreciation	(22,736)	(9,224)	(43,465)	(77,753)	(4,025)	–	(157,203)
Net carrying amount	90,592	16,581	20,584	42,041	1,922	8,751	180,471
At January 1, 2018, net of accumulated depreciation	90,592	16,581	20,584	42,041	1,922	8,751	180,471
Additions	15,615	2,991	15,426	30,363	376	9,673	74,444
Transfer from construction in progress	1,793	–	18	116	–	(1,927)	–
Disposals	(1,979)	–	(215)	(81)	(63)	–	(2,338)
Disposal of subsidiaries (note 37)	(37)	–	(50)	(69)	–	(6,250)	(6,406)
Depreciation provided during the year	(5,285)	(3,162)	(9,319)	(31,045)	(740)	–	(49,551)
Exchange realignment	(4,668)	(2)	(130)	(71)	(75)	(360)	(5,306)
At December 31, 2018, net of accumulated depreciation	96,031	16,408	26,314	41,254	1,420	9,887	191,314
At December 31, 2018:							
Cost	121,117	28,708	75,018	148,391	4,830	9,887	387,951
Accumulated depreciation	(25,086)	(12,300)	(48,704)	(107,137)	(3,410)	–	(196,637)
Net carrying amount	96,031	16,408	26,314	41,254	1,420	9,887	191,314

15 Investment properties

	2019 US$'000	2018 US$'000
At the beginning of the year		
Cost	**50,668**	61,377
Accumulated depreciation	**(22,418)**	(23,904)
Net carrying amount	**28,250**	37,473
Net carrying amount at the beginning of the year	**28,250**	37,473
Depreciation provided during the year	**(2,130)**	(2,355)
Disposal of subsidiaries (note 37)	**–**	(4,944)
Exchange realignment	**(332)**	(1,924)
Net carrying amount at the end of the year	**25,788**	28,250

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 17 to the financial statements.

The fair value of investment properties as at December 31, 2019 was US$60,500,000 (2018: US$58,298,000).

16 Prepaid land lease payments

	2019 US$'000	2018 US$'000
Carrying amount at the beginning of the year	**16,581**	22,184
Recognized in profit or loss during the year	**(397)**	(468)
Disposal	**–**	(3,017)
Disposal of subsidiaries (note 37)	**–**	(944)
Exchange realignment	**(202)**	(1,174)
Carrying amount at the end of the year	**15,982**	16,581
Current portion included in prepayments, other receivables and other assets	**(394)**	(451)
Non-current portion of carrying amount at the end of the year	**15,588**	16,130

17 Leases

The group as a lessee

The Group has lease contracts for various items of buildings and motor vehicles used in its operations. Leases of buildings generally have lease terms between 2 and 12 years. Motor vehicles generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year of 2019 are as follows:

	Buildings US$'000	Motor vehicles US$'000	Total US$'000
Cost of right-of-use assets:			
At the beginning of the year	**76,642**	**1,715**	**78,357**
Additions	**11,996**	**702**	**12,698**
Exchange realignment	**(105)**	**–**	**(105)**
At the end of the year	**88,533**	**2,417**	**90,950**
Accumulated amortization:			
At the beginning of the year	**(18,821)**	**(696)**	**(19,517)**
Amortization provided during the year	**(14,020)**	**(835)**	**(14,855)**
Exchange realignment	**115**	**2**	**117**
At the end of the year	**(32,726)**	**(1,529)**	**(34,255)**
Net carrying amount:			
At the end of the year	**55,807**	**888**	**56,695**

17 Leases (continued)

The group as a lessee (continued)

(a) Right-of-use assets (continued)

The carrying amounts of the Group's right-of-use assets and the movements during the year of 2018 are as follows:

	Buildings US$'000	Motor vehicles US$'000	Total US$'000
Cost of right-of-use assets:			
At the beginning of the year	70,227	1,178	71,405
Additions	6,881	537	7,418
Exchange realignment	(466)	—	(466)
At the end of the year	76,642	1,715	78,357
Accumulated amortization:			
At the beginning of the year	(6,777)	(129)	(6,906)
Amortization provided during the year	(12,379)	(567)	(12,946)
Exchange realignment	335	—	335
At the end of the year	(18,821)	(696)	(19,517)
Net carrying amount:			
At the end of the year	57,821	1,019	58,840

17 Leases (continued)

The group as a lessee (continued)

(b) Lease liabilities

The carrying amount of the Group's lease liabilities and the movements during the year are as follows:

	2019 US$'000	2018 US$'000
Lease liabilities:		
At the beginning of the year	**79,792**	72,840
Additions	**12,480**	7,418
Exchange realignment	**(105)**	(466)
At the end of the year	**92,167**	79,792
Accumulated payment:		
At the beginning of the year	**(16,200)**	(5,149)
Interest expense during the year	**2,996**	2,964
Payment during the year	**(16,787)**	(13,868)
Exchange realignment	**51**	(147)
At the end of the year	**(29,940)**	(16,200)
Net carrying amount:		
At the end of the year	**62,227**	63,592
Analyzed into:		
Within one year	**9,450**	10,980
In the second year	**9,724**	5,578
In the third to fifth years, inclusive	**15,087**	10,360
Beyond five years	**27,966**	36,674
At the end of the year	**62,227**	63,592

The maturity analysis of lease liabilities is disclosed in note 43 to the financial statements.

17 Leases (continued)

The group as a lessee (continued)

(b) Lease liabilities (continued)

The amounts recognized in profit or loss in relation to leases are as follows:

	2019 US$'000	2018 US$'000
Interest on lease liabilities	**2,996**	2,964
Depreciation charge of right-of-use assets	**14,855**	12,946
Expense relating to short-term leases and other leases with remaining lease terms ended on or before December 31, 2019 (included in selling and distribution expenses and administrative expenses)	**4,674**	2,873
Expense relating to leases of low-value assets (included in selling and distribution expenses and administrative expenses)	**9**	–
Total amount recognized in profit or loss	**22,534**	18,783

The group as a lessor

The Group leases its investment properties (note 15) consisting of three commercial properties and four industrial properties in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Gross rental income recognized by the Group during the year was US$4,521,000 (2018: US$3,905,000).

At December 31, 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 US$'000	2018 US$'000
Within one year	**3,947**	1,975
After one year but within two years	**3,384**	1,921
After two years but within three years	**1,726**	1,768
After three years but within four years	**1,825**	1,762
After four years but within five years	**657**	1,903
After five years	**–**	685
	11,539	10,014

18 Goodwill

	2019 US$'000	2018 US$'000
Goodwill at January 1	**839,767**	839,767
Less: provision for impairment	**–**	–
Goodwill at December 31	**839,767**	839,767

Impairment testing of goodwill and indefinite life intangible assets

Goodwill and trademarks recorded in other intangible assets with indefinite lives acquired through business combinations are allocated to the cash-generating unit ("**CGU**") of Compass and its subsidiaries (collectively referred to as the "**Compass**") for impairment testing.

The Group performed its annual impairment test as at December 31, 2019. The recoverable amount of the Compass CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management at December 31, 2019, and corroborated by the market approach. The discount rate applied to the cash flow projections is 16% (2018: 16%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 3% (2018: 3%).

Assumptions were used in the value in use calculation of the Compass CGU at December 31, 2019. The following describes key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue growth — The bases used to determine the future earnings potential are historical sales and average expected growth rates of the markets in North America, Europe, Asia and other markets.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

Expenses — The value assigned to the key assumptions reflects past experience and management's commitment to maintain the Compass CGU's operating expenses to an acceptable level.

18 Goodwill (continued)

Impairment testing of goodwill and indefinite life intangible assets (continued)

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

Based on the result of the impairment test on the Compass CGU, the estimated recoverable amount of the Compass CGU exceeded its carrying amount by US$239,745,000 (2018: US$179,466,000) as at December 31, 2019.

Sensitivity to changes in assumptions

The Company has performed the sensitivity analysis on key assumptions used in the impairment test. Had the estimated key assumptions been changed as follows, the headroom would be increased/(decreased) by:

	2019 **US$'000**	2018 US$'000
Five-year period growth rate increased by 5%	**54,108**	50,800
Five-year period growth rate decreased by 5%	**(52,670)**	(53,732)
Discount rate decreased by 5%	**130,944**	136,309
Discount rate increased by 5%	**(115,292)**	(123,994)

With regard to the assessment of the value in use of the Compass CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the CGU to exceed its recoverable amount.

19 Other intangible assets

	Trademarks* US$'000	Patents US$'000	Retailer relationship US$'000	Capitalized development costs-available for use US$'000	Capitalized development costs-not available for use US$'000	Software US$'000	Total US$'000
December 31, 2019							
At January 1, 2019:							
Cost	384,044	43,636	143,083	5,512	12,504	4,088	592,867
Accumulated amortization	–	(12,306)	(19,273)	(138)	–	(2,499)	(34,216)
Net carrying amount	384,044	31,330	123,810	5,374	12,504	1,589	558,651
Cost at January 1, 2019, net of accumulated amortization	384,044	31,330	123,810	5,374	12,504	1,589	558,651
Additions	–	–	–	–	12,711	475	13,186
Amortization provided during the year	–	(3,811)	(15,898)	(2,893)	–	(388)	(22,990)
Transfers	–	–	–	18,760	(18,760)	–	–
Exchange realignment	–	–	–	–	–	(17)	(17)
At December 31, 2019	384,044	27,519	107,912	21,241	6,455	1,659	548,830
At December 31, 2019:							
Cost	384,044	43,553	143,083	24,272	6,455	3,411	604,818
Accumulated amortization and impairment	–	(16,034)	(35,171)	(3,031)	–	(1,752)	(55,988)
Net carrying amount	384,044	27,519	107,912	21,241	6,455	1,659	548,830

19 Other intangible assets (continued)

	Trademarks* US$'000	Patents US$'000	Retailer relationship US$'000	Capitalized development costs-available for use US$'000	Capitalized development costs-not available for use US$'000	Software US$'000	Total US$'000
December 31, 2018							
At January 1, 2018:							
Cost	384,044	44,019	143,083	–	2,358	4,694	578,198
Accumulated amortization	–	(6,949)	(3,375)	–	–	(2,813)	(13,137)
Net carrying amount	384,044	37,070	139,708	–	2,358	1,881	565,061
Cost at January 1, 2018, net of accumulated amortization	384,044	37,070	139,708	–	2,358	1,881	565,061
Additions	–	–	–	–	15,658	214	15,872
Amortization provided during the year	–	(5,729)	(15,898)	(138)	–	(413)	(22,178)
Transfers	–	–	–	5,512	(5,512)	–	–
Disposal	–	–	–	–	–	(7)	(7)
Exchange realignment	–	(11)	–	–	–	(86)	(97)
At December 31, 2018	384,044	31,330	123,810	5,374	12,504	1,589	558,651
At December 31, 2018 and at January 1, 2019:							
Cost	384,044	43,636	143,083	5,512	12,504	4,088	592,867
Accumulated amortization and impairment	–	(12,306)	(19,273)	(138)	–	(2,499)	(34,216)
Net carrying amount	384,044	31,330	123,810	5,374	12,504	1,589	558,651

* Trademarks are not amortized due to indefinite useful lives and are allocated to the Group's Compass CGU. Refer to the note 18 for the impairment testing and sensitivity analysis of the trademarks with indefinite useful lives. No provision is made for impairment of trademarks after being tested for impairment of the Compass CGU as at the end of 2019.

19 Other intangible assets (continued)

Impairment testing of capitalized development costs not yet available for use

The Group performed impairment testing of capitalized development costs not yet available for use annually and whenever there is an impairment indicator.

The recoverable amount of the capitalized development costs not yet available for use has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management as at December 31, 2019. The discount rate applied to the cash flow projections is 17.8% (2018: 17.5%-20.5%).

Assumptions were used in the value in use calculation of the capitalized development costs not yet available for use. The following describes key assumptions on which management has based its cash flow projections to undertake impairment testing of the capitalized development costs not yet available for use:

Revenue growth — The bases used to determine the future earnings potential are historical sales and average expected growth rates of products with similar features and life cycles in the markets.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved by products with similar features and life cycles in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to assets.

Expenses — The expenses reflect past experience and management's commitment to maintain the operating expenses to an acceptable level.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

Based on the result of the impairment testing, the estimated recoverable amount of the capitalized development costs not yet available for use exceeded the carrying amount by US$63,465,000 as at December 31, 2019 (2018: US$15,953,000).

Sensitivity to changes in assumptions

The Company has performed the sensitivity analysis on key assumptions used in the impairment testing. Had the estimated key assumption — discount rate been increased by 0.5% from 17.8% to 18.3% (2018: 17.5%-20.5% to 18.0%-21.0%), the headroom would be decreased by US$1,874,000 (2018: US$368,000).

With regard to the assessment of the value in use of the capitalized development costs not yet available for use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the capitalized development costs not yet available for use to exceed the recoverable amount.

20 Investments in associates

	2019 US$'000	2018 US$'000
Share of net assets	**28,770**	29,177
Goodwill on acquisition	**6,836**	6,826
	35,606	36,003

The Group's trade receivable and payable balances with the associates are disclosed in notes 24 and 27, respectively.

The Group's shareholdings in the associates comprise equity shares held by subsidiaries of the Company.

The Group has discontinued the recognition of its share of losses of an associate because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. There was no unrecognized share of losses of the associate for the year ended December 31, 2019, and the cumulative unrecognized share of losses was US$113,000 as at December 31, 2019.

The following table illustrates the aggregate financial information of the Group's associates:

	2019 US$'000	2018 US$'000
Share of the associates' profits for the year	**2,450**	5,809
Share of the associates' total comprehensive income	**2,450**	5,809
Aggregate carrying amount of the Group's investments in associates	**35,606**	36,003

21 Financial assets at fair value through profit or loss/financial assets designated at fair value through other comprehensive income

The investments below were classified as financial assets at fair value:

	2019 **US$'000**	2018 US$'000
Financial assets, at fair value through profit or loss:		
Current — stock	**183**	—
Current — financial products (a)	**25,628**	15,853
Non-current — unlisted equity investments (a)	**58,677**	60,794
	84,488	76,647
Unlisted financial assets, at fair value through other comprehensive income:		
Non-current — unlisted equity investments (b)	**38,318**	35,643
	122,806	112,290

Notes:

(a) The equity investments were classified as financial assets at fair value through profit or loss as they were held for trading, which are managed by licensed financial institutions in Mainland China to invest principally in certain financial assets including investment funds and unlisted equity investments issued in Mainland China in accordance with the entrusted agreements entered into between the parties involved.

The current investments in financial products were products issued by banks in Mainland China. The current investments in stock at December 31, 2019 (2018: nil) were stocks listed on the Shenzhen Stock Exchange. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The investments were measured at fair value through profit or loss, with a corresponding gain on change in fair value of US$8,101,000 (2018: US$742,000), credited to other income and gains in the consolidated statement of profit or loss.

(b) The equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. During the year, the fair value changes in these investments resulted in a gain (net of tax) amounting to US$657,000 (2018: US$4,287,000), recorded in other comprehensive income.

22 Other non-current assets

	2019 US$'000	2018 US$'000
Long-term portion of insurance receivable	**5,415**	3,961
Rental deposits	**819**	1,145
Tax refunds	**–**	6,731
VAT recoverable	**–**	2,847
Long-term prepayments for purchase of properties	**4,599**	–
Others	**2,892**	2,746
	13,725	17,430

23 Inventories

	2019 US$'000	2018 US$'000
Raw materials	**37,816**	28,318
Finished goods	**358,111**	324,236
Less: Impairment	**(2,846)**	(2,692)
	393,081	349,862

The movements in provision for impairment of inventories are as follows:

	2019 US$'000	2018 US$'000
At the beginning of the year	**2,692**	2,655
Impairment losses	**159**	69
Exchange realignment	**(5)**	(32)
At the end of the year	**2,846**	2,692

24 Trade and bills receivables

	2019 US$'000	2018 US$'000
Bills receivable	**332,011**	349,342
Trade receivables	**476,316**	426,814
Less: Impairment	**(4,077)**	(3,496)
	804,250	772,660

Certain of the Group's trading terms with its customers are payments in advance, while for other customers, credit is granted. The credit period is generally 30 days to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department and, in certain cases, credit insurance to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade and bills receivables are amounts due from the Group's associates of US$12,692,000 (2018: US$21,509,000) as at December 31, 2019, which are repayable on credit terms similar to those offered to the major customers of the Group.

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2019 US$'000	2018 US$'000
Within 6 months	**801,206**	768,349
6 months to 1 year	**2,227**	3,420
1 to 2 years	**817**	723
Over 2 years	**–**	168
	804,250	772,660

24 Trade and bills receivables (continued)

The movements in provision for impairment of trade receivables are as follows:

	2019 **US$'000**	2018 US$'000
As at the beginning of the year	**3,496**	2,892
Impairment losses, net	**2,800**	3,759
Disposal of subsidiaries	**–**	(14)
Amount written off as uncollectible	**(2,219)**	(3,141)
As at the end of the year	**4,077**	3,496

As at December 31, 2019 and 2018, the trade receivables were denominated in US$ and RMB, and the fair values of trade receivables approximated to their carrying amounts.

An impairment analysis is performed at each reporting date using a provision matrix or assessed individually to measure expected credit losses. As at December 31, 2019, the amount of individually assessed provision was US$1,848,000 (2018: US$1,460,000). The provision rates used in the provision matrix are based on the days from the billing date for customers with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

24 Trade and bills receivables (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At December 31, 2019

	Past due				
	1 to 6 months	**7 to 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.13%**	**27.10%**	**48.39%**	**100%**	
Gross carrying amount (US$'000)	**468,092**	**1,048**	**1,583**	**564**	**471,287**
Expected credit losses (US$'000)	**615**	**284**	**766**	**564**	**2,229**

At December 31, 2018

	Past due				
	1 to 6 months	7 to 12 months	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.10%	27.30%	49.28%	100%	
Gross carrying amount (US$'000)	415,836	2,843	834	451	419,964
Expected credit losses (US$'000)	398	776	411	451	2,036

25 Prepayments, other receivables and other assets

	2019 **US$'000**	2018 US$'000
Prepayments	**12,183**	12,391
Deposits and other receivables	**26,541**	13,151
Due from related parties[(a)]	**3,344**	13,725
Right-of-return assets	**1,711**	2,660
Indemnification assets[(b)]	**7,101**	24,338
Tax recoverable	**17,420**	420
	68,300	66,685
Less: Impairment	**(507)**	(1,175)
	67,793	65,510

Notes:

(a) Included in the amounts due from related parties were trade-related amounts due from associates of US$455,000 (2018: US$1,682,000) as at December 31, 2019, non-trade-related amounts due from shareholders of US$617,000 (2018: US$6,383,000) as at December 31, 2019, and non-trade-related amounts due from other related parties of US$2,272,000 (2018: US$5,660,000) as at December 31, 2019.

(b) Pursuant to the agreement of acquisition of the Euro-Pro Group, the Group is entitled to be indemnified from the seller for certain tax provision and ongoing litigation provision.

26 Cash and cash equivalents/pledged deposits

	Note	**2019 US$'000**	2018 US$'000
Cash and bank balances		**421,316**	180,872
Time deposits			
— current		**63,122**	26,588
— non-current		**114,913**	—
Less: pledged deposits for bills payable and bank borrowings			
— bills payable (note 27)		**(63,122)**	(26,588)
— interest-bearing bank borrowings (note 29)	i	**(114,913)**	—
Cash and cash equivalents		**421,316**	180,872

(i) As at December 31, 2019, the balance of interest-bearing bank borrowings disclosed in note 29 (c) was secured by pledged deposits amounting to US$114,913,000.

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi **("RMB")** amounted to RMB1,155,733,000 (2018: RMB860,197,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27 Trade and bills payables

The aging analysis of trade and bills payables as at the end of the reporting period, based on the invoice date was as follows:

	2019 US$'000	2018 US$'000
Within 1 year	**529,604**	408,326
1 to 2 years	**533**	306
	530,137	408,632

Included in the trade and bills payables are trade payables of US$36,564,000 (2018: US$31,773,000) due to associates which are repayable within 90 days, which represents credit terms similar to those offered by the associates to their major customers.

The Group's bills payable were secured by pledged deposits of the Group of US$63,122,000 (2018: US$26,588,000) as at December 31, 2019, and secured by bills receivable of the Group of US$89,964,000 (2018: US$48,755,000) as at December 31, 2019.

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

28 Other payables and accruals

	2019 US$'000	2018 US$'000
Accruals	**136,697**	122,409
Contract liabilities (a)	**53,386**	60,668
Refund liabilities	**140,222**	134,411
Other payables (b)	**49,811**	16,394
Dividends payable	**–**	3,200
Provisions (c)	**24,030**	19,906
Due to related parties (d)	**6,900**	7,110
	411,046	364,098

Notes:

(a) Contract liabilities include short-term advances received from delivering home appliance products and rendering extended warranty services. Included in the contract liabilities were short-term advances of US$1,180,000 (2018: US$1,015,000) received from related parties as at December 31, 2019.

(b) Other payables are non-interest-bearing and have an average payment term of three months.

(c) The Group provides standard warranties of one to seven years to its customers. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

(d) Included in the amounts due to related parties were trade-related amounts due to associates of US$6,839,000 (2018: US$7,110,000).

29 Interest-bearing bank borrowings

	December 31, 2019			December 31, 2018		
	Interest rate (%)	**Maturity**	**US$'000**	Interest rate (%)	Maturity	US$'000
Current						
Bank loans — secured (b)	**3.25+LIBOR**	**2020**	**26,176**	3.25+LIBOR	2019	16,379
Bank loans — secured (b)			**–**	4.00+LIBOR	2019	1,989
Bank loans — secured (a)			**–**	1.55+LIBOR	2019	467,176
			26,176			485,544
Non-current						
Bank loans — secured (b)	**3.25+LIBOR**	**2021-2022**	**167,667**	3.25+LIBOR	2020–2022	193,864
Bank loans — secured (b)	**4.00+LIBOR**	**2022-2024**	**420,966**	4.00+LIBOR	2020–2024	433,376
Bank loans — secured (a)/(b)	**2.75+LIBOR**	**2022**	**64,841**	2.75+LIBOR	2022	72,481
Bank loans — secured (a)	**1.60+LIBOR**	**2021-2024**	**282,066**			–
Bank loans — secured (c)	**1.20+HIBOR**	**2022**	**113,579**			–
			1,049,119			699,721
			1,075,295			1,185,265

	December 31, 2019 US$'000	December 31, 2018 US$'000
Analyzed into:		
Bank loans repayable:		
Within one year or on demand	**26,176**	485,544
In the second year	**109,521**	28,345
In the third to fifth years, inclusive	**939,598**	246,589
Beyond five years	**–**	424,787
	1,075,295	1,185,265

29 Interest-bearing bank borrowings (continued)

Notes:

(a) The bank loans of the Group together with the bank loans of JS Holding were secured by the pledge of 339,272,626 (2018: 320,403,436) shares of Joyoung Co., Ltd. as at December 31, 2019.

(b) Certain of the bank loans are secured by:

(i) The pledge of equity interests in certain subsidiaries of Compass Cayman SPV, Limited ("**Compass**"):

Issuer	Percentage of equity interests
Global Appliance UK HoldCo Limited	100%
Compass Cayman SPV2 Limited	100%
Global Appliance LLC	100%
Euro-Pro Holdco, LLC	100%
EP Midco LLC	100%
SharkNinja Operating LLC	100%
Euro-Pro International Holding Company	65%
SharkNinja Sales Company	100%
SharkNinja Management LLC	100%

(ii) The security interest of certain subsidiaries, including all accounts that certain subsidiaries organized in a U.S. jurisdiction at any time opens or maintains; all chattel paper; all cash and cash equivalents; all documents; all equipment; all general intangibles, including all intellectual property; all instruments; all inventories; all other goods; all investment properties; all letter-of-credit rights; all fixtures; all books and records pertaining to the security interest; and to the extent not otherwise included, all proceeds and products of any and all of the foregoing and all collateral security and guarantees given by any person with respect to any of the foregoing of the subsidiaries in (i). As of December 31, 2019, the bank loans were secured by certain of the Group's assets amounted to US$1,416,746,000;

(iii) A subordinated promissory note, made by certain subsidiaries of Compass, in the original /principal amount of US$50,000,000;

(iv) A global intercompany note made by Compass and certain subsidiaries of Compass; and

(v) A corporate guarantee provided by Compass and certain subsidiaries of Compass.

(c) The bank loans were secured by a pledged deposit of US$114,913,000 as at December 31, 2019 (2018: nil).

The Group's unutilized available bank borrowing facilities amounted to US$141,046,000 (2018: US$120,000,000) as at December 31, 2019.

30 Deferred tax assets/liabilities

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets:

	Tax losses US$'000	Impairment allowance US$'000	Accrued expenses and reserves US$'000	Depreciation allowance in excess of related depreciation US$'000	Unrealized profit arising in intra-group transactions US$'000	Fair value adjustments arising from financial assets US$'000	Lease liabilities US$'000	Others US$'000	Total US$'000
At January 1, 2018	4,049	896	27,860	5,906	3,599	458	16,554	1,829	61,151
Exchange realignment	–	(48)	(836)	(15)	(195)	–	(35)	–	(1,129)
Disposal of subsidiaries (note 37)	–	(12)	(184)	–	–	–	–	353	157
Recognized in other comprehensive income	–	–	–	–	–	(458)	–	–	(458)
Deferred tax (charged)/ credited to profit or loss	(649)	1,819	259	(1,009)	(1,272)	–	(981)	3,022	1,189
At December 31, 2018	3,400	2,655	27,099	4,882	2,132	–	15,538	5,204	60,910
At January 1, 2019	**3,400**	**2,655**	**27,099**	**4,882**	**2,132**	**–**	**15,538**	**5,204**	**60,910**
Exchange realignment	**(1)**	**(30)**	**(51)**	**(5)**	**(48)**	**–**	**(20)**	**–**	**(155)**
Deferred tax (charged)/ credited to profit or loss	**895**	**(397)**	**(5,106)**	**(1,176)**	**2,473**	**–**	**(772)**	**1,621**	**(2,462)**
At December 31, 2019	**4,294**	**2,228**	**21,942**	**3,701**	**4,557**	**–**	**14,746**	**6,825**	**58,293**

30 Deferred tax assets/liabilities (continued)

Deferred tax liabilities:

	Interest receivable US$'000	Accelerated depreciation US$'000	Fair value adjustments arising from financial assets US$'000	Amortization allowance of intangible assets US$'000	Right-of-use assets US$'000	Withholding taxes US$'000	Total US$'000
At January 1, 2018	103	33	1,147	130,669	15,774	–	147,726
Exchange realignment	(5)	(2)	(53)	–	35	–	(25)
Disposal of subsidiaries (note 37)	(9)	–	–	–	–	–	(9)
Recognized in other comprehensive income	–	–	310	–	–	–	310
Deferred tax charged/(credited) to profit or loss	(52)	(17)	693	761	(1,431)	–	(46)
At December 31, 2018	37	14	2,097	131,430	14,378	–	147,956
At January 1, 2019	**37**	**14**	**2,097**	**131,430**	**14,378**	**–**	**147,956**
Exchange realignment	**(1)**	**–**	**(99)**	**–**	**20**	**–**	**(80)**
Recognized in other comprehensive income	**–**	**–**	**316**	**–**	**–**	**–**	**316**
Deferred tax charged/(credited) to profit or loss	**89**	**(14)**	**(119)**	**(1,925)**	**(1,000)**	**1,962**	**(1,007)**
At December 31, 2019	**125**	**–**	**2,195**	**129,505**	**13,398**	**1,962**	**147,185**

30 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:

	2019 **USD'000**	2018 USD'000
Deferred tax assets	**44,895**	46,532
Deferred tax liabilities	**(133,787)**	(133,578)
	(88,892)	(87,046)

At the end of the reporting period, the Group has tax losses arising in Hong Kong of US$33,491,000 (2018: US$18,558,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

At the end of the reporting period, the Group also has tax losses arising in Mainland China of US$10,080,000 (2018: US$6,248,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets in respect of tax losses of US$8,046,000 (2018: US$4,624,000) have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

At December 31, 2019, there was no significant unrecognized deferred tax liability (2018: nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries or associates as the Group has no significant distributable earnings from subsidiaries established in Mainland China.

31 Financial liabilities associated with put option

Original put option (the "Put Option")

On September 29, 2017 (the "**Grant Date"**), a subsidiary of the Group, Compass Cayman SPV, Limited ("**Compass**") entered into a shareholders agreement (the "**Agreement**") with its non-controlling shareholder, Compass Aggregator, Ltd. ("**Aggregator**"), simultaneously with the entry into the Membership Interest Purchase Agreement in relation to the acquisition of Euro-Pro Holdco, LLC and its subsidiaries (the "**Acquisition**"). Aggregator is controlled by the previous ultimate controller of the Euro-Pro Group. Under the Agreement, Aggregator is entitled to a right (the "**Put Option**") to require Compass to repurchase all or a portion of Compass' own shares beneficially owned by Aggregator at an agreed price (the "**Repurchase Price**") within an agreed period.

Pursuant to the Agreement, from and after the earlier of (i) the third anniversary of the closing date of the Acquisition, and (ii) any time after the board of directors resolves to engage a specific sponsor or underwriter in connection with a proposed initial public offering of the Company (the "**IPO**") of the shares of Compass (the "**Board IPO Determination Date**"), Aggregator could exercise the Put Option by providing a written notice to Compass ("**exercisable period**"). As at the date on which an IPO is consummated, Aggregator's right to exercise the Put Option shall automatically expire for all purposes.

If (i) Aggregator has not exercised the Put Option prior to the sixth anniversary of the closing date of the Acquisition, and (ii) no IPO has occurred prior to such date, Compass shall have the option, exercisable upon the provision of a written notice to Aggregator, to require it to sell to Compass all of the shares beneficially owned by Aggregator. As at the date on which an IPO is consummated, Compass' right to exercise the call option shall automatically expire for all purposes.

The Repurchase Price means, the percentage of interest of Aggregator as at the exercise date, multiplied by an amount equal to (x) on the product of 10 times Compass' forecasted earnings before interest, taxes, depreciation and amortization (the "**EBITDA**") during a 12-month period prior to the exercise date, less (y) Compass' net indebtedness as at the exercise date. As at December 31, 2017 and 2018, management did not have an estimate of the Board IPO determination date, the starting day of the exercisable period is assumed to be the third anniversary of the closing date of the acquisition, which is September 30, 2020.

If (x) payment of the Repurchase Price on or prior to the four weeks after the date on which the repurchase price is determined in the case of the put or call option (the "**Last Date**") would cause Compass or any of its subsidiaries to be in breach or default under any indebtedness or other financing arrangement (and such indebtedness or other arrangement could not be refinanced by the Last Date on commercially reasonably terms which would not materially adversely affect Compass) or (y) Compass and its subsidiaries are unable to obtain the cash funds required to pay in full the Repurchase Price by the Last Date, on the Last Date Compass shall deliver to Aggregator a written notice irrevocably offering to both (x) pay a portion of the Repurchase Price, as set forth in such notice, with all the cash funds that Compass and its subsidiaries have at such time that are permitted to be used for such purpose under any indebtedness or other financing arrangements and after taking into account the reasonable anticipated cash needs of Compass as set forth in the budget approved by the board and (y) issue to Aggregator a promissory note of Compass (bearing interest at 3% plus the greater of (x) 3 month LIBOR and (y) 1% with a face value equal to the remainder of the Repurchase Price not payable in cash pursuant to clause (x) above).

31 Financial liabilities associated with put option (continued)

Original put option (the "Put Option") (continued)

The fair value of the Put Option as at September 29, 2017 was US$32,994,000, which constituted a part of purchase consideration of the Acquisition. The Group recorded goodwill in respect of the Put Option of US$32,994,000 with a corresponding credit to the put option reserve and non-controlling interests.

Under current IFRSs, when the Put Option is granted, the Group is required to record a financial liability which is to be measured at the present value of the redemption amount. On initial recognition, the corresponding debit is made to the put option reserve which is a component of equity. The financial liability is subsequently measured in accordance with IFRS 9.

The directors have estimated that at the Grant Date, the potential redemption amount would be approximately US$620,709,000, based on the present value of the Repurchase Price as at September 30, 2020. Accordingly, the Group recorded financial liabilities in respect of the Put Option of US$620,709,000 as at September 29, 2017 with a corresponding debit to the put option reserve and non-controlling interests.

Accordingly, the Group has recorded expenses of US$7,123,000 and US$28,817,000 associated with the Put Option according to the present value of the redemption liability, which are included in other expenses in the consolidated statement of profit or loss for the years ended December 31, 2017 and 2018, respectively. The balances of financial liabilities associated with the Put Option were US$627,833,000 and US$656,650,000 as at December 31, 2017 and 2018, respectively.

Replacement of the put option (the "Put Right")

Pursuant to the reorganization (the "**Reorganization**", as more fully explained in the paragraph headed "Reorganization" in the section headed "History, Reorganization and Corporate Structure" in the Prospectus dated on December 9, 2019), shareholders of Aggregator ("**SN Investor**") acquired shares in Compass from Aggregator and exchanged their respective shares in Compass with the Company in consideration for the shares issued by the Company.

31 Financial liabilities associated with put option (continued)

Replacement of the put option (the "Put Right") (continued)

The Put Option was terminated upon the completion of the restructuring and replaced by the Put Right. Pursuant to the new shareholders' agreement, if no IPO of the Company has been consummated before or on September 30, 2020 (the "**End Date**"), from and after the End Date, each SN Investor shall have the option to require Compass to purchase all or a portion of the shares beneficially owned by such SN Investor (the "**Put Right**") at the applicable put/call price which is substantially the same with the Repurchase Price of the Put Option. If, on or after December 31, 2020, the board of directors has resolved to engage a specific sponsor or underwriter in connection with a proposed IPO after the End Date (the "**Board IPO Determination Date**"), and any SN Investor has not delivered a written notice within 30 days after the Board IPO Determination Date, such SN Investor's right to exercise the Put Right shall be suspended for all purposes while the Company pursues the proposed IPO; provided that such suspension shall terminate on the earlier of (x) the date on which the Company is no longer pursuing the proposed IPO, including if the Company provides the SN Investors with a written notice that it is no longer pursuing such IPO, (y) the date on which the Company withdraws any documents that were filed in connection with such IPO without promptly filing replacements thereof, and (z) six (6) months following the Board IPO Determination Date. The board of directors shall immediately provide written notice to the SN Investors of the Board IPO Determination Date upon such determination. As of the date on which an IPO is consummated, each SN Investor's right to exercise the Put Right shall automatically expire for all purposes.

If (i) any SN Investor has not exercised the Put Right prior to September 28, 2023 and (ii) no IPO has occurred prior to such date, the Company shall have the option, exercisable upon the provision of a written notice to such SN Investor to require such SN Investor to sell to Compass all of the shares beneficially owned by such SN Investor (the "**Call Right**") at the applicable put/call price. Notwithstanding the foregoing, if (i) the Call Right is consummated by the Company, (ii) the primary documents that must be filed by the listing vehicle to effect an IPO with the applicable regulatory body are filed within six months of the date on which the Call Right was consummated and (iii) such IPO is ultimately consummated, in addition to the put/call price that has been, or otherwise will be, paid, the Company shall also pay the SN Investor an amount equal to the difference between (if positive) (1) the product of (x) the price per share for the shares sold in the IPO multiplied by (y) 20% of the total number of shares held by the SN Investor immediately prior to the consummation of the Call Right (the "**20% Amount**") and (2) the portion of the put/call price paid in satisfaction of the Call Right with respect to the 20% Amount (such amount, the "**Additional Call Right Payment**"). As of the date on which an IPO is consummated, the Company's right to exercise the Call Right shall automatically expire for all purposes.

With the consummation of the IPO of the Company on December 18, 2019, the Put Right and the Call Right automatically expired. Accordingly, the financial liabilities associated with the put option was terminated and the balance of US$685,655,000 was transferred to the put option reserve and retained profits. The Group has recorded expenses of US$29,005,000 associated with the Put Option and Put Right according to the present value of the redemption liability, which is included in other expenses in the consolidated statement of profit or loss for the period from January 1, 2019 to the date immediately before the consummation of the IPO.

32 Other non-current liabilities

	2019 US$'000	2018 US$'000
Contract liabilities	**1,385**	1,224
Incurred but not reported general product liability	**7,679**	5,944
Uncertain tax positions	**6,226**	6,967
Other non-current payables	**–**	324
	15,290	14,459

33 Issued capital

	Notes	**2019 US$'000**	2018 US$'000
Authorized:			
5,000,000,000 (2018: 500,000,000) ordinary shares of US$0.00001 (2018: US$0.0001) each	(i)(ii)	**50**	50
Issued and fully paid:			
3,407,172,677 (2018: 1) ordinary shares of US$0.00001 (2018: US$0.0001) each		**33**	–

A summary of movements in the Company's share capital is as follows:

	Notes	Number of ordinary shares	Nominal value US$'000
At the date incorporation (July 26, 2018) and December 31, 2018	(i)	1.00	–
Issue of shares prior to the Reorganization	(i)	269,074,976.28	27
Shares subdivision	(ii)	2,421,674,795.52	–
Shares repurchased	(ii)	(4.80)	–
Allotment to RSU Plan	(iii)	141,618,409.00	–
Issue of shares under the global offering	(iv)	574,804,500.00	6
At December 31, 2019		**3,407,172,677.00**	**33**

33 Issued capital (continued)

(i) On July 26, 2018, the Company was incorporated in the Cayman Islands as an exempted company with authorized share capital of US$50,000 divided into 500,000,000 ordinary shares with par value of US$0.0001 each. On July 26, 2018, the Company issued one ordinary share with a par value of US$0.0001 to Mapcal Limited as the initial subscriber. On the same day, the one issued share was transferred to JS Holding;

On April 10, 2019, the Company issued 99,613,965.34 ordinary shares with a par value of US$0.0001 to JS Holding in exchange for US$9,961.40;

On April 16, 2019, the Company issued 36,830,424.53 ordinary shares with a par value of US$0.0001 to Mr. Lee Puay Khng in exchange for his 100% equity interests in Bilting;

On June 19, 2019, the Company issued 60,743,866.83 ordinary shares with a par value of US$0.0001 to JS Holding as part of the Reorganization;

On June 24, 2019, the Company issued 29,600,413.96 ordinary shares with a par value of US$0.0001 to Easy Home Limited in exchange for its 30% equity interests in Global Appliance 1 Limited;

On June 24, 2019, the Company issued 6,555,616.63 ordinary shares with a par value of US$0.0001 to Comfort Home Limited, and as the consideration, Comfort Home Limited transferred 2,325.44 ordinary shares of Compass it held to the Company;

On June 24, 2019, the Company issued an aggregate of 35,730,688.99 ordinary shares with a par value of US$0.0001 to a group of investors comprising BMS Ventures LLC, Casa Brima LLC, Barrocas Family 2017 Children's Trust, SMCSB 2018 Trust, PR2 LLC, and SN Aggregator LLC (collectively as the "**SN Investors**"), and as the consideration, SN Investors transferred their respective equity interests in Compass to the Company.

(ii) On October 9, 2019, the shareholders of the Company resolved that each issued and unissued ordinary share of the then par value of US$0.0001 each will be subdivided into 10 shares of par value of US$0.00001 each. Upon the subdivision, the authorized share capital of the Company shall be US$50,000 divided into 5,000,000,000 shares of a par value of US$0.00001 each. And 269,074,977.28 ordinary shares shall be subdivided into 2,690,749,772.80 ordinary shares. Immediately after the subdivision, on October 9, 2019, the Company repurchased a total of 4.8 ordinary shares from shareholders of the Company and canceled such 4.8 ordinary shares for the purpose of eliminating fractional shares.

(iii) On October 9, 2019, the Company adopted a restricted stock units plan (the "**RSU Plan**"). On October 25, 2019, the Company issued and allotted 141,618,409 ordinary shares with no par value to Golden Tide International Limited and Grand Riches Ventures Limited pursuant to the RSU Plan.

33 Issued capital (continued)

(iv) The final number of issued shares under the global offering comprised 49,983,000 ordinary shares in the Hong Kong public offering, 449,847,000 ordinary shares (before any exercise of the over-allotment option) and 74,974,500 ordinary shares (fully exercise of the over-allotment option) in the international public offering.

In December 2019, upon its listing on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued 574,804,500 ordinary shares at par value of US$0.00001 per share for a cash consideration of HK$5.20 each, and raised gross proceeds of approximately US$386,864,000. The respective issued capital amount was approximately US$6,000 and the share premium arising from the issuance was approximately US$374,572,000 after deducting incremental costs of approximately US$12,286,000 that are directly attributable to the issue of the new shares.

34 Share-based payments

Share award scheme of Joyoung Co., Ltd.

On November 24, 2017, Joyoung Co., Ltd. announced a Share Award Scheme (the "**Scheme 2017**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme 2017 include directors and employees of Joyoung Co., Ltd.

The maximum number of restricted stock shares ("**RSS**") currently permitted to be awarded under the Scheme 2017 is an amount equivalent to 10% of the shares of Joyoung Co., Ltd. in issue at any time. The maximum number of RSS issuable to each eligible participant in the Scheme 2017 within any 12-month period is limited to 1% of the shares of Joyoung Co., Ltd. in issue at any time. Any further award of RSS in excess of this limit is subject to shareholders' approval in a general meeting.

On operation of the Scheme 2017, Joyoung Co., Ltd. repurchased a total of 4,999,960 ordinary shares of Joyoung Co., Ltd., listed on the Shenzhen Stock Exchange, to award certain eligible participants, among which 4,800,000 shares were granted on June 8, 2018, and 199,960 shares were granted on December 7, 2018, both upon payment of grant price at RMB1.00 per share by the grantees. Eligible participants of the Scheme 2017 include 202 directors and employees of Joyoung Co., Ltd.

For the 4,800,000 shares granted to the eligible participants as RSS on June 8, 2018, 30% of the shares shall vest after the 12-month locked-in period from the grant date, on the condition that Joyoung Co., Ltd. achieving a 6% growth of revenue and a 2% growth of profit in 2018 compared with year 2017. 24 months after the grant date, a further 30% of the RSS shall vest if Joyoung Co., Ltd. achieves an 11% growth of revenue and an 8% growth of profit in 2019 compared with year 2018. The final 40% of the RSS shall vest 36 months after the grant, upon meeting the performance goals of a 17% revenue increase and a 15% profit increase in 2020 compared with year 2019. The RSS expire 48 months after the grant date.

34 Share-based payments (continued)

Share award scheme of Joyoung Co., Ltd. (continued)

For the 199,960 shares granted on December 7, 2018, 50% of the RSS shall vest after the 12-month locked-in period, and the other shall vest 24 months after the grant date. Performance conditions are the same as the above arrangement for 4,800,000 shares granted on June 8, 2018.

Before the expiration, in the case that Joyoung Co., Ltd. does not meet the performance goals, or certain eligible participants resign, the board of directors will decide to repurchase for the cancelation action of the related RSS. The repurchase price of RSS is the lowest of (i) the grant price after an adjustment of dividends; (ii) the average stock price of Joyoung Co., Ltd.'s shares for the 20 trading days immediately preceding the date of repurchase; and (iii) the average stock price of Joyoung Co., Ltd.'s shares for the day immediately preceding the date of repurchase.

In the first 12-month vesting period, the RSS do not confer rights of dividends and votes to the eligible participants. After the first 12 months, the eligible participants are entitled to rights of dividends only.

The following RSS were outstanding under the Scheme 2017:

	2019		2018	
	Weighted average share price RMB per share	**Number of RSS**	Weighted average share price RMB per share	Number of RSS
At the beginning of the year	**15.72**	**4,899,960**	–	–
Granted during the year	**–**	**–**	15.72	4,999,960
Exercised during the year	**15.81**	**(1,398,000)**	–	–
Forfeited during the year	**15.81**	**(99,000)**	15.81	(100,000)
At the end of the year	**15.68**	**3,402,960**	15.72	4,899,960

The weighted fair value per share on the grant date during 2018 was RMB15.72. No RSS were granted in the year ended December 31, 2019.

34 Share-based payments (continued)

Share award scheme of Joyoung Co., Ltd. (continued)

The fair value per share on the grant date and vesting periods of the RSS outstanding as at December 31, 2019 and 2018 are as follows:

December 31, 2019

Number of RSS	Fair value on grant date RMB per share	Grant date
3,203,000	**15.81**	**June 8, 2018**
199,960	**13.66**	**December 7, 2018**
3,402,960		

December 31, 2018

Number of RSS	Fair value on grant date RMB per share	Grant date
4,700,000	15.81	June 8, 2018
199,960	13.66	December 7, 2018
4,899,960		

The fair value of the RSS granted during 2018 was RMB78.6 million (RMB15.72 each, totally equivalent to US$11.9 million) and no RSS were granted during the year ended December 31, 2019. During the year ended December 31, 2019, Joyoung Co., Ltd. recognized share award expenses of RMB29,876,000 (equivalent to US$4,329,000) (2018: RMB25,418,000 (equivalent to US$3,846,000)).

At the date of approval of this report, Joyoung Co., Ltd. had 3,402,960 RSS outstanding under the Scheme 2017, which represented approximately 0.44% (2018: 0.62%) of Joyoung Co., Ltd.'s shares in issue as at that date.

34 Share-based payments (continued)

Management equity incentive plan of compass

Compass operates a management equity incentive plan (the "**Plan**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Plan are all executives of the Euro-Pro Group. The Plan became effective on September 29, 2017 and, unless otherwise canceled or amended, will be terminated after both the completion of an IPO and the determination of the full number of vested shares in accordance with the Plan following December 31, 2021.

Compass issued Profit Interests ("**PI**") shares which do not confer rights on the holders to vote at shareholders' meetings. Vesting of awards shall be calculated following each of Compass' four fiscal years ending December 31 of 2018, 2019, 2020 and 2021 respectively.

Upon the conclusion of each such fiscal year, a number of PI shares subject to each award outstanding shall vest with a value determined by the formula: (audited net profit (the "**Net Profit**") - US$53 million) x 16 x 1.875% x applicable percentage, where the applicable percentage is a proportion of the number of shares granted to an individual employee to the total number of shares granted to all employees entitled to this equity incentive plan, subject to the grantee's continued service through the end of the applicable fiscal year. The number of PI shares vested shall be determined by converting such value to a number of shares using an amount equal to 16 times of the Net Profit. Awards granted are subject to performance conditions relating to the Net Profit of each of the fiscal years ending December 31 of 2018, 2019, 2020 and 2021.

On September 29, 2017 ("**First Grant Date**"), a total of 2,919 PI share awards (the "**First Tranche**") were granted to 9 eligible employees at nil consideration. The fair value of the First Tranche was US$8,210,000.

On March 30, 2018 ("**Second Grant Date**") and October 15, 2018 ("**Third Grant Date**"), Compass granted 162 (the "**Second Tranche**") and 135 (the "**Third Tranche**") PI share awards to 2 eligible employees at nil consideration, respectively. The fair values of the Second Tranche and the Third Tranche were US$461,000 and US$387,000, respectively.

34 Share-based payments (continued)

Management equity incentive plan of compass (continued)

The fair values of equity-settled share awards were estimated as at the date of grant, using a Monte-Carlo Simulation Model, taking into account the terms and conditions upon which the PI shares were granted. The following table lists the key inputs to the model used:

	2018	2017
Life of the Plan	0.21~3.21 years 0.76~3.76 years	1.25~4.25 years
Annualized staff turnover rate	18.0%	17.0%
Expected EBITDA volatility*	35.2%~36.9%	37.7%
Discount rate ("**WACC**")	16.0%	15.5%

* The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

A summary of movements in the number of PI shares is as follows:

	Notes	The First Tranche Number of PI shares	The Second Tranche Number of PI shares	The Third Tranche Number of PI shares	Total Number of PI shares
At January 1, 2018		2,919	–	–	2,919
Granted during the year	(i)	–	162	135	297
Forfeited during the year	(i)	(270)	–	–	(270)
At December 31, 2018 and at January 1, 2019		**2,649**	**162**	**135**	**2,946**
Vested during the year	(ii)	**(193)**	**(11)**	**(10)**	**(214)**
Forfeited during the year	(iii)	**(113)**	**(151)**	**–**	**(264)**
Canceled during the year	(iii)	**(2,343)**	**–**	**(125)**	**(2,468)**
At December 31, 2019		**–**	**–**	**–**	**–**

34 Share-based payments (continued)

Management equity incentive plan of compass (continued)

(i) During the year ended December 31, 2018, Compass recognized shared award expenses of US$1,262,000.

(ii) On September 9, 2019, the board of directors of Compass resolved an amendment to the Plan (the "**Amendment**"). Pursuant to the Amendment, the Net Profit may be determined by the board of directors of Compass from time to time by adding back of any amount relating to any costs, expenses, charges, damages or losses incurred during such fiscal year that are considered by the board of directors of Compass as non-cash, non-recurring and/or non-operating items in nature (at least one of the three criteria should be satisfied). In accordance with its power and authority under the Plan as so amended, the board of directors of Compass has determined that the Net Profit for the fiscal year ended December 31, 2018 was adjusted from US$22,959,000 to US$77,320,000 by adding back certain non-cash, non-recurring and non-operating items. Accordingly, 214 PI shares were vested and additional share award expenses of US$344,000 were recognized in profit or loss immediately.

(iii) On October 11, 2019, the board of directors of Compass resolved to terminate the Plan (the "**Termination**"). The effect of the Termination shall be that all PI shares (other than vested PI shares) shall be canceled and no additional shares shall be granted or issued under the Plan. This is treated as if it had vested on the date of cancelation and the aggregated share award expenses not yet recognized for the Plan of US$1,785,000 were recognized in profit or loss immediately.

Restricted stock units plan of the group

On October 9, 2019, the Company approved a restricted share units plan (the "**RSU Plan**"). The purpose of the RSU Plan is to recognize and reward participants for their contribution to the Group, to attract the best available personnel to provide service to the Group, and to provide additional incentives to them to remain with and further promote the success of the Group's business. Subject to any early termination as may be determined by the board pursuant to the terms of the RSU Plan, the RSU Plan shall be valid and effective for a period of 10 years commencing on the adoption date of October 9, 2019, after which no further awards will be granted, but the provisions of this RSU Plan shall in all other respects remain in full force and effect and the awards granted during the term of the RSU Plan may continue to be valid and exercisable in accordance with their respective terms of grant.

34 Share-based payments (continued)

Restricted stock units plan of the group (continued)

The Company has set up two structured entities ("**RSU Holding Entities**"), namely Golden Tide International Limited and Grand Riches Ventures Limited which are solely for the purpose of administering and holding the Company's shares for the RSU Plan. Pursuant to a resolution passed by the board of directors of the Company on October 9, 2019, the Company issued 141,618,409 ordinary shares to the RSU Holding Entities at a par value of USD0.00001 each, being the ordinary shares underlying the Company's RSU Plan. In addition, the Company has entered into a trust deed with an independent trustee (the "**RSU Trustee**") on October 14, 2019, pursuant to which the RSU Trustee shall act as the administrator of the Company's RSU Plan. The Company has the power to direct the relevant activities of the RSU Holding Entities and it has the ability to use its power over the RSU Holding Entities to affect its exposure to returns. Therefore, the assets and liabilities of the RSU Holding Entities are included in the Group's consolidated statement of financial position and the ordinary shares held for the Company's RSU Plan were regarded as treasury shares with nil consideration.

The total number of shares underlying the RSU Plan shall not exceed the aggregate of 141,618,409 shares as of the date of adoption of the RSU Plan, representing 4.2% of the issued shares of the Company. A total of 129,265,801 RSUs were granted to directors and employees with nil consideration with the vesting schedule as below:

- 30% of the RSUs, namely 89,197,347 RSUs, will not be subject to any performance-based conditions and will vest in four annual installments equally on May 31 of 2020 to 2023 (the "**Time RSUs**"). If the grantees are employed or in service with the Group as of January 31 of any year, they will be entitled to the Time RSUs to be vested on May 31 of the same year.

- 70% of the RSUs, namely 38,227,415 RSUs, will be subject to performance-based conditions and will vest (if any, fully or partially) over four years on May 31 of 2020 to 2023 (the "**Performance RSUs**"). Performance target will be measured by reference to the financial performance of the Group, Joyoung and SharkNinja for each of the four financial years ending December 31 of 2019, 2020, 2021 and 2022 (the "**Plan Year**"). If the grantees are employed or in service with the Group as of January 31 of any year, they will be entitled to the Performance RSUs to be vested on May 31 of the same year.

Grantees are not entitled to any rights of a shareholder (including voting and dividend rights) on the unvested portion of the RSUs.

34 Share-based payments (continued)

Restricted stock units plan of the group (continued)

The following RSUs were outstanding under the RSU Plan:

	Number of RSUs
At January 1, 2019	**–**
Granted during the year	**129,265,801**
Forfeited during the year	**(1,841,039)**
At December 31, 2019	**127,424,762**

The fair value of the RSUs granted on the grant date was US$81,825,000. During the year ended December 31, 2019, the Group recognized share award expenses of US$23,808,000.

The fair values of RSUs were estimated as at the date of grant using a Monte-Carlo Simulation Model, considering the terms and conditions upon which the RSUs were granted. The following table lists the key inputs to the model used:

	2019
Life of the RSU Plan	**0.33–3.33 years**
Annualized staff turnover rate	**0%–10%**
Annualized volatility of revenue change*	**25.0%**
Discount rate ("**WACC**")	**16.0%**

* The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

At the date of approval of this report, the Company had 129,745,272 RSUs outstanding under the RSU Plan, which represented approximately 3.8% of the Company's shares in issue as at that date.

35 Reserves/(deficits)

The amounts of the Group's reserves/(deficits) and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

Pursuant to the relevant rules and regulations in the PRC and the articles of association of certain PRC subsidiaries of the Group, the subsidiaries appropriate 10% of their profit after taxation to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their respective registered capital. During the reporting period, no statutory reserve was appropriate as the accumulated statutory reserve fund of the Group's PRC subsidiaries has reached 50% of their respective registered capital.

Put option was granted to a non-controlling shareholder due to the acquisition of the Euro-Pro Group. Financial liability is recorded at the present value of the redemption amount and the corresponding debit is made to the put option reserve and non-controlling interests on initial recognition. Put option attributable to owners of the parent and other non-controlling interests amounted to US$344,548,000 and US$243,168,000, respectively according to their shareholdings. The amounts attributed to other non-controlling interests were transferred to the put option reserve upon the Reorganization in June 2019. On December 18, 2019, the financial liabilities associated with the put option of US$685,655,000 were terminated and transferred to the put option reserve and retained profits. For details, refer to note 31 to the financial statements.

36 Non-controlling interests

	2019 US$'000	2018 US$'000
Profit/(loss) for the year allocated to non-controlling interests:		
Compass (a)	**(7,427)**	16,593
Joyoung Co., Ltd.	**52,172**	64,686
Shanghai Lihong	**(1,702)**	(4,039)
	43,043	77,240

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019 US$'000	2018 US$'000
Percentage of equity interest held by non-controlling interests as at December 31:		
Joyoung Co., Ltd. (b)	**41.11%**	58.04%
Profit for the year allocated to non-controlling interests:		
Joyoung Co., Ltd. (b)	**52,172**	64,686
Dividends paid to non-controlling interests:		
Joyoung Co., Ltd. (b)	**62,502**	41,049
Accumulated balances of non-controlling interests at the reporting date:		
Joyoung Co., Ltd. (b)	**220,028**	275,130

Notes:

(a) As at June 24, 2019, the non-controlling interests of Compass became the shareholders of the Company and Compass became a wholly-owned subsidiary of the Company after the completion of a series of share transfer arrangements.

(b) As at April 16, 2019, an individual who was the sole shareholder of Bilting Developments Limited ("**Bilting**"), a non-controlling interest of Joyoung Co., Ltd., entered into a share exchange arrangement with the Company. Upon the completion of the arrangement in April 2019, the individual became a shareholder of the Company and Bilting became a wholly-owned subsidiary of the Company. Profit for the year of Joyoung Co., Ltd. attributable to non-controlling interests for the years ended December 31, 2019 and 2018, comprised of an amount of US$4,040,000 and US$18,868,000, respectively, allocated to Bilting prior to the Reorganization.

36 Non-controlling interests (continued)

The following tables illustrate the summarized financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2019	**Joyoung Co., Ltd. US$'000**
Revenue	**(1,335,332)**
Total expenses	**1,217,941**
Loss for the year	**(117,391)**
Total comprehensive income for the year	**(118,529)**
Current assets	**803,510**
Non-current assets	**287,644**
Current liabilities	**(546,058)**
Non-current liabilities	**(7,028)**
Net cash flows from operating activities	**181,562**
Net cash flows used in investing activities	**(52,852)**
Net cash flows used in financing activities	**(92,369)**
Net increase in cash and cash equivalents	**36,341**

2018	Compass US$'000	Joyoung Co., Ltd. US$'000
Revenue	1,480,920	1,210,070
Total expenses	(1,461,374)	(1,095,345)
Profit for the year	19,546	114,725
Total comprehensive income for the year	16,805	88,561
Current assets	701,640	755,717
Non-current assets	1,590,228	203,354
Current liabilities	(420,384)	(399,893)
Non-current liabilities	(1,553,673)	(1,332)
Net cash flows from operating activities	134,860	61,745
Net cash flows (used in)/from investing activities	(72,601)	51,609
Net cash flows used in financing activities	(68,967)	(77,976)
Net (decrease)/increase in cash and cash equivalents	(6,708)	35,378

37 Disposal of subsidiaries

On May 31, 2018, a subsidiary of the Group disposed of 100% share interests in Suzhou Joyoung to Well Lead Medical Co., Ltd. ("廣州維力醫療器械股份有限公司") (a third party of the Group) at a consideration of RMB106,890,000 (equivalent to US$15,547,000).

On August 25, 2018, a subsidiary of the Group disposed of 50% share interests in Hangzhou Joyoung to Ningbo Meishan Free Trade Port Area Lihao Investment Limited ("寧波梅山保稅港區力豪投資有限公司") (a related party of the Group) at a consideration of RMB29,941,000 (equivalent to US$4,354,000). After the disposal, Hangzhou Joyoung became an associate of the Group.

	Notes	2018 US$'000
Net assets disposed of:		
Property, plant and equipment	14	6,406
Investment properties	15	4,944
Cash and bank balances		7,234
Trade receivables		249
Prepayments, other receivables and other assets		9,087
Inventories		1,531
Prepaid land lease payments	16	944
Other non-current assets		5,269
Deferred tax assets	30	157
Interest-bearing bank borrowings		(7,272)
Trade payables		(6,211)
Other payables and accruals		(3,058)
Tax payable		(288)
Deferred tax liabilities	30	(9)
		18,983
Net: net assets associated with the equity interest in non-controlling interests		(6,224)
Net assets associated with the equity interests in subsidiaries		12,759
Fair value of the residual investment		2,613
Gain on disposal of subsidiaries, net	6	9,755
Satisfied by:		
Cash		15,547
Other receivables		4,354
		19,901

37 Disposal of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2018 US$'000
Cash consideration	15,547
Cash and bank balances disposed of	(7,234)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	8,313

38 Notes to the consolidated statement of cash flows

(a) Major non-cash transactions

Dividends set-off

During the year ended December 31, 2019, the dividends declared by Shanghai Lihong amounting to US$9,947,000 (2018: US$86,745,000) were used to set off the amounts due from shareholders.

(b) Changes in liabilities arising from financing activities

	Dividends payable US$'000	**Interest-bearing bank borrowings US$'000**	**Lease liabilities US$'000**
At January 1, 2019	**3,200**	**1,185,265**	**63,592**
Changes from financing cash flows	**(94,876)**	**(125,766)**	**(16,787)**
Dividends declared	**101,635**	**–**	**–**
Set off with amounts due from shareholders	**(9,947)**	**–**	**–**
Additions of lease liabilities	**–**	**–**	**12,480**
Interest expenses during the year	**–**	**15,751**	**2,996**
Exchange differences	**(12)**	**45**	**(54)**
At December 31, 2019	**–**	**1,075,295**	**62,227**

38 Notes to the consolidated statement of cash flows (continued)

(b) Changes in liabilities arising from financing activities (continued)

	Dividends payable US$'000	Interest-bearing bank borrowings US$'000	Lease liabilities US$'000
At January 1, 2018	—	1,203,721	67,691
Changes from financing cash flows	(83,135)	(27,974)	(13,868)
Dividends declared	173,610	—	—
Set off with amounts due from shareholders	(86,745)	—	—
Additions of lease liabilities	—	—	7,418
Interest expenses during the year	—	9,518	2,964
Exchange differences	(530)	—	(613)
At December 31, 2018	3,200	1,185,265	63,592

39 Pledge of assets

Details of the Group's trade and bills payables and bank borrowings, which are secured by the assets and equity interests of the Group, are included in notes 27, 29 and 41, to the financial statements.

40 Related party transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the reporting period:

	Notes	2019 US$'000	2018 US$'000
Sales of goods to associates:	i		
Beijing Zhongdingzhilian Trading Co., Limited (北京中鼎智聯商貿有限公司)		24,396	24,052
Shanghai Fanqi Health Technology Development Co., Limited (上海泛齊健康科技發展有限公司)		11,840	11,669
Jinan Zhengming Trading Co., Limited (濟南正銘商貿有限公司)		11,569	11,399
Shenzhen Northwest Sunshine Appliance Co., Limited (深圳市西貝陽光電器有限公司)		9,754	10,365
Shenyang Boerman Trading Co., Limited (瀋陽伯爾曼商貿有限公司)		8,401	2,841
Network Technology Co., Limited (深圳華強九陽網絡技術有限公司)		–	1,729
Henan Xulian Trading Co., Limited (河南旭聯商貿有限公司)		8,804	8,520
Sichuan Xindian Trading Co., Limited (四川省信電商貿有限公司)		7,012	8,496
Others	ii	17,257	23,764
		99,033	102,835
Purchases of goods from associates:	i		
Hangzhou XinDuoDa Electronic Technology Co., Limited (杭州信多達電子科技有限公司)		107,127	120,226
Hangzhou Hongfeng Electronic Fittings Co., Limited (杭州弘豐電子配件有限公司)		80,260	73,385
Hangzhou Yongyao Technology Co., Limited (杭州永耀科技有限公司)		56,500	60,288
Shandong Shengning Appliance Co., Limited (山東勝寧電器有限公司)		35,487	33,193
Shandong Yiteng Small Appliance Co., Limited (山東一騰小家電有限公司)		24,823	20,968
Ningbo Jinhai Mold Plastic Co., Limited (寧波錦海模具塑膠有限公司)		6,470	10,010
Others	ii	659	414
		311,326	318,484

40 Related party transactions (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the reporting period: (continued)

	Notes	2019 US$'000	2018 US$'000
Rental income from associates	iii	**656**	1,293
Interest income from associates	iv	**5**	31
Purchase of properties from an associate	v	**–**	14,129
Disposal of subsidiaries to related parties	vi	**–**	5,660
Disposal of equity investments to a shareholder	vii	**–**	6,981
Advances to shareholders	viii	**5,172**	–
Settlement of advance to shareholders	viii	**10,834**	89,011
Loan from shareholders	ix	**477,114**	–
Repayment to shareholders	ix	**477,114**	–

Notes:

(i) The sales to/purchases from the associates were made according to the prices and conditions mutually agreed by both parties.

(ii) The amounts represented the aggregate transaction amounts with certain of the Group's associates that are widely dispersed and not individually significant.

(iii) The rental income from the associates were made according to the contracts agreed by both parties.

(iv) The interest income from associates was made according to the benchmark one-year lending rate.

(v) The purchase of properties from Hangzhou Joyoung Properties Limited ("杭州九陽置業有限公司") was made according to the prices and conditions mutually agreed by both parties.

(vi) In August 2018, a subsidiary of the Group disposed of a subsidiary to Ningbo Meishan Free Trade Port Area Lihao Investment Limited ("寧波梅山保稅港區力豪投資有限公司"), which was controlled by Mr. Wang Xuning. The outstanding balance is included in prepayments, other receivables and other assets as at December 31, 2018, further details of which are given in note 37 to the financial statements.

(vii) In May 2018, a subsidiary of the Group disposed of equity investments to Shanghai Hezhou Investment Co., Ltd ("上海合舟投資有限公司"), which was controlled by Mr. Wang Xuning. The consideration was partially settled by cash, and the outstanding balance was included in prepayments, other receivables and other assets as at December 31, 2018.

(viii) The advance to shareholders was interest-free, and had been partially settled with dividends amounting to US$9,947,000 (2018: US$86,745,000) during the year of 2019, and settled with cash amounting to US$887,000 (2018: US$2,266,000) during the year of 2019.

(ix) On June 16, 2019, as a reorganization step, JS Holding borrowed a loan of US$470 million from Industrial and Commercial Bank of China (Asia) Limited and lent the money to the Company. The Company through JY-SN, then acquired a 100% equity interest in Xiang Hong from Chen Hong (a wholly-owned subsidiary of Zheng Hong, and Zheng Hong is a wholly-owned subsidiary of Shanghai Lihong). Chen Hong distributed the consideration received for the disposal of Xiang Hong to Zheng Hong, who then repaid the loan of US$470 million in full, as part of the Reorganization. The amounts due to shareholders are interest-free and have no fixed payments terms. The loan of JS Holding is secured by the pledge of 276,300,000 shares of Joyoung Co., Ltd. In October 2019, the Company repaid the loan to shareholders.

40 Related party transactions (continued)

(b) Outstanding balances with related parties:

(i) Details of the Group's trade balances with its associates as at the end of the reporting period are disclosed in notes 24 and 27 to the financial statements.

(ii) Details of the Group's advances to shareholders as at the end of the reporting period are disclosed in note 25 to the financial statements. The balance is unsecured, interest-free and has no fixed terms of settlement.

(c) Key management compensation

Compensation for key management other than those for directors as disclosed in note 9 to the financial statements is set out below:

	2019 US$'000	2018 US$'000
Salaries, allowances and benefits in kind	**1,733**	1,632
Performance-related bonuses	**3,258**	2,294
Pension scheme contributions	**30**	19
Share award expense	**9,514**	431
Total	**14,535**	4,376

41 Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

December 31, 2019

Financial assets	Financial assets at fair value through other comprehensive income US$'000	Financial assets at fair value through profit or loss US$'000	Financial assets at amortized cost US$'000	Total US$'000
Financial assets at fair value through profit or loss	–	84,488	–	84,488
Financial assets designated at fair value through other comprehensive income	38,318	–	–	38,318
Other non-current assets	–	–	819	819
Trade and bills receivables	332,011	–	472,239	804,250
Financial assets included in prepayments, other receivables and other assets	–	–	29,430	29,430
Pledged deposits	–	134,804	43,231	178,035
Cash and cash equivalents	–	–	421,316	421,316
	370,329	219,292	967,035	1,556,656

Financial liabilities	Financial liabilities at amortized cost US$'000	Total US$'000
Trade and bills payables	530,137	530,137
Financial liabilities included in other payables and accruals	26,208	26,208
Interest-bearing bank borrowings	1,075,295	1,075,295
Lease liabilities	62,227	62,227
	1,693,867	1,693,867

41 Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

December 31, 2018

Financial assets	Financial assets at fair value through other comprehensive income US$'000	Financial assets at fair value through profit or loss US$'000	Financial assets at amortized cost US$'000	Total US$'000
Financial assets at fair value through profit or loss	—	76,647	—	76,647
Financial assets designated at fair value through other comprehensive income	35,643	—	—	35,643
Other non-current assets	—	—	1,145	1,145
Trade and bills receivables	349,342	—	423,318	772,660
Financial assets included in prepayments, other receivables and other assets	—	—	25,194	25,194
Pledged deposits	—	—	26,588	26,588
Cash and cash equivalents	—	—	180,872	180,872
	384,985	76,647	657,117	1,118,749

Financial liabilities	Financial liabilities at fair value through profit or loss US$'000	Financial liabilities at amortized cost US$'000	Total US$'000
Trade and bills payables	—	408,632	408,632
Financial liabilities included in other payables and accruals	—	23,430	23,430
Interest-bearing bank borrowings	—	1,185,265	1,185,265
Financial liabilities associated with put option	656,650	—	656,650
Lease liabilities	—	63,592	63,592
	656,650	1,680,919	2,337,569

42 Fair value and fair value hierarchy of financial instruments

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance manager analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, other than those measured at fair value, financial assets included in prepayments, other receivables and other assets, trade receivables, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

For financial assets measured at fair value, the following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Bills receivable and pledged deposits measured at fair value are categorized as level 2, while financial assets at fair value through profit or loss, financial assets designated at fair value through other comprehensive income and financial liabilities associated with put option are categorized as level 3.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis at the end of each reporting period:

	2019 US$'000	2018 US$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Unlisted financial assets at fair value through profit or loss/designated at fair value through other comprehensive income	**122,623**	112,290	Level 3	Discounted cash flows. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio, discounted at a rate that reflects the credit risk of various counterparty.	Expected yield of the underlying investment portfolio and the discount rate
Financial liabilities associated with put opinion	**–**	656,650	Level 3	Discount of the repurchase price (note 31)	Compass' forecasted EBITDA during a 12-month period prior to the exercise date, and the discount rate (note 31)

42 Fair value and fair value hierarchy of financial instruments (continued)

The following table demonstrates the sensitivity to reasonably possible changes in discount rate, with all other variables held constant, of the fair value of the financial assets at fair value through profit or loss:

	2019 **US$'000**	2018 US$'000
Discount rate−1%	**50**	36
Discount rate+1%	**(49)**	(36)

The following table demonstrates the sensitivity to reasonably possible changes in discount rate, with all other variables held constant, of the fair value of the financial assets designated at fair value through other comprehensive income:

	2019 **US$'000**	2018 US$'000
Discount rate−1%	**3,289**	2,540
Discount rate+1%	**(3,116)**	(2,271)

The following table demonstrates the sensitivity to reasonably possible changes in discount rate and the repurchase price as at September 30, 2020, with all other variables held constant, of the fair value of the financial liabilities associated with put option.

	2018* US$'000
Discount rate*(1–5%)	2,529
Discount rate*(1+5%)	(2,514)
Compass' forecasted EBITDA during a 12-month period prior to the exercise date*(1+3%)	19,696
Compass' forecasted EBITDA during a 12-month period prior to the exercise date*(1–3%)	(19,696)

* The financial liabilities associated with the put option was terminated and transferred to put option reserve and retained profits on December 18, 2019 (note 31).

43 Financial risk management objectives and policies

The Group's principal financial instruments, comprise bank loans, other interest-bearing loans, financial assets at fair value through profit or loss, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables and financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

43 Financial risk management objectives and policies (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax US$'000
2019		
If interest rate increases by	**1**	**(5,042)**
If interest rate decreases by	**(1)**	**5,042**
2018		
If interest rate increases by	1	(11,321)
If interest rate decreases by	(1)	11,321

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 1.5% (2018: 1.2%) of the Group's sales in 2019 were denominated in currencies other than the functional currencies of the operating units making the sales. Management has assessed that the Group's profit before tax is not sensitive to the currency exchange rate at the end of each reporting period.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB and HK$ exchange rate of the Group's equity due to changes in the currency translation.

43 Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in equity* US$'000
December 31, 2019		
If US$ weakens against RMB	**5**	**36,050**
If US$ strengthens against RMB	**(5)**	**(36,050)**
If US$ weakens against HK$	**5**	**9,864**
If US$ strengthens against HK$	**(5)**	**(9,864)**
December 31, 2018		
If US$ weakens against RMB	5	28,805
If US$ strengthens against RMB	(5)	(28,805)
If US$ weakens against HK$	5	(6)
If US$ strengthens against HK$	(5)	6

* Excluding retained profits.

Credit risk

The Group is exposed to credit risk in relation to its trade receivables and other receivables, pledged deposits, and cash and cash equivalents.

The Group expects that there is no significant credit risk associated with pledged deposits, and cash and cash equivalents, since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group expects that the credit risk associated with trade receivables and other receivables due from related parties is considered to be low, since related parties have a strong capacity to meet its contractual cash flow obligation in the near term. Thus, impairment provision recognized during the reporting period was nil for the trade receivables and other receivables due from related parties.

43 Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group trades only with recognized and creditworthy third parties. Concentrations of credit risk are managed by analysis by customer/counterparty. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables and other receivables are widely dispersed. The expected credit losses for trade receivables are disclosed in note 24. Financial assets included in prepayments, other receivables and other assets mainly represent rental receivables, advance from employees, deposits with suppliers and amounts due from related parties. Credit risk is managed by analysis by counterparties, as no comparable companies with credit ratings can be identified. Expected credit losses are estimated with reference to the historical loss record of the Group and other reasonable forward-looking information, which resulted in expected credit losses of US$372,000 (2018: US$559,000) as at December 31, 2019. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amounts as disclosed in notes 24 and 25 to the financial statements.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligation due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding to finance its working capital needs as well as capital expenditure in respect of its development projects, and flexibility through the use of stand-by credit facilities.

43 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on contractual undiscounted payments, is as follows:

Year ended December 31, 2019

	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Interest-bearing bank borrowings	20,198	61,610	1,211,131	–	1,292,939
Trade and bills payables	530,137	–	–	–	530,137
Financial liabilities included in other payables and accruals	26,208	–	–	–	26,208
Lease liabilities	3,148	8,986	30,803	31,727	74,664
	579,691	70,596	1,241,934	31,727	1,923,948

Year ended December 31, 2018

	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Interest-bearing bank borrowings	7,678	492,131	274,860	424,787	1,199,456
Trade and bills payables	408,632	–	–	–	408,632
Financial liabilities included in other payables and accruals	23,430	–	–	–	23,430
Lease liabilities	3,517	10,244	25,761	42,036	81,558
	443,257	502,375	300,621	466,823	1,713,076

43 Financial risk management objectives and policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for capital management during the reporting period.

44 Events after the reporting period

(i) Since the outbreak of novel coronavirus ("**COVID-19**") in early 2020, factories in China have been temporarily closed for a certain period following the end of the Chinese New Year holidays on February 10, 2020. Since all suppliers are located outside the Hubei province of China where the COVID-19 outbreak has been the most severe, production in China has since begun a slow return toward normal levels. As far as the international markets excluding China are concerned, the Group estimates the disruption to its supply chain was 4 to 6 weeks on average. For businesses in North America and Europe, the Group typically carries about two months' worth of inventories in warehouses which has helped to minimize the supply impact that the COVID-19 outbreak has caused except for certain products launched in 2019 and outperformed expectations which left lower than average inventory levels on those products at the start of 2020. As a result, the Group has not been able to fully meet the demand for those products.

For the Joyoung's business within China, the COVID-19 outbreak has impacted its business in the first quarter of 2020. In particular, offline sales has suffered considerably, and to some extent, online sales was also affected due to logistic issues. Yet, because of the inventory the Group has stocked up for the Chinese New Year, inventory level is still sufficient and positively helps the sales on domestic e-commerce platforms. Overall, domestic sales in China in the first quarter will be lower than expected, and it will gradually recover in the second quarter.

44 Events after the reporting period (continued)

With the continued spread of COVID-19 to Europe and North America, the Group is closely monitoring the end-consumer demand in those markets. Consumers are staying home, and retailers have announced the closure of offline stores. In addition, logistics may be impacted including the ability of the Group's distribution centers to operate. As a result, the Group is starting to see more of a shift to online sales channels.

Given the inherent uncertainty about the future impacts of COVID-19, it is not possible to reliably predict the impact on its results of the year. The Group does expect there will be a negative impact on the results of operations in 2020. However, the Group believes many of the product lines including those within cooking appliances category are well positioned in light of consumers likely desire to cook at home rather than eat at restaurants. In addition, strong sales at the end of 2019 led to high demand from retailers in North America and Europe at the beginning of 2020 which will also help to mitigate the impact of COVID-19 on the first half year's results. The Group will monitor the situation and update the shareholders and potential investors as and when appropriate.

(ii) On January 6, 2020, SharkNinja Venus Technology Company Limited (the "**Purchaser**"), an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with all the shareholders of Qfeeltech (Beijing) Co., Ltd. (the "**Vendors**"), pursuant to which the Purchaser has conditionally agreed to purchase and the Vendors have conditionally agreed to sell the 100% equity interest in Qfeeltech (Beijing) Co., Ltd. at a cash consideration of not more than RMB210 million (the "**Acquisition**"). The Acquisition will be completed in several steps and the completion is expected to take place in 2023.

(iii) On March 17, 2020, Global Appliance LLC, an indirectly wholly-owned subsidiary of the Company, and the Company as borrowers, entered into a facilities agreement with a bank as arranger and agent, for loan facilities in the aggregate amount of US$1,200 million (the "**Facilities**"). The final maturity date of the Facilities shall be the date falling 60 months after the date of initial utilization.

45 Statement of financial position of the company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**773,338**	–
CURRENT ASSETS		
Prepayments, other receivables and other assets	**58**	–
Cash and cash equivalents	**205,282**	–
Total current assets	**205,340**	–
CURRENT LIABILITIES		
Other payables and accruals	**17,901**	–
Due to a subsidiary	**7,744**	7
Total current liabilities	**25,645**	7
NET CURRENT ASSETS/(LIABILITIES)	**179,695**	(7)
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**282,066**	–
Net assets	**670,967**	(7)
EQUITY		
Issued capital	**33**	–
Share premium	**691,797**	–
Capital reserve	**23,806**	–
Reserves/(deficits)	**(44,669)**	(7)
	670,967	(7)

45 Statement of financial position of the company (continued)

A summary of the Company's reserves is as follows:

	Issued capital US$'000 (note 33)	Share premium US$'000	Share award reserve US$'000 (note 34)	Retained profits/ (deficits) US$'000	Total US$'000
At the date of incorporation (July 26, 2018)	–	–	–	–	–
Total comprehensive income for the period	–	–	–	(7)	(7)
At December 31, 2018 and January 1, 2019	**–**	**–**	**–**	**(7)**	**(7)**
Total comprehensive income for the year	**–**	**–**	**–**	**(44,662)**	**(44,662)**
Acquisition of non-controlling interests	**27**	**317,225**	**–**	**–**	**317,252**
Equity-settled share award scheme	**–**	**–**	**23,806**	**–**	**23,806**
Issue of shares (note 33)	**6**	**374,572**	**–**	**–**	**374,578**
At December 31, 2019	**33**	**691,797**	**23,806**	**(44,669)**	**670,967**

46 Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

47 Approval of the financial statements

The financial statements were approved and authorized for issue by the board of directors of the Company on March 31, 2020.

Definitions

"Annual General Meeting"	the forthcoming annual general meeting of the Company to be held on June 5, 2020
"Audit Committee"	the audit committee under the Board
"Board"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"China" or "PRC"	the People's Republic of China, and for the purposes of this annual report for geographical reference only (unless otherwise indicated), excluding Taiwan, the Macau Special Administrative Region of the PRC and the Hong Kong Special Administrative Region of the PRC
"Company", "Our Company" or "JS Global Lifestyle"	JS Global Lifestyle Company Limited, an exempted company incorporated in the Cayman Islands with limited liability on July 26, 2018 (formerly known as JY-Shark Company Limited from July 26, 2018 to March 24, 2019 and JS Lifestyle Global Company Limited from March 25, 2019 to March 26, 2019), and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance
"Compass"	Compass Cayman SPV, Ltd., an exempted company incorporated under the laws of the Cayman Islands on June 27, 2017, and a wholly-owned subsidiary of the Company
"Controlling Shareholders Group"	a group of individuals collectively and indirectly holding 47.06% of equity interest in our Company as at the Latest Practicable Date, namely Mr. Wang Xuning, Mr. Zhu Hongtao, Mr. Zhu Zechun, Ms. Yang Ningning, Ms. Huang Shuling, Ms. Han Run, and Mr. Jiang Guangyong
"Director(s)"	director(s) of the Company
"Global Offering"	the offer of the Shares for subscription as described in the section headed "Structure of the Global Offering" in the Prospectus
"Group" or "we"	the Company (any one or more of, as the context may require) and its subsidiaries and operating entities
"HK$" or "HKD"	Hong Kong dollars, the lawful currency for the time being of Hong Kong

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)
"Joyoung"	Joyoung Co., Ltd. (九陽股份有限公司), a company incorporated in the PRC, whose A shares are listed on the Shenzhen Stock Exchange (stock code 002242), and a subsidiary of the Company
"Latest Practicable Date"	April 20, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing"	listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	December 18, 2019, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Memorandum and Articles of Association"	the amended and restated memorandum and articles of association of the Company adopted and effective from the Listing Date and as amended from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"MR Investor"	Casa Brima LLC, a company incorporated under the laws of Delaware on April 8, 2019 which is wholly owned by Mr. Mark Rosenzweig, a director of Compass
"MR Trust Investor"	The SMCSB 2018 Trust, a trust established under the laws of Delaware dated January 3, 2018 for the benefits of children of Mr. Mark Rosenzweig
"Nomination Committee"	the nomination committee under the Board
"PRC"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated December 9, 2019 in connection with the Global Offering

"Reporting Period"	the year ended December 31, 2019
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Lihong"	Shanghai Lihong Enterprise Management Limited (上海力鴻企業管理有限公司), a company incorporated in the PRC and a subsidiary of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	ordinary share(s) of US$0.00001 each in the share capital of our Company
"Strategy Committee"	the strategy committee under the Board
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	the lawful currency of the United States
"%"	per cent

JS

Global