



# Techtronic Industries



## Annual Report **2018**

# Power Equipment, Accessories, Hand Tools and Storage

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# Outdoor Products

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# Floor Care and Appliances

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## Company Profile

Techtronic Industries Company Limited (the "Company", the "Group" or "TTI") is a fast growing world leader in Power Tools, Accessories, Hand Tools, Outdoor Power Equipment, and Floor Care and Appliances for Do-It-Yourselfer (DIY), professional and industrial users in the home improvement, repair, maintenance, construction and infrastructure industries. TTI is accelerating the transformation of these industries through environmentally friendly cordless technology.

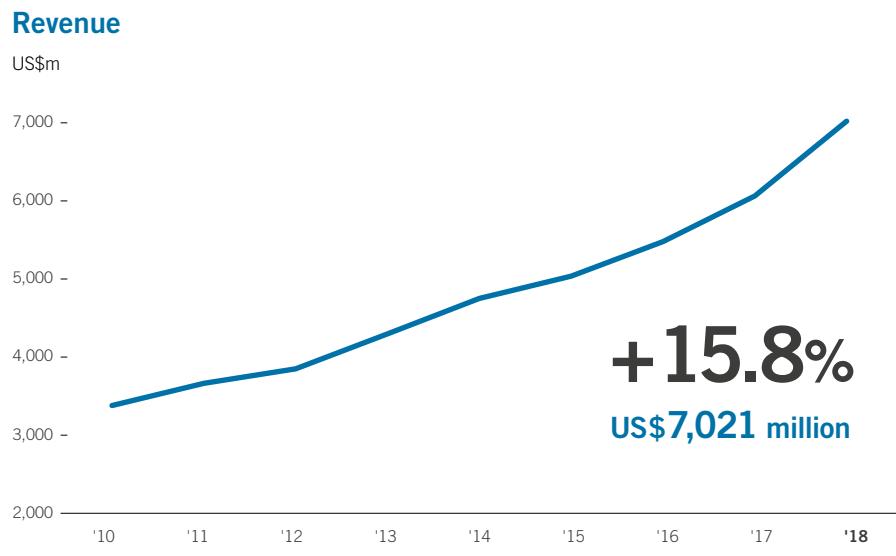
An unrelenting strategic focus on Powerful Brands, Innovative Products, Operational Excellence and Exceptional People drives our culture. The TTI brands like MILWAUKEE, RYOBI, and HOOVER, and their products are recognized worldwide for their deep heritage, superior quality, outstanding performance and compelling innovation. Through an ongoing company-wide commitment to cordless technology, innovation and strong customer partnerships, TTI consistently delivers exciting new products that enhance customer satisfaction and productivity. This focus and drive provides TTI with a powerful platform for sustainable leadership and strong growth.

Founded in 1985 and listed on the Stock Exchange of Hong Kong ("SEHK") in 1990, TTI is included in the Hang Seng Index as one of their fifty constituent stocks. The Company has a worldwide customer reach, and over 23,000 staff. TTI maintains a healthy financial position and in 2018 had worldwide annual sales of over US\$7 billion.

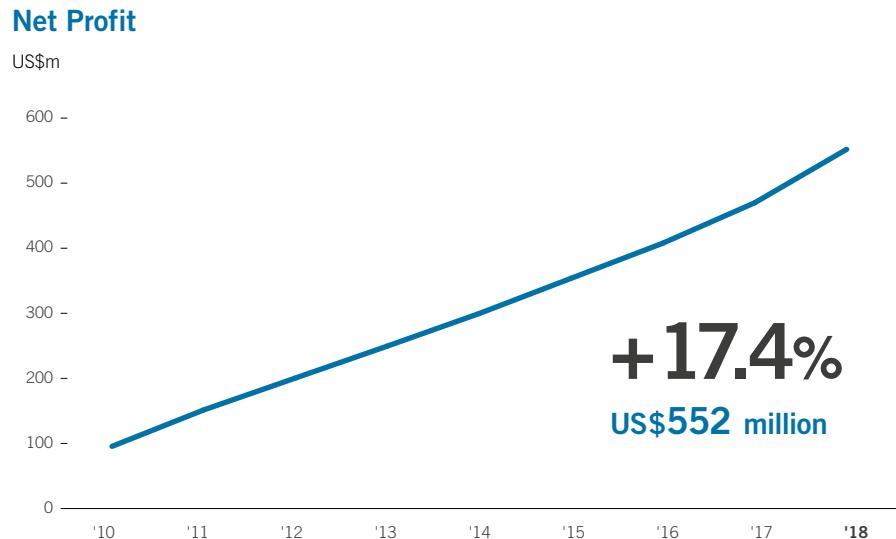
## Financial Highlights

- Record results on strong organic growth, fueled by new cordless products
- Sales expanded by 15.8% and net profit grew 17.4%
- Gross margin improvement for the tenth consecutive year
- Milwaukee Tool delivered an outstanding 28.2% sales growth
- RYOBI ONE+ sales grew double-digit
- Floor Care and Appliance business improved, growing sales 9.3%

**9th  
consecutive year  
of record revenue**



**11th  
consecutive year  
of record profit**



	2018 US\$' million	2017 US\$' million	Changes
Revenue	<b>7,021</b>	6,064	<b>+15.8%</b>
Gross profit margin	<b>37.2%</b>	36.7%	<b>+50 bps</b>
EBIT	<b>607</b>	519	<b>+17.0%</b>
Profit attributable to Owners of the Company	<b>552</b>	470	<b>+17.4%</b>
Basic earnings per share (US cents)	<b>30.16</b>	25.66	<b>+17.5%</b>
Dividend per share (approx. US cents)	<b>11.33</b>	8.69	<b>+30.4%</b>

## EBIT

**+17.0%**  
**US\$607 million**

EBIT margin improved by 10 basis points to 8.7%

## Gross Profit Margin

**+50 bps**  
**37.2%**

Driven by new product, mix, volume and productivity

## Basic Earnings per Share

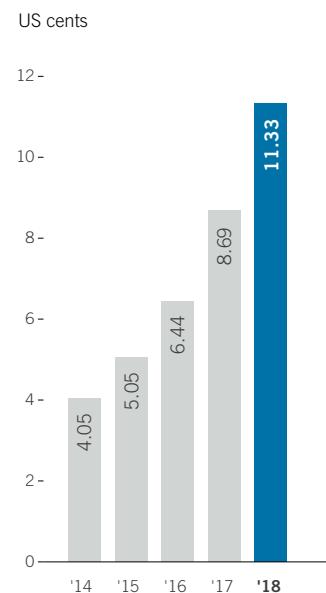
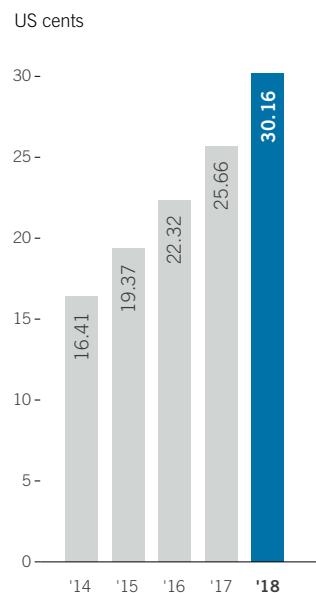
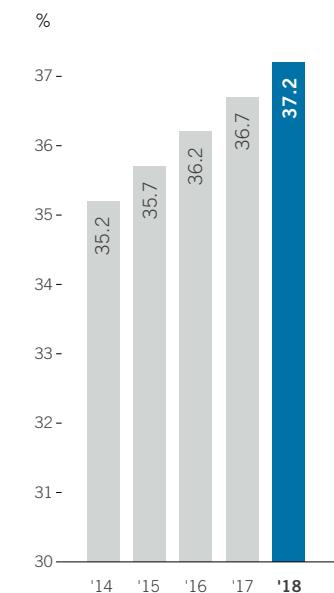
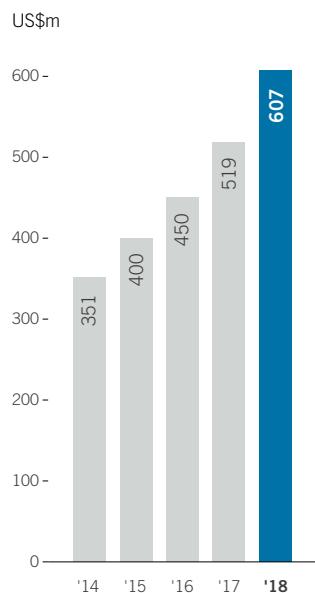
**+17.5%**  
**us30.16 cents**

Delivered the eleventh consecutive year of record basic EPS

## Dividend per Share

**+30.4%**  
**us11.33 cents**

The final dividend is US\$6.44 cents per share



# Chairman's Statement



"I am proud to announce that TTI has been included in the Hang Seng Index as one of their fifty constituent stocks. As a Company founded in Hong Kong in 1985 and listed on the SEHK in 1990 this is a landmark achievement in the Company history."

**Horst Julius Pudwill**  
Chairman

I am pleased to report that in 2018 we delivered another year of record profit and our ninth consecutive year of record revenue.

We have delivered impressive growth through the years while continuing to drive gross margin expansion. Our momentum could not be stronger and we are highly confident in our disciplined focus on the key strategic drivers of powerful brands, innovative products, exceptional people, and operational excellence.

## Industry Leading Year

TTI delivered another solid year in 2018 with record sales and profits. For 2018, we reported a 15.8% revenue increase over 2017 to US\$7.02 billion, the ninth consecutive year of record revenues. Every geographic region generated exceptional growth powered by a stream of exciting new cordless products. Our flagship Power Equipment business, representing 85.6% of total sales, grew 17.0% to US\$6.0 billion with operating profit up 16.9% to US\$598 million. The Milwaukee Tool business maintained its outstanding growth rate delivering a revenue increase of 28.2%, while the RYOBI business generated double-digit growth. The Floor Care and Appliance business grew 9.3% and showed meaningful improvement throughout the year. TTI is focused on transforming our industry through innovative cordless technology and remains dedicated to the core principles of powerful brands, innovative products, exceptional people, and operational excellence.

## Strong Financial Performance

Gross margin continued to improve from 36.7% in 2017 to 37.2% in 2018 driven by new product, mix, volume and productivity. We maintained our relentless focus on driving efficiencies throughout our operations while offsetting commodity inflation. Our EBIT increased 17.0% to US\$607 million, with the EBIT margin improving by 10 basis points to 8.7%. Shareholders' profits rose 17.4% to US\$552 million, with earnings per share increasing 17.5% over 2017 to US30.16 cents. Through our highly disciplined working capital management we again delivered a net cash position.

The Board is recommending a final dividend of HK50.00 cents (approximately US6.44 cents) per share. Together, with the interim dividend of HK38.00 cents (approximately US4.89 cents) per share, this will result in a full-year dividend of HK88.00 cents (approximately US11.33 cents) per share, against HK67.50 cents (approximately US8.69 cents) per share in 2017, an increase of 30.4%.

## Reshaping Cordless Performance

TTI continues on its path to growth by being on the technology forefront with a superior lithium battery cordless product portfolio. We see cordless as the future of power equipment and floor care products with a transition that is expanding at a rapid rate. TTI has strategically committed significant resources in R&D to develop innovative products that redefine how individuals conduct work at home and on the jobsite. We continue to enter new markets and verticals as our technology advancements create opportunities previously unimagined. We are launching cutting edge innovation that delivers better performance, outstanding ergonomics, improved productivity and increased jobsite safety.

Our powerful product development capabilities and deep technical cordless expertise in lithium battery technology, high performance brushless motors, and system electronics are showcasing our industry leadership. Leveraging our exceptional brands and overarching battery platforms, we are producing a growing network effect and attracting users with our cordless innovations at a swift pace. TTI is changing the cordless landscape by investing in the technology that is building our future.

## Operational Excellence

An important element of our strategic approach to continuous operational improvement is our diversified global manufacturing network. With multiple manufacturing operations in Europe, Asia, and the United States and our supply chain, we have focused manufacturing capabilities that harness cost efficiencies with the flexibility to handle our high level of growth while adapting to an ever changing market. TTI has made significant investments in the expansion of our distribution, manufacturing and R&D capabilities in North America and added a new manufacturing complex in Vietnam to support the rapid growth. Continuing our productivity trend, global headcount for the entire Group increased 5.7%, well below the 15.8% revenue increase. Additionally, ongoing investments in

automation, supply chain, and productivity improvements continue to drive higher quality at better cost while promoting environmental, social and governance requirements. We remain committed to delivering world class on-time fill rates with superior quality products while maintaining best cost.

## Exciting Future

We are confident that our above market organic growth will continue into the future. Our significant investments in R&D and new product development teams have driven a pipeline of disruptive, innovative products that are fundamentally changing the way our users work at home and on the jobsite.

We have an intense focus on our strategic initiatives and the connected management disciplines that drive their execution. Our financial rigor is another key element to our success. Additionally, our obsession with world class organizational development is a central theme in our success. Our ongoing commitment to the successful Leadership Development Program ensures TTI will have a strong pool of talent in the years ahead. A commitment to sustainability is an essential part of our broader responsibility to our employees, customers, investors, suppliers, communities, business and partners. We are dedicated to stringent governance practices and to reducing our impact on the environment.

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, loyal customers and the entire TTI team for their energy, devotion, hard work, and on-going commitment. I am convinced that our bold strategy, customer focus, and business momentum will make 2019 another outstanding year.



**Horst Julius Pudwill**  
Chairman  
March 6, 2019

# Chief Executive Officer's Message



“TTI is a technology company creating labor saving devices and transforming the global market for power tools, outdoor equipment and floor care from traditional power sources to revolutionary lithium powered cordless.”

**Joseph Galli Jr**  
Chief Executive Officer

TTI delivered a remarkable year, achieving a level of organic growth not thought possible in our served industry.

This performance again dramatically outpaced our competitors as we captured significant share in our core markets, entered new categories where cordless innovation is disrupting the entire industry, and continued our geographic expansion. We are growing organically, introducing a myriad of technology rich new products, and have kept up this pace without turning to acquisitions to boost revenues. TTI has surged to a new level with so many growth drivers and vast innovation platforms in front of us.

## Driving Strategic Growth Opportunities

TTI is at the forefront, driving the move to cordless products around the world. We have been investing in battery, motor and electronics technologies to capture the leadership position across multiple cordless platforms. TTI's powerful brands offer the go-to-products for consumers and professionals with new-to-world innovations that are dramatically disrupting existing markets while also creating new opportunities in a growing number of vertical disciplines. Our tremendous technology improvements in power, run time, and durability are now delivering cordless innovation that will tackle heavy duty infrastructure projects. TTI is uniquely positioned at the vanguard of this seismic shift to cordless and the endless opportunities generated.

We have generated outstanding momentum at Milwaukee Tool, through a dedicated focus on delivering technically advanced cordless tools, lighting, accessories, storage and hand tools to the professional tradesmen. Our strategy is different from competitors. We are transforming the global market for professional power tools and equipment from traditional power sources to revolutionary lithium powered cordless. Milwaukee Tool has the broadest line of professional tools, powered by our M18 and M12 battery platforms, loaded with advanced technology which deliver unmatched performance, jobsite safety and productivity. Our new range of

high-technology FUEL tools are aimed at trade professionals such as the commercial plumber, commercial electrician and datacom electrician in vertical industries from industrial construction, maintenance, infrastructure projects and well beyond. With the current product offering Milwaukee Tool has massive opportunity in new verticals and geographically, but we will not stop as our new product roadmap and technology advancements will bring even more growth potential.

We are transforming the DIY market with our ongoing stream of innovative RYOBI ONE+ products which feeds the world's largest cordless DIY system with an overarching platform in batteries that goes from power tools to outdoor products. The RYOBI ONE+ battery system is compatible to previous generations of RYOBI tools, an unmatched capability that has been rewarding the RYOBI ONE+ user for years. We see our broad platform and significant market penetration as an opportunity to continue introducing product innovations and expanding the network. As an example of cordless penetration, RYOBI in outdoor products which is a growing success as we pioneer the shift, the revolution, from gas powered lawn gear to lithium-ion cordless. Our high performance, easy to use and environmentally friendly cordless lawn mowers are driving demand towards our RYOBI ONE+ and RYOBI 40V battery systems.

We have a winning strategy for the Floor Care business which is propelled forward with the cordless technology of TTI and our unique position in the carpet washing category, all marketed by our iconic brands like HOOVER and VAX. We are well on the way to developing our cordless range that creates tremendous value for the user. The new ONEPWR platform is a detachable and interchangeable lithium battery system that powers a number of innovative cleaners from high performance uprights, stick vacs and other fantastic cleaning products. The product opportunities for the HOOVER ONEPWR platform are exciting, positioning the business for further growth.

## New Product Powerhouse

At our foundation is a high-speed product development system that is central to our growth. Launching new products at TTI is a strategic

and rigorous process that ensures high quality, game changing technology and innovative products. We have built a powerful, streamlined, fast paced, and comprehensive product development process. TTI has a number of brand-focused innovation centers in key markets dedicated to research, design, engineering technologies, and developing new products. Across our brands and innovation centers we drive product development through our process to bring to market a broad range of breakthrough, value-enhancing products. We are producing a continuous stream of new products that excite end-users, overwhelm the competition, and change the respective industries.

## Bold, Targeted Geographic Expansion

TTI is successfully building a global presence beyond our strong foundation in the US, expanding into new countries in which we are under-represented with a very thoughtful, risk managed strategy. Once we enter a market, we go boldly to establish our leadership. Today we have a network of vibrant marketing companies in dozens of key geographies, allowing us to further harvest the benefit of our industry leading cordless platforms. Our teams in Canada, Australia and New Zealand, Western Europe and Eastern Europe, are delivering significant results. We are investing in selective targets in Asia, such as South Korea and Malaysia, and Latin America, which are gaining momentum and delivering the cordless benefits of safety and productivity to users in these markets.

## Exceptional Team

The TTI business leaders around the world represent a level of talent our industry has never seen. We firmly believe our leaders are not only the best, but with their incredible passion, industry knowledge and relentless drive to succeed, the organization is positioned for even better performance. The TTI team is a real differentiator for the company and has become an unassailable competitive advantage. With such an array of focused, motivated and outstanding people, TTI will continue to outperform the competition and change our industries. The leadership team is the fuel behind our success at every level of the organization.

## Chief Executive Officer's Message

The TTI culture of entrepreneurship and creativity motivates people to achieve their goals and reach their potential quickly. We provide a focused, strategic roadmap, strong financial backing, clear leadership direction and a high-energy environment that allows our employees to learn, contribute and grow. In addition, we take our global responsibilities as a company seriously by taking a strong position on all ESG requirements. Our goal is to always lead by example by going above and beyond what is expected. We enforce strict standards of behavior and integrity throughout our organization and the complete supply chain. We are proud to provide powerful leadership in these areas.

### Leadership Development Program (LDP)

TTI has a deep bench of exceptional leaders to support our business goals. We have been investing in campus recruiting and hiring into our thriving LDP top level, high-potential college graduates from over 75 campuses around the world for more than ten years. As this investment has been going on year after year we have established a pipeline for superstars that are populating our sales, marketing, engineering, purchasing, supply-chain, manufacturing and finance disciplines throughout the company around the world. We feel strongly that our recruiting, hiring, mentoring and organizational development process are absolute TTI core strengths. Through a highly selective process which identifies high-potential candidates, we are planning to hire over 780 college graduates from top universities in 2019. We are committed to our extremely effective LDP and the development of our future leaders. We now have twelve vice president level executives that started as college graduates in our LDP program. This number will continue increasing as more and more of our talented LDPs progress quickly into meaningful leadership roles.

### We Are Just Getting Started

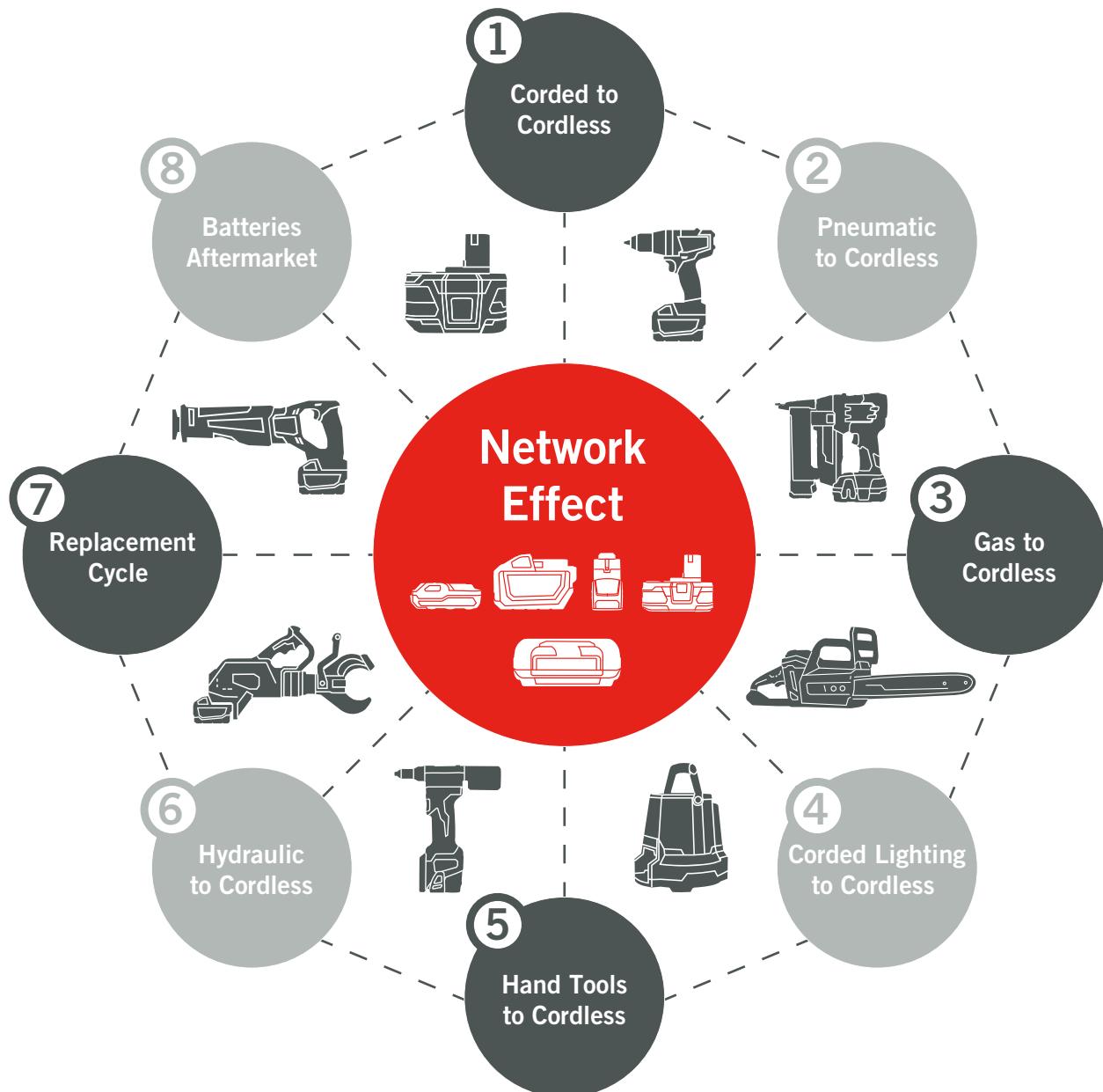
I am extremely proud with what we have achieved. Our outstanding performance leads the industry. Our strategy and execution continue to deliver impressive results. We have great customers around the world and excellent momentum with them. The strategic investments in our new product system, R&D, product teams and supply chains are delivering break-through innovations and generating a cycle of improving gross margins. With our iconic brands and unwavering commitment to creating cordless leadership through innovation, we have established a powerful platform with vast potential. The unprecedented momentum we have generated at TTI mirrors the powerful future that lies ahead.

I would like to thank our visionary Chairman, Horst Pudwill, for his tremendous mentorship, support, and guidance throughout our record breaking 2018 year. It is his bold vision, leadership and relentless drive that best defines our extraordinary culture. He motivates us to continue to achieve spectacular, record breaking results. We share the cordless vision for an incredible TTI future.



**Joseph Galli Jr**  
Chief Executive Officer  
March 6, 2019

**TTI is driving the revolution of cordless technology  
and generating even more growth opportunities.**



# Power Equipment, Accessories, Hand Tools and Storage



**TTI is a fast growing world leader in power tools, outdoor products, accessories, hand tools and storage for the DIY, professional and industrial users. We have a relentless focus on creating and advancing cordless technology and innovative product solutions in the home improvement, repair, maintenance, construction and infrastructure verticals. Our portfolio of powerful brands are recognized as market leaders across the globe.**



Milwaukee Tool is an industry-leading manufacturer of heavy-duty power tools, accessories and hand tools for professional users worldwide.



AEG POWERTOOLS promises to draw upon its heritage and deliver exciting, high performance, innovative working solutions for the professional tradesmen of today and the future.



As one of the world's largest and most innovative DIY power tool and outdoor product manufacturers, RYOBI specializes in making pro-featured power equipment truly affordable.



For over nine decades, homeowners everywhere have been looking to HOMELITE to deliver quality outdoor tools at the best value.



Since 1919, Empire level has earned the trust of the construction trades by delivering a broad range of innovative solutions focused on layout applications.



The original inventor of the universal shank for use on oscillating multi-tools, Imperial Blades is known for high quality products and a broad range of accessory solutions.



STILETTO tool sets the standard with premium titanium hand tools and hammers that are 45% lighter than steel, while providing the same striking force and strength.



HART family of products focus on delivering innovative signature features that provide contractors with top quality hand tools to enhance productivity.



## Industrial Power Tools



Nothing but **HEAVY DUTY.**®



# **PORTABLE PRODUCTIVITY TRADE FOCUSED SYSTEM WIDE**

The MILWAUKEE M12 Cordless System is the largest sub-compact system on the market, delivering industry-leading durability and power in a size that outperforms the competition in the tightest places. Powered by REDLITHIUM battery technology for unmatched run-time, and coupled with patented technologies, innovative motors, and advanced electronics, M12 changes the game. MILWAUKEE offers more than 90 professional cordless solutions focused on providing tool belt portability, without sacrificing power and speed.

## Industrial Power Tools



Nothing but **HEAVY DUTY.**®



## PERFORMANCE DRIVEN TRADE FOCUSED SYSTEM WIDE

The MILWAUKEE M18 Cordless System is the fastest-growing 18V cordless tool lineup in the industry and represents the best combination of professional grade power, extreme performance, and superior durability. Powered by REDLITHIUM battery technology for unmatched run-time, and coupled with patented technologies, innovative motors, and advanced electronics, M18 changes the game. Dedicated to improving productivity for the professional trades, MILWAUKEE offers more than 175 performance-driven solutions so users can perform an entire day's work on one battery system.



## DRIVEN TO OUTPERFORM.

For the first time in power tool history, M18 FUEL products are delivering game-changing corded performance without the cord. The motors on MILWAUKEE M18 FUEL tools are more powerful and energy efficient – outliving any other brand. To add to the revolutionary technology, M18 FUEL possesses the smartest electronics found in any power tool. REDLINK PLUS electronics manage an array of power requirements across more than 175 M18 tools using one common battery. MILWAUKEE built, the M18 battery delivers cleaner, more consistent power, lasts longer and delivers more run-time in the harshest jobsite conditions.

## M18 FUEL™

**LONGER  
MOTOR LIFE** | **MORE  
POWER** | **MORE  
RUN-TIME**



**HIGH OUTPUT**  
**50% MORE POWER & RUNS COOLER**  
vs REDLITHIUM HD

**REDLITHIUM™  
HIGH OUTPUT HD12.0**

### 1 POWERSTATE BRUSHLESS MOTOR

This best-in-class brushless motor works harder and lives longer than all leading competitors.

- MILWAUKEE designed and built brushless motor
- Outperforms all leading competitors
- Longer motor life





## 2 REDLINK PLUS INTELLIGENCE

The most advanced system of hardware and software in cordless power tool electronics today.

- Most advanced electronic system on the market for maximum performance
- Total system communication with overload protection increases tool life



## 3 REDLITHIUM XC5.0 BATTERY PACK

Compatible with the entire M18 system, it delivers more run-time, power and recharges than the competition.

- Most durable pack on the market
- Over 2X more recharges than leading competitor
- Fuel gauge displays remaining charge
- Operates below -18°C/0°F



**M18™**

**PERFORMANCE DRIVEN  
TRADE FOCUSED  
SYSTEM WIDE**

## Industrial Power Equipment



## SITE LIGHTING

MILWAUKEE site lighting is the industry's first system of high-output LED lights to offer full-day runtime in portable packages. The site lights utilize the most advanced lighting technology to deliver a consistent beam, optimized color temperature and true representation of colors and detail leading to a more productive work area. Our job site lights shine brighter, last longer and are uniquely designed to adapt, perform and survive the daily demands of professional use.



M12 ROCKET  
Dual Power Tower Light



USB Rechargeable ROVER  
Pivoting Flood Light



USB Rechargeable  
Pivoting Flashlight





## DRAIN CLEANING

As the first to bring cordless solutions to the user, MILWAUKEE is committed to providing drain cleaning professionals with the most portable and versatile drain cleaning solutions. Through a thorough evaluation of the job at hand — the frustrations, needs, previous limitations — MILWAUKEE sets out to completely rethink a solution, delivering game-changing innovation. MILWAUKEE is committed to developing solutions that improve the ability for drain cleaning professionals to service more calls with less hassle.



M12 AIRSNAKE  
Drain Cleaning Air Gun



M18 FUEL Drain Snake w/ CABLE DRIVE  
Locking Feed System



M18 FUEL SWITCH PACK  
Sectional Drum System Kit

## Industrial Power Equipment



Milwaukee®

M18 FUEL™



## OUTDOOR POWER EQUIPMENT

From landscaping professionals to trade professionals, MILWAUKEE is committed to improving productivity by providing performance-driven and trade-focused solutions. These tools have the power to outperform competitive 18V and higher voltage solutions, and are fully compatible with more than 175 solutions on the M18 System.

# FORCE LOGIC™



## THE SMARTEST WAY TO WORK

FORCE LOGIC is engineered to not only improve upon, but fundamentally change the way high-force tools are used in the field. Through thoughtful design focused on workflow, each tool simplifies a complicated process to deliver the best user experience of its kind.



M18 FORCE LOGIC  
750 MCM Crimper



M18 FORCE LOGIC  
1590 ACSR Cutter



M18 Short Throw Press Tool  
w/ PEX Crimp Jaws



M18 FORCE LOGIC  
2"-3" PROPEX Expansion Tool

## Power Tool Accessories



## CARBIDE TEETH

**CUT LONGER. CUT MORE. CUT FASTER.**

The Power Tool accessories business continues to push the limits of performance to solve jobsite problems and make users more productive. Constant improvements and innovations, such as the self-sharpening chisels, are the direct result of relentless user research and product testing. Investments in accessory manufacturing technology with creative designs combined with power tool advancements deliver game-changing solutions year after year.



9" 7 TPI Metal THE TORCH with  
Carbide Teeth SAWZALL Blade



9" 5 TPI Wood THE AX with  
Carbide Teeth SAWZALL Blade



3-1/2" HOLE DOZER with  
Carbide Teeth Hole Saw



2-9/16" BIG HAWG with  
Carbide Teeth Hole Saw



## SHOCKWAVE IMPACT DUTY

<sup>TM</sup>

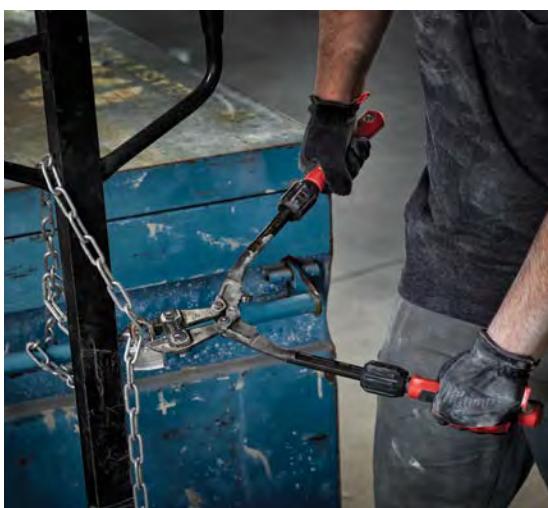
Driving performance forward with the launch of SHOCKWAVE accessories in 2009, MILWAUKEE delivered the first line of power tool accessories specifically designed for use with impact drivers. As tool usage and technological advancements within impact drivers has rapidly increased, MILWAUKEE has continued to innovate and provide tradesmen with the best performing impact accessories available. SHOCKWAVE accessories will continue to be at the forefront of impact accessory technology and focus on driving performance forward.



## Hand Tools & Storage



In 2018, MILWAUKEE continued to expand its hand tool and storage offering by providing innovative, trade-specific solutions that deliver increased durability and productivity to users. As demonstrated with the industry's most durable tape measure, STUD, MILWAUKEE develops its products from the ground up, disrupting stagnant categories in the market.



## Hand Tools & Storage



# Milwaukee®



Hook & Pick Set



Pry Bars



Ratchet & Socket Set



Combination Wrenches

MILWAUKEE mechanics hand tools keep users productive in the shop and on the jobsite. These hand tools are designed for durability, versatility, and ease of use. New-to-world FOUR FLAT sides on all sockets deliver an anti-roll and wrench-ready design for maximum versatility and efficiency. Ratcheting combination wrenches feature 2.5° of arc swing for better access in small and tight work spaces. All MILWAUKEE mechanics hand tools are backed by a lifetime guarantee, ensuring the job gets done every time.





In 2018, MILWAUKEE continued to expand its new-to-the-world PACKOUT modular storage system delivering the most versatile and durable storage. PACKOUT continued revolutionize tool transportation, organization, and storage for the trades by providing users with the ability to interchange and interlock a wide assortment of heavy duty tool boxes, organizers, and storage totes in multiple configurations.

## PACKOUT<sup>TM</sup> MODULAR STORAGE SYSTEM



## Layout and Measuring Tools



MILWAUKEE REDSTICK levels set the bar with industry-leading performance, delivering best-in-class vial readability, reinforced frames and lifetime accuracy guarantee. SHARPSITE vial technology has a magnified bubble and high-visibility vial spirit designed to deliver visual accuracy on the jobsite. REDSTICK levels area backed by a lifetime accuracy guarantee within 0.029 degrees and limited lifetime warranty.



REDSTICK Box Levels



REDSTICK Magnetic Box Levels



REDSTICK Concrete Levels



REDSTICK Digital Levels





EMPIRE continues to own users within the construction trades with innovative products and user-focused technology. The expansion of ULTRAVIEW LED technology into the torpedo level category gives users a lightweight pocketable solution for everyday work in poorly lit conditions. The new line of digital levels exceeded user expectations with industry-first features like auto-calibration and inspect mode making them the easiest and most functional levels on the market. As the dominant industry leader, EMPIRE continued to upgrade core categories with the expansion of compact box levels, and long reel tapes driving high double digit sales growth in 2018 and taking significant market share.



Closed Reel Steel Tapes



ULTRAVIEW LED Torpedo Level



Compact Box Levels



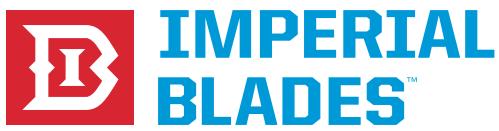
Digital Box Levels



Magnetic Digital Box Levels



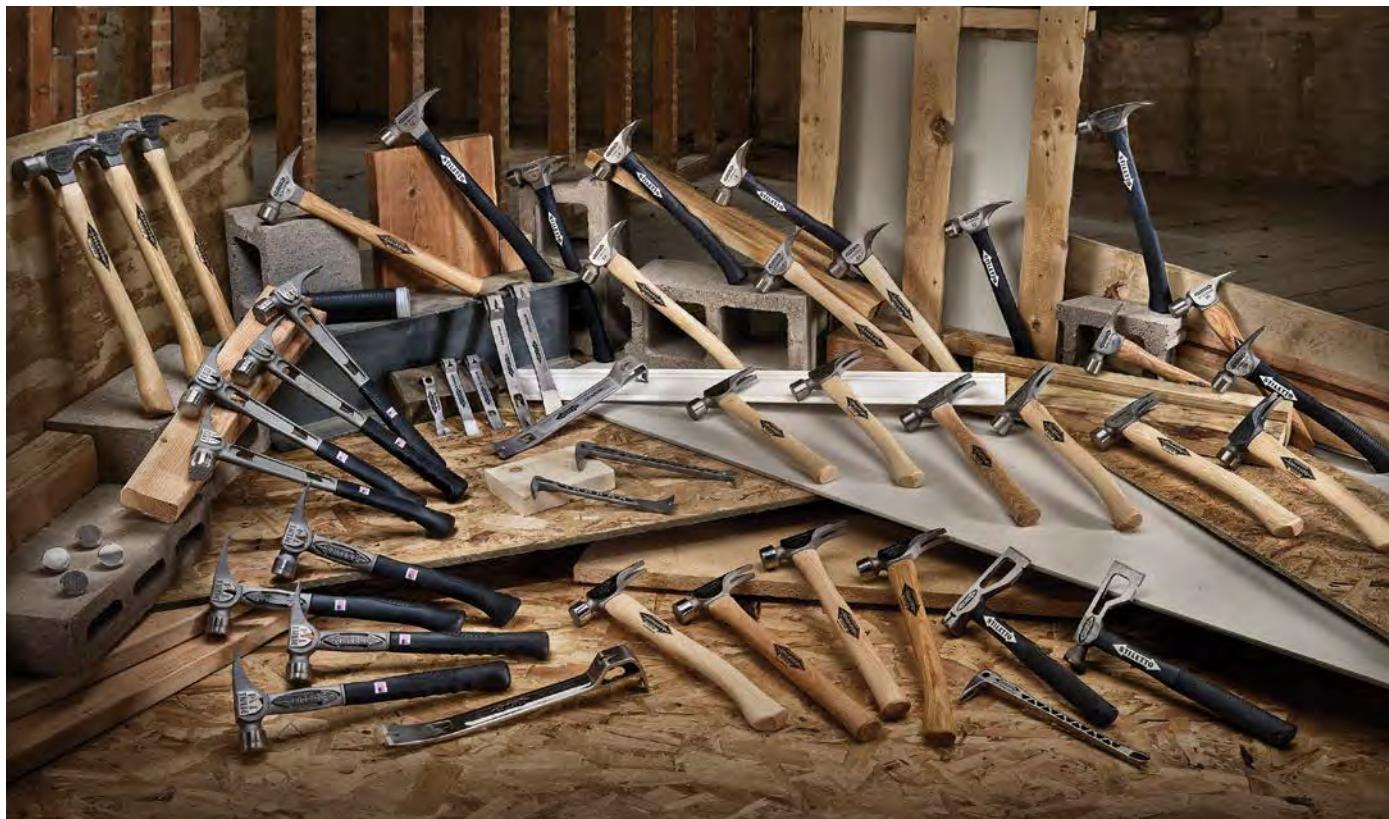
## Accessories



Imperial Blades was founded with the sole mission to provide the highest quality and most innovative oscillating multi-tool accessories. Imperial Blades has stayed true to its promise of delivering innovation with its ONE FIT universal anchor in 2009 as well as its premium STORM Titanium Enhanced series in 2010. Since then, Imperial Blades has expanded lines to accommodate more tool fitments as well as added reciprocating blades to its arsenal.



STILETTO tool sets the standard with premium titanium hand tools and hammers that are 45% lighter than steel, while providing the same striking force and strength. In addition, titanium tools produce 10X less recoil shock, which means less downtime due to injury, more productivity and most importantly less pain while getting the job done.



## Professional Tools



# AEG

AEG POWERTOOLS is a global leader in product innovation and development, with more than 100 years' experience in delivering robust solutions to the building and construction industry.

The recent implementation of more powerful brushless motors tools range, coupled with technologically-advanced batteries, now deliver unprecedented power and run-times to tradesmen who stake their reputation on AEG.





## The World Largest 18-volt Tool System and Growing

The leading DIY RYOBI ONE+ cordless system, with hundreds of tools that all operate on the same 18-volt battery platform, continues to expand with innovative products. Our deep household penetration has established a loyal following of users. ONE+ tools can power you through all types of projects from drilling, driving, cutting, and fastening, to lighting, plumbing, cooling, and heating, to trimming, edging, mowing, and clearing – and so much more.



## Higher Performance Solutions

RYOBI 18-volt ONE+ batteries feature advanced electronics to allow you to maximize tool performance with added capacity to all 18-volt ONE+ tools. With superior runtime, power, and performance, ONE+ batteries can take on more demanding applications than ever before.



Lithium+ HP battery technology allows two way communicating with ONE+ brushless tools to maximize performance in all applications, allowing users to make faster cuts, drive larger screws, utilize bigger drill bits, etc.

## DIY Power Tools

# RYOBI



## 18v ONE+™ SYSTEM

### RYOBI 18-volt 50ft Drain Auger

The ONE+ Drain Auger clears the toughest clogs from drains up to 3 in. wide with a 50 ft. reinforced cable to minimize kinking. With quick change replaceable tips and drum, the ONE+ Hybrid 50 ft. Drain Auger Kit guarantees convenience when handling a variety of clogs.



### RYOBI 18-volt Stapler

The ONE+ 18-volt Stapler with compression drive technology drives over 5,500 3/8 in. crown staples on single battery and on-board dual screen/wire attachment allows installation that guide staples without penetrating wire or screen.



### RYOBI 18-volt Propane Heater

The ONE+ Propane heater delivers up to 15,000 BTUs of heat output on the jobsite or the tailgate. The hybrid design allows you to use either an 18-volt RYOBI battery or extension cord. Get up to 5 hours heating using the P108 4.0 Ah High Capacity LITHIUM+ Battery.



### RYOBI 18-volt 3/8" Impact Driver

The ONE+ 18-volt 3/8 in. Impact Wrench produces 150 ft. lbs. of torque and up to 3,400 impacts per minute allowing you to use this tool for a variety of automotive applications.





#### **RYOBI 18-volt Multi-Purpose Fogger**

The RYOBI 18-volt ONE+ Multi-Purpose Fogger is ideal for defending yards against bugs, mold and weeds. For use with fungicides, herbicides and insecticides, this fogger can cover up to 10,000 sq. ft. per charge. With up to 15 ft. reach, it delivers quick and comprehensive coverage.



#### **RYOBI 18-volt ONE+ Brushless Jigsaw**

The RYOBI 18-volt ONE+ Cordless Brushless Jigsaw combines precision and power without the cord. The brushless motor provides 3,350 strokes per minute and variable speed for fast efficient cutting.



#### **RYOBI 18-volt Grease Gun**

The ONE+ 18-volt Grease Gun features a max PSI of 10,000 and a max flow-rate of up to 7.5 oz./minute, allowing this grease gun to power through the toughest grease fittings. Dispense up to 19 grease cartridges on a single battery.



# RYOBI



**18V ONE+™ SYSTEM**    **40V LITHIUM**

## The #1 Cordless Mower Brand\*

RYOBI is now the #1 Cordless Mower Brand in the U.S.\*. With two voltage platforms, a variety of deck sizes, and features that empower users of all skill levels, there is a RYOBI mower that is perfect for any homeowner and yard. Featuring mowers with “Gas-Like Power,” exceptional run times and the convenience of battery power, RYOBI lithium mowers make the decision of switching to cordless an obvious choice.



\* Based on TraQline 2018 Dollar Brand Share Sales Data for Cordless Handheld Outdoor Products in the U.S.\*\* and Walk-Behind Cordless Mowers.

\*\* Cordless Handheld Outdoor Products include string trimmers, leaf blowers and chainsaws.



## Mower Innovation

Adding technology does not always mean adding complexity. Smart Trek Self-Propelled Technology is intelligent and intuitive – automatically adjusting to your walking speed.

**SMART TREK™**  
SELF-PROPELLED - AT YOUR SPEED



**RYOBI**



## A Growing Family

**40V LITHIUM**

The RYOBI 40-volt lithium family continues to expand – now with over 40 products in the family. All RYOBI 40-volt batteries are compatible with all RYOBI 40-volt tools, so as the family grows, so do the possibilities of doing all lawn and garden projects on a single battery platform.



**40V LITHIUM**  
POWERS **40<sup>+</sup> TOOLS**



## #1 Cordless Lawn and Garden Brand\*

The RYOBI 40-volt lithium platform has been an integral part in making RYOBI the #1 Cordless Lawn and Garden Brand in the U.S.\*. With RYOBI 40-volt, get the power and mobility of gas with the convenience of cordless. This innovative range offers a variety of tools including lawn mowers, string trimmers, chain saws, hedge trimmers and more. Each tool is powered by a 40-volt lithiumion battery for fade-free, long-lasting performance.



\* Based on TraQline 2018 Dollar Brand Share Sales Data for Cordless Handheld Outdoor Products in the U.S.\*\* and Walk-Behind Cordless Mowers.

\*\* Cordless Handheld Outdoor Products include string trimmers, leaf blowers and chainsaws.

## Outdoor Products



### RYOBI 40-volt Backpack Blower

Incredibly powerful. Unbelievably quiet. The 40-volt Backpack Blower with crossforce fan technology, a unique dual-intake design, is the industry's quietest blower. With its brushless motor and lithium-ion battery, it generates 625 CFM of clearing force.

### RYOBI 40-volt Hedge Trimmer

This hedge trimmer exemplifies the perfect balance of power and comfort. With its 24" hardened steel dual-action blades and up to 1" cut capacity, it is ready to tame the wildest hedges. Engineered with superior ergonomics, it is well balanced and has a rotating handle for comfortable trimming at all angles.



### RYOBI 40-volt Jet Fan Blower

Innovation, performance, and maximum clearing force. The next generation 40-volt Jet Fan Blower is here with more power, more run time and lighter weight. With Gas-Like Power and jet fan technology, this blower has the perfect combination to make clearing your yard a breeze.



### RYOBI 40-volt VAC ATTACK Leaf Mulcher

The RYOBI 40-volt VAC ATTACK Leaf Mulcher has been optimized for superior suction and mulching. With its durable metal blades, it quickly mulches 16 bags of leaves down to one. With the included 4 Ah battery, mulch up to eight 30-gallon bags on a single charge.



### RYOBI 40-volt Chainsaw

Powerful but not intimidating. High-tech but simple to operate. This chain saw, with its intelligent brushless motor, delivers Gas-Like Power without any complicated starting procedures, exhaust or hot mufflers. With a charged battery, pull the trigger and it's ready to get to work. This chain saw comes with a high-capacity 4 Ah battery and has twice the run time of the previous 40-volt model.

### RYOBI 40-volt Attachment Capable String Trimmer

Gas-Like Power, Attachment Capable and well balanced – we've taken all the things people love about our top selling string trimmer and made it better. Now with more power, more run time, and lighter weight, you get even more for the same great value.



**40V LITHIUM**



## Electric Zero Turn Riding Mower

The future of mowing has taken a turn. The RYOBI ZT480e Electric Riding Mower uses zero turn technology with lap bar steering to help cover more yard in less time. Cutting over two acres on one charge, it's quietly and quickly changing the way America mows – one turn at a time.

# Floor Care and Appliances



**TTI is a global leader in Floor Care with our iconic HOOVER, VAX, ORECK and DIRT DEVIL brands. We are dedicated to creating and advancing innovative cordless cleaning products and carpet washing products for the home and the commercial user. Our strategic multi-brand approach, high-speed product development capabilities and cordless technology are redefining the floor care industry.**



For more than 100 years, HOOVER has designed powerful, easy-to-use products that clean your entire home from floor to ceiling, and even the very air you breathe.

**ORECK**

ORECK produces and sells vacuums, steam mops, floor machines, air purifiers and cleaning products for use in both hotels and homes throughout the U.S., Canada and parts of Europe.

**vax**

VAX is the UK's leading floor care brand offering cleaning products across all the floor care categories. The VAX brand is continuing to invest in new technologies, which are both innovative and market leading to drive the next generation of cordless products that truly meet the changing consumer needs.



The DIRT DEVIL brand has a portfolio of powerful and easy-to-use uprights, sticks and hand vacuums. With products designed to be lightweight, versatile with quality performance.



## Floor Care and Appliances



## PWR ON. PWR UP. PWR HOUSE.

The HOOVER ONEPWR System is an innovative family of cordless cleaning products that share the same powerful, lithium-ion battery for a faster and easier cleaning routine.

From carpets to hard floors, patios and more, HOOVER has a ONEPWR cordless product for any cleaning need. Every HOOVER ONEPWR product delivers high-performance, cord-free cleaning with the continuous run time consumers need to power through cleaning tasks in and around the home.





FLOORMATE JET

**SPRAYCLEAN  
Solution Nozzle**

For on-demand  
solution control



BLADE

**DUSTVAULT  
TECHNOLOGY**

Removes 99% of  
fine particles with  
no loss of suction



SPOTLESS GO



High Performance Blower



Hard Surface Blower



Wet/Dry Utility Vac



High Capacity Utility Vac



Task Light



Handvac

## Floor Care and Appliances



### Powerful Carpet Cleaning. Two Powerful Solutions.

Eliminate stains and lift deep embedded dirt with two powerful HOOVER carpet washers. Packed with innovative features and highly rated by consumers, the new SMARTWASH and POWERDASH carpet cleaning machines offer easy-to-use operation and professional-grade results. Additionally, HOOVER's new line of pre-treatment & cleaning solutions are formulated to offer a deep clean and leave carpets looking and smelling fresh.



#### SMARTWASH™ AUTOMATIC CARPET CLEANER

##### Our Best Cleaning Full Size Carpet Cleaner

Eliminate the guesswork with HOOVER's most powerful and easy-to-use carpet cleaner that makes deep cleaning carpets as easy as vacuuming. Simply push forward to wash, pull back to dry. Seriously simple. Seriously Clean.



#### POWERDASH™ COMPACT CARPET CLEANER

##### 2X More Cleaning Power\*

Easily tackle pet messes & everyday stains with 2X more cleaning power than the leading lightweight carpet cleaner. The perfect go-to carpet washer for high traffic areas and small spaces in an easy-to-use compact design.

\* Than the leading lightweight carpet cleaner



vax

# PLATINUM POWER MAX

**vax**™



Our best carpet washer is proven to out clean the leading rental<sup>^</sup> and removes up to 93% of bacteria. The XL brushbar and patented SPINSCRUB technology, agitate and lift away deep down dirt from your carpet fibres, cleaning your carpet five times better than a high performance vacuum cleaner<sup>^</sup>.

THE PLATINUM POWER MAX comes loaded with handy tools so you can deep clean your stairs, upholstery and car interior, helping you to remove the most stubborn of stains. Our quick clean function will have your carpet dry again in as little as 1 hour\*.



#### Deep Cleaning

The powerful DUAL V technology lifts away any dirt from your carpets, leaving them looking clean and smelling fresh.



#### SPINSCRUB Technology

THE VAX PLATINUM POWER MAX has seven SPINSCRUB bristles that sit behind the XL brush bar. These lift and remove any dirt from deep within your carpet.



#### Quick Dry

Leaves carpets dry in as little as 1 hour\*. The rinse function and DUAL V technology removes any shampoo residue and water left behind after carpet cleaning.



#### SPINSCRUB Hand Tool



#### Long Reach for Use on Stairs



#### Use on Upholstery

\* Tested in quick clean mode. Results may vary.

<sup>^</sup> Cleaning effectiveness on carpet, tested using Platinum solution in deep clean mode according to IEC 62885-3:2014 part 5.2.1. For further information email info@vax.co.uk

## Floor Care and Appliances

**ORECK**



## Premium Cordless Cleaning at Its Finest

ORECK continues to focus on superior cleaning with sleek, powerful product designs, engineered to deliver the best possible clean. With an expanded focus on cordless cleaning and breakthrough features, the ORECK brand remains the lead in premium design and experience and will expand its focus into other cleaning categories with the introduction of a new cordless upright product in 2019.



## COMMERCIAL

Hoover Commercial will expand the portfolio of professional cleaning solutions in 2019 with the launch of a new series of M-PWR cordless products. The new line will focus on an optimal blend of ergonomic design, seamless user experience, and uncompromising power, engineered to deliver professional-grade cleaning at an affordable price.





## Ready. Set. Cordless.

DIRT DEVIL brings all the power you need, the features you want, all at a price you can afford with a line of cordless stick vacuums designed to get the job done faster and easier. Cord-free benefits like fade-free battery power, longer runtime and faster charging are paired with simple features guaranteed to get the job done and get you back to life.



DIRT DEVIL VERSA



## Management's Discussion and Analysis



MILWAUKEE M18 FUEL SUPER SAWZALL Reciprocating Saw

### Focus on cordless innovation

**17.0%**

**Revenue growth of  
Power Equipment business**

**US\$598 million**

**The business delivered operating  
profit of US\$598 million, a 16.9%  
increase over the previous year**

**The MILWAUKEE and RYOBI  
brands both delivered double-digit  
sales growth**

### Review of Operations

Power Equipment, Accessories and Hand Tools

Representing 85.6% of total sales, the Power Equipment business reported global sales of US\$ 6.0 billion, a 17.0% increase over the same period in 2017.

A multitude of strategic factors contributed to the record performance including innovative new product introductions, product category expansion, geographic expansion and market share gains. Operating profit was US\$598 million, an increase of 16.9% over last year.

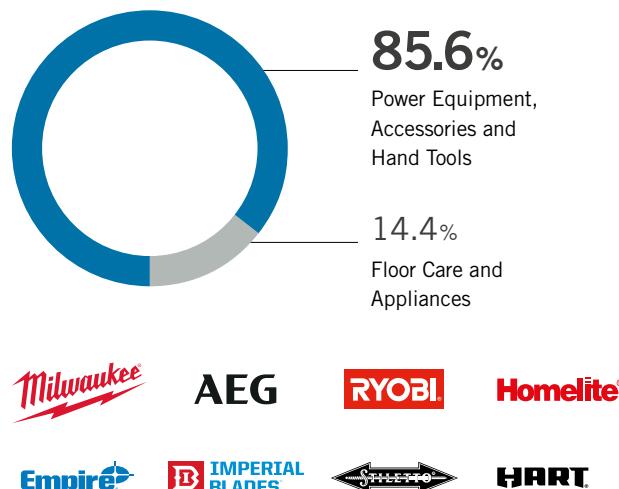
#### Industrial Tools

The Milwaukee Tool business generated excellent results with worldwide sales up 28.2% over the previous period with double-digit growth in all geographic regions. The dedicated focus on cordless innovation is producing a volume of disruptive products across targeted product categories in markets we serve. Consequently, the Milwaukee Tool business continues to significantly outperform the global market by providing tool solutions to the professional user in a growing number of categories and industries.

# US\$6.0 billion

## Sales in Power Equipment, Accessories and Hand Tools

### Sales by Business



### Power Tools

The Milwaukee Tool business continues to expand cordless product solutions on their M18 and M12 battery platforms. The M18 system, the fastest-growing cordless system for the professional end user, offers over 165 compatible tool and lighting solutions on a single battery platform. In addition, Milwaukee Tool is the dominant leader in the global sub-compact cordless space, with the M12 cordless system offering over 100 compatible tools and lighting solutions.

In 2018, Milwaukee Tool introduced the most powerful line of M18 FUEL products ever. These tools have the performance of traditional corded tools but with the productivity and safety of cordless. The M18 FUEL ½" Hammer Drill Driver is the most powerful and compact in the Milwaukee Tool range. The powerful M18 SUPER SAWZALL reciprocating saw was launched with faster cut speeds than a corded reciprocating saw delivering up to 150 cuts per charge. The new M18 FUEL Table Saw allows contractors to rip large jobsite materials to size while creating more power than a

corded saw and providing unmatched run time. The break-through M18 16" Chainsaw was introduced with the power to address the most demanding application and the capability to outperform gas and higher voltage competitors. These are just a few of the exciting FUEL products that were introduced during the year.

Ongoing technology advancements keep MILWAUKEE on the leading edge of cordless performance. Our most powerful M18 REDLITHIUM HIGH OUTPUT HD12.0 Battery produces more work per charge while remaining compatible with the M18 System. We continued to bring more innovations with the next generation POWERSTATE Brushless Motor, the most powerful motor ever produced by Milwaukee Tool. The latest REDLINK PLUS is the most intelligent and powerful microprocessor ever used in a power tool by Milwaukee Tool and manages significantly more current under demanding applications.



## Management's Discussion and Analysis

### HIGH OUTPUT and Personal Lighting

The MILWAUKEE HIGH OUTPUT Lighting program is another example of entering a traditional market with cordless technology. With recent introductions into the personal lighting and temporary lighting markets, Milwaukee Tool now offers the most comprehensive work lighting portfolio in the industry. The M12 ROCKET Dual Power Tower Light is the lightest, most compact tower light in its class with the ability to broadcast light in any direction. The M18 RADIUS Compact Site Light with Flood Mode has with 18 hours of run time and a compact size that allows users to effortlessly bring and remove this light from the jobsite.



### Accessories

End users demand the same attention to quality, durability, and innovation in their accessories as they do in their tools. Focusing on problem solving new technologies, Milwaukee Tool launched the HOLE DOZER Hole Saw with Carbide Teeth and the BIG HAWG Hole Cutter with Carbide Teeth, both innovative cutting accessories with carbide strength which deliver superior life, versatility, and user productivity in the most demanding applications.

Milwaukee Tool acquired the Imperial Blades company in 2018 which manufactures a full range of blades for use in oscillating multi-tools. Founded in 2008 and the original inventor of the universal shank for use in oscillating multi-tools, the company has grown at an impressive rate with new product technology such as STORM Titanium coating and the Carbide Extreme Blade. The acquisition is part of the ongoing effort to provide the most complete range of accessories on the market.

### Hand Tools & Storage

Milwaukee Tool is providing break-through product innovations in hand tools and storage aimed at our core trade users. We launched over 115 new innovative products in the hand tool and storage category during 2018 helping to drive another year of significant growth. The PACKOUT storage system, designed to provide users with the ability to interchange and interlock a wide assortment of heavy duty tool boxes, organizers, and storage totes, added new innovative products to the system including Tool Bags, Low Profile Organizers, Backpacks, Tech Bags, and a Cooler. A new range of Mechanics Hand Tools was also introduced that include Sockets with patented FOUR FLAT sides featuring anti-roll and wrench-ready design and an innovative 90 tooth ratchet tool with 4° of arc swing with a slim profile design allowing users to work in tighter, confined spaces. The EMPIRE business again outpaced its competitors in the layout category with a complete new line of squares.





## DIY and Professional Tools

### RYOBI DIY Power Tools

The RYOBI DIY Power Tool business continued to grow in 2018. Innovative cordless product launches and significant retail merchandising programs contributed to driving the growth. The leading DIY RYOBI ONE+ cordless system, with hundreds of tools that all operate on the same 18V battery platform, continues to expand with innovative products. Our deep household penetration has established a loyal following of users.

We continue to bring high performance tools to the DIY user with the RYOBI ONE+ Brushless line, all utilizing the RYOBI ONE+ battery system. New tools in this range were the variable speed jig saw providing more run time, faster cuts, increased power, and longer motor life. The innovative RYOBI ONE+ PEX Crimp Ring Press Tool delivering 320 crimps per charge and easy one-handed crimping operation helps eliminate user fatigue while increasing productivity. A new series of high performance lithium-ion batteries with advanced electronics was introduced effectively adding capacity to all 18V RYOBI ONE+ tools that enhanced run time, power, and overall performance in more demanding applications. The RYOBI ONE+ family of LED lighting products is a growing range for the DIY user. This includes the innovative Color Range LED Worklight with variable color temperature providing the end user with the most accurate view of the work space.

### AEG Professional Tools

We continue to broaden the AEG range of cordless tools. Our strategic approach to expand the brand in certain key markets has allowed us to capture market share with the trade professional. Twelve new products were added to the AEG 18V platform bringing the total to over 52 in 2018. Other new product introductions included two new 18V jobsite radios, 18V Brushless large angle grinder, 18V brushless small angle grinder with paddle switch, and the 18V 9.0Ah battery. Looking forward, we have a formidable and exciting pipeline of new 18V tools and 18V kits to be introduced in 2019.

### RYOBI Outdoor Products

The movement to innovative cordless products was evident in the RYOBI brand outdoor products business which delivered double digit sales growth. We made market share gains through cordless penetration into traditional gas product categories with new product introductions that utilize our RYOBI ONE+ and 40V battery systems. There were a number of key product innovations that drove the growth and expanded the cordless platform. These include the brushless 40V self-propelled mower, the 40V brushless string trimmer, and the 18V RYOBI ONE+ Bazooka jet fan blower. Product development for the popular 40V battery system continues to expand across a growing number of lawn and garden product categories that require long runtime.





VAX BLADE 2 Max 40V Cordless Vacuum Cleaner

## The Floor Care and Appliance business grew 9.3%, with sales of US\$1.0 billion

### Focus on carpet washing and cordless cleaning

### The business continued to drive efficiency and lower costs

#### Floor Care and Appliances

The Floor Care and Appliance business returned to positive sales growth in 2018 with cordless vacuums and carpet washing products driving our 9.3% growth.

The business continued to drive efficiency and lower costs to align the business around the strategic plan of increasing market share and profitability through the focus on carpet washing and cordless cleaning. This is allowing resources to be dedicated to the future as we invest in the global cordless product development under our HOOVER, VAX, DIRT DEVIL and ORECK brands, all with major product launches planned for 2019. We remain confident that the focus on carpet washing and the significant portfolio transition to cordless cleaning will continue to improve the business.

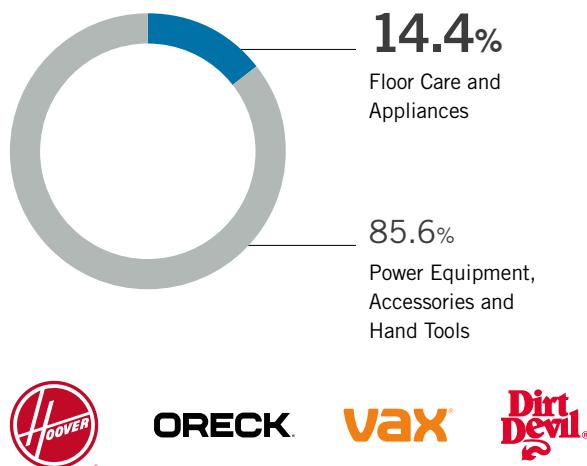
#### North America

The sales increase in North America was driven by Hoover's carpet cleaning product line with the launch of SMARTWASH, an innovative motion sensing Automatic Cleaning Technology that washes when pushed forward and dries when pulled back. The addition of new FLEXFORCE Power Brushes makes this Hoover's best full-size carpet cleaner. Hoover also introduced the highly successful new compact POWERDASH designed for the trend to smaller living spaces with double the cleaning power of competitive compact cleaners.

# US\$1.0 billion

## Sales in Floor Care and Appliances

### Sales by Business



Additionally, carpet cleaning solutions, used in the carpet washers, continue to be a focus as we invest and grow in the carpet washing category.

### Europe

The EMEA business had solid sales growth. The focus on our cordless strategy and carpet washing products continued to be the driving force fueling this growth. The BLADE cordless stick vac range contributed to the growth as distribution and sales velocity continue to build across the region. With its new floor cleaning head and direct helix technology, the VAX BLADE delivers the cleaning performance of a corded vacuum, is lightweight, converts easily to a handheld, and has a superior 45 minute run time. The BLADE 2 MAX, with 3X more suction power, is proven to clean carpets better than the top ten selling cordless vacuums in the UK. Alongside the cordless expansion, the business generated substantial growth in the carpet washing category with the innovative launch of the new VAX PLATINUM Powermax Pro which is our best cleaning carpet washer and rids up to 93% of bacteria. We are looking forward to 2019 with the continued introductions of exciting new carpet washers and cordless products.



**US\$7,021 million**  
**Revenue**

**US\$846 million**  
**EBITDA**

**US\$1.67**  
**(2017: US\$1.49)**  
**Book Value per Share**

**2.9% of Turnover**  
**(2017: 2.7% of turnover)**  
**Investments in Product Design**  
**and Development**

#### **Financial Review**

##### **Financial Results**

The Group's revenue for the year amounted to US\$7.0 billion, an increase of 15.8% as compared to US\$6.1 billion in 2017.

##### **Result Analysis**

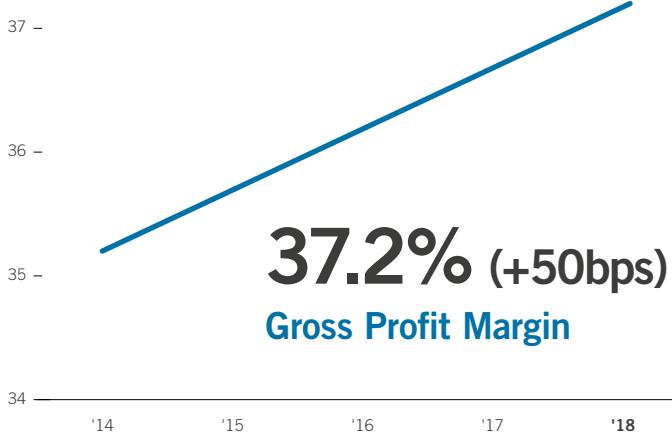
Profit attributable to Owners of the Company amounted to US\$552 million as compared to US\$470 million in 2017, an increase of 17.4%. Basic earnings per share for the year improved to US30.16 cents as compared to US25.66 cents in 2017.

EBITDA amounted to US\$846 million, an increase of 16.2% as compared to US\$728 million in 2017.

EBIT amounted to US\$607 million, an increase of 17.0% as compared to US\$519 million in 2017.

##### **Gross Margin**

Gross margin improved to 37.2% as compared to 36.7% last year. The margin improvement was the result of new product introduction, product mix, category expansion, improvements in operational efficiency and supply chain productivity.



### **Operating Expenses**

Total operating expenses for the year amounted to US\$2,014 million as compared to US\$1,712 million in 2017, representing 28.7% of turnover (2017: 28.2%). The increase was mainly due to the strategic investments in new products and promotional activities to maintain the sales growth momentum and continual margin improvements.

Investments in product design and development amounted to US\$203 million, representing 2.9% of turnover (2017: 2.7%) reflecting our continuous strive for innovation. We will continue to invest in breakthrough technology and deliver broad base end-user products and categories as these are most critical not only to maintain sales growth momentum but also margin expansions.

Net interest expenses for the year amounted to US\$13 million as compared to US\$14 million in 2017, a reduction of 1 million or 6.2%. Interest coverage, expressed as a multiple of EBITDA to total interest was 22.9 times (2017: 30.2 times).

The effective tax rate, being tax charged for the year to before tax profits was at 7.1% (2017: 6.9%). The Group will continue to leverage its global operations and align its strategy to cope with various tax policies change globally to further improve overall tax efficiencies.

### **Liquidity and Financial Resources**

#### **Shareholders' Funds**

Total shareholders' funds amounted to US\$3.1 billion as compared to US\$2.7 billion in 2017. Book value per share was at US\$1.67 as compared to US\$1.49 last year, an increase of 12.1%.

#### **Financial Position**

The Group continued to maintain a strong financial position. As at December 31, 2018, the Group's cash and cash equivalents amounted to US\$1,104 million (2017: US\$864 million), of which 54.1%, 23.3%, 11.4% and 11.2% were denominated in US\$, RMB, EUR and other currencies respectively.

The Group's net gearing, expressed as a percentage of total net borrowing (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, was at net cash in 2018. The gearing improvement is the result of very disciplined and focused management over working capital. The Group remains confident that gearing, if any, will remain low going forward.

#### **Bank Borrowings**

Long term borrowings accounted for 56.0% of total debts (2017: 66.5%).

The Group's major borrowings continued to be in US Dollars. Borrowings are predominantly LIBOR based. There is a natural hedge mechanism in place as the Group's major revenues are in US Dollars and currency exposure therefore is low. Currency, interest rate exposures, and cash management functions are all being closely monitored and managed by the Group's treasury team.

Amongst the bank borrowings, fixed rate debts account for 10.9% of the total bank borrowings, the balance being floating rate debts.

#### **Working Capital**

Total inventory was at US\$1,767 million as compared to US\$1,467 million in 2017. Days inventory increased by 4 days from 88 days to 92 days. The higher inventory days as compared to past years was mainly due to the strategic decision to carry a higher level of inventory to support our service level, considering our high growth momentum. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivable turnover days were at 57 days as compared to 67 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 53 days as compared to 62 days last year. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing the credit exposure.

Trade payable days were 100 days as compared to 95 days in 2017 as the Group managed to leverage the volume and order visibility for better trade terms from suppliers.

Working capital as a percentage of sales was at 13.3% as compared to 16.5% in 2017.

### **Capital Expenditure**

Total capital expenditures for the year amounted to US\$259 million (2017: US\$205 million).

### **Capital Commitments and Contingent Liabilities**

As at December 31, 2018, total capital commitments for the acquisition of property, plant and equipment contracted for but not provided amounted to US\$119 million (2017: US\$22 million), and there were no material contingent liabilities or off balance sheet obligations.

### **Charge**

None of the Group's assets are charged or subject to encumbrance.

### **Major Customers and Suppliers**

For the year ended December 31, 2018

- (i) the Group's largest customer and five largest customers accounted for approximately 45.5% and 54.2% respectively of the Group's total revenue; and
- (ii) the Group's largest supplier and five largest suppliers accounted for approximately 7.2% and 22.2% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

As far as the Directors are aware, none of the Directors, their associates or any shareholders who owned more than 5% of TTI's share capital had any interest in the five largest customers or suppliers of the Group.

### **Human Resources**

The Group employed a total of 23,279 employees as at December 31, 2018 (2017: 22,033) in Hong Kong and overseas. Total staff cost for the year under review amounted to US\$1,062 million (2017: US\$963 million).

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improving the quality, competence and skills of all employees. It provides job-related training and leadership development programs throughout the organization. The Group continues to offer competitive remuneration packages, discretionary share options and bonuses to eligible staff, based on the performance of the Group and the individual employee.

### **Corporate Strategy and Business Model**

The Group is a world-class leader in design, manufacturing and marketing of power tools, outdoor power equipment and floor care for consumers, professional and industrial users in the home improvement, infrastructure and construction industries. We are committed to implementing our long term strategic plan that focuses on "Powerful brands, Innovative Products, Operational Excellence and Exceptional People".

We continue to strengthen our portfolio of powerful brands with a focused marketing approach. Brands extension into new product categories and under-represented markets enable us to generate outstanding growth. Geographic expansion will be a highlight of TTI's future, our long term strategy is to aggressively build our business both inside and outside North America and we have spent relentless efforts to expand and establish presence in high potential markets around the world.

Introducing innovative new products is the centerpiece of our long term strategy. We continue to invest in building a high-speed product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a vigorous competitive advantage.

Our strategy in operational excellence will continue, we will drive further gains in efficiency across our manufacturing operations, supporting further margin improvement.

We continue to deploy our Leadership Development Program (LDP) to develop our pool of talent for the future. The LDP initiative is successfully feeding talent into key positions throughout the company.

### **Our Commitment to ESG**

TTI is committed to operating its business in line with environmental, social and governance (ESG) best practices, and to do so in compliance with all applicable laws and regulations. We understand that a large measure of our ability to grow, innovate and prosper depends on our ESG performance.

We have a robust risk management system in place which allows us to identify and address issues in an appropriate and timely manner as well as mitigate risk to our business. We have identified legal and regulatory requirements related to ESG practices that have the potential to have a significant impact to our operations and performance. We had no reports of ESG-related non-compliance in 2018.

In 2018, we developed a Sustainability Strategy and Implementation Plan to align our actions and goals globally with the United Nations Sustainable Development Goals (UN SDGs). We also sharpened our focus on human rights, labor, environment, governance and anti-corruption practices with specific initiatives and goals. In terms of governance, we have formalized the role of the ESG Working Committee to oversee our ESG direction and activities. The committee will continue to review and lead our Sustainability Strategy and monitor our performance against our goals and targets.

TTI understands the importance of continuous engagement with our stakeholders to monitor and address their expectations and evolving legal and industry requirements. We have various communication channels with our key stakeholders including employees, customers, investors, shareholders and suppliers. Communication occurs via regular meetings, focus group discussions and training sessions.

Details on our ESG commitments, relevant policies and standards is provided throughout this report. Specific ESG key performance results and initiatives of 2018 are shared on pages 78 to 111.

## Purchase, Sale or Redemption of Securities

A total of 8,600,000 ordinary shares were bought back by the Company during 2018 at prices ranging from HK\$36.25 to HK\$47.55 per share. Among these shares bought back and settled by the Company in 2018, 7,100,000 shares were cancelled during 2018 and 1,500,000 shares were cancelled in January 2019. The aggregate amount paid by the Company for such buy-backs cancelled during 2018 amounting to US\$38,608,000 was charged to the retained earnings.

The shares bought back were cancelled and accordingly the issued share capital of the Company was reduced. The buy-backs of the Company's shares during the year were effected by the Directors pursuant to the mandate granted by shareholders at the previous annual general meeting of the Company, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting

principles and practices adopted by the Group and has discussed internal controls and financial reporting matters, including the review of Group's consolidated financial statements for the year ended December 31, 2018. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

## Dividend

The Directors have recommended a final dividend of HK50.00 cents (approximately US6.44 cents) per share with a total of approximately US\$117,666,000 for the year ended December 31, 2018 (2017: HK39.75 cents (approximately US5.12 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 24, 2019. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about June 21, 2019. This payment, together with the interim dividend of HK38.00 cents (approximately US4.89 cents) per share (2017: HK27.75 cents (approximately US3.57 cents)) paid on September 21, 2018, makes a total payment of HK88.00 cents (approximately US11.33 cents) per share for 2018 (2017: HK67.50 cents (approximately US8.69 cents)).

## Closure of Register of Members

The register of members of the Company will be closed for the following periods:

To ascertain members' eligibility to attend and vote at the 2019 Annual General Meeting, the register of members of the Company will be closed from May 15, 2019 to May 17, 2019, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2019 Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 14, 2019.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 24, 2019 when no transfers of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 23, 2019.

# Board of Directors

## Group Executive Directors

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### **Horst Julius Pudwill** MSc

*Chairman*

Mr Horst Julius Pudwill, aged 74, is Chairman of TTI, a position he has held since he jointly founded the Group in 1985. Until 2008, he also served as Chief Executive Officer. As Chairman, Mr Pudwill focuses on the strategic planning and development of the Group and continues to have oversight of the operations, with the Chief Executive Officer reporting directly to him. Mr Pudwill has extensive experience in international trade, business and commerce. Mr Pudwill is also a director of Sunning Inc. which has an interest in the equity of the Company.

Mr Pudwill holds a Master of Science Degree in Engineering and a General Commercial Degree.

Mr Pudwill is the father of Mr Stephan Horst Pudwill, Vice Chairman and Group Executive Director.

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### **Stephan Horst Pudwill**

*Vice Chairman*

Mr Stephan Horst Pudwill, aged 42, joined the Group in 2004.

Mr Pudwill was appointed as Executive Director in 2006 and subsequently was appointed as the Vice Chairman of the Company on October 1, 2016. He is mainly responsible for managing, improving and monitoring internal operations and identifying synergistic business opportunities within the Group.

Prior to joining the Group, Mr Pudwill held managerial positions at Daimler Chrysler AG that included product marketing and strategic planning for the Mercedes-Benz car group.

Mr Pudwill holds a Bachelor of Arts Degree from the University of British Columbia and is Mr Horst Julius Pudwill's son.

## Group Executive Directors (continued)

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### **Joseph Galli Jr** BSBA, MBA

*Chief Executive Officer*

Mr Joseph Galli Jr, aged 60, joined the Group in 2006 as the Chief Executive Officer of Techtronic Appliances and was appointed as Chief Executive Officer and Executive Director of TTI effective February 1, 2008. He is responsible for integrating acquisitions in North America and Europe, and enhancing the global sales potential of the Group's strong brand portfolio. He is also responsible for leading the management team in the Group's daily operation.

Mr Galli joined Black & Decker in 1980 where he worked for over 19 years and held various high level management positions, rising to the position of President of Worldwide Power Tools and Accessories. During his tenure at Black & Decker, he was responsible for highly successful launch of the "DeWalt®" Brand heavy duty power tools in 1992. After leaving Black & Decker, Mr Galli joined Amazon.com where he was President and Chief Operating Officer from 1999 to 2000. From 2001 to 2005, he was a Director and Chief Executive Officer of Newell Rubbermaid Inc.

Mr Galli graduated from the University of North Carolina in 1980 with a Bachelor of Science in Business Administration. In 1987, he obtained an MBA from Loyola College in Baltimore, Maryland.

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### **Patrick Kin Wah Chan** FCCA, FCPA

*Operations Director*

Mr Patrick Kin Wah Chan, aged 59, joined the Group in 1988 and was appointed as Executive Director in 1990. He is now in charge of the manufacturing operations of the Group.

Mr Chan is currently the Vice-Chairman of the Dongguan City Association of Enterprises with Foreign Investment, the Chairman of Houjie Association of Enterprises with Foreign Investment. He is also the Vice-Director of Electric Tool Sub-Association of China Electrical Equipment Industrial Association.

Mr Chan is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

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### **Frank Chi Chung Chan** FCCA, FCPA, CPA (Practising)

*Group Chief Financial Officer*

Mr Frank Chi Chung Chan, aged 65, joined the Group in 1991 and was appointed as Executive Director in 1992. He is now responsible for corporate affairs and financial management of the Group.

Mr Chan is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Chartered Accountants in England & Wales and qualified to practise as a Certified Public Accountant in Hong Kong.

Mr Chan is currently an Independent Non-executive Director of Gold Peak Industries (Holdings) Limited which is listed on the stock exchange of Hong Kong.

## Non-executive Directors

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### Roy Chi Ping Chung GBS, BBS, JP

Prof Roy Chi Ping Chung GBS BBS JP, aged 66, is a Co-founder of TTI. Prof Chung, previously the Group Managing Director since 1985, was appointed as the Group Vice Chairman and Executive Director of the Company on April 18, 2007. He has been re-designated to Non-executive Director of the Company with effect from July 1, 2011.

Prof Chung holds a Doctor of Engineering Degree from the University of Warwick, United Kingdom and Doctor of Business Administration Degree from City University of Macau. He was appointed as an Industrial Professor by the University of Warwick, United Kingdom in December 2010. He was awarded an Honorary Doctor of Business Administration by the Lingnan University in 2015, an Honorary Doctor of Business Administration by the Hong Kong Polytechnic University in 2007 and an Honorary Doctorate Degree by the University of Newcastle, New South Wales, Australia in 2006. He was awarded the Gold Bauhinia Star (GBS) Medal and the Bronze Bauhinia Star (BBS) Medal by the Hong Kong SAR Government on June 30, 2017 and July 1, 2011 respectively. He was also appointed as Justice of Peace by the Hong Kong SAR Government on July 1, 2005 and won the Hong Kong Young Industrialists Award in 1997. In November 2014, he was further awarded the Industrialist of the Year.

Prof Chung is highly dedicated to the advancement of industry and was the Chairman of the Federation of Hong Kong Industries until July 5, 2013. In addition, Prof Chung holds positions on a number of Hong Kong SAR Government advisory committees and is also an active member of many social committees and associations. He has been appointed as Chairman of Vocational Training Council since January 1, 2018.

Prof Chung is also an Independent Non-executive Director of TK Group (Holdings) Limited, Fujikon Industrial Holdings Limited and Vitasoy International Holdings Limited (effective June 24, 2017). Prof Chung retired as Independent Non-executive Director of Kin Yat Holdings Limited and KFM Kingdom Holdings Limited effective August 25, 2014 and August 27, 2015 respectively.

## **Non-executive Directors** (continued)

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### **Camille Jojo**

Mr Camille Jojo, aged 62, was appointed as a Non-executive Director with effect from October 30, 2015. Mr Jojo has practiced as a lawyer in Hong Kong for a continuous period in excess of 30 years as a specialist in (i) civil litigation in the higher courts of Hong Kong, (ii) arbitration and (iii) regulatory. He graduated with a LL.B. Hons. degree from the University of Cardiff in 1977 and obtained his Professional Qualifying Examination Certificate from Guildford College of Law in 1978. He was qualified and was admitted as a solicitor of the Supreme Court of England and Wales in 1980, as a solicitor of the Supreme Court of Hong Kong in 1982 and as a solicitor and barrister of the Supreme Court of Victoria, Australia in 1984. Mr Jojo was admitted as a fellow of the Chartered Institute of Arbitrators in November 1997. He has been a member of the Law Society Insolvency Law Committee since 1996 and was granted Higher Rights of Audience as a solicitor advocate in respect of civil proceedings in the Hong Kong Courts in 2015. Mr Jojo was awarded the Dispute Resolution Lawyer of the Year 2018 at the 17<sup>th</sup> Annual Hong Kong Law Awards. He is a Partner of Norton Rose Fulbright Hong Kong and head of its dispute resolution practice in Hong Kong.

## **Independent Non-executive Directors**

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### **Christopher Patrick Langley OBE**

Mr Christopher Patrick Langley, aged 74, was appointed as an Independent Non-executive Director in May 2001.

Mr Langley was formerly an Executive Director of The Hongkong and Shanghai Banking Corporation Ltd and is currently a Non-executive Director of Lei Shing Hong Limited which has been delisted from the Stock Exchange of Hong Kong Limited on March 17, 2008.

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### **Manfred Kuhlmann**

Mr Manfred Kuhlmann, aged 74, was appointed as an Independent Non-executive Director in 2004. He was General Manager of Dresdner Bank AG Hong Kong Branch between 1994 and 1998 and General Manager of Dresdner Bank AG Dubai before he retired in August 2004. Mr Kuhlmann is a graduate of the Banking Academy, Hamburg and has extensive experience in the finance and banking industry. Since 2005 he served as "Hamburg Ambassador" in the UAE to support the economic ties between Hamburg, Germany and the UAE. He retired from that position in May 2013 as he had moved his residence to Cyprus.

## Independent Non-executive Directors (continued)

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### **Peter David Sullivan** BS

Mr Peter David Sullivan, aged 70, was appointed as Independent Non-executive Director effective February 1, 2008. He was an Executive Director and Chief Executive Officer of Standard Chartered Bank (Hong Kong) Limited. Mr Sullivan held governance responsibility for franchises of the Standard Chartered Group in Japan, Australia, the Philippines and Bohai Bank in Tianjin, China. He also held a number of other major appointments, including as the Chairman of the Hong Kong Association of Banks and the British Chamber of Commerce.

Mr Sullivan has been appointed as a Non-executive Director to the boards of Standard Bank Group and The Standard Bank of South Africa Limited with effect from January 15, 2013. He is a Non-executive Director of Circle Health LTD, AXA ASIA, AXA China Region Insurance Company Limited and AXA General Insurance Hong Kong. Mr Sullivan was an Independent Non-executive Director of Standard Bank plc London and SmarTone Telecommunications Holdings Limited, a Non-executive Director of AXA Asia Pacific Holdings Limited that was listed on the Australian and New Zealand stock exchanges.

Mr Sullivan holds a Bachelor of Science (Physical Education) Degree from the University of New South Wales (Wollongong).

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### **Vincent Ting Kau Cheung**

Mr Vincent Ting Kau Cheung, aged 77, was appointed as a Director in 1991 and was re-designated as an Independent Non-executive Director on March 30, 2012.

Mr Cheung is a graduate in law from University College London and has been a practising solicitor since 1970. He is qualified to practice law in Hong Kong and England and Wales and he is now a Consultant of Vincent T.K. Cheung, Yap & Co. He is also a Fellow of University College London and a Commandeur de l'Ordre du Mérite Agricole of France.

## **Independent Non-executive Directors** (continued)

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### **Johannes-Gerhard Hesse**

Mr Johannes-Gerhard Hesse (commonly known as Hans-Gerd Hesse), aged 59, was appointed as an Independent Non-executive Director of the Company with effect from October 1, 2016.

Mr Hesse holds a graduate degree in Business Administration from the University of Cologne and has acquired extensive business management, strategy, leadership and corporate governance experience in Europe and Asia.

Mr Hesse's professional career turned global in 1988 when joining RJ Reynolds International, a division of RJR Nabisco Inc., where he henceforth held market research and marketing positions in Germany, its regional headquarters in Switzerland and the Czech Republic. In 1996 he was appointed General Manager Hungary and in 1998 Regional Vice President Marketing for the Commonwealth of Independent States & Baltics (i.e. former Soviet Union). In 1999, JT International, a division of Japan Tobacco Inc. ("JTI"), appointed Mr Hesse as General Manager Singapore, Philippines & Australasia. He became Vice President & General Manager China in 2002 and served simultaneously as Vice Chairman on the board of directors of China American Cigarette Co. JV in Xiamen. In 2003 followed his appointment to Vice President Corporate Strategy at JTI's global headquarters. In 2007, Mr Hesse joined JTI's Executive Committee as Regional President Asia Pacific based in Hong Kong, holding concurrently governance and board director responsibilities in affiliates of the JTI Group of Companies in Asia. He retired from these positions before the end of 2010. From 2011 onwards, Mr Hesse started to develop his proprietary investment holding and business advisory company, maintaining permanent residency in Hong Kong and Switzerland.

# Corporate Governance Report

The Company strikes for high standard corporate governance to enhance shareholders' interests and promote sustainable development. A quality board of directors (the "Board") for leadership, effective internal controls, as well as transparency and accountability to all shareholders are essential to the Company. The Board reviewed the codes and practices of corporate governance and the disclosure of this Corporate Governance Report, from time to time, to improve the Company's corporate governance practices with regards to the latest developments on all applicable laws, rules and regulations.

## Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Corporate Governance Code") throughout the year ended December 31, 2018, save that none of the Directors are appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under Article 107(A) of the Articles of Association of the Company, one-third of the Board must retire by rotation at each general meeting of the Company, and if eligible, offer themselves for re-election.

The Company has also voluntarily complied with a number of the recommended best practices set out in the Corporate Governance Code, aimed at further enhancement of the Company's corporate governance standard as well as promotion of the best interests of the Company and shareholders as a whole.

## Corporate Governance Policy

The Board continuously develops, reviews and monitors the corporate governance policies and practices to ensure compliance with the Company's Articles of Association and the laws, rules and regulatory requirements governing the Group. The corporate governance function performed by the Board through, but not limited to, the following:

- review compliance of the Corporate Governance Code and the disclosure set out in this Corporate Governance Report.

- monitor and review compliance of the Model Code for Securities Transactions by Directors, the Code for Securities Transactions by Relevant Employees and other codes of conduct of the Company.
- monitor and review the training and continuous professional development of Directors and senior management.

## Board of Directors

### Roles and Responsibilities

With an effective corporate governance framework, the Board is collectively responsible for leading, supervising and setting directions and strategies for the affairs of the Group to strike for long term success of the Company. The principal responsibilities of the Board include, but are not limited to, the following:

- develop and review overall mid-term and long-term strategy and direction of the Company.
- review and monitor risks and changes in local and international business communities in order to enhance shareholders' value.
- oversee the Company's operations and financial performance through determination of the annual budget and continuous review of performance results.
- consider matters covering major acquisitions and disposals, appointment of Directors, senior management and external auditors, as well as other significant operational matters.
- formulate the Company's policies and practices on corporate governance.

The Board continuously monitors the delegation and the reservation for decision and consideration of specifically identified matters, with specific functions are delegated to Board Committees and senior management of the Group. The Company has adopted formal written procedures, which are reviewed regularly, for the governance of delegation and reservation of responsibilities of the Board.

## Board Composition

As at the date of this report, the Board consists of five Group Executive Directors, two Non-executive Directors and five Independent Non-executive Directors. An analysis of the current composition of the Board of the Company is set out below:

### Group Executive Directors

Mr Horst Julius Pudwill (Chairman)  
 Mr Stephan Horst Pudwill (Vice Chairman)  
 Mr Joseph Galli Jr (Chief Executive Officer)  
 Mr Kin Wah Chan (Operations Director)  
 Mr Chi Chung Chan (Group Chief Financial Officer)

### Non-executive Directors

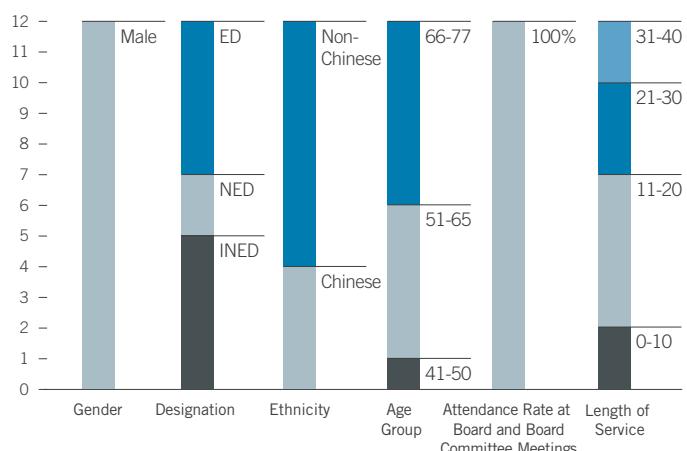
Prof Roy Chi Ping Chung GBS BBS JP  
 Mr Camille Jojo

### Independent Non-executive Directors

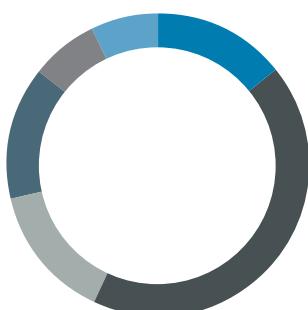
Mr Christopher Patrick Langley OBE  
 Mr Manfred Kuhlmann  
 Mr Peter David Sullivan  
 Mr Vincent Ting Kau Cheung  
 Mr Johannes-Gerhard Hesse

The biographical details and relevant relationships of the members of the Board are set out on pages 60 to 65 of this annual report. A list of Directors and their roles and functions are published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)).

Number of Directors

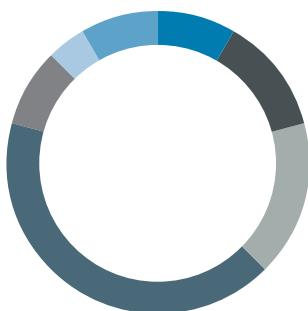


### Educational Background



- Accounting
- Business
- Engineering
- Legal
- Others
- Science

### Professional Experience



- Accounting
- Banking
- Consumer Products
- Industrial
- Legal
- Properties & Investment Holding
- Technology/Telecom

In order to promote balance of authority, accountability and power, the roles of Chairman and Chief Executive Officer of the Company have been segregated and clearly distinguished.

The roles of Chairman comprise, but are not limited to, the following:

- take the lead to ensure the Board discharges its responsibilities and performs effectively.
- oversee and ensure sound practices and procedures.
- ensure all Directors are properly briefed on issues arising at Board meetings and always receive timely, accurate and reliable information.
- encourage all Directors to make active and full contributions to the Board's affairs.
- lead the Board to ensure it acts in the best interests of the Company.
- enhance effective communication with shareholders and encourage the views of shareholders are communicated to the Board as a whole.

The roles of Chief Executive Officer comprise, but are not limited to, the following:

- execute the Company's strategic initiatives.
- provide leadership for the global management team in the Group's daily operations.
- enhance the global sales potential of the Company's strong brand portfolio and facilitate the integration of acquisitions, if any.

The Nomination Committee recommends the appointment of directors for approval of the Board. Before accepting their appointment, Directors are aware that they must be able to contribute sufficient time and attention to the affairs of the Company. A formal orientation is provided for each newly appointed Director, which details the duties and responsibilities of Directors under the Listing Rules, the Company's Articles of Association, and related ordinances and relevant regulatory requirements of Hong Kong. Presentations by external professionals and senior executives of the Company are also provided to ensure a proper understanding of the Company's business and operations.

Directors are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association and the Listing Rules. Any Directors appointed to fill a casual vacancy would be subject to election by shareholders at the next annual general meeting after their appointment. Independent Non-executive Directors and Non-executive Directors form a majority of the Board, and the Independent Non-executive Directors represent over one-third of the Board as at the date of this report. Furthermore, majority of the Independent Non-executive Directors possesses professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All Independent Non-executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. Annual confirmation of independence from each of the Independent Non-executive Directors has been received by the Company and they are still considered to be independent.

The Board has arranged appropriate Directors' and Officers' liability insurance to indemnify the Directors and Officers of the Group for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are reviewed annually.

## Directors' Continuous Professional Development

To ensure that Directors are aware of the latest development in the commercial and regulatory environment in which the Company conducts its business, all Directors are provided with regular training, updates and written materials on relevant laws, rules and regulations. The Directors are encouraged to participate in various professional development programs especially in relation to compliance requirements to develop and refresh their knowledge and skills and the latest updates on relevant rules, regulations in order to ensure that the Directors' contribution to the Board remains informed and relevant.

All Directors participate in continuous professional development as set out in code provision A.6.5 of the Corporate Governance Code. According to the records of training provided by each Director to the Company, the training received by the Directors in 2018 is summarized in the following table:

	Type of Continuous Professional Development Programme		
	Updates on business operations, laws, rules and regulations or corporate governance matters	Updates on directors' roles, functions and duties	Updates on accounting, financial or other professional skills
<b>Group Executive Directors</b>			
Mr Horst Julius Pudwill	√	√	
Mr Stephan Horst Pudwill	√	√	
Mr Joseph Galli Jr	√	√	
Mr Kin Wah Chan	√	√	√
Mr Chi Chung Chan	√	√	√
<b>Non-executive Directors</b>			
Prof Roy Chi Ping Chung GBS BBS JP	√	√	√
Mr Camille Jojo	√	√	√
<b>Independent Non-executive Directors</b>			
Mr Christopher Patrick Langley OBE	√	√	√
Mr Manfred Kuhlmann	√	√	
Mr Peter David Sullivan	√	√	
Mr Vincent Ting Kau Cheung	√	√	√
Mr Johannes-Gerhard Hesse	√	√	√

## Compliance with the Codes for Securities Transactions

The provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") has been adopted by the Board. In response to the specific enquiries made, all Directors have confirmed that they have fully complied with the required standards as set out in the Model Code during the year ended December 31, 2018.

The Company has also adopted another code of conduct on terms no less onerous than the Model Code that applies to securities transactions of all relevant employees who may be in possession of unpublished price sensitive information in relation to the Company (the "Code for Securities Transactions by Relevant Employees"). During the year, no incident of non-compliance was noted by the Company.

Both the Model Code and the Code for Securities Transactions by Relevant Employees have been published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)).

## Board Meetings

The Board meetings of the Company are held regularly, at least four Board meetings are scheduled in a year with more frequent meetings as and when required in order to facilitate the effectiveness of the Board. In 2018, five Board meetings were held and the attendance records of each Director are set out in the section headed "Board, Board Committee and General Meetings in 2018" at the end of this report.

To ensure maximum attendance of Directors, Board meeting, Board Committee meeting and Annual General Meeting dates for 2019 were agreed upon at the Board meeting held in August 2018. The meeting agenda is set by the Chairman in consultation with members of the Board to include any other matters raised by Directors in advance. Minutes of the Board and Board Committee meetings with sufficient details of matters and concerns discussed are prepared and maintained by the Company Secretary of the Company (the "Company Secretary"), which are sent to the Directors for comment and records. Board records which are kept in safe custody by the Company Secretary are available for inspection by the Directors.

All Directors are provided with accurate reliable and complete information on the affairs of the Group in a timely manner. They have access to all related materials in relation to the Board's issues to facilitate informed decisions with sufficient details. To enhance understanding of the business of the Group and Directors' responsibilities under statute and at common law, all Directors are provided with briefings and professional development training as necessary. The Company Secretary provide full support to the Directors in order to ensure Board procedures and all applicable laws, rules and regulations are followed. Directors are also provided with access to senior management of the Group upon request, as well as to independent professional advice on performing their duties at the Company's expense.

## Board Committees

The Board has established three Board Committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee, to delegate various responsibilities. Each of these Board Committees has specific written terms of reference which deal clearly with their authority and duties and have been published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)).

Independent Non-executive Directors form majority of all Board Committees. With regular attendance and active participation of Independent Non-executive Directors, independent views and opinions are encouraged to be contributed and expressed at the Board Committee meetings. The Board monitors and oversees the delegated authority and responsibilities through regular reporting by the Board Committees in relation to their activities involved and recommendations and decisions made. The attendance records of each Board Committee are set out in the section headed "Board, Board Committee and General Meetings in 2018" at the end of this report.

## Audit Committee

The Audit Committee is formed by four Independent Non-executive Directors and chaired by Mr Peter David Sullivan with other members being Mr Manfred Kuhlmann, Mr Vincent Ting Kau Cheung and Mr Johannes-Gerhard Hesse. Most of the members of the Audit Committee have professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

The Audit Committee aims to ensure compliance with the Group's obligations under the Listing Rules and other applicable laws and regulations as well as effectiveness of the risk management and internal control systems. It also oversees the integrity of the financial statements of the Company. The Audit Committee is also directly responsible on behalf of the Board for the selection, oversight and remuneration of the Company's external auditors, the assessment of the independence and qualifications of the external auditors, the oversight of the performance of the Company's external auditors and the maintenance of an appropriate relationship with the external auditors.

The Audit Committee held four meetings in 2018 and performed duties summarized below:

- review and make recommendations to the Board for the approval of the interim and annual financial statements of the Group.
- review the Group's accounting principles and practices, financial reporting matters and significant financial matters.
- review the scope, extent and effectiveness of internal audit function of the Group.
- review and assist to maintain the effectiveness of the Group's risk management and internal controls systems.
- oversee the relationship between the Company and the external auditors, recommend the re-appointment of the external auditors and review the audit and non-audit services provided by the external auditors.

## Nomination Committee

The Nomination Committee is chaired by Mr Horst Julius Pudwill (Chairman of the Board) with the other members being Mr Vincent Ting Kau Cheung, Mr Christopher Patrick Langley OBE, Mr Manfred Kuhlmann and Mr Johannes-Gerhard Hesse (who has been appointed with effect from March 6, 2019). All members except Mr Horst Julius Pudwill are Independent Non-executive Directors.

The Nomination Committee aims to ensure a fair and transparent process of Board appointments, and in particular, to assist the Board to identify suitably qualified candidates and make recommendations for consideration of the Board and shareholders. In their recommendations, the Nomination Committee considers factors including, but not limited to, ethics, professional knowledge, integrity, industry experience and personal skills as well as the ability to contribute sufficient time and attention to the Board when considering suitable candidates of Directors.

The Nomination Committee held two meetings in 2018. The work performed by the Nomination Committee in 2018, with sufficient resources provided by the Company and/or independent professional advice when necessary, included:

- review the Board Diversity Policy and the Nomination Policy.
- review of the structure, size and composition of the Board on a regular basis.
- make recommendations to the Board on relevant matters relating to the retirement and re-election of the Directors at the 2018 Annual General Meeting.
- assess the independence of Independent Non-executive Directors.

The Board has adopted the Board Diversity Policy in August 2013, which is published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)). Widening diversity at the Board level is essential for sustainable development of the Group. The Nomination Committee would consider various perspectives, including, but not limited to, age, gender, cultural and educational background, professional experience and length of service while reviewing the composition of the Board. An analysis of the current Board composition based on these objective criteria is set out on page 67 of this report.

## Remuneration Committee

The Remuneration Committee is formed by majority of Independent Non-executive Directors and is chaired by Mr Vincent Ting Kau Cheung with the other members being Mr Christopher Patrick Langley OBE, Mr Manfred Kuhlmann, Mr Peter David Sullivan and Mr Camille Jojo.

The responsibilities of the Remuneration Committee include, but not limited to, developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the Group and the remuneration of Directors and senior management of the Group, and determining their remuneration packages, on the basis of their competence, merit and qualifications, and having regard to individual performance, comparable market statistics and the Company's return to shareholders and operating results. The Remuneration Committee makes recommendations to the Board on the remuneration packages of Executive Directors and senior management, including, without limitation, base salaries, benefits in kind, compensation payments and bonuses, and consults the Chairman and/or Chief Executive Officer for the proposals of other Executive Directors' remuneration packages. The Remuneration Committee also makes recommendations to the Board on the remuneration of Non-executive Directors and Independent Non-executive Directors. The Remuneration Committee reports directly to the Board on its decisions or recommendations and with access to sufficient resources and professional advice if necessary.

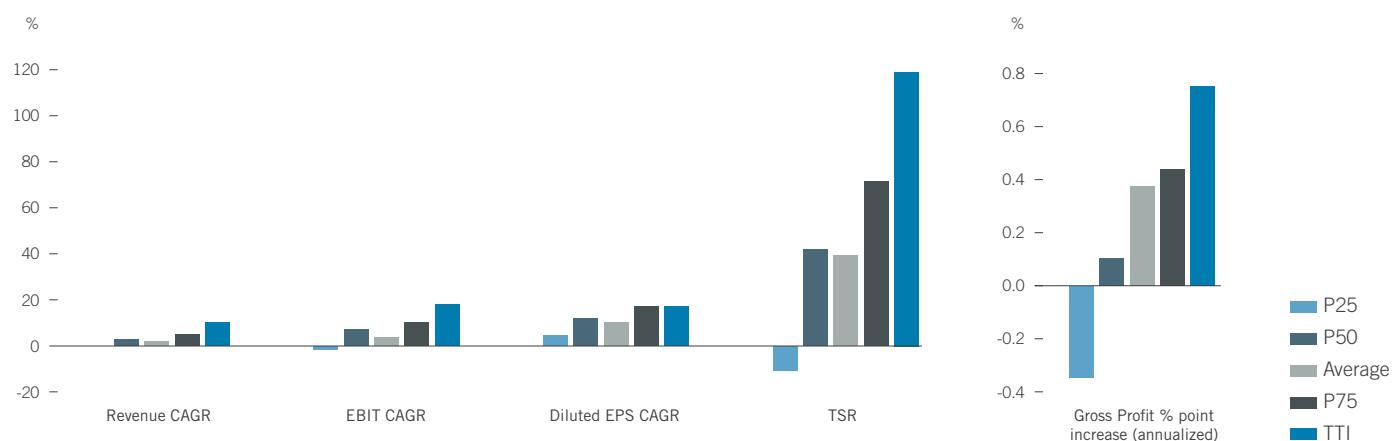
The Remuneration Committee held two meetings in 2018 and performed, among other work, the following:

- assess the Executive Directors' performance and remuneration packages.
- review and make recommendations on the existing Remuneration Policy for Directors and senior management.

The Group engages a global executive compensation consulting firm as an independent third party to review the compensation of the CEO. The compensation of the Group's CEO was assessed relative to similar CEO positions at 20 similarly sized peer companies operating in the same or adjacent industries. The consultant's assessment took into account the Group's absolute share price, financial and operational performance, as well as that relative to the peer companies.

As shown in the chart below, over the past five years the Group has outperformed the peer companies in a number of key performance metrics such as revenue growth, EBIT growth, diluted EPS growth, gross profit margin improvement and stock price performance.

## Five Year Performance Metrics Growth



Source: Peer companies' data from S&P Capital IQ

The Remuneration Committee reviewed and recommended to the Board for approval the 2018 incentive payouts for the CEO in the context of this strong performance delivered by the Group.

To retain Mr Galli as a CEO with a long track record of exceptional performance and to incentivize him to continue to deliver superior, sustainable, long-term results, the Remuneration Committee recommended, and the Board approved, multi-year performance-based share awards to Mr Galli ("CEO Share Awards") subject to the Company's achievement of share price and operational performance criteria ("Performance Criteria") over the period 2019 to 2023 to be specified by the Remuneration Committee. Provided the Company meets the Performance Criteria each year, Mr Galli will be awarded one million shares per year over five years for a total of five million shares. The first award will be made on or about January 1, 2020 for performance achievement over the 2019 financial year. All awarded shares will vest on the anniversary of the fifth award date, provided Mr Galli remains an employee in good standing at the Company through the vesting date. The CEO Share Awards will further align Mr Galli's interest with those of the shareholders and help assure his services to the company through the vesting date. The CEO Share Awards will be made under the 2018 Share Award Scheme.

The Company has two share award schemes in place, namely the 2008 Share Award Scheme and the 2018 Share Award Scheme. The 2008 Share Award Scheme was adopted on January 9, 2008 (the "2008 Adoption Date") and expired from January 9, 2018, though its provisions shall remain in full force and effect in all other respects. Following the expiry of the 2008 Share Award Scheme, the 2018 Share Award Scheme was adopted with effect from January 17, 2018 (the "2018 Adoption Date").

The scheme rules of both the 2008 Share Award Scheme and the 2018 Share Award Scheme are substantially identical and below are the summary of the principal terms of both schemes:

Any employee or Director (including, without limitation, any Executive, Non-executive or Independent Non-executive Director) of any member of the Group (the "Eligible Person") will be entitled to participate the schemes. Unless terminated earlier by the Board in accordance with the respective scheme rules, the effective term of each scheme is 10 years commencing on the adoption date of the relevant scheme provided that no contribution to the trust will be made by the Company on or after the 10th anniversary date of the adoption date of the relevant scheme. Details of both schemes were announced by the Company on the respective adoption date of each scheme.

The Board may, from time to time, at their absolute discretion select any Eligible Person for participation in any scheme as a selected grantee (the "Selected Grantee") and determine the number of shares to be awarded or make reference to a nominal amount. The relevant number of shares awarded will be purchased by the trustee of the schemes from the market or new shares will be subscribed for by the trustee at the cost of the Company and be held in trust until they are vested. When the Selected Grantee has satisfied all vesting conditions specified by the Board, the trustee will transfer the relevant vested shares together with the income derived therefrom (net of accrued interest) to the Selected Grantee.

The maximum number of shares which can be awarded under each scheme is 10% of the issued share capital of the Company as at the adoption date thereof, and the maximum number of shares which can be awarded under each scheme to a Selected Grantee, at any one time, shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date thereof. The total issued share capital of the Company as at the 2008 Adoption Date and the 2018 Adoption Date were 1,501,252,152 shares and 1,835,021,941 shares, respectively.

Since the 2008 Adoption Date and up to December 31, 2018, a total of 3,946,000 shares had been awarded under the 2008 Share Award Scheme, representing 0.26% of the issued share capital of the Company as at the 2008 Adoption Date. Recognition of share-based payment expenses under the 2008 Share Award Scheme during the year was US\$471,000. During the year ended December 31, 2018, a total of 10,500 shares had been awarded under the 2008 Share Award Scheme to one Director of the Company, representing less than 0.01% of the issued share capital of the Company as at the 2008 Adoption Date. The total payout, including related expenses, amounted to US\$42,000. In addition, during the year ended December 31, 2018, 160,500 shares were transferred to the Selected Grantees upon vesting under the 2008 Share Award Scheme.

Since the 2018 Adoption Date and up to December 31, 2018, a total of 1,164,000 shares had been awarded under the 2018 Share Award Scheme to five Directors of the Company, representing 0.06% of the issued share capital of the Company as at the 2018 Adoption Date. Recognition of share-based payment expenses under the 2018 Share Award Scheme during the year was US\$1,873,000. The total payout, including related expenses, amounted to US\$4,538,000. During the year ended December 31, 2018, no share was vested under the 2018 Share Award Scheme. As at December 31, 2018, details of the awarded shares under the 2008 Share Award Scheme and the 2018 Share Award Scheme were as follows:

Name of Directors	Date of Award	Share award scheme category	Number of awarded shares	Number of shares					Vesting Period	Closing price at the Date of Award
				As at January 1, 2018	Awarded during the year	Vested during the year	Lapsed during the year	As at December 31, 2018		
Mr Horst Julius Pudwill	18.9.2014	2008	350,000	—	—	—	—	—	18.9.2015 – 18.9.2017	HK\$22.50
	26.9.2014	2008	174,000	—	—	—	—	—	26.9.2015 – 26.9.2017	HK\$22.10
	15.10.2015	2008	500,000	—	—	—	—	—	15.10.2016 – 15.10.2017	HK\$27.10
	23.3.2017	2008	300,000	300,000	—	(150,000)	—	150,000	23.3.2018 – 23.3.2019	HK\$32.15
	21.3.2018	2018	500,000	—	500,000	—	—	500,000	15.3.2019 – 15.3.2022	HK\$47.00
Mr Stephan Horst Pudwill	15.10.2015	2008	100,000	—	—	—	—	—	15.10.2016	HK\$27.10
	21.3.2018	2018	50,000	—	50,000	—	—	50,000	15.3.2019 – 15.3.2022	HK\$47.00
Mr Joseph Galli Jr	17.12.2014	2008	300,000	—	—	—	—	—	17.12.2015 – 17.12.2017	HK\$25.85
	15.10.2015	2008	1,000,000	—	—	—	—	—	15.10.2016 – 15.10.2017	HK\$27.10
	19.8.2016	2008	1,000,000	—	—	—	—	—	31.8.2016	HK\$30.50
	21.3.2018	2018	514,000	—	514,000	—	—	514,000	15.3.2019 – 15.3.2022	HK\$47.00
Mr Kin Wah Chan	15.10.2015	2008	100,000	—	—	—	—	—	15.10.2016	HK\$27.10
	21.3.2018	2018	50,000	—	50,000	—	—	50,000	15.3.2019 – 15.3.2022	HK\$47.00
Mr Chi Chung Chan	15.10.2015	2008	100,000	—	—	—	—	—	15.10.2016	HK\$27.10
	21.3.2018	2018	50,000	—	50,000	—	—	50,000	15.3.2019 – 15.3.2022	HK\$47.00
Mr Camille Jojo	4.1.2017	2008	11,500	—	—	—	—	—	4.1.2017	HK\$28.00
	8.1.2018	2008	10,500	—	10,500	(10,500)	—	—	8.1.2018	HK\$51.50
<b>Total</b>			<b>5,110,000</b>	<b>300,000</b>	<b>1,174,500</b>	<b>(160,500)</b>	<b>—</b>	<b>1,314,000</b>		

Notes:

- (1) All the awarded shares are purchased from the market.
- (2) At the end of the year, the average fair value per share is HK\$30.30. The average fair value of the awarded shares is based on the average purchase cost.
- (3) During the reporting year, a total of 2,800,000 shares were purchased at an aggregate consideration of US\$15,191,000 for satisfying the awards granted pursuant to the 2008 Share Award Scheme and the 2018 Share Award Scheme.
- (4) 10,000 shares were awarded and vested to Mr Camille Jojo on January 2, 2019.

## Change in Director's Emoluments

Mr Johannes-Gerhard Hesse, an Independent Non-executive Director, was appointed as member of the Nomination Committee with effect from March 6, 2019. Mr Johannes-Gerhard Hesse will be entitled to the Nomination Committee fee which has been fixed by the Board.

The Remuneration Committee reviewed and recommended changes to Directors' Emoluments in March 2019. These changes were approved by the Board and will be effective as of January 1, 2019.

- Eliminated meeting fees to Non-executive Directors and Independent Non-executive Directors for attending Board and Board committee meetings
- Increased the annual basic Director fee in cash to HK\$600,000
- Included as the basic Director fee an annual grant of shares to vest on the first anniversary of the date of award
- Adjusted the Remuneration Committee and Nomination Committee chair and member fees to HK\$100,000 and HK\$60,000, respectively

The new remuneration framework for Non-executive Directors and Independent Non-executive Directors is as follows:

<b>Board</b>	
– Basic fee (cash)	HK\$600,000
– Basic fee (shares)	Varies
<b>Audit Committee</b>	
– Chairman	HK\$225,000
– Member	HK\$150,000
<b>Nomination Committee</b>	
– Chairman	HK\$100,000
– Member	HK\$60,000
<b>Remuneration Committee</b>	
– Chairman	HK\$100,000
– Member	HK\$60,000

The changes to the Non-Executive Directors' and Independent Non-Executive Directors' remuneration arrangements are intended to simplify and standardize the overall package while improving the Directors' alignment with shareholders through annual grants of Company shares.

## Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are followed. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is also responsible for facilitating information flow and communication among Directors as well as with Shareholders and management of the Company. The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary undertook over 15 hours of professional training to update her skills and knowledge every year.

## Accountability and Audit

The Board acknowledges its responsibility for overseeing the preparation of the accounts of the Group which give a true and fair view of the Group's state of affairs, results and cash flows for the year.

The Board will present a balanced, clear and understandable assessment of annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to the regulators as well as information required to be disclosed pursuant to statutory requirements.

## Risk Management and Internal Controls

Risk management and internal control is essential for the Group's achievement of its long term goals. The Board continuously monitors and reviews key internal control policies which include the treasury management policy, delegated authorities, policy on market disclosure, investor and media relations and non-audit services, as well as key risk management functions which include treasury, capital management, insurance and legal. In order to maintain a sound and effective risk management and internal control systems, the Board conducts an annual review of the effectiveness of the risk management and internal control systems of the Company, which is designed to manage and minimize risks of failure in operational systems, and to provide reasonable but not absolute assurance that material misstatement or loss can be avoided. A whistle blowing policy (the "Whistle Blowing Policy") has been adopted in order to detect and identify improprieties and bring the issues to the attention of the management, the Audit Committee as well as the Board.

The Board, and in particular the Audit Committee, conducts a continuous review of the effectiveness of the Group's risk management and internal control systems that have been put in place. The reviews covering financial, operational, and compliance controls and risk management performed in 2018 included:

- the delegated authorities and organization structure as well as the strategic and annual operating plan.
- the scope and quality of management's ongoing monitoring of risks and system of internal control and the effectiveness of the Company's procedures relating to statutory and regulatory compliance.
- the regular internal audit updates.
- the performance and adequacy of accounting and financial reporting functions.
- the risk management process including formal risk assessment at the enterprise level upon discussions with senior management responsible for day-to-day management of significant risks.

The internal audit function is essential to provide an independent and objective assurance to the Audit Committee and the Board in controlling the internal business environment. The Internal Auditor reports periodically to the Audit Committee and meets the Chairman of the Audit Committee regularly. The internal audit function maintains independent review continuously on key business aspects in accordance with the annual audit plan, and report the key findings to the Board through the Audit Committee.

The procedures and internal controls for handling and disseminating of inside information are governed by the Model Code, the Code for Securities Transactions by Relevant Employees, the Whistle Blowing Policy, the Policy on Market Disclosure, Investor and Media Relations with a view to ensure compliance with the Company's Articles of Association and the statutory and regulatory requirements that the Group is subject to.

In light of the above reviews and policies, the Board confirms that the Group's risk management and internal controls systems are effective and adequate.

## External Auditors

Deloitte Touche Tohmatsu, the external auditors of the Group, provided the following audit and non-audit services to the Group in 2018:

Nature of Services	Amount (US\$ million)
External Audit Services	2.4
Taxation Services	0.3
Other Services	—

The other services provided by Deloitte Touche Tohmatsu comprised professional services conducted under the terms of specified engagements.

The nature and ratio of annual fees to external auditors for audit services and non-audit services are subject to scrutiny by the Audit Committee to ensure the independence of the external auditors. All non-audit services from external auditors are regulated by a Policy on Non-Audit Services published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)).

The Audit Committee and the external auditors of the Group meet twice a year without the presence of the management of the Group to enhance independent reporting by external auditors of the Group. In order to maintain effective communication with shareholders, the external auditors attended the 2018 Annual General Meeting to answer questions about the accounting policies, the auditor independence, the conduct of the audit and the preparation and content of the auditors' report.

## Investor Relations and Shareholder Communications

The Company aims to maintain effective communication and on-going dialogue with its shareholders and investors particularly through the following major means:

### Shareholders' Communication Policy

The Board has adopted the Shareholders' Communication Policy on March 22, 2012, which primarily covers the current practices

for communicating with shareholders and is published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)). All the Company's circulars, announcements, notices and results of general meetings, annual and interim reports, and webcasts of results presentations conducted at press conferences, which are published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)), provide timely, efficient and accurate information to shareholders and investors. Essential information is communicated to the shareholders mainly through the Company's financial reports, general meetings and the information published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)). In addition, the Company holds regular meetings with institutional shareholders and analysts and encourages shareholders to attend annual general meetings to communicate with Directors and management of the Company directly.

A Policy on Market Disclosure, Investor and Media Relations, published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)), ensures that the Company complies with its disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by the Company.

## Shareholders' Rights

### **Convening of extraordinary general meeting on requisition by shareholders**

Pursuant to Article 64 of the Articles of Association of the Company and sections 566-568 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), shareholders holding at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of the Company (the "Requisitionists"), may request the Directors to convene an extraordinary general meeting ("EGM"). The written requisition must state the general nature of the business to be dealt with at the EGM and must be signed by the Requisitionists and sent to the registered office of the Company which is currently located at 29/F, Tower 2, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong for the attention of the Company Secretary. The requisition may consist of several documents in like form and may include the text of a resolution that may properly be moved and is intended to be moved at the EGM.

If the Directors do not, within 21 days after the date on which they become subject to the requirement, proceed duly to convene an EGM for a day not more than 28 days after the date of the notice convening the EGM, the Requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene an EGM. The EGM must be called for a date not more than three months after the date on which the Directors become subject to the requirement to call an EGM. Any reasonable expenses incurred by the Requisitionists by reason of the failure of the Directors duly to convene an EGM shall be repaid to the Requisitionists by the Company.

### **Procedure for nominating a person for election as a Director**

For the detailed procedure for shareholders to nominate a person to stand for election as Director, please refer to the written procedure named "Nomination of Directors by Shareholder" which is published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)).

### **Procedure for directing shareholders' enquiries to the Board**

The Company values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Shareholders may address their comments, suggestions and/or enquires to the Board in writing through Investor Relations and Communication (contact details are set out in the section headed "Corporate Information" of this annual report).

### **Procedure for putting forward proposals at general meetings**

Pursuant to Section 615 of the Companies Ordinance, shareholders may submit a written requisition to circulate a resolution at an annual general meeting ("AGM") if they: (a) represent at least 2.5% of the total voting rights of all shareholders having a right to vote on the resolution at the AGM to which the request relates; or (b) are at least 50 shareholders having a right to vote on the resolution at the AGM to which the request relates.

The written requisition must: (a) identify the resolution of which notice is to be given; (b) be signed by the requisitionists; (c) be sent to the registered office of the Company for the attention of the Company Secretary; and (d) be received by the Company not later than six weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM. Shareholders are requested to refer to Section 580 and 615 of the Companies Ordinance for further details.

## Constitutional Document

No change has been made to the Company's constitutional document during 2018. The constitutional document of the Company was published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)).

## Board, Board Committee and General Meetings in 2018

A summary of attendance of Board, Board Committee and general meetings in 2018 are detailed in the following table:

	Meetings attended/Held in 2018				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	General Meeting
Number of meeting(s) held during the year	5	4	2	2	1
<b>Group Executive Directors</b>					
Mr Horst Julius Pudwill	5/5		2/2		1/1
Mr Stephan Horst Pudwill	5/5				1/1
Mr Joseph Galli Jr	5/5				1/1
Mr Kin Wah Chan	5/5				1/1
Mr Chi Chung Chan	5/5				1/1
<b>Non-executive Directors</b>					
Prof Roy Chi Ping Chung GBS BBS JP	5/5				1/1
Mr Camille Jojo	5/5			2/2	1/1
<b>Independent Non-executive Directors</b>					
Mr Christopher Patrick Langley OBE	5/5		2/2	2/2	1/1
Mr Manfred Kuhlmann	5/5	4/4	2/2	2/2	1/1
Mr Peter David Sullivan	5/5	4/4		2/2	1/1
Mr Vincent Ting Kau Cheung	5/5	4/4	2/2	2/2	1/1
Mr Johannes-Gerhard Hesse <sup>(1)</sup>	5/5	4/4			1/1
Date(s) of meeting(s)	16.1.2018 13.3.2018 17.5.2018 15.8.2018 14.11.2018 14.11.2018	12.3.2018 17.5.2018 14.8.2018 14.11.2018	12.3.2018 14.8.2018	12.3.2018 14.8.2018	18.5.2018

Note:

(1) Mr Johannes-Gerhard Hesse was appointed as a member of the Nomination Committee with effect from March 6, 2019.

# Environmental, Social and Governance Report

TTI made significant progress in both expanding and deepening the integration of environmental, social and governance (ESG) practices and standards in 2018 as we continue to cement our position as a world-leading power equipment and household appliances manufacturer.

## Strategy and Governance



**Corporate Sustainability  
Strategy alignment with  
the UN SDGs**

→ see page 80

## Environment



**AIP reduced electricity  
intensity by 18%**

→ see page 88

## Supply Chain Management



**Online Compliance Platform  
implemented across all  
business units globally for  
suppliers of finished goods  
and raw materials**

→ see page 104

## People



**TTI employees engaged  
in 57,963 hours of online  
training on Learn TTI**

→ see page 101

## Health and Safety



**Zero work-related fatalities  
in 2018**

→ see page 100

## Communities



**Over 12,000 volunteer  
hours in communities**

→ see page 106

## Introduction and Highlights

TTI is focused on transforming the industry through environmentally-responsible cordless technology and strengthening measures to reduce energy and water consumption at the production stage. A large measure of our ability to grow, innovate and prosper depends on our ESG performance.

The culture of TTI is driven by an unrelenting strategic focus on Powerful Brands, Innovative Products, Operational Excellence and Exceptional People. We took several significant actions in 2018 that will guide our sustainability journey in the years to come.

- Developed a Sustainability Strategy and Implementation Plan to align our actions and goals globally, which are in line with the United Nations Sustainable Development Goals (UN SDGs)
- Sharpened our focus on human rights, labor, environment, governance and anti-corruption practices with specific initiatives and goals
- Formalized the role of our ESG Working Committee to oversee our ESG direction and activities

## Reporting Scope

This report covers the ESG initiatives and performance of TTI for the calendar year 2018 with reference to previous performance where relevant. The HKEX ESG Guide Content Index, which is available on TTI's corporate website<sup>1</sup> outlines how we address the Hong Kong Exchanges and Clearing Limited (HKEX)'s mandatory "comply or explain" requirements and recommended disclosures. This report has been endorsed by the Board of Directors (the "Board") on March 6<sup>th</sup> 2019. The data in this report, unless otherwise stated, covers our operations in our North America, EMEA, Asia, Australia and New Zealand locations.

We are proud to share TTI's 2018 sustainability achievements with our stakeholders.

## Sustainability at TTI

Our commitment to sustainability is an essential part of TTI's broader responsibility to our employees, customers, investors, suppliers, communities, NGO partners and our business. We are mindful of our actions and adopt stringent governance practices to manage our operations responsibly, reduce our impact on the environment, and strive to improve the everyday lives of people both in our business and the communities where we live and work.

In 2018, we reviewed and updated our corporate Sustainability Strategy and identified four strategic areas of focus, including human rights, labor, environment and anti-corruption with specific goals that support 14 of the 17 UN SDGs that are most relevant to TTI's operations. TTI understands that disclosure is one of many drivers to improve ESG performance. Increased transparency supports our license to operate and enhances our reputation. Since we started reporting on ESG separately in our annual report in 2015, TTI has improved the comprehensiveness, quality and credibility of our disclosures and data to meet the expectations of stakeholders, including investors, as part of our integrated Sustainability Strategy.

<sup>1</sup> Our HKEX ESG Guide Content Index is available at [www.ttigroup.com/ESG\\_Index\\_2018](http://www.ttigroup.com/ESG_Index_2018)

## Our Environmental, Social and Governance Focus Areas

The table below aligns the focus areas of our Sustainability Strategy with the UN SDGs and outlines key initiatives we undertake to implement our strategy.

Focus Areas	Relevant UN SDGs	TTI Engagement
<b>Social</b>	        	<ul style="list-style-type: none"> <li>Code of Ethics and Business Conduct that outlines our values and requirements for human and labor rights</li> <li>Policies for equal employment and to protect human and labor rights</li> <li>Policy Against Slavery and Human Trafficking for own business and supply chain</li> <li>Conflict Minerals Policy</li> <li>Maintaining a safe and healthy workplace for our employees and treating everyone with respect and dignity</li> <li>Training employees on compliance, education, leadership, professional and skill development</li> <li>Gender equality initiatives</li> </ul>
<b>Environment</b>	      	<ul style="list-style-type: none"> <li>Environmental policies, GHG inventory management procedure, resource and energy management procedures and Code of Ethics and Business Conduct that outline our commitments for reducing environmental impact</li> <li>Energy reduction initiatives in manufacturing plants</li> <li>Water reuse initiatives in manufacturing plants</li> <li>Battery recycling programs to reduce electronic waste</li> <li>Introducing energy-efficient vehicles</li> <li>Improving packaging to reduce material consumption and environmental impact</li> <li>Environmental policies for suppliers to ensure compliance throughout the supply chain</li> </ul>
<b>Governance</b>		<ul style="list-style-type: none"> <li>Code of Ethics and Business Conduct and Business Partner Code of Conduct with policies that set requirements and emphasize the prohibition of corruption and bribes and provide guidelines that are acknowledged by all employees and suppliers</li> <li>TTI Compliance hotline for employees and suppliers</li> <li>Anti-corruption declaration signed by all suppliers and ongoing monitoring and audits</li> <li>Internal audit investigations and ongoing compliance monitoring across TTI</li> <li>Engagement against corruption by participating in an anti-fraud association (Enterprise Anti-Fraud Alliance in China)</li> </ul>

## Material Issues and Stakeholder Engagement

We understand the importance of continuously engaging our stakeholders to improve our sustainability initiatives. We maintain regular communication with regulatory authorities, business partners, customers, suppliers, employees, shareholders and investors. This communication is essential for our awareness of evolving requirements and expectations, and for the regular updating of our Sustainability Strategy.

TTI continually monitors environmental, social and regulatory trends and identifies areas of its business operations where actions can be taken to better align our environmental and social initiatives with our sustainability goals.

TTI's ESG Working Committee has identified a number of material issues, which we believe can be addressed at a global level as part of our implementation and strategy to work toward our sustainability goals. We have identified, employees, customers and suppliers and investors as our key stakeholder groups.

The table below presents our key stakeholders, their priority concerns and areas of interest, and the main ways that we engage with them.

Stakeholder Groups	Key Concerns/Areas of Interest	Engagement Channels
<b>Employees</b>	<ul style="list-style-type: none"> <li>Working terms, conditions and benefits</li> <li>Equal opportunities</li> <li>Health, safety and wellness</li> <li>Training and development</li> <li>Governance</li> <li>Community engagement</li> </ul>	<ul style="list-style-type: none"> <li>Compliance hotline</li> <li>TTI Group Intranet</li> <li>Learn TTI (e-learning platform)</li> <li>Face-to-face trainings</li> <li>Engagement with NGOs</li> <li>Social media</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>Social and environmental responsibility</li> <li>Modern slavery</li> <li>Conflict minerals</li> <li>Packaging</li> <li>Battery recycling</li> <li>Quality of products, including safety and environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>Acknowledge customers' policies and codes</li> <li>Conduct audits and corrective action plans in accordance with their requirements and communicate regularly on progress</li> <li>Complete declarations for conflict minerals and conduct due diligence</li> <li>Focus groups at product development stage</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Governance</li> <li>Anti-corruption</li> <li>Social and environmental responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Compliance hotline</li> <li>Online compliance platform</li> <li>Supplier conferences</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>Greenhouse gas footprint and climate change strategy</li> <li>Supply chain management</li> <li>Conflict minerals and cobalt</li> </ul>	<ul style="list-style-type: none"> <li>Host meetings to understand their ESG expectations</li> </ul>



## Enhanced governance structure for sustainability

## Adopted new Sustainability Strategy with goals, KPIs and targets

## Monitor compliance across all the business units on a biannual basis

## Zero reported cases of corruption within TTI Group

### Sustainability Governance

#### Governance Structure

Good governance provides clear direction and assigns roles, responsibilities and accountability to individuals within the company. Good governance creates a foundation from which the company can make progress toward our targets and build stakeholder confidence in our performance.

In 2018, TTI held an ESG Working Committee summit with all members who represent our business units in each region. The role of the committee is to enhance the ESG performance of TTI by setting policies, goals, targets and reviewing key performance Indicators (KPIs) for implementation. Going forward, the committee will continue to review and lead our Sustainability Strategy and monitor our performance against our goals and targets.

#### *Governance Structure*



## Sustainability Performance

Another key milestone of 2018 was the development of goals, KPIs and targets set according to the newly adopted Sustainability Strategy. Based on the medium- and long-term strategies developed by the

ESG Working Committee, each business unit developed its own implementation plan and KPIs based upon local needs. Performance will be reviewed on an annual basis and measured against the KPIs that are set at the beginning of each financial year.

Focus Areas	Key Goals
<b>Governance</b>	Zero cases of corruption among TTI Group and its business partner
<b>Environment</b>	<ol style="list-style-type: none"> <li>1. Reduction in GHG emissions</li> <li>2. Reduction in energy consumption and adoption of renewable energy</li> <li>3. Increase the volume of battery collection and recycling</li> <li>4. Require suppliers to collect environmental data</li> <li>5. Reduction in GHG emissions in the supply chain</li> <li>6. Reduction in water consumption at TTI's operations and in the supply chain</li> <li>7. Reduction in packaging material at TTI's operations and in the supply chain</li> </ol>
<b>Social</b>	<ol style="list-style-type: none"> <li>1. Zero incidents of non-compliance with TTI's Policies and Codes with transparency in reporting and remediation when necessary</li> <li>2. Respectful, healthy and safe workplaces</li> <li>3. Zero fatal accidents in our workplace</li> <li>4. Promote diversity in the workplace</li> <li>5. Continuous training and development</li> </ol>
<b>Supply Chain Management</b>	<ol style="list-style-type: none"> <li>1. Effective partnerships with non-governmental organizations ("NGO") in major countries of operations and supply chain countries with human rights violation risk</li> <li>2. Substantive initiatives to raise awareness and improve human rights conditions and reduce environmental impact in the supply chain</li> <li>3. Zero incidents of non-compliance with TTI's Policies and Codes with transparency in reporting and remediation when necessary, including incidents of child and forced labor</li> </ol>
<b>Communities</b>	<ol style="list-style-type: none"> <li>1. Establish strategic partnerships with NGOs</li> <li>2. Develop impact metrics to track our community investment and engagement activities</li> </ol>

## Risk Management Process

At TTI, we are vigilant in identifying and managing risk and ensuring compliance with applicable laws and regulations in the areas in which we do business and monitor compliance across all of our business units on a biannual basis.

TTI implements processes to manage risk and audit performance to ensure compliance with all local laws, regulations and standards related to corporate governance, business operations and product safety, employment, health and safety, and the environment.

Our risk management process includes actions such as:

### **Assurance**

- Providing independent assurance of the existence and effectiveness of the risk management activities and controls in TTI's business operations worldwide.

### **Audit Planning**

- Developing an annual audit plan to identify the highest risks to our business. The plan was developed by the Audit Committee and TTI senior management and takes into account our risk assessment methodology and TTI's unique dynamics. The plan is reviewed on a regular basis throughout the year to ensure that adequate resources are deployed and any changes in the business are reflected in the plan.

### **Engagement Activities**

- Conducting various engagement activities, including process, financial and compliance audits. The results, including deficiencies and remediation plans (developed in conjunction with management), are communicated to individuals responsible for taking corrective action, including with TTI senior management and the Audit Committee, as appropriate. The scope and frequency of audits varies, depending on our assessment of operational and financial risks, management considerations, and the audit plan's capacity and strategy.

### **Risk Management**

- Assessing TTI's risk management and internal control systems, formulating an impartial opinion on the systems, and reporting the findings to the Audit Committee and the senior managers concerned, as well as following up on the issues to ensure that they are satisfactorily resolved.

### **Communications**

- Maintaining a regular dialogue with TTI's external auditor.

## Our key goal:

Zero cases of corruption among TTI Group and its business partners

### Anti-corruption and Code of Conduct

TTI upholds the highest standards in anti-corruption and the prevention of bribery. We do not, under any circumstances, allow corruption or bribery, both internally and with external stakeholders, such as suppliers or government officials.

All TTI members, including employees, officers and directors across different business units, are expected to fully adhere to our Code of Ethics and Business Conduct, which establishes the rules and guidelines for conducting business ethically and in compliance with all applicable legal requirements. TTI's employees are required to complete training on the Code of Ethics and Business Conduct and to acknowledge their understanding of the code requirements. In addition, we have a number of related policies and employee handbooks, including a Complaint Resolution Policy and Procedure and the Business Partner Code of Conduct. We mandate that each employee and supplier in the People's Republic of China executes a Declaration of Non-Conflict of Interest. Furthermore, during new hire orientation, employees receive face-to-face training on our codes and local employee handbooks.

Employees and suppliers are encouraged to actively report non-compliance actions or activities. They can contact TTI's Vice President, General Counsel and Chief Compliance Officer directly and complaints are then investigated by our internal audit team, the legal department or a third party and corrective measures, if appropriate, are taken accordingly. Alternatively, they can make use of the compliance hotline to report non-compliances, as outlined below.

In 2018, our Internal Audit department launched investigations into several supplier service sectors, including security, scrap handling, medical, transportation and food. All investigations were addressed on a timely basis and the details were reported to both management and the Audit Committee.

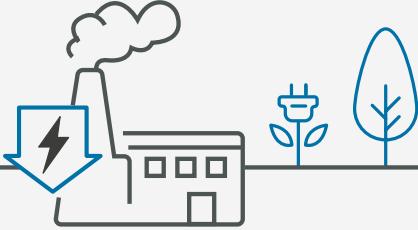
### TTI Compliance Hotline

TTI's independent compliance hotline allows anyone, including employees, suppliers and customers, to raise concerns about potential misconduct, malpractice or irregularities in any matters related to TTI. The hotline is operated by an independent third party and all complaints, whether made through the hotline or by other means, are handled confidentially and anonymously. There were 17 complaints raised through the hotline in 2018. Sixteen of the complaints came from employees and one complaint came from a supplier, and all were addressed in a timely and appropriate manner. The details were reported to both management and the Audit Committee.

### Legal Compliance

Compliance with laws and regulations in all of our markets is imperative to the integrity and success of our business. We operate in 40 jurisdictions and six regions and all business units and partners, and our suppliers, are expected to fully comply with local laws and regulations.

Legal and regulatory requirements related to anti-corruption practices that have the potential to have a significant impact to our operations and performance include but are not limited to PRC Criminal Law, PRC Anti-Unfair Competition Law, US Foreign Corrupt Practices Act (FCPA), UK Bribery Act 2010, Hong Kong Prevention of Bribery Ordinance and Hong Kong Anti-money Laundering and Counter-Terrorist Financing Ordinance. For a full list of significant legal and regulatory requirements, please refer to Appendix A of our HKEX ESG Guide Content Index on our website.



**TTI AIP: Electricity consumption was reduced by 18% per USD million of production value**

**TTI HK: 7% reduction in greenhouse gas (GHG) intensity per employee**

**TTI AIP: 22% reduction in GHG intensity from 2017 (tonnes of CO<sub>2</sub> per USD million production value)**

**TTI Canada reduced air emissions by 4% by switching to more efficient engines for its workforce vehicles**

**Eliminated all plastic packaging bands in our operations**

## Environment

### Overview and Highlights

TTI is a product manufacturer that utilizes a wide range of base materials. Responsibly managing our environmental impact is therefore a substantive priority, not only in the manufacturing process but throughout the life cycle of our products and across our value chain. Our goal is to minimize negative environmental impact and provide industry leadership through responsible sourcing and the innovative use of materials, long-term product planning, manufacturing, research and development, attention to how people interact with our products, and establishing systems for battery recycling.

We are committed to ensuring that our operations and those of our suppliers are in compliance with all relevant legal and regulatory requirements related to environmental practices that have the potential to have a significant impact to our operations and performance. These include but are not limited to PRC Environmental Protection Law, PRC Atmospheric Pollution Prevention Law, PRC Water Pollution Prevention Law, PRC Environmental Noise Pollution Prevention Law, PRC Prevention and Control of Environmental Pollution by Solid Wastes Law and PRC Prevention and Control of Soil Pollution Law. For a full list of significant legal and regulatory requirements, please refer to Appendix A of our HKEX ESG Guide Content Index on our website.

In this section, we present the environmental performance data of all our manufacturing sites, with the exception of our new facilities in Vietnam and the Czech Republic, and of other plants and offices where identified.

### Environmental Management

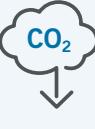
We adopt industry best practices and constantly look for ways to improve on them by enhancing our environmental and hazardous substance management system<sup>2</sup> and endeavoring to produce defect-free products to reduce waste. Our manufacturing sites in Asia have a number of policies and procedures relating to the environment, including energy and greenhouse gas inventory management. We invest in new technology and equipment that improve the environmental performance of our facilities, ensuring that our operations not only adhere to local laws and regulations but also meet the high expectations of our customers. We actively set environmental management objectives and targets to better measure and improve our performance, and invest in raising the awareness and skills of our people.

<sup>2</sup> Our manufacturing process is certified to ISO 9001 and QC 080000 for quality, health, safety, environment and social responsibility management.

## **Our key goals include:**

1. Reduction in GHG emissions
2. Reduction in energy consumption and adoption of renewable energy
3. Increase the volume of battery collection and recycling
4. Require suppliers to collect environmental data
5. Reduction in GHG emissions in the supply chain
6. Reduction in water consumption at TTI's operations and in the supply chain
7. Reduction in packaging material at TTI's operations and in the supply chain

In 2018, we continued to enhance our environmental strategy across the Company with the following priorities:

	<b>Preventing pollution</b>		<b>Conserving energy and natural resources</b>
	<b>Reducing emissions and discharges</b>		<b>Minimizing waste and increasing reuse and recycling through global partnerships, including with battery recyclers</b>
	<b>Integrating environmental impact reduction into our innovation, design and development processes</b>		<b>Leveraging enhanced supply chain engagement and accountability practices as a way to reduce environmental impact</b>

*TTI AIP Electricity and Natural Gas Consumption*

	Electricity			Natural Gas		
	Consumption (kWh)	US\$ million production value	Intensity (kWh per USD million production value)	Consumption (m³)	US\$ million production value	Intensity (kWh per USD million production value)
TTI AIP (2018)	64,946,273	2,692	24,127	595,410	2,692	221
TTI AIP (2017)	60,357,750	2,062	29,278	541,990	2,062	263
TTI AIP (2016)	57,961,443	1,759	32,943	527,692	1,759	300
Changes in % (2018 vs 2017)	8%	31%	-18%	10%	31%	-16%
Changes in % (2017 vs 2016)	4%	17%	-11%	3%	17%	-12%

*Electricity Consumption of TTI Manufacturing, R&D and Assembly Plants Globally (excluding TTI AIP, TTI Vietnam Manufacturing TTI Czech Republic and Milwaukee Tool – Brookfield)*

Electricity consumption (kWh)
TTI Zhuhai
DreBo
Empire
Milwaukee Tool
TTI PE
<b>Total</b>

*Electricity Consumption of TTI Sales, Marketing and R&D Offices and Headquarters by Region*

Electricity consumption (kWh)
Asia (including TTI HK, TTI Macao, TTI Taipei, TTI Taichung, TTI Thailand, TTI Philippines, TTI Korea)
Australia & New Zealand (including five offices and warehouses of TTI ANZ)
Europe (including France, Iberia, Germany, Eastern Europe)
North America (including TTI FC NA, Milwaukee Tool – Brookfield)
<b>Total</b>

### **Data Collection and Audit**

Measuring environmental performance data continues to be challenging as TTI has many facilities around the world and an expanding geographical presence year on year. We continue to improve both the collection process and quality of our data and, whenever possible, we engage with external parties in the process.

In 2018, TTI AIP audited its environmental performance data as well as its ISO 14001 Environmental Management System (EMS), which has been audited since 2011. In Germany, TTI GmbH, TTI ELC GmbH, TTI Germany GmbH conduct energy assessments every four years, applying the EN 16247-1:2012 guideline. The last audit took place in 2015 for 2014 energy consumption.

### **Energy Consumption**

Given the critical, global need to reduce GHG emissions and to mitigate and adapt to the impact of climate change, TTI is committed to consume energy efficiently and to explore and adopt less polluting and renewable sources of energy.

Reducing absolute energy consumption at a factory level is challenging as our production volumes continue to grow, so we focus on improving efficiency. At TTI AIP, our biggest production factory, consumption intensity of both electricity and natural gas per million USD of production value reduced by 18% and 16%, respectively. However, total electricity and natural gas consumption increased 8% and 10%, respectively, due to increased production volume.

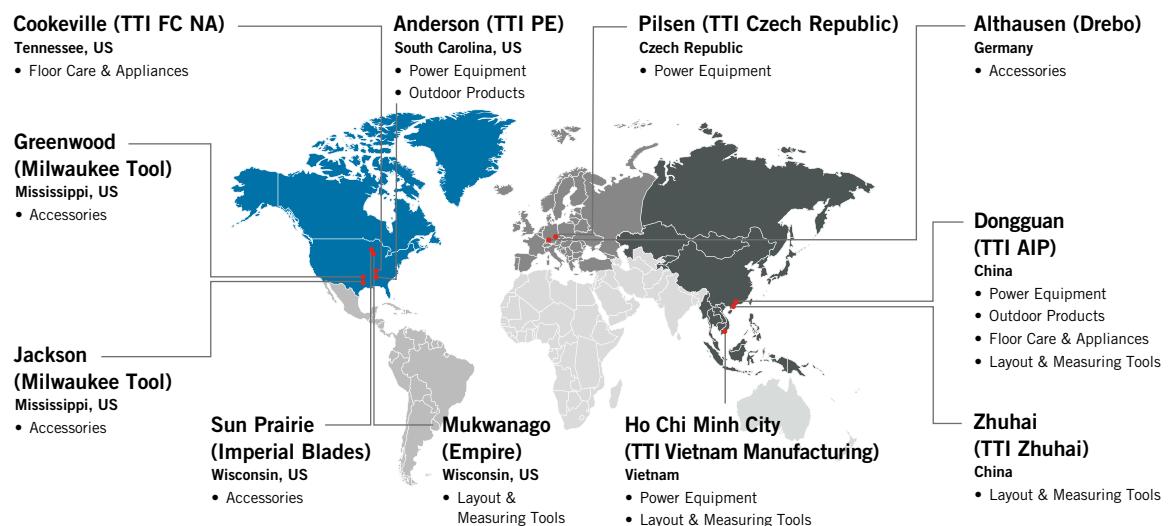
Our increased efficiency is due, in large part, to the Continuous Improvement Program (CIP). In 2018, a total of eight projects were implemented under the CIP, including upgrading water pumping systems, installing filter screens in 792 sets of indoor air-conditioning (AC) units, shutting down air compressors during lunch time, and improving our compressed air supply installation. We reduced our electricity consumption by 695,364 kWh (~1% of 2018 consumption), thereby avoiding 347 tonnes of CO<sub>2</sub> equivalent GHG emissions and saving a total of US\$362,000 in operating costs.

In Canada, new light duty trucks were purchased with a stop/start feature installed to reduce fuel consumption while idling. A total of emission reduction of 4% was reported. In TTI FC NA, motion sensor lighting was installed in all warehouses, restrooms, conference rooms and offices.

DreBo has taken steps to reduce its energy consumption, including replacing old cooling units and installing new compressors with heat recovery systems to supply heating for the facility. A new project to capture geothermal energy is underway.

We will continue to review the energy performance of all our facilities and to seek opportunities to reduce energy consumption.

### Global Manufacturing Footprint



### Air and GHG Emissions

Minimizing and responsibly managing air emissions is a priority. Throughout TTI's business, air and GHG emissions arise from energy consumption for office operations, transportation and our manufacturing processes.

Air emissions include carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), sulphur oxide (SO<sub>x</sub>) and fine particulate matter (PM) emitted from cars, trucks and other small machinery, and from combustion processes to generate electricity for manufacturing,

lighting and building management systems, and heating and cooling. Fluorinated gases, such as HCFC-22, R-410a and R-404a are also consumed as refrigerants.

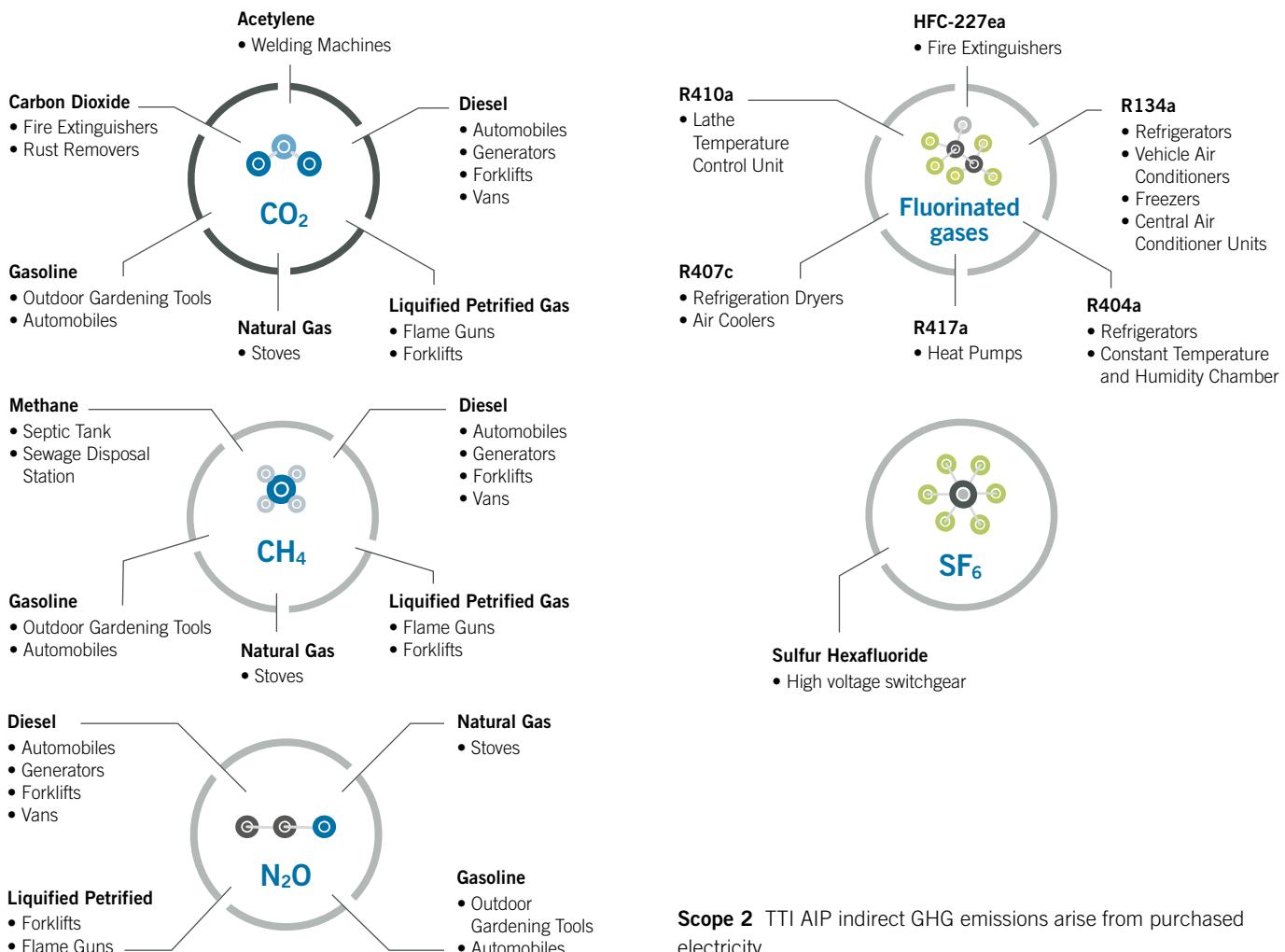
In 2018, TTI AIP's Scope 1 and 2 GHG emissions increased by 12% and 0.5% respectively due to an increase of production value by 31%. Due to the CIP effort to reduce energy consumption in our operations, emission intensity reduced by 22% from 2017. This is the second year of reduction in emission intensity since 2016.

### TTI AIP GHG Emission Data<sup>3</sup>

	Scope 1 (tonnes of CO <sub>2</sub> e)	Scope 2 (tonnes of CO <sub>2</sub> e)	Total Emissions (tonnes of CO <sub>2</sub> e)	USD Million Production Value	Intensity (tonnes of CO <sub>2</sub> e per USD million production value)
TTI AIP (2018)	7,790	54,341	62,131	2,692	23
TTI AIP (2017)	6,968	54,075	61,043	2,062	30
TTI AIP (2016)	6,779	51,928	58,707	1,759	33
Changes in % (2018 vs 2017)	12%	0.5%	2%	31%	-22%
Changes in % (2017 vs 2016)	3%	4%	4%	17%	-11%

<sup>3</sup> TTI AIP calculated its GHG emissions based on ISO 14064 -1:2006

**Scope 1** TTI AIP direct GHG emissions, include:



**Scope 2** TTI AIP indirect GHG emissions arise from purchased electricity.

*GHG Emissions of TTI Manufacturing and Assembly Plants Globally (excluding TTI AIP, TTI Vietnam Manufacturing, TTI Czech Republic and Milwaukee Tool – Brookfield)*

#### Scope 1 and 2 GHG Emissions (tonnes of CO<sub>2</sub>e)

TTI Zuhai	5,868
DreBo	6,260
Empire	3,620
Milwaukee Tool (excluding Imperial Blades for Scope 1)	27,967
TTI PE	23,393

#### *GHG Emissions of TTI HK*

	GHG Emissions (tonnes of CO <sub>2</sub> e)				
	Scope 1	Scope 2	Scope 3 <sup>5</sup>	Total	Intensity per employee
TTI HK (2018)	123	194	25	342	0.8
TTI HK (2017)	115	202	29	346	0.9
Changes in %	+7	-4	-14	-1	-7

In our Hong Kong headquarters, the emission intensity per employee has reduced by 7% due to the implementation of various energy reduction measures, including applying power controls for lighting, fan-coil units to be turned off after office hours and maintaining the office temperature to an optimal level to minimize energy use.

In France, our vehicles have switched from diesel to gasoline, emitting less toxic emissions, like NOx.

The sales, marketing and R&D office of Milwaukee Tool-Brookfield recorded a total of 72 and 3,254 tonnes CO<sub>2</sub>e for Scope 1 and 2 emissions, respectively, while TTI ANZ generated 2,241 tonnes of Scope 2 emissions.

In six of our offices<sup>4</sup> in Asia, Scope 2 GHG emissions totaled 139.6 tonnes of CO<sub>2</sub>e and Scope 3 emissions totaled six tonnes of CO<sub>2</sub>e. For Canada, Scope 1 emissions totaled 2,838 tonnes of CO<sub>2</sub>e and 652 for Scope 3 emissions.

TTI is working on expanding its disclosure of GHG emissions to include other sales and marketing offices in the future.

#### Water Management

With growing global concerns over water scarcity, consuming water efficiently and maximizing its beneficial use are increasingly important. Water for all TTI locations is sourced from local municipalities, and we have not experienced any issues with water sourcing.

We actively identify opportunities to improve water management. At TTI PE, water-efficient fixtures are installed in all new construction projects and filtering stations are being installed to encourage the use of reusable water bottles over single-use bottles. At our

#### *Water Consumption of TTI Manufacturing and Assembly Plants (excluding TTI Vietnam Manufacturing and TTI Czech Republic and Milwaukee Tool – Brookfield)*

	Water Consumption (m <sup>3</sup> )
TTI AIP	1,050,000
TTI Zhuhai	62,400
DreBo	2,309
Empire	625
Milwaukee Tool	2,742
TTI PE	4,410

TTI FC NA facility, we use water in the process of cooling injection molding machines and to wash parts in the refurbishing operation. Injection molding coolant water is in a closed-loop system so there is no discharge. The refurbishing operation uses water mixed with a biodegradable cleanser that can be disposed of into the municipal sewer system for treatment.

At TTI AIP, our largest facility, we consumed more than one million m<sup>3</sup> water in 2018. We invested in technology to enable wastewater recycling to reduce consumption of fresh water and to reduce wastewater discharge to the municipal sewage system. A total of 131,000 m<sup>3</sup> of water was reused at AIP in 2018.

All of our operations are in compliance with regulatory requirements for water usage and wastewater discharges and we are actively improving our management of water consumption and wastewater discharges.

<sup>4</sup> Includes sales and marketing offices for TTI Macao, TTI Korea, TTI Taichung, TTI Taipei, TTI Thailand and TTI Philippines.

<sup>5</sup> Scope 3 GHG emissions include methane generation at landfill due to disposal of paper waste, GHG emissions from electricity used for fresh water processing by the Water Supplies Department and GHG emissions from electricity used for sewage processing by the Drainage Services Department.

#### *TTI AIP Non-hazardous and Hazardous Waste*

	Non-hazardous Waste		Hazardous Waste	
	Quantities (tonnes)	Intensity (tonnes per million USD)	Quantities (tonnes)	Intensity (tonnes per million USD)
TTI AIP 2018	14,900	5.5	122	0.045
TTI AIP 2017	7,239	3.5	120	0.058
TTI AIP 2016	8,077	4.6	70	0.04
Changes in % (2018 vs 2017)	+106	+57.6	+2.0	-22
Changes in % (2017 vs 2016)	-10	-24	71	45

In addition to managing our own water consumption, we also ensure that any legacy issues at the sites that we operate at are addressed. TTI PE continues to contribute to the Anderson and Pickens community by aggressively addressing legacy environmental issues created by previous owners of properties. To reduce risk to the community, all issues are currently contained and the cleanup is well underway. Since 2016, over 1,890 million liters of groundwater have been treated.

#### **Material Management**

As a manufacturer of consumer products, it is our goal to reduce material consumption and waste production in our production process as well as our product packaging. Where waste production is unavoidable, we hire licensed handlers to dispose of our waste.

#### **Waste Management**

Our operations at different locations have their own mechanisms for handling hazardous and non-hazardous waste, depending on local laws and regulations and building management procedures regarding the disposal of materials.

The majority of our facilities' office and building management services provide separate bins for recyclables and properly dispose of non-hazardous and hazardous waste through local providers.

Operations that generate hazardous waste have scheduled pick-ups by licensed haulers for safe disposal. We are working toward a method to track the types of waste disposed of by our business units. DreBo generated 2,767 tonnes of non-hazardous waste and 91.6 tonnes of hazardous waste in 2018.

TTI Zhuhai generated 513 tonnes of non-hazardous waste and 9.63 tonnes of hazardous waste, equivalent to 45.75 tonnes and 0.86 tonnes per million pieces of product, respectively.

In all our facilities, we recycle our waste wherever possible. At TTI PE, 1,292 tonnes of metal, 2,213 tonnes of cardboard, 1.5 tonnes of e-waste, 0.26 tonnes of lamps and ballasts and 35 tonnes of concrete were recycled in 2018.

At TTI FC NA, both hazardous and non-hazardous waste were collected by a licensed waste hauler. All hazardous waste is recycled and certification is provided to TTI with a record of its arrival to the recycling facility. Non-hazardous waste was sent to landfill and a total of 198 tonnes was produced in 2018.

In 2018, TTI AIP almost doubled its non-hazardous waste generation due to increases in production and in product testing, while hazardous waste intensity decreased by 22%.

## Battery Recycling Program

TTI is a leader in the design and manufacturing of lithium ion batteries, and our batteries are designed to be interchangeable within each brand to reduce battery waste. To further reduce battery waste, we have partnered with third parties to responsibly recycle our batteries and our products with batteries.

For 20 years, we have partnered with Call2Recycle in North America, a third-party recycling company, to recycle batteries and products containing batteries received at our Factory Service Centers and offices responsibly when they reach end of life. Call2Recycle also collects batteries directly from TTI's North American sites. In 2018, 33 tonnes of batteries were collected at our sites in North America while 10 tonnes were collected in 2017.

To make recycling easier for customers, we have a licensing arrangement with Call2Recycle that grants TTI the right to apply the Call2Recycle battery recycling seals onto our batteries, products and packaging. A toll-free number on the seal allows customers to locate convenient public collection sites. Customers can also go to their website ([wwwcall2recycle.org](http://wwwcall2recycle.org)) to find out the locations of more than 25,000 collection sites located across North America.

In Australia, TTI started to have batteries collected through our repair centers and this has since expanded to service agents in partnership with a recycling company. Approximately 0.5 tonnes were collected between June to December 2018.

TTI also signed up to the industry-led voluntary program, Batteries 4 Planet Ark (B4PA) stewardship scheme in Australia in 2018. The scheme helps divert batteries from landfill and uses the resources recovered in markets where there is increasing pressure on commodity supply. B4PA utilizes an onshore processing capability that supports a circular economic model, returning material into manufacturing sectors and creating jobs in Australia.

For production in China, TTI has been partnering with a recycling company specializing in battery recycling for several years. In 2018, 49 tonnes of batteries and cells were collected and recycled from TTI's PRC sites.

In the future, we aim to implement battery recycling partnerships in all of our markets with the goal of increasing the recycling rate of batteries and products every year. We are also carrying out research on how to increase quantities of recycled materials into our own products while maintaining the quality of our tools and equipment.

In Europe, battery recycling is organized according to applicable national laws derived from the European Union Battery Directive. We have joined common collection schemes in each country that involve registering with the local authorities, reporting sales to authorities, joining a collection scheme and financing the recovery of batteries based on reported sales.

The common collection scheme is acting on behalf of the producers who supply containers for battery collection to retail outlets, public institutions and commercial end users. The producers organize the transport of full containers to the sorting facilities where the batteries are sorted according to their various electrochemical systems. The batteries are then treated in recycling facilities to recover materials such as iron, manganese, nickel and lead. The whole process is controlled by the common recycling scheme.

## Design Innovation

Great design not only creates products that are easier and more pleasurable to use, it also helps TTI reduce our use of natural resources and overall impact on the environment. Our investment in research and development focuses on innovative product design. This is not only for improving the user experience but also for the safety of their production and use, resource efficiency, as well as their recycling properties to work towards a closed loop, circular economy.

Take cordless tools, our specialty, as an example. Quality cordless tools rely on cutting-edge lithium ion battery technology. Our batteries are designed to be interchangeable within brands, reducing resource consumption and waste.

### *TTI Product Packaging Data of All Brands*

Global	• 69,928 tonnes
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#### **Packaging Materials**

Adopting packing and packaging materials with environmentally-responsible attributes is an opportunity for innovation to reduce waste and impact in the sourcing, production and reuse of the materials. With millions of products sold each year, improvements in packaging also mean reductions in material and transportation costs.

The most common materials used for packaging include paper for boxes, cartons and die cut sheets, and plastic for polybags, bubble bags, clamshells and tool bags.

We make use of recycled packaging materials whenever possible. For our packaging, we use corrugated cardboard, honeycomb board, chipboard, paperboard and/or molded pulp, all of which are recyclable by the end user. We also use biodegradable packaging and paper in packaging products. In Canada, repaired products are generally returned to customers in the same packaging that they were shipped to us in.

In 2018, TTI AIP did reduce the total cost of packaging, equivalent to a reduction of 430 tonnes of paper and 6 tonnes of plastic. This saving initiative was part of CIP and amounted to USD 1.4 million saving.

We will continue to adopt packaging materials with positive environmental attributes, with a priority on biodegradable packaging.

#### **Biodiversity**

As an international manufacturing company, TTI recognizes that its operations can have an impact on biodiversity, particularly in the sourcing of raw materials, along the supply chain and at product end of life. Our goal is to reduce TTI's impact through supply chain engagement and accountability, and responsible battery recycling and circular economy solutions. As outlined in our Supply Chain Management section below, the TTI Social & Environmental Responsibility (SER) Compliance Program adopts a rigorous process to ensure our suppliers and the sourcing of raw materials minimize environmental impact and comply with all legal requirements.

#### **Environmental Awareness and Action in our Offices**

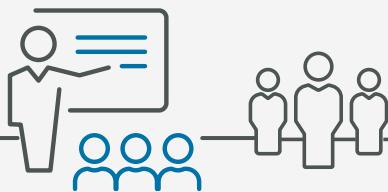
We encourage all members of TTI to adopt a sustainable lifestyle. At our offices, we raise awareness of environmental issues and ensure offices adopt measures that minimize environmental impact.

Regular maintenance of air-conditioning, heating, ventilation and building management systems is conducted to maintain facilities' energy efficiency and healthy indoor air quality. We provide regular communications to members of staff on environmental issues. For example, at TTI HK, our "Going Green in the Office" campaign provides practical tips and reminders to encourage employees to reduce their GHG footprint by conserving energy and adopting energy-efficiency measures. Other communications on topics such as "Housekeeping Guidelines", "Red Packet Recycling" and "Keep the Office Green During Your Holidays" are also sent to employees.

In Canada, a national program was launched allowing all our outside sales teams to recycle their printer toners free of charge at partner stores across the country. Furthermore, electronic waste is sold to a third party, Green Solutions Plus, for recycling with the money generated from this transaction donated to the Daily Bread Foodbank.

In 2018, we expanded our operations to Vietnam. We also completed the build-out of our Brookfield, Wisconsin office and began the design and construction of our new Anderson, South Carolina location and the design of TTI NA's new headquarters in Fort Lauderdale, Florida. We not only focused on energy conservation, but also encouraged behavioral change to create a more sustainable environment. Key areas included:

- Installation of LED lighting
- Purchase of Energy Star rated equipment
- Use of recycled building materials throughout buildings and for finishes
- Roof design to maintain high R-values with a reduction of construction cost
- Introduction of campus bicycles and electrical vehicles at Anderson, South Carolina
- Elimination of plastic water bottles from new buildings and the provision of reusable cups to each employee



**TTI employees engaged in 57,963 hours of training through Learn TTI**

**64% of male staff and 36% of female staff took training programs in 2018 in HK and PRC**

**Zero work-related facilities reported in 2018**

**All TTI business units established annual performance review processes**

## Our People

### Overview and Highlights

At TTI, we believe our employees are our greatest asset and the foundation of our business, as reflected in our core strategic focus on Exceptional People. To recruit and retain the best talent, we invest heavily in staff training and development, occupational health and safety management, and provide competitive remuneration and benefits. We believe that respecting diversity and providing equal opportunities in our workplaces around the world is also key to our success.

### Employee Demographics

TTI operates in 40 jurisdictions worldwide, employing over 23,279 full-time staff of different backgrounds, skill sets and experience. They bring unique ideas and viewpoints that enrich our company.

#### *Global Full-time Employee Headcount*

**23,279** Total Global Full-time Employees

**6,803**

North America

**1,763**

Europe

**14,131**

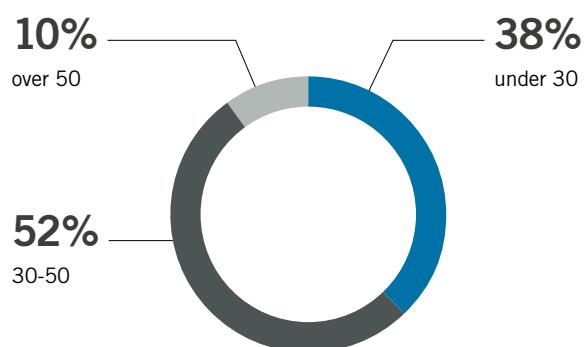
Asia



## Our key goals include:

1. Zero incidents of non-compliance with TTI's policies and codes in reporting and remediation when necessary
2. Respectful, healthy and safe workplaces
3. Zero fatal accidents in our workplace
4. Promote diversity in the workplace
5. Continuous training and development

*Global Full-time Employees by Age Group*



*Global Full-time Employees by Gender*



*Global Full-time and Part-time Employee Headcount by Geographic Region*

	Full Time	Part Time <sup>6</sup>	
Asia	14,131	60.7%	5
Europe	1,763	7.6%	102
Australia & New Zealand	525	2.3%	3
Middle East	35	0.2%	0
North America	6,803	29.2%	47
Latin America & Caribbean	22	0.1%	0
Total	23,279		157

<sup>6</sup> Part time data, please note that it includes part time excluding temporary employees globally.

## Human and Labor Rights

TTI complies with all applicable international, national, state and local employment and human rights laws designed to protect the rights of all individuals and does not engage child or forced labor in any of its facilities. Relevant legal and regulatory requirements related to human and labor rights that have the potential to have a significant impact to our operations and performance include but are not limited to PRC Labor Law, PRC Labor Contract Law, PRC Employment Promotion Law, PRC Interim Regulations on Wage Payments, PRC Regulations on Management of Records of Enterprise Workers, PRC Social Insurance Law, PRC Regulations on Working Hours of Employees, PRC Regulations on Employee's Paid Annual Leave, PRC Protection of Minors Law, Hong Kong Employment Ordinance, Hong Kong Mandatory Provident Fund Scheme Ordinance, Hong Kong Employees' Compensation Ordinance, Hong Kong Sex Discrimination Ordinance, Hong Kong Disability Discrimination Ordinance, Hong Kong Family Status Discrimination Ordinance, Hong Kong Race Discrimination Ordinance, Hong Kong Personal Data (Privacy) Ordinance, Hong Kong Bill of Rights Ordinance, Hong Kong Employment of Children Regulations and UK Modern Slavery Act (2015). For a full list of significant legal and regulatory requirements, please refer to Appendix A of our HKEX ESG Guide Content Index on our website.

## Employee Handbook and Code of Ethics and Business Conduct

Each TTI business unit has an Employee Handbook written specifically for its location that incorporates all relevant and applicable employment policies, procedures and best practices, as well as national and local regulations. Handbooks are updated annually or as required to reflect any changes in requirements. Employees are required to read and sign off on the Employee Handbook upon their hiring, as well as when changes are made.

All TTI members, including employees, officers and directors across different business units, are expected to fully adhere to our Code of Ethics and Business Conduct, which establishes rules and guidelines for conducting business ethically and in compliance with all applicable legal requirements. All of TTI's new hires are required to complete training on the Code of Ethics and Business Conduct and, along with existing employees, take the e-learning course on Slavery and Human Trafficking. In the Code of Ethics and Business Conduct training, we provide real life scenarios of harassment, and human and labor rights violations for employees to be able to better identify issues and report them accordingly. We require our suppliers to comply with our Business Partner Code of Conduct and our Policy against Slavery and Human Trafficking.

We adhere to local regulations on age requirements for working, with measures to ensure that only workers who are at or above the legal age limit are hired and that working hours are in compliance with legal requirements. Globally, we require workers to provide government-issued identification confirming that they are legally permitted to work in the relevant country of operation.

In the US, employees must complete a formal employee application for employment. For workers under the age of 18<sup>7</sup>, we follow local guidelines that limit the number of hours allowed and hours of employment. Those hours must be approved by the employee's parent or legal guardian.

In the PRC, we have additional mandated policies regarding child labor, juvenile workers and forced labor. Our PRC facilities never hire any person under the age of 16 and only hire juvenile workers between the ages of 16 and 18 during peak seasons. TTI requires our PRC locations to adhere to the Juvenile Worker Protection Policy and register the juvenile worker with the local labor bureau. In addition to following TTI policies, our PRC locations have instituted several preventative actions during hiring, including having Human Resources personnel first check the identification cards (with date of birth information) of each candidate via a system linked with public security agencies and then upon hiring, registering the names of all juvenile workers with the local labor bureau.

## Equal Employment Opportunities

TTI is committed to promoting and maintaining working environments that respect the personal rights and dignity of our employees. We provide equal employment opportunities for all qualified persons, without regard to race, national origin, gender or gender identity, sexual orientation, pregnancy, age, religion, military service, status as an individual with a disability or status as a veteran or any other status protected by applicable local, state or national law. We believe that all individuals should be treated with dignity and respect.

As noted above, all TTI members, including employees, officers and directors across different business units, are expected to fully adhere to and receive training on our Code of Ethics and Business Conduct, which includes our commitment to equal opportunity practices.

Our Harassment Prevention, Anti-Discrimination and Anti-Retaliation Policy provides the overall philosophy and specific approaches for addressing these issues and all employees are required to take the eLearning course entitled, Preventing Harassment and Violence in the Workforce.

<sup>7</sup> In the US, workers may be aged 14 or above. However, TTI does not employ any young workers below the age of 16.

In the US, TTI's Equal Employment Opportunity ("EEO") Policy, as well as its affirmative action obligations, have the full and complete support of business unit presidents and TTI's CEO. Through the EEO Policy and affirmative action obligations, our business units encourage initiatives and personal leadership by all employees as the best means to ensure the success of the program. TTI FC NA develops, on an annual basis, affirmative action plans and programs that ensure the full and complete expression of the EEO Policy. By respecting differences, embracing similarities and understanding their impact, we create an environment in which all employees are welcomed, encouraged to participate fully, and accorded respect.

Diversity and inclusion is important to TTI. TTI PE's Senior Recruiting Manager actively targets female-focused corporate groups, such as those on LinkedIn, for job recruitment purposes. The Senior Recruiting Manager also attends targeted career fairs, such as Clemson's Women in Engineering.

### Benefits and Work Environment

Our commitment to employees also includes providing fair and equitable benefits to all qualified persons. In addition to the legally required or standard benefits each full-time employee is eligible to receive, TTI continually looks to offer competitive and relevant benefits to our employees.

In Germany, DreBo offers ten beneficial initiatives to its employees, including:

<b>1</b>	<b>JOB SAFETY</b> safe and secure employment	<b>6</b>	<b>DEVELOPMENT</b> regular employee appraisals and advancement opportunities
<b>2</b>	<b>TEAM</b> creative team-building-type activities	<b>7</b>	<b>CARE</b> assistance during employee relocations, including support for the entire family
<b>3</b>	<b>MODERNITY</b> clean, state-of-the-art workplace	<b>8</b>	<b>PROVISION</b> support in planning and managing old-age provisions
<b>4</b>	<b>HEALTH</b> healthy food in cafeterias as well as fitness programs, a company doctor, and onsite e-bike leasing	<b>9</b>	<b>PRODUCT</b> free rental of hammer drills, chisels and drills
<b>5</b>	<b>BALANCE</b> flexible shift schedules to create a healthy work-life balance	<b>10</b>	<b>MOBILITY</b> company car for certain employees, leasing of e-bikes, and train ticket subsidies to improve team mobility

To promote a healthy work-life balance, TTI ANZ, TTI France, TTI UK and TTI NA offer flexible working arrangements upon the request from employees. Similarly at TTI AIP, we offer flexible working hours for staff members.

Milwaukee Tool and TTI PE have gyms onsite and all employees have full access to the equipment and classes offered. TTI FC NA and TTI NA both have gym facilities in their buildings, which allow access to all tenants of the building. Some other business units also provide stipend to employees for gym membership where there is no onsite gym.

To build a supportive workplace culture, we have set up a "Wellbeing Room" at TTI HK, furnished with electrical outlets for connecting pump attachments and a refrigerator for storing expressed breast milk. This supports our female employees who continue to breastfeed after returning to work from maternity leave.

At TTI HK, we also launched the weekly Green Monday program to encourage our employees to eat healthier vegetarian meals. By cutting down on meat consumption, our employees also reduce their GHG footprint.

While all entry level positions have a standard starting salary, TTI Canada has a highly successful Promote from Within Policy for senior management positions that has resulted in many employees advancing their career within TTI.

## Occupational Health and Safety

TTI is committed to providing employees with safe working conditions. Our goal is to have zero fatal workplace accidents. We are proud to report that we did not have any work-related fatalities in 2018 at any of our locations around the world.

We remain focused on continually enhancing occupational health and safety (OHS) training and actively tracking our OHS performance metrics. Any safety issues or violations of regulatory requirements are addressed promptly to prevent risk of injury.

Measures have been taken to identify, eliminate and reduce hazards wherever possible through the implementation of management systems to meet and comply with our Environmental Health & Safety (EHS) and Occupational Hazard Management Policies, as well as other internal policies and local regulations. Relevant health and safety legal and regulatory requirements that have the potential to have a significant impact to our operations and performance include but are not limited to PRC Work Safety Law, PRC Prevention and Control of Occupational Diseases Law, PRC Regulations on the Work Safety of Guangdong Province, PRC Mental Health Law, Hong Kong Occupational Health and Safety Ordinance and Hong Kong Occupational Health and Safety Regulation. For a full list of significant legal and regulatory requirements, please refer to Appendix A of our HKEX ESG Guide Content Index on our website.

We implement proactive initiatives to make safety a top priority throughout TTI's business. Examples of measures we have taken are presented below.

### Asia

At our manufacturing operations in the PRC, our Occupational Hazard Management Procedure, which is in accordance with Law of Occupational Disease Prevention and Control of the PRC, is in place to control occupational risk within the working environment, prevent occupational disease and standardize personal protective equipment. The policy is enforced through the Quality System Assurance & Environment Health and Safety Department.

### Europe

At DreBo, we set up an Occupational Safety Committee with representation from management, foremen and employees, and a Work Council that is involved in all employee-related decision

making. Any injuries that arise are recorded and if they lead to an absence from work of more than three days, they will be reported to the TTI's liability insurance association. DreBo tracks the following information:

- Number of accidents per year
- Average absence per accident
- Accidents taking place in regular time or overtime
- Accidents per shift (three-shift model)
- Top three types of accidents per department
- Cost of accidents per year

In the U.K., a Health and Safety Committee, comprising the Office Manager, Director of Finance and Operations, Training & Application Manager, Management Support Assistant, Credit Control Manager and HR Manager, is in place to oversee health and safety issues within the business unit. All individuals are self-nominated to the committee.

### North America

We employ comprehensive safe work practices in all of our facilities. OHS policies and standards apply to all employees, including full time, contract and part-time employees, and are subject to regular review to ensure that safety standards are maintained across our diverse workforce. Health and safety meetings are held regularly where employees can raise concerns regarding health and safety issues at work. This is in addition to being able to raise any issues to their manager or human resources representative.

TTI PE strives to provide a workplace free from injury and illness and is fully committed to achieving the highest standards of health and safety, not only for employees, but also for visitors, contractors and any other relevant party. Provincial Health & Safety booklets, Fire Safety procedures, as well as minutes of each Joint Health and Safety Committee meeting, are on display in all workplaces. Provincial Health and Safety Ministry officials also make periodic visits to our sites to ensure we are in compliance with legal requirements.

TTI Canada operates in compliance with The Workplace Hazardous Materials Information System (WHMIS), Canada's national hazard communication standard. We also have a Joint Health and Safety Committee (JHSC) with a certified member from both management and employee groups, in accordance to the Occupational Health and Safety Act. The JHSC meets quarterly to review and address health and safety concerns from head office, service centers or the field. Input from all employees is encouraged to ensure best practices.

Managers at each site conduct ongoing safety inspections to ensure first aid kits, fire extinguishers and defibrillators are in working order and well stocked. TTI Canada also offers free first-aid courses to all employees. All service centers and head offices have certified first-aid responders identified. Annual fire drills are held at each head office in cooperation with the landlord and fire department. All new employees are to complete the following provincially-mandated training upon hiring: Occupational Health and Awareness Ontario, AODA - Customer Service and Accessibility Standard, Preventing Harassment & Violence in the Canadian Workplace and the TTI Code of Ethics and Business Conduct.

#### Australia and New Zealand

TTI ANZ has Work Health and Safety Committees at all of its work locations that meet at least quarterly. The meetings are managed by the human resources department and all feedback collected is evaluated by the Group HR Manager and Presidents of the business unit. Regular toolbox talks take place at the warehouse with an emphasis on safety. Regular risk assessments are conducted by human resources representatives to ensure compliance with local legislation on workplace health and safety.

#### Training and Development

TTI is committed to provide training and development opportunities to all employees at all locations where we operate. Business units develop training plans that meet the needs of their employees and the business.

To further performance goals and communication between managers and reporting employees, TTI's business units conduct annual performance reviews. Nearly all of TTI's business units report that they have established, annual performance review processes and nearly 100% of those business units' employees who reported received a performance review.

#### Learn TTI

Learn TTI is an online training platform that offers a vast array of e-training courses for employees, ranging from mandatory courses on compliance to training and professional courses for employees at different levels of the company. A total of 908 unique courses were launched on Learn TTI in 2018. Globally, TTI employees engaged in 142,642 courses through Learn TTI, equivalent to 57,963 training hours.

Our business units also strongly encourage their people to benefit from internal and external training opportunities, as outlined in the examples below.

#### TTI Canada

TTI Canada developed a training manual for Sales and Marketing teams and managers, including courses such as customer relationships, time management, situational leadership and leadership development.

TTI Canada introduced a mentoring program in 2014, allowing employees to spend one-on-one time with the leaders of the organization. Employees are paired with a tenured individual who offers insight into specific career paths and areas of interest. A job shadowing program was also in place for employees to work beside a colleague in a different role to experience first-hand what that role entails. This enables employees to make more informed choices when developing their TTI career.

#### TTI PE

Training and development needs are identified during annual Performance Reviews when employees and managers discuss and lay out specific individual plans. TTI PE also reviews and updates the succession planning annually.

We encourage our employees at TTI PE to broaden their knowledge and skills, keep current with changes in their fields, and increase their potential by continuing their development. We provide tuition reimbursement to employees who pursue a degree that is related to their current position or another position within the company.

#### TTI ANZ

TTI ANZ's internal Training Management System offers 5,000 courses to employees and, in 2018, 3,138 hours of training were completed. Additionally, TTI ANZ invests in employee training through LinkedIn Learning, compliance training through Learning Seat and the Australian Institute of Management. In 2018, TTI ANZ began implementing a competency framework to measure capability gaps of employees for both their current and future roles using the HRSG Competency framework.

#### TTI AIP

In 2018, TTI AIP's senior management received an average of 9.33 hours of training while middle management received an average of 8.32. In the PRC, a total of 103,454 hours of training was delivered.

#### TTI UK

At TTI UK, senior and middle management received an average of 10 and 20 hours, respectively.



## Engaged over 200 suppliers of finished goods and raw materials in Supplier Conferences and training in the PRC

## Online Compliance Platform implemented across all business units globally for suppliers of finished goods and raw materials

## Ongoing due diligence on conflict minerals

## Data collection on cobalt sourcing

## Supply Chain Management

### Overview and Highlights

As our suppliers are integral to the quality of our products and our overall success, we pay close attention to their ESG practices. We engage with our suppliers to ensure that ESG policies are respected and that ESG practices are implemented across our supply chain. This includes a commitment to security and social responsibility, complying with all applicable laws and regulations and minimizing environmental impact through pollution prevention and resource efficiency.

The TTI Social & Environmental Responsibility (SER) Compliance Program focuses on the active management and compliance of all TTI suppliers around the globe. If key compliance requirements are not respected, suppliers will be required to implement corrective actions. If non-compliance issues are not satisfactorily remediated, their contracts will be terminated. Key focus areas and compliance requirements include labor rights, in particular reinforcing TTI's commitment to no child labor and forced labor, non-discrimination, no harassment, health and safety, environmental compliance and protection, anti-corruption and ethical raw material sourcing.

These compliance requirements are formulated in codes and policies that form part of the engagement terms and agreements with our suppliers. All suppliers are required to acknowledge and comply with them, in particular the key requirements of our Business Partner Code of Conduct.

We work with a large number of suppliers around the world and each business division selects and engages with their suppliers directly. We encourage our business units to engage with local suppliers as much as possible to support the local economy.

### Human and Labor Rights

We uphold high standards for human and labor rights at TTI, not only in our own operations but within our supply chain. We engage with our suppliers to ensure that they are aware of and in compliance with our Business Partner Code of Conduct and relevant policies for human and labor rights.

## **Our key goals:**

1. Effective partnerships with NGOs in major countries of operations and supply chain countries with human rights violation risk
2. Substantive initiatives to raise awareness and improve human rights conditions and reduce environmental impact in the supply chain
3. Zero incidents of non-compliance with TTI's Policies and Codes with transparency in reporting and remediation when necessary, including incidents of child and forced labor

We also understand the potential risk of modern slavery to our business and we are committed to ensure that our business is free from it. Our Policy Against Slavery and Human Trafficking details our policy requirements and the consequences of non-compliance. The Policy has been communicated globally to all our employees. It is available in English and Chinese and will be available in all other languages used in countries where we have presence in 2019.

We have the following policies in place to protect human rights in our supply chain:

- Complaint Resolution Policy: We encourage our employees and business partners to report any concerns related to human rights
- Code of Ethics and Business Conduct: The Code clearly states the actions and ethical behavior expected of our employees
- Business Partner Code of Conduct: The Code sets out TTI's requirements and expectations, and requirement for all suppliers to comply with the Code
- Conflict Minerals Policy: This policy outlines expectations and guidelines for our suppliers in the sourcing of tin, tungsten, tantalum and gold ("3TG")
- Policy Against Slavery and Human Trafficking: This policy details TTI's expectations in relation to human rights and modern slavery

### **Due Diligence**

TTI performs extensive due diligence on all new suppliers and regularly reviews and audits its existing suppliers. The due diligence process focuses on social and environmental requirements, including ethical sourcing.

Our Policy Against Slavery and Human Trafficking outlines the various steps taken by the TTI Group to prevent, verify, investigate and audit cases of slavery and human trafficking, which include:

- Employees formally acknowledge the Employee Code of Ethic and Business Conduct
- Suppliers formally acknowledge the Business Partner Code of Conduct
- Supplier agreements include anti-human trafficking and slavery provisions
- Employees and suppliers acknowledge our Policy Against Slavery and Human Trafficking
- Conduct of annual Slavery and Human Trafficking Risk Assessments
- Regular site visits and audits of high-risk operations and suppliers
- Corrective actions required for any identified non-conformities with codes and policies

## Conflict Minerals

In 2010, the US Securities and Exchange Commission (SEC) issued the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring companies to disclose if their products contain tantalum, tin, tungsten or gold (3TG) mined from the Democratic Republic of Congo or its surrounding countries. TTI has launched its own Conflict Minerals Policy which sets out the rules, standards and expectations that TTI and its suppliers must abide by to ensure that any 3TG is from reputable sources free from conflict or other human rights violations. Suppliers are required to fill out a Conflict Minerals Declaration form annually, providing information on their suppliers of 3TG, as well as acknowledging compliance with the TTI Business Partner Code of Conduct. We also require all suppliers to source from a recognised conflict-free smelter. In 2018, no high-risk situation was identified.

In 2018, we conducted a review of suppliers using cobalt in products sold to TTI and as a result, we will be implementing a procurement policy for cobalt in 2019. Similar to the Conflict Minerals Policy, suppliers will be required to disclose the source of cobalt used in manufacturing products for TTI and to comply with the terms of the policy.

## Online Compliance Platform

TTI engages with its suppliers around the world to improve the transparency of our supply chain and the efficiency of our data collection process. The online Compliance Platform is implemented across our global operations, allowing our business units to request supplier information, and enable suppliers to access training materials and acknowledge their acceptance of key compliance requirements online, including:

- Business Partner Code of Conduct/Anti-corruption Declaration/Conflict of Interest Declaration
- Product Liability Insurance check
- Human Trafficking and Modern Slavery Policy and questionnaire
- SER questionnaires
- Conflict Minerals Policy, and its upcoming addition of cobalt

Based on the information received, TTI allocates a rating to each supplier, which forms part of the supplier's overall KPI and a determinant of whether TTI establishes or continues the business relationship.

## Supplier Auditing

All of our suppliers undergo SER and quality management system audits on a regular basis. The SER audits are conducted by TTI's SER teams or external auditors. New suppliers are also required to

complete a screening and audit process before engagement. The engagement of suppliers is conditional to them having SER policies and practices that are acceptable and in line with our own policies.

Suppliers with an unacceptable rating are given a probation period to rectify the issues that have been identified and then they are re-evaluated. Suppliers are audited every 12 to 18 months if their previous audit result was rated acceptable. More frequent audits will be carried out on suppliers with lower ratings. Suppliers are terminated if they are found to be non-compliant in areas where TTI has a zero-tolerance policy, such as for corruption, child or forced labor and harassment.

## Engaging with Suppliers

TTI's audit team provides training to suppliers on key compliance areas. One of the highlights of our supply chain management program is our annual Supplier Conference, which was last held on November 9<sup>th</sup> and 10<sup>th</sup>, 2018 in the PRC. This two-day event brought our suppliers together to share experiences and best practices. More than 200 suppliers attended, along with members of TTI's legal and sourcing teams. A two-hour training session on anti-corruption, our Business Partner Code of Conduct and social and environmental responsibility was delivered. We remain united in our goal to not only create great products, but to do so in a responsible and sustainable way.



## TTI Compliance Hotline

To actively encourage our suppliers to support our commitment to compliance and improving performance, they have access to our third-party operated, TTI Compliance Hotline. In 2018, one supplier contacted the hotline, however, the issue was not related to non-compliance issues. One minor suggestion was provided for improving performance.

## Customer Responsibility

With millions of products sold in 2018, customer satisfaction and the safety of our products, including those that are designed, manufactured, distributed or licensed by TTI, are of the highest priority. In 2018, there were no product recalls due to health and safety reasons.

### Product Safety & Product Recalls

We comply with all applicable laws and regulations for the markets where our products are sold. Relevant legal and regulatory requirements related to health and safety, advertising and labelling and privacy matters relating to our products that have the potential to have a significant impact to our operations and performance include but are not limited to PRC Regulations of the Certification and Accreditation, PRC Administrative Regulations for Compulsory Product Certification, US Consumer Protection Safety Act (CPSA), EU Machinery Directive, EU General Data Protection Regulation (GDPR), Australian Consumer Law and Australian Privacy Act 1988. For a full list of significant legal and regulatory requirements, please refer to Appendix A of our HKEX ESG Guide Content Index on our website. We also meet or exceed all applicable and voluntary industry standards and strive to meet reasonable consumer expectations for safety.

Our Global Product Safety Director is responsible for overseeing the development, implementation and maintenance of a comprehensive product safety and consumer product regulatory compliance policy and system, and driving the continual improvement of our safety and regulatory functions globally. Within our business units, we have teams who are responsible for the safety, quality and regulatory compliance of our products and Product Safety Committees. All products are tested for safety and quality to make sure they comply with all applicable requirements and that our customers are purchasing the safest and most innovative products on the market. Our internal legal departments manage the legal, regulatory and safety compliance of our products. Product recalls are referred to our legal teams, and together with the safety and regulatory departments, they ensure compliance with regulations for managing recalls until their safe disposition.

We have a rigorous quality assurance process in place, including quality control of incoming materials, in-process quality control, and inspection and reliability testing of our outgoing products.

### Continuous Improvement

We provide a warranty period for all our products to ensure our customers have a satisfactory after-purchase experience. When we receive a complaint or after-sale service request, we record all defects and the data is analysed and fed back to our design team for product

improvement. We also proactively seek to understand customers' experiences in using our products. For example, we review customer comments on online sales platforms or social media forums to collect feedback on products.

### Intellectual Property Rights

Our intellectual property is one of TTI's most valuable assets and we have procedures and policies in place for proper use and protection from infringement by others. TTI's intellectual property portfolio includes logos, patents, trademarks, copyrights and computer software. We encourage and support our employees' inventions, discoveries, ideas, concepts, written material or trade secrets and cooperate in the documentation of ownership of such intellectual property. As a responsible business, we respect the intellectual property rights of others and communicate and train our employees to not use patented, trademarked, copyrighted or otherwise protected intellectual property without express permission.

### Customer Data Protection

We collect customers' data through different means and we ensure that our customers' data is protected according to relevant legal requirements. In 2018, TTI became compliant under Europe's General Data Protection Regulation. All of our computer systems are protected by authorization management processes and monitored by our IT department. TTI has in place over ten different security policies.

TTI views cybersecurity as integral to the protection of intellectual property, customer information, and the growth of our business. We align cybersecurity around four key principles:

- Protecting our business from damage to critical relationships
- Protecting our aggressive growth strategy
- Preventing and reducing risk to our operations
- Protecting our brands and reputation

We follow the National Institute of Standards and Technology Cybersecurity Framework. This framework, in combination with our security principles, provides us with guidelines to implement pragmatic policies while spending prudently on security initiatives.

All systems in the company run anti-virus and anti-malware programs. We also have local firewall rules, file integrity scanning, and network level firewalls in place. We regularly send notices to all employees regarding cyber attacks and intrusion methods, such as email phishing, and educate employees on what to be wary of and behaviors to avoid. For cloud-based services, we ensure that our agreements and practices are structured to protect TTI's and its customer's information.



**US\$1,290,000 of in-kind donations  
of tools and other items**

**Close to 12,000 hours of volunteer  
time donated by TTI globally**

**Partnered with or supported over 50  
programs run by charities and NGOs**

**Sponsored the Knowledge of Design  
Week and Business of Design Week  
in Hong Kong**

### **Investing in our Communities**

We understand that a healthy business and healthy community go hand in hand. TTI has a longstanding commitment to support the communities in which we live and work by providing resources, time and money to those charities where our efforts are best focused. Some of our business units have in place a formal committee, which is tasked with the selection of organizations that will allow employees to give back to their communities and beyond. Other business units sponsor the same charities year-after-year while still evaluating new sponsorship opportunities as they arise.

At the corporate level, we have updated our strategic plan for community engagement to focus on key areas most relevant to our company and those that will create the biggest impact to our business and the communities in which we serve. The focus areas include women's rights and education, modern slavery, poverty, clean tech and raw material responsibility. In the future, we will seek opportunities to expand our involvement in these important focus areas to effect change.

In 2018, we continued our engagement with local communities across different business units by donating tools, providing financial support and encouraging our employees to volunteer their time and energy. Some of our business units allocate a specific number of working hours or days for employees to volunteer for their favorite charity. Our employees can choose a variety of areas to support, ranging from education, home building and child wellness to sports.

In 2018, approximately US\$1,290,000 in-kind donations of tools and other items and close to 12,000 hours of volunteer time were donated by TTI and its employees globally. We also partnered with or supported over 50 programs run by charities and NGOs.

Here are a few of our many engagement activities for each of our four focus areas in 2018:



## Our key goals include:

1. Establish strategic partnerships with NGOs
2. Develop impact metrics to track our community investment and engagement activities



## Community Engagement

### Disaster Relief and Rebuilding

Extreme weather struck many parts of the world in 2018. Hong Kong was hit by the worst typhoon in history in October 2018, and many villages were severely damaged. TTI teamed up with Habitat for Humanity on the island of Kat O to assist in the cleanup and to rebuild houses destroyed by the typhoon. TTI was also involved in over 60 other post-disaster relief and clean-up activities, contributing over 2,000 volunteer hours and donating TTI tools worth US\$150,000.



### Engagement with Habitat for Humanity

TTI believes everyone deserves a decent place to live. Habitat for Humanity invites enterprises to step outside their offices to help raise the walls of new homes for many low-income households. In 2018, Milwaukee Tool alone donated more than US\$275,000 in products, helping Habitat affiliates build homes, communities and hope for various locations in the US. TTI employees volunteered more than 250 hours in the Habitat Executive Build program, which is a great way to show their support to the local communities where TTI sponsored house building for underprivileged families. Our

Canada office engaged with Habitat for Humanity as part of their national volunteer event in Alberta and British Columbia. More than 40 employees across Canada participated in four builds, raising a total of US\$11,000 in monetary donations and the same amount worth of tool donations.



### Acts of Kindness

Our Canadian floor care division started a HOOVER Fresh Start Campaign. The initiative went into the community and made a difference by performing simple acts of kindness. This social media campaign encouraged HOOVER fans to participate in and share their good deeds. A total of 1,100 acts of kindness were recorded by our HOOVER fans. This initiative was also supported by Scott McGillivray, HGTV Home Builder Host.

### Supporting Veterans

This year we supported the Veterans Outreach of Wisconsin (VOW) whose mission is to assist homeless and at-risk veterans gain normalcy in life by providing food, clothing, shelter and other basic human needs. They provide food on a weekly basis as part of a homelessness recovery program. TTI supported the VOW by providing a monetary donation to the organization.



## Community Engagement (continued)

### Team Angel Wolf

In Europe, TTI is a partner of Team Angel Wolf, which helps promote the inclusion of disabled persons in sport activities and enables disabled and paralyzed children to access the sea. TTI supported Team Angel Wolf by purchasing two specialized floating wheelchairs.



### A Spirit of Giving

TTI has joined forces with The Home Depot Foundation in several fundraising events and completed a variety of community service projects throughout the year. TTI also participated in fundraising activities in support of cancer research and caregiving, Alzheimer's research and the local blood bank, among others.

In Canada, TTI made monetary donations of US\$95,000 and employees contributed 1,120 volunteer hours to a wide variety of causes and charities across the country, supporting everything from children's sport activities to food banks and the Canadian Cancer Society.



## Nurturing the Next Generation

### STEM Education

Science, Technology, Engineering and Mathematics (STEM) Education provides students with a cross disciplinary and applied approach to acquire knowledge. TTI understands the future is in creative and innovative education so, in 2018, we supported several STEM programs, FIRST Robotics and Kids Building Wisconsin events for middle school students, STEM Forward and the Society of Women Engineers. We also worked with Elmbrook Highschool on the LAUNCH Innovation Challenge program, providing a US\$8,000 donation and engaging in a mentorship program for students.



### Development for secondary school students

To inspire and encourage the next generation in design learning, TTI collaborated with the English School Foundation – West Island School in Hong Kong to provide practical design technology workshops to the BTEC Engineering secondary students. Our staff demonstrated the use of creative software and tools such as WACOM drawing devices and Photoshop visualization, allowing the participants to get a taste of rendering digital 3D designs in class. In Germany, TTI donated US\$8,600 to various secondary schools in Altshausen and their associated research centers, community clubs and sports events to support youth development.

### Social Mobility for Underprivileged Students

We donated over US\$10,000 to the Future Stars – Upwardly Mobility Scholarship in Hong Kong, which helps children from less privileged backgrounds gain social mobility. The program selects children from more than 400 schools across Hong Kong, rewarding those who show positivity and resilience in the face of adversity.



### Internships

Internship programs not only bridge the gap between academic education and the industry, they also improve the career-readiness of students and enable TTI to identify and attract top talent from schools around the world. TTI offers internships to graduates and students from Canada, the EU, Hong Kong, Southeast Asia, the UK and the US. In particular, we have a well-established, one-year design internship program that attracts graduates from schools such as the Hong Kong Polytechnic University, SCAD and the University of Washington. Interns are given hands-on, in-market design training and international postings during the program, enabling them to explore the industrial design sector while developing their skills. In 2018, TTI engaged with the Asian University for Women, a NGO promoting education for women in Asia, to participate in an internship program in 2019.

### Tertiary and Vocational Institutions

TTI actively supported the Hong Kong University of Science and Technology, the Technological and Higher Education Institute of Hong Kong (THEi) and the Hong Kong Design Institute (HKDI) in creating higher-quality product design and engineering programs. Through tool donation, co-organizing innovation lab projects, and offering industry guidance and input to both student projects and the modernization of design standards and coursework assessments, TTI is helping to improve tertiary design education in Hong Kong.

TTI also sponsored the Queensland University of Technology in its Year 2 design project for manufacturing and design workshop competitions and offered overseas study tour opportunities and a lecture series for students in both Queensland University of Technology and the University of Auburn.



### Girls Can Too

This was our third year of participating in the Girls Can Too program, which introduces construction skills to female high school students from low-income families in Toronto. It is operated by the Toronto Region Conservation Authority with the assistance and support of key members of the design, construction and related industries, including Milwaukee Tool.



## Industry Engagement

TTI not only ‘invents’ new products for our own business growth, but we also bear in mind that we ‘co-create’ our products with end-users with the aim of improving the quality of lives globally. TTI engaged in various industrial design forums and participated in a number of trade associations around the world to enhance knowledge sharing with the industry and the general public.

We continued to sponsor the Knowledge of Design Week and Business of Design Week in Hong Kong, which provide unique platforms for designers and intellectuals to exchange ideas, innovative design and the latest technology. We were invited to participate in and facilitate the industry forum, From Mass Production to Scale Customization, hosted by the Design Council of Hong Kong. We also joined the Industrial Designers Society of America’s national conference and the Red Dot Museum exhibition to share our innovation and design ideas internationally.



## Environmental Initiatives

In TTI HK, Green Fairs were held twice in the Hong Kong office to support local organic farmers and fair-trade merchants. Proceeds from the fairs were donated to the New Life Psychiatric Rehabilitation Association to provide guidance to individuals with mental health issues on how to maintain a healthy lifestyle. TTI HK, along with family members and their children, participated in a Go Green Organic Farm Visit where employees enjoyed a family day out and learnt about the rich biodiversity of Hong Kong.



## Legend – Techtronic Industries Business Divisions

Name of Business Division	Abbreviation	Country/Location
DreBo Werkzeugfabrik GmbH	DreBo	Germany
Empire Level Manufacturing Corporation	Empire	Wisconsin, U.S.
Imperial Blades LLC	Imperial Blades	Wisconsin, U.S.
Milwaukee Electric Tool Corporation	Milwaukee Tool	Wisconsin, U.S., Mississippi, U.S.
Royal Appliance International GmbH	RAI	Germany
Techtronic Industries Australia Pty. Limited and Techtronic Industries N.Z. Limited	TTI ANZ	Australia/New Zealand
Techtronic Industries Canada Inc.	TTI Canada	Canada
Techtronic Industries Company Ltd.	TTI HK	Hong Kong
TTI (Macao Commercial Offshore) Limited	TTI Macao	Macao
Techtronic Industries (Dongguan) Co. Ltd.	TTI AIP	PRC
Techtronic Industries ELC GmbH	TTI ELC GmbH	Germany
Techtronic Industries Floor Care North America	TTI FC NA	North Carolina, U.S., Ohio, U.S., Tennessee, U.S.
Techtronic Industries GmbH	TTI GmbH	Germany
Techtronic Industries Korea Ltd.	TTI Korea	Korea
Techtronic Industries Middle East & Africa FZCO	TTI MEA	United Arab Emirates
Techtronic Industries North America Inc.	TTI NA	Maryland, U.S., Florida, U.S.
Techtronic Industries Power Equipment	TTI PE	South Carolina, U.S.
Techtronic Industries (UK) Ltd.	TTI UK	United Kingdom
Techtronic Industries France SAS	TTI France	France
Techtronic Industries (Zhuhai) Co. Ltd.	TTI Zhuhai	PRC
Techtronic Industries (Taiwan) Co. Ltd.	TTI Taichung	Taichung, Taiwan
Techtronic Tools Limited Taiwan Branch	TTI Taipei	Taipei, Taiwan
Techtronic Industries (Thailand) Limited	TTI Thailand	Thailand
Techtronic Industries Vietnam Manufacturing Company Limited	TTI Vietnam Manufacturing	Vietnam
Techtronic Product Development Limited – Philippine Branch Office	TTI Philippines	Cebu, Philippines

# Report of the Directors

The directors have the pleasure in presenting their annual report and the audited financial statements for the year ended December 31, 2018.

## Principal Activities and Business Review

The Company acts as an investment holding company.

The principal activities of the principal subsidiaries and associate are set out in Notes 53 and 54 to the consolidated financial statements, respectively.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Company Ordinance"), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred, and an indication of likely future development in the Group's business, can be found in the "Chairman's Statement", "Chief Executive Officer's Message", "Review of Operations", "Management's Discussion and Analysis", "Corporate Governance Report", "Environmental, Social and Governance Report" and "Financial Summary" sections of this Annual Report. The above sections form part of this report.

## Results and Appropriations

The results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 126.

An interim dividend of HK38.00 cents (approximately US4.89 cents) per share amounting to approximately US\$89,595,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK50.00 cents (approximately US6.44 cents) per share to the shareholders on the register of members on May 24, 2019, amounting to approximately US\$117,666,000.

## Property, Plant and Equipment

The Group continued to expand its business and during the year spent approximately US\$7,530,000 on leasehold land and buildings, acquired moulds and tooling for approximately US\$2,226,000, office equipment, furniture and fixtures for approximately US\$12,315,000 and plant and machinery for approximately US\$23,110,000. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 16 to the consolidated financial statements.

## Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 39 to the consolidated financial statements.

A total of 8,600,000 ordinary shares were bought back by the Company during 2018 at prices ranging from HK\$36.25 to HK\$47.55 per share. Among these shares bought back and settled by the Company in 2018, 7,100,000 shares were cancelled during 2018 and 1,500,000 shares were cancelled in January 2019. The aggregate amount paid by the Company for such buy-backs cancelled during 2018 amounting to US\$38,608,000 was charged to the retained earnings.

The shares bought back were cancelled and accordingly the issued share capital of the Company was reduced. The buy-backs of the Company's shares during the year were effected by the Directors pursuant to the mandate granted by shareholders at the previous annual general meeting of the Company, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

## Directors

The directors of the Company during the year and up to the date of this report were:

### Group Executive Directors:

Mr Horst Julius Pudwill, *Chairman*  
Mr Stephan Horst Pudwill, *Vice Chairman*  
Mr Joseph Galli Jr, *Chief Executive Officer*  
Mr Kin Wah Chan  
Mr Chi Chung Chan

### Non-executive Directors:

Prof Roy Chi Ping Chung GBS BBS JP  
Mr Camille Jojo

### Independent Non-executive Directors:

Mr Christopher Patrick Langley OBE  
Mr Manfred Kuhlmann  
Mr Peter David Sullivan  
Mr Vincent Ting Kau Cheung  
Mr Johannes-Gerhard Hesse

In accordance with Article 107(A) of the Company's Articles of Association, Messrs. Kin Wah Chan, Camille Jojo, Manfred Kuhlmann and Peter David Sullivan will retire at the forthcoming Annual General Meeting. With the exception of Mr Manfred Kuhlmann who will not stand for re-election, all other retiring Directors, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## Terms of Office of Non-executive Directors and Independent Non-executive Directors

The term of office for each of the Non-executive Directors and Independent Non-executive Directors is the period up to his retirement by rotation in accordance with Article 107(A) of the Company's Articles of Association.

## Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended December 31, 2018 and during the period from January 1, 2019 to the date of this Report are available on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)).

## Directors' and Chief Executive's Interests

As at December 31, 2018, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or

chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name of directors	Capacity/Nature of interests	Interests in shares (other than pursuant to equity derivatives) <sup>(1)</sup>	Interests in underlying shares pursuant to equity derivatives <sup>(1)</sup>	Total interests in shares/underlying shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	Beneficial owner Interests of spouse Interests of controlled corporation	150,443,500 <sup>(2)</sup> 760,000 216,159,794 <sup>(3)</sup>	553,500 — —	367,916,794	20.12%
Mr Stephan Horst Pudwill	Beneficial owner Beneficiary of a trust	5,009,500 <sup>(4)</sup> 34,007,500 <sup>(5)</sup>	3,000,000 —	42,017,000	2.30%
Mr Joseph Galli Jr	Beneficial owner	3,806,000 <sup>(6)</sup>	1,000,000	4,806,000	0.26%
Mr Kin Wah Chan	Beneficial owner	150,000 <sup>(7)</sup>	2,000,000	2,150,000	0.12%
Mr Chi Chung Chan	Beneficial owner	450,000 <sup>(8)</sup>	2,000,000	2,450,000	0.13%
Prof Roy Chi Ping Chung GBS BBS JP	Beneficial owner Interests of controlled corporation	49,005,948 37,075,030 <sup>(9)</sup>	400,000 —	86,480,978	4.73%
Mr Camille Jojo	Beneficial owner	22,000	350,000	372,000	0.02%
Mr Christopher Patrick Langley OBE	Beneficial owner	200,000	250,000	450,000	0.02%
Mr Manfred Kuhlmann	Beneficial owner	275,000	175,000	450,000	0.02%
Mr Peter David Sullivan	Beneficial owner	—	1,050,000	1,050,000	0.06%
Mr Vincent Ting Kau Cheung	Beneficial owner	4,040,000	250,000	4,290,000	0.23%
Mr Johannes-Gerhard Hesse	Beneficial owner	—	235,000	235,000	0.01%

Notes:

- (1) Interests in shares and underlying shares stated above represent long positions of the Company.

The interests of the directors of the Company in the underlying shares pursuant to equity derivatives, which were held as beneficial owner, represent share options granted to them respectively pursuant to the share option schemes adopted by the Company, details of which are separately disclosed in the section headed "Share Options" below. These share options are physically settled and unlisted.

- (2) These included Mr Horst Julius Pudwill's interests in 1,824,000 awarded shares, of which 650,000 awarded shares remained unvested under the share award schemes of the Company as of December 31, 2018. Details of Mr Horst Julius Pudwill's awarded shares are set out in the Corporate Governance Report.

## Directors' and Chief Executive's Interests (continued)

Notes: (continued)

- (3) These shares were held by the following companies in which Mr Horst Julius Pudwill has a beneficial interest:

No. of shares
Sunning Inc.
Cordless Industries Company Limited*
216,159,794

- (4) These included Mr Stephan Horst Pudwill's interests in 150,000 awarded shares, of which 50,000 awarded shares remained unvested under the share award schemes of the Company as of December 31, 2018. Details of Mr Stephan Horst Pudwill's awarded shares are set out in the Corporate Governance Report.
- (5) These shares were held by a trust of which Mr Stephan Horst Pudwill is one of the beneficiaries.
- (6) These included Mr Joseph Galli Jr's interests in 2,814,000 awarded shares, of which 514,000 awarded shares remained unvested under the share award schemes of the Company as of December 31, 2018. Details of Mr Joseph Galli Jr's awarded shares are set out in the Corporate Governance Report.
- (7) These included Mr Kin Wah Chan's interests in 150,000 awarded shares, of which 50,000 awarded shares remained unvested under the share award schemes of the Company as of December 31, 2018. Details of Mr Kin Wah Chan's awarded shares are set out in the Corporate Governance Report.
- (8) These included Mr Chi Chung Chan's interests in 150,000 awarded shares, of which 50,000 awarded shares remained unvested under the share award schemes of the Company as of December 31, 2018. Details of Mr Chi Chung Chan's awarded shares are set out in the Corporate Governance Report.
- (9) These shares were held by Cordless Industries Company Limited\* in which Prof Roy Chi Ping Chung GBS BBS JP has a beneficial interest.

\* Cordless Industries Company Limited is owned as to 70% by Mr Horst Julius Pudwill and as to 30% by Prof Roy Chi Ping Chung GBS BBS JP.

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at December 31, 2018.

## Share Options

### Share Option Schemes

The Company has two share option schemes in place – Scheme D and Scheme E. Scheme D was adopted on May 29, 2007 and expired on May 28, 2017, though its provisions shall remain in full force and effect in all other respects. Following the expiry of Scheme D, Scheme E was adopted on May 19, 2017 and will expire on May 18, 2027.

Both Scheme D and Scheme E are aimed for recognition of the contribution to the development and growth of the Group by the eligible persons. The scheme rules of both Scheme D and Scheme E are substantially identical and below are the summary of the principal terms of both schemes:

The Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

- (i) employees; or
- (ii) Directors; or
- (iii) secondees; or
- (iv) any shareholders of any member of the Group or invested entity or controlling shareholders or any holders of any securities issued by any member of the Group; or
- (v) business partners; or
- (vi) suppliers; or
- (vii) customers; or
- (viii) advisers of the Group.

Share options granted must be taken up within 21 days of the date of grant, upon payment of consideration to be determined by the Board for the grant thereof. Share options may be exercised at any time, subject to vesting conditions from the date of grant to the tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer.

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

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

## Share Options (continued)

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

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29,650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	—	—	155,500	32.100	17.3.2018 – 16.3.2027
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 – 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 – 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Christopher Patrick Langley OBE	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Manfred Kuhlmann	11.9.2015	D	25,000	—	(25,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	(75,000)	—	75,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 – 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 – 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Vincent Ting Kau Cheung	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
<b>Total for directors</b>			<b>9,913,500</b>	<b>1,450,000</b>	<b>(100,000)</b>	<b>—</b>	<b>11,263,500</b>		
<b>Employees</b>									
	14.1.2008	D	25,000	—	—	(25,000)	—	7.566	14.1.2009 – 13.1.2018
	17.4.2008	D	200,000	—	(200,000)	—	—	7.780	17.4.2009 – 16.4.2018
	16.11.2009	D	600,000	—	(300,000)	—	300,000	6.770	16.11.2010 – 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 – 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 – 16.1.2021
	23.3.2017	D	200,000	—	—	—	200,000	32.150	23.3.2018 – 22.3.2027
	19.6.2017	E	350,000	—	—	—	350,000	36.300	19.6.2018 – 18.6.2027
<b>Total for employees</b>			<b>1,425,000</b>	<b>—</b>	<b>(500,000)</b>	<b>(25,000)</b>	<b>900,000</b>		
<b>Total for all categories</b>			<b>11,338,500</b>	<b>1,450,000</b>	<b>(600,000)</b>	<b>(25,000)</b>	<b>12,163,500</b>		

## **Share Options** (continued)

The weighted average closing price of the Company's shares immediately before the various dates on which the share options were granted during 2018 was HK\$48.50 (2017: HK\$32.42).

The closing price of the Company's shares immediately before the various dates on which the share options were granted was HK\$48.50 in 2018 (2017: HK\$31.80 to HK\$36.00).

The weighted average closing prices of the Company's shares immediately before various dates during 2018 and 2017 on which the share options were exercised were HK\$46.63 and HK\$38.21 respectively.

The fair values of the share options granted in 2018 measured at various dates on which the share options were granted was HK\$11.82 (2017: HK\$7.98 to HK\$8.68). The weighted average fair value of the share options granted in 2018 was HK\$11.82 (2017: HK\$8.11) per option.

## **Arrangements to Purchase Shares or Debentures**

Other than as disclosed above and for satisfying the awarded shares granted under the Company's share award schemes (details of which are set out in this Annual Report), at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## **Director's Interests in Transactions, Arrangements and Contracts of Significance**

No transactions, arrangements and contracts of significance, to which the Company, or any of its subsidiaries, was a party and in which a director or a connected entity of a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **Directors' Indemnities**

Pursuant to the Company's Articles of Association, every director of the Company shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance) which he/she may sustain or incur in or about the execution of the duties of his/her office. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Company.

## **Management Contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## **Equity-linked Agreements**

During the year, the Group has not entered into any equity-linked agreements.

## Substantial Shareholders' Interests

As at December 31, 2018, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Total interests in shares	(L/S/LP)*	Approximate aggregate percentage of interests
Artisan Partners Asset Management Inc. <sup>(1)</sup>	94,073,945	(L)	5.14%
JPMorgan Chase & Co. <sup>(2)</sup>	109,685,632	(L)	6.00%
	452,346	(S)	0.02%
	65,505,351	(LP)	3.58%
Schroders Plc <sup>(3)</sup>	110,259,415	(L)	6.03%
The Bank of New York Mellon Corporation <sup>(4)</sup>	101,076,883	(L)	5.53%
	30,842,830	(S)	1.69%
	67,843,748	(LP)	3.71%

\* (L/S/LP) represents (Long position/Short position/Lending pool)

Notes:

- (1) The following is a breakdown of the interest in shares in the Company held by Artisan Partners Asset Management Inc.:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
Artisan Partners Asset Management Inc.	(1a)	—	—	94,073,945	(L)	5.14%
Artisan Partners Holdings LP	(1b)	—	—	94,073,945	(L)	5.14%
Artisan Investments GP LLC	(1b)	—	—	94,073,945	(L)	5.14%
Artisan Partners Limited Partnership	(1b)	94,073,945	(L)	—	—	5.14%

Remarks:

- (1a) Artisan Partners Asset Management Inc. is listed on The New York Stock Exchange. The capacity of Artisan Partners Asset Management Inc. in holding the 94,073,945 shares of long position was as controlled corporation.
- (1b) Artisan Partners Holdings LP, Artisan Investments GP LLC and Artisan Partners Limited Partnership were all directly or indirectly owned by Artisan Partners Asset Management Inc. and by virtue of the SFO, Artisan Partners Asset Management Inc. was deemed to be interested in the shares held by these subsidiaries.

## **Substantial Shareholders' Interests** (continued)

Notes: (continued)

(2) The following is a breakdown of the interests in shares in the Company held by JPMorgan Chase & Co.:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
JPMorgan Chase & Co.	(2a)	—	—	109,685,632	(L)	6.00%
		—	—	452,346	(S)	0.02%
		—	—	65,505,351	(LP)	3.58%
J.P. Morgan Securities LLC	(2b)	1,231,565	(L)	—	—	0.07%
		93,500	(S)	—	—	0.01%
J.F. Asset Management Limited	(2b)	9,352,000	(L)	—	—	0.51%
JPMorgan Asset Management (Japan) Limited	(2b)	1,242,700	(L)	—	—	0.07%
JPMorgan Asset Management (Taiwan) Limited	(2b)	668,000	(L)	—	—	0.04%
J.P. Morgan Investment Management Inc.	(2b)	24,249,000	(L)	—	—	1.33%
J.P. Morgan Trust Company of Delaware	(2b)	31,550	(L)	—	—	0.00%
J.P. Morgan Whitefriars LLC	(2b)	1,359,618	(L)	—	—	0.07%
		73,346	(S)	—	—	0.00%
JPMorgan Chase Bank, N.A.	(2b)	—	—	2,698,039	(L)	0.15%
		—	—	358,846	(S)	0.02%
J.P. Morgan Equity Holdings, Inc.	(2b)	—	—	31,550	(L)	0.00%
J.P. Morgan International Finance Limited	(2b)	—	—	2,698,039	(L)	0.15%
		—	—	358,846	(S)	0.02%

## **Substantial Shareholders' Interests** (continued)

Notes: (continued)

- (2) The following is a breakdown of the interests in shares in the Company held by JPMorgan Chase & Co.: (continued)

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
J.P. Morgan Securities plc	(2b)	1,338,421	(L)	—	—	0.07%
		285,500	(S)	—	—	0.02%
JPMorgan Chase Bank, N.A.	(2b)	67,452,706	(L)	—	—	3.69%
JPMorgan Asset Management (UK) Limited	(2b)	2,760,072	(L)	—	—	0.15%
J.P. Morgan Broker-Dealer Holdings Inc	(2b)	—	—	1,231,565	(L)	0.07%
		—	—	93,500	(S)	0.01%
J.P. Morgan Capital Holdings Limited	(2b)	—	—	1,338,421	(L)	0.07%
		—	—	285,500	(S)	0.02%
JPMorgan Asset Management Holdings Inc	(2b)	—	—	47,623,772	(L)	2.60%
JPMorgan Asset Management (Asia) Inc.	(2b)	—	—	11,262,700	(L)	0.62%
JPMorgan Asset Management Holdings (UK) Limited	(2b)	—	—	2,760,072	(L)	0.15%
JPMorgan Chase Holdings LLC	(2b)	—	—	48,886,887	(L)	2.67%
		—	—	93,500	(S)	0.01%
J.P. Morgan Overseas Capital LLC	(2b)	—	—	1,359,618	(L)	0.07%
		—	—	73,346	(S)	0.00%
JPMorgan Asset Management International Limited	(2b)	—	—	2,760,072	(L)	0.15%

Remarks:

- (2a) JPMorgan Chase & Co. is listed on New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 109,685,632 shares of long position, 452,346 shares of short position and 65,505,351 shares of lending pool respectively was as controlled corporation.
- (2b) J.P. Morgan Securities LLC, JF Asset Management Limited, JPMorgan Asset Management (Japan) Limited, JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan Investment Management Inc., J.P. Morgan Trust Company of Delaware, J.P. Morgan Whitefriars LLC, JPMorgan Chase Bank, N.A., J.P. Morgan Equity Holdings, Inc., J.P. Morgan International Finance Limited, J.P. Morgan Securities plc, JPMorgan Chase Bank, N.A., JPMorgan Asset Management (UK) Limited, J.P. Morgan Broker-Dealer Holdings Inc, J.P. Morgan Capital Holdings Limited, JPMorgan Asset Management Holdings Inc, JPMorgan Asset Management (Asia) Inc., JPMorgan Asset Management Holdings (UK) Limited, JPMorgan Chase Holdings LLC, J.P. Morgan Overseas Capital LLC and JPMorgan Asset Management International Limited were all directly or indirectly owned by JPMorgan Chase & Co. and by virtue of the SFO, JPMorgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.

## **Substantial Shareholders' Interests** (continued)

Notes: (continued)

- (3) The following is a breakdown of the interests in shares in the Company held by Schroders Plc:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
Schroders Plc	(3a)	—	—	110,259,415	(L)	6.03%
Schroder Administration Limited	(3b)	—	—	110,259,415	(L)	6.03%
Schroder International Holdings Limited	(3b)	—	—	109,242,728	(L)	5.97%
Schroder Investment Management (Hong Kong) Limited	(3b)	29,505,000	(L)	—	—	1.61%
Schroder Investment Management (Singapore) Limited	(3b)	65,485,500	(L)	—	—	3.58%
Schroder Investment Management Limited	(3b)	6,740,000	(L)	—	—	0.37%
	(3b)	—	—	7,512,228	(L)	0.41%
Schroder Investment Management North America Limited	(3b)	7,512,228	(L)	—	—	0.41%
Schroder Wealth Holdings Limited	(3b)	—	—	1,016,687	(L)	0.06%
Schroder & Co Bank AG	(3b)	188,980	(L)	—	—	0.01%
Schroder & Co. Limited	(3b)	—	—	827,707	(L)	0.05%
Schroder & Co (Asia) Limited	(3b)	827,707	(L)	—	—	0.05%

Remarks:

- (3a) Schroders Plc is listed on London Stock Exchange. The capacity of Schroders Plc in holding the 110,259,415 shares of long position was as investment manager.
- (3b) Schroder Administration Limited, Schroder International Holdings Limited, Schroder Investment Management (Hong Kong) Limited, Schroder Investment Management (Singapore) Limited, Schroder Investment Management Limited, Schroder Investment Management North America Limited, Schroder Wealth Holdings Limited, Schroder & Co Bank AG, Schroder & Co. Limited and Schroder & Co (Asia) Limited were all directly or indirectly owned by Schroders Plc and by virtue of the SFO, Schroders Plc was deemed to be interested in the shares held by these subsidiaries.

## **Substantial Shareholders' Interests** (continued)

Notes: (continued)

- (4) The following is a breakdown of the interest in shares in the Company held by The Bank of New York Mellon Corporation:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
The Bank of New York Mellon Corporation	(4a)	—	—	101,076,883	(L)	5.53%
		—	—	30,842,830	(S)	1.69%
		—	—	67,843,748	(LP)	3.71%
The Bank of New York Mellon	(4b)	101,076,883	(L)	—	—	5.53%
		30,842,830	(S)	—	—	1.69%

Remarks:

- (4a) The Bank of New York Mellon Corporation is listed on New York Stock Exchange. The capacity of The Bank of New York Mellon Corporation in holding the 101,076,883 shares of long position, 30,842,830 shares of short position and 67,843,748 shares of lending pool respectively was as controlled corporation.
- (4b) The Bank of New York Mellon was directly or indirectly owned by The Bank of New York Mellon Corporation and by virtue of the SFO, The Bank of New York Mellon Corporation was deemed to be interested in the shares held by this subsidiary.

Save as disclosed above, no other person was interested in or had a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of the Part XV of the SFO as at December 31, 2018.

## **Dividend Policy**

Stable dividend payment to shareholders of the Company is our primary objective. The Board of Directors of the Company determines the interim dividend and recommends the final dividend which requires the approval of shareholders of the Company. In proposing any dividend payout, the Board of Directors shall take into account, inter alia, the Group's operations, earnings, financial condition, cash availability, capital expenditure and future development requirements and other factors that may deem relevant at such time. Any payment of the dividend by the Company is also subject to any restrictions under the Companies Ordinance and the Company's Articles of Association.

## **Environmental, Social and Governance (“ESG”)**

The Company has adopted the latest ESG reporting guidelines issued by the Stock Exchange. A report on TTI's environmental, social and governance commitment can be found on pages 78 to 111.

## **Sufficiency of Public Float**

The Company has maintained a sufficient public float throughout the year ended December 31, 2018.

## **Donations**

During the year, the Group made charitable and other donations totalling US\$1,793,000.

## **Auditor**

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs Deloitte Touche Tohmatsu as auditor of the Company.

**Horst Julius Pudwill**

*Chairman*

Hong Kong

March 6, 2019

# Independent Auditor's Report

**Deloitte.**

德勤

**TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED**

創科實業有限公司

(incorporated in Hong Kong with limited liability)

## Opinion

We have audited the consolidated financial statements of Techtronic Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 126 to 214, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

### Key Audit Matter

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

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

As disclosed in Note 20 to the consolidated financial statements, as at December 31, 2018 the carrying value of goodwill and trademarks attributable to the Floor Care and Appliances segment was US\$143 million. This segment is profitable but has underperformed in comparison to other cash-generating units and management has made a number of key assumptions and assertions to support their assessment of the carrying value of goodwill and other intangible assets attributable to this segment. The key assumptions include growth rates, discount rates applied and the forecast performance based on management's view of future business prospects. There is no impairment on goodwill and intangible assets with indefinite useful lives for the Floor Care and Appliances segment for the year ended December 31, 2018.

### How our Audit Addressed the Key Audit Matter

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

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

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

#### Capitalization of Deferred Development Costs

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

As disclosed in Note 19 to the consolidated financial statements, as at December 31, 2018 the carrying value of deferred development costs was US\$338 million with the additions and amortization charge during the year being US\$124 million and US\$100 million respectively.

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

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

## Key Audit Matters (continued)

### Key Audit Matter

#### Recoverability of Deferred Tax Assets

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

As disclosed in Note 42 to the consolidated financial statements, as at December 31, 2018 the Group has recognized US\$84 million of deferred tax assets in the consolidated statement of financial position.

### How our Audit Addressed the Key Audit Matter

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

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

## Other Information

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Stephen David Smart.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants

Hong Kong  
March 6, 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

	Notes	2018 US\$'000	2017 US\$'000
Revenue	6	<b>7,021,182</b>	6,063,633
Cost of sales		(4,406,605)	(3,837,426)
Gross profit		<b>2,614,577</b>	2,226,207
Other income	7	<b>7,013</b>	5,454
Interest income	8	<b>25,204</b>	10,792
Selling, distribution and advertising expenses		(1,103,437)	(925,146)
Administrative expenses		(708,135)	(623,710)
Research and development costs		(202,563)	(163,621)
Finance costs	9	(38,049)	(24,480)
Profit before taxation		<b>594,610</b>	505,496
Taxation charge	10	(42,070)	(34,972)
Profit for the year	11	<b>552,540</b>	470,524
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		(111)	(7,325)
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on foreign currency forward contracts in hedge accounting		<b>50,232</b>	(46,936)
Exchange differences on translation of foreign operations		(49,173)	62,671
Other comprehensive income for the year		<b>948</b>	8,410
Total comprehensive income for the year		<b>553,488</b>	478,934
Profit for the year attributable to:			
Owners of the Company		<b>552,463</b>	470,425
Non-controlling interests		<b>77</b>	99
		<b>552,540</b>	470,524
Total comprehensive income attributable to:			
Owners of the Company		<b>553,411</b>	478,835
Non-controlling interests		<b>77</b>	99
		<b>553,488</b>	478,934
Earnings per share (US cents)	15		
Basic		<b>30.16</b>	25.66
Diluted		<b>30.06</b>	25.58

# Consolidated Statement of Financial Position

As at December 31, 2018

	Notes	2018 US\$'000	2017 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	<b>790,936</b>	688,868
Lease prepayments	17	<b>28,475</b>	30,836
Goodwill	18	<b>581,215</b>	555,350
Intangible assets	19	<b>620,801</b>	580,424
Interests in associates	21	<b>3,664</b>	2,780
Available-for-sale investments	22	—	3,697
Financial assets at fair value through profit or loss	23	<b>5,361</b>	—
Derivative financial instruments	28	<b>9,441</b>	9,558
Deferred tax assets	42	<b>83,945</b>	92,939
		<b>2,123,838</b>	1,964,452
<b>Current assets</b>			
Inventories	24	<b>1,766,722</b>	1,467,420
Right to returned goods asset		<b>14,005</b>	—
Trade and other receivables	25	<b>1,126,798</b>	1,136,876
Deposits and prepayments		<b>126,841</b>	112,627
Bills receivable	26	<b>5,057</b>	8,008
Tax recoverable		<b>12,852</b>	6,698
Trade receivables from an associate	27	<b>2,253</b>	2,790
Derivative financial instruments	28	<b>33,788</b>	3,798
Held-for-trading investments	29	—	32,293
Financial assets at fair value through profit or loss	23	<b>32,828</b>	—
Bank balances, deposits and cash	30	<b>1,103,880</b>	863,515
		<b>4,225,024</b>	3,634,025
<b>Current liabilities</b>			
Trade and other payables	31	<b>1,921,452</b>	1,574,402
Bills payable	32	<b>41,164</b>	54,952
Warranty provision	33	<b>105,215</b>	97,268
Tax payable		<b>15,300</b>	23,912
Derivative financial instruments	28	<b>712</b>	43,830
Obligations under finance leases – due within one year	34	<b>288</b>	2,895
Discounted bills with recourse	35	<b>243,360</b>	87,837
Unsecured borrowings – due within one year	38	<b>255,228</b>	260,342
Refund liabilities from right of return		<b>33,267</b>	—
		<b>2,615,986</b>	2,145,438
Net current assets		<b>1,609,038</b>	1,488,587
Total assets less current liabilities		<b>3,732,876</b>	3,453,039

# Consolidated Statement of Financial Position

As at December 31, 2018

	Notes	2018 US\$'000	2017 US\$'000
<b>Capital and Reserves</b>			
Share capital	39	<b>654,991</b>	653,918
Reserves		<b>2,402,780</b>	2,087,307
Equity attributable to Owners of the Company		<b>3,057,771</b>	2,741,225
Non-controlling interests		(430)	(507)
Total equity		<b>3,057,341</b>	2,740,718
<b>Non-current Liabilities</b>			
Obligations under finance leases – due after one year	34	<b>725</b>	8,722
Unsecured borrowings – due after one year	38	<b>540,214</b>	564,678
Retirement benefit obligations	41	<b>119,974</b>	124,517
Deferred tax liabilities	42	<b>14,622</b>	14,404
		<b>675,535</b>	712,321
Total equity and non-current liabilities		<b>3,732,876</b>	3,453,039

The consolidated financial statements on pages 126 to 214 were approved and authorized for issue by the Board of Directors on March 6, 2019 and are signed on its behalf by:

**Chi Chung Chan**  
*Group Executive Director*

**Stephan Horst Pudwill**  
*Vice Chairman*

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to Owners of the Company							Attributable to non-controlling interests		
	Share capital US\$'000	Shares held for share award US\$'000	Translation reserve US\$'000	Employee share-based compensation reserve US\$'000	Defined benefit obligations US\$'000	Hedging reserve US\$'000	Retained profits US\$'000	Total US\$'000	Share of net assets of subsidiaries US\$'000	Total US\$'000
At January 1, 2017	649,214	(10,476)	(156,729)	7,010	(13,096)	18,152	1,905,463	2,399,538	(606)	2,398,932
Profit for the year	—	—	—	—	—	—	470,425	470,425	99	470,524
Remeasurement of defined benefit obligations	—	—	—	—	2,024	—	—	2,024	—	2,024
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	(47,485)	—	(47,485)	—	(47,485)
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	(9,349)	—	—	(9,349)	—	(9,349)
Deferred tax liability on hedging reserve	—	—	—	—	—	549	—	549	—	549
Exchange differences on translation of foreign operations	—	—	62,671	—	—	—	—	62,671	—	62,671
Other comprehensive income (loss) for the year	—	—	62,671	—	(7,325)	(46,936)	—	8,410	—	8,410
Total comprehensive income (loss) for the year	—	—	62,671	—	(7,325)	(46,936)	470,425	478,835	99	478,934
Shares issued at premium on exercise of options	4,704	—	—	(917)	—	—	—	3,787	—	3,787
Buy-back of shares	—	—	—	—	—	—	(5,388)	(5,388)	—	(5,388)
Vesting of awarded shares	—	3,370	—	(3,370)	—	—	—	—	—	—
Shares for share award scheme	—	(3,455)	—	—	—	—	—	(3,455)	—	(3,455)
Recognition of equity-settled share-based payments	—	—	—	4,193	—	—	—	4,193	—	4,193
Lapse of share options	—	—	—	(14)	—	—	14	—	—	—
Final dividend – 2016	—	—	—	—	—	—	(70,778)	(70,778)	—	(70,778)
Interim dividend – 2017	—	—	—	—	—	—	(65,507)	(65,507)	—	(65,507)
At December 31, 2017 (audited)	653,918	(10,561)	(94,058)	6,902	(20,421)	(28,784)	2,234,229	2,741,225	(507)	2,740,718
Adjustment for adoption of HKFRS 9 (Note 2)	—	—	—	—	—	—	1,570	1,570	—	1,570
Adjustment for adoption of HKFRS 15 (Note 2)	—	—	—	—	—	—	(7,060)	(7,060)	—	(7,060)
At January 1, 2018 (restated)	653,918	(10,561)	(94,058)	6,902	(20,421)	(28,784)	2,228,739	2,735,735	(507)	2,735,228
Profit for the year	—	—	—	—	—	—	552,463	552,463	77	552,540
Remeasurement of defined benefit obligations	—	—	—	—	(29)	—	—	(29)	—	(29)
Fair value gain on foreign currency forward contracts in hedge accounting	—	—	—	—	—	51,730	—	51,730	—	51,730
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	(82)	—	—	(82)	—	(82)
Deferred tax liability on hedging reserve	—	—	—	—	—	(1,498)	—	(1,498)	—	(1,498)
Exchange differences on translation of foreign operations	—	—	(49,173)	—	—	—	—	(49,173)	—	(49,173)
Other comprehensive (loss) income for the year	—	—	(49,173)	—	(111)	50,232	—	948	—	948
Total comprehensive (loss) income for the year	—	—	(49,173)	—	(111)	50,232	552,463	553,411	77	553,488
Shares issued at premium on exercise of options	1,073	—	—	(205)	—	—	—	868	—	868
Buy-back of shares	—	—	—	—	—	—	(38,608)	(38,608)	—	(38,608)
Vesting of awarded shares	—	637	—	(637)	—	—	—	—	—	—
Shares for share award scheme	—	(15,191)	—	—	—	—	—	(15,191)	—	(15,191)
Recognition of equity-settled share-based payments	—	—	—	4,978	—	—	—	4,978	—	4,978
Lapse of share options	—	—	—	(6)	—	—	6	—	—	—
Final dividend – 2017	—	—	—	—	—	—	(93,827)	(93,827)	—	(93,827)
Interim dividend – 2018	—	—	—	—	—	—	(89,595)	(89,595)	—	(89,595)
At December 31, 2018	654,991	(25,115)	(143,231)	11,032	(20,532)	21,448	2,559,178	3,057,771	(430)	3,057,341

# Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	2018 US\$'000	2017 US\$'000
<b>Operating Activities</b>		
Profit before taxation	<b>594,610</b>	505,496
Adjustments for:		
Amortization/write-off of intangible assets	111,994	97,698
Amortization of lease prepayments	747	732
Depreciation on property, plant and equipment	129,229	114,503
Employee share-based payments expense	4,978	4,193
Fair value (gain) loss on foreign currency forward contracts	(17,954)	8,920
Fair value loss (gain) on listed equity securities	5,570	(2,447)
Fair value gain on club membership debentures	(114)	—
Fair value loss on derivative financial instruments	117	428
Finance costs	38,049	24,480
Impairment loss on trade receivables, net of reversal	22,845	18,455
Interest income	(25,204)	(10,792)
Loss on disposal of property, plant and equipment	16,859	12,514
Gain on disposal of listed equity securities	(236)	—
Write down of inventories	27,584	6,949
Operating cash flows before movements in working capital	909,074	781,129
Increase in inventories	(348,651)	(158,395)
Increase in trade and other receivables, deposits and prepayments	(31,138)	(208,221)
Increase in right to returned goods asset	(576)	—
Decrease in bills receivable	2,951	3,182
Decrease in trade receivables from an associate	537	750
Increase in trade and other payables	364,105	230,453
Increase in refund liabilities from right of return	2,457	—
(Decrease) increase in bills payable	(13,788)	815
Increase in warranty provision	13,512	13,827
(Decrease) increase in retirement benefit obligations	(4,571)	18,373
Net payment for purchase of shares for share award scheme	(15,191)	(3,455)
Cash generated from operations	<b>878,721</b>	678,458
Interest paid	(38,049)	(24,480)
Hong Kong Profits Tax paid	(9,582)	(5,441)
Overseas tax paid	(38,811)	(51,048)
Hong Kong Profits Tax refunded	59	—
Overseas tax refunded	1,302	812
<b>Net Cash from Operating Activities</b>	<b>793,640</b>	598,301

	Note	2018 US\$'000	2017 US\$'000
<b>Investing Activities</b>			
Acquisition of a subsidiary	43	(49,347)	—
Additions to intangible assets		(135,639)	(131,415)
Equity interest acquired in an associate		(1,470)	—
Interest received		25,204	10,792
Proceeds from disposal of listed equity securities		2,667	—
Proceeds from disposal of property, plant and equipment		1,869	9,676
Purchase of listed equity securities		(8,536)	—
Purchase of available-for-sale investments		—	(3,081)
Purchase of held-for-trading investments		—	(29,846)
Purchase of property, plant and equipment		(259,114)	(203,630)
Repayment from associates		586	887
<b>Net Cash used in Investing Activities</b>		<b>(423,780)</b>	(346,617)
<b>Financing Activities</b>			
Increase (decrease) in discounted bills with recourse		155,523	(6,060)
Dividends paid		(183,422)	(136,285)
New bank loans obtained		2,519,087	2,206,220
Proceeds from issue of shares		868	3,787
Repayment of bank loans		(2,548,665)	(2,275,477)
Repayment of obligations under finance leases		(10,751)	(3,786)
Buy-back of shares		(38,608)	(5,388)
<b>Net Cash used in Financing Activities</b>		<b>(105,968)</b>	(216,989)
<b>Net Increase in Cash and Cash Equivalents</b>		<b>263,892</b>	34,695
<b>Cash and Cash Equivalents at Beginning of the Year</b>		<b>863,515</b>	803,085
<b>Effect of Foreign Exchange Rate Changes</b>		<b>(23,527)</b>	25,735
<b>Cash and Cash Equivalents at End of the Year</b>		<b>1,103,880</b>	863,515
<b>Analysis of the Balances of Cash and Cash Equivalents</b>			
Represented by:			
Bank balances, deposits and cash		1,103,880	863,515
		<b>1,103,880</b>	863,515

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 1. General

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

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

The functional currency of the Company is United States dollars ("US\$").

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

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

### 2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognizes revenue from the following major sources which arise from contracts with customers:

- Commission and royalty income
- Manufacturing and sales of electrical and electronic products

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

### 2.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 6 and 3 respectively.

#### Summary of effects arising from initial application of HKFRS 15

The following table summarizes the impacts of transition to HKFRS 15 on retained profits at January 1, 2018.

	US\$'000
<b>Retained profits</b>	
Recognition of a provision for products with a right to return	(9,291)
Tax effect	2,231
<b>Impact at January 1, 2018</b>	<b>(7,060)</b>

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, Note	2017 US\$'000	Reclassification US\$'000	Remeasurement US\$'000	Carrying amounts adjusted under HKFRS 15 at January 1, 2018*
<b>Non-current Assets</b>					
Deferred tax assets	(c)	92,939	—	2,231	95,170
<b>Current Assets</b>					
Right to returned goods asset	(a)(c)	—	10,834	2,595	13,429
Trade and other receivables	(a)(b)	1,136,876	3,425	—	1,140,301
<b>Capital and Reserves</b>					
Retained profits	(c)	2,234,229	—	(7,060)	2,227,169
<b>Current Liabilities</b>					
Trade and other payables	(a)(b)	1,574,402	(1,661)	—	1,572,741
Warranty provision	(b)	97,268	(3,004)	—	94,264
Refund liabilities from right of return	(b)(c)	—	18,924	11,886	30,810

\* The amounts in this column are before the adjustments from the application of HKFRS 9.

- (a) As at January 1, 2018, certain right to returned goods asset of US\$10,834,000 previously included in trade and other receivables of US\$5,574,000 and trade and other payables of US\$5,260,000 were reclassified to right to returned goods asset.
- (b) As at January 1, 2018, certain liabilities of US\$18,924,000 previously included in warranty provision of US\$3,004,000, trade and other receivables of US\$8,999,000 and trade and other payables of US\$6,921,000 were reclassified to refund liabilities from right of return.
- (c) The total remeasurement effect arising from the initial application of HKFRS 15 resulted in an increase in the carrying amounts of right to returned goods assets and refund liabilities from right of return of US\$2,595,000 and US\$11,886,000 respectively with corresponding adjustments to retained profits and deferred tax assets of US\$7,060,000 and US\$2,231,000 respectively.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 2.1 HKFRS 15 Revenue from Contracts with Customers (continued)

The following table summarizes the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

#### Impact on the consolidated statement of financial position

	As reported US\$'000	Adjustments US\$'000	Amounts without application of HKFRS 15 US\$'000
<b>Non-current Assets</b>			
Deferred tax assets	83,945	(2,231)	81,714
<b>Current Assets</b>			
Right to returned goods asset	14,005	(14,005)	—
Trade and other receivables	1,126,798	(2,718)	1,124,080
<b>Capital and Reserves</b>			
Retained profits	2,559,178	8,075	2,567,253
<b>Current Liabilities</b>			
Trade and other payables	1,921,452	2,451	1,923,903
Warranty provision	105,215	3,787	109,002
Refund liabilities from right of return	33,267	(33,267)	—

### 2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement for hedge accounting*.

The Group continues to apply HKAS 39 for hedge accounting.

Accounting policies resulting from the application of HKFRS 9 are disclosed in Note 3.

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

### 2.2 HKFRS 9 Financial Instruments (continued)

#### Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

	Notes	Available-for-sale investments US\$'000	Financial assets at FVTPL US\$'000
Closing balance at December 31, 2017 – HKAS 39	(a)	3,697	—
Effect arising from initial application of HKFRS 9:			
Reclassification from available-for-sale investments		(3,697)	3,697
Remeasurement from cost less impairment to fair value		—	1,570
<b>Opening balance at January 1, 2018</b>		—	<b>5,267</b>

#### (a) Available-for-sale (“AFS”) investments

##### *From AFS investments to fair value through profit or loss (“FVTPL”)*

At the date of initial application of HKFRS 9, the Group’s unlisted equity securities and club membership debentures of US\$3,697,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value gains of US\$1,570,000 relating to club membership debentures previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits as at January 1, 2018. The fair value change on unlisted equity securities is considered insignificant.

#### (b) Financial assets at FVTPL and/or designated at FVTPL

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, US\$32,293,000 of the Group’s investments were held for trading and continued to be measured at FVTPL.

The remaining financial assets at FVTPL are derivatives not designated as effective hedging instruments and are continued to be measured at FVTPL under HKFRS 9.

There was no impact on the amounts recognized in relation to these assets from the application of HKFRS 9.

As at January 1, 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The adoption has not resulted in any additional impairment for financial assets as at January 1, 2018.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 2.3 Impacts on opening consolidated statement financial of position arising from the application and new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognized for each of the line items affected. Line items that were not affected by the changes have not been included.

	December 31, 2017 (Audited) US\$'000	HKFRS 15 US\$'000	HKFRS 9 US\$'000	January 1, 2018 (Restated) US\$'000
<b>Non-current Assets</b>				
AFS investments	3,697	—	(3,697)	—
Financial assets at FVTPL	—	—	5,267	5,267
Deferred tax assets	92,939	2,231	—	95,170
<b>Current Assets</b>				
Right to returned goods asset	—	13,429	—	13,429
Trade and other receivables	1,136,876	3,425	—	1,140,301
Held-for-trading investments	32,293	—	(32,293)	—
Financial assets at FVTPL	—	—	32,293	32,293
<b>Current Liabilities</b>				
Trade and other payables	1,574,402	(1,661)	—	1,572,741
Warranty provision	97,268	(3,004)	—	94,264
Refund liabilities from right of return	—	30,810	—	30,810
<b>Capital and Reserves</b>				
Retained profits	2,234,229	(7,060)	1,570	2,228,739

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended December 31, 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2018 as disclosed above.

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

### New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and an interpretation that have been issued but are not yet effective as at January 1, 2018:

HKFRS 16	Leases <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>2</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>4</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>5</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment and Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRS	Annual Improvement to HKFRSs 2015-2017 Cycle <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2021.

<sup>3</sup> Effective for annual periods beginning on or a date to be determined.

<sup>4</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2020.

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

### HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of US\$316,373,000 as disclosed in Note 45. A preliminary assessment indicates that these arrangements may meet the definition of a lease. Upon application of HKFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### HKFRS 16 Leases (continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained profits without restating comparative information.

### Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies HKFRS 9, including the impairment requirements, to long-term interests in an associate to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying HKFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

As at December 31, 2018, amounts due from associates of US\$2,194,000 are considered as long-term interests that, in substance form part of the Group's net investments in the relevant joint ventures and associates. However, the application is not expected to have impact as the Group's existing accounting policies are consistent with the requirements clarified by the amendments.

## 3. Significant Accounting Policies

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

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

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

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

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

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

The principal accounting policies are set out below.

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

#### **Basis of Consolidation**

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

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

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

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

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

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

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

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

#### **Business Combinations**

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 3. Significant Accounting Policies (continued)

### Business Combinations (continued)

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

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

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

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39/HKFRS 9 or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

### Goodwill

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

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

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

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

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

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

#### **Interests in Associates**

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

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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

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

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

#### **Intangible Assets**

##### **Intangible Assets Acquired Separately**

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 3. Significant Accounting Policies (continued)

### Intangible Assets (continued)

#### Intangible Assets Acquired in a Business Combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

#### Internally-Generated Intangible Assets – Research and Development Expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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

### Leases

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

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

#### **The Group as Lessee**

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

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

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

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

#### **Leasehold Land and Building**

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease prepayments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

#### **Property, Plant and Equipment**

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

Freehold land is not depreciated.

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

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

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

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

### 3. Significant Accounting Policies (continued)

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

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

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

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

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

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

#### Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Assets

###### **Classification and Subsequent Measurement of Financial Assets (upon Application of HKFRS 9)**

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

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

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

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

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

A financial asset is classified as held for trading if:

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

###### **Amortized Cost and Interest Income**

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

###### **Financial Assets at FVTPL**

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

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

###### **Impairment of Financial Assets (upon Application HKFRS 9)**

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bills receivable, trade receivables from an associate, bank balances, deposits and cash and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 3. Significant Accounting Policies (continued)

### Financial Instruments (continued)

#### Financial Assets (continued)

The Group always recognizes lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

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

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

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

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

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

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

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

#### (ii) **Definition of Default**

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

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

### 3. Significant Accounting Policies (continued)

#### Financial Instruments (continued)

##### Financial Assets (continued)

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

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

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

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

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

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

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

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

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis as below:

- Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group. Trade receivables from an associate and other receivables are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 3. Significant Accounting Policies (continued)

### Financial Instruments (continued)

#### Financial Assets (continued)

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

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

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

For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

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

#### Classification and Subsequent Measurement of Financial Assets (before Application of HKFRS 9 on January 1, 2018)

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

#### Financial Assets at FVTPL

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

#### Loans and Receivables

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

#### AFS Financial Assets

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

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

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

#### **Financial Instruments** (continued)

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

###### ***Impairment of Financial Assets (before Application of HKFRS 9 on January 1, 2018)***

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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

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

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

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

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

##### **Financial Liabilities and Equity**

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

###### ***Equity Instrument***

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 3. Significant Accounting Policies (continued)

### Financial Instruments (continued)

#### Financial Liabilities and Equity (continued)

##### **Other Financial Liabilities at Amortized Cost**

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

##### **Derivative Financial Instruments**

Derivatives are initially recognized at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

##### **Hedge Accounting**

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

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

##### **Assessment of Hedging Relationship and Effectiveness**

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

##### **Cash Flow Hedges**

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

Amounts previously recognized in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognized hedged item.

##### **Discontinuation of Hedge Accounting**

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting.

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

##### **Financial Guarantee Contracts**

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

Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance determined in accordance with HKFRS 9 (since January 1, 2018)/HKAS 37 (before application of HKFRS 9 on January 1, 2018); and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

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

#### **Financial Instruments** (continued)

##### **Derecognition**

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

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

##### **Provisions**

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

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

##### **Inventories**

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

#### **Revenue from Contracts with Customers (upon Application of HKFRS 15)**

Under HKFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

### 3. Significant Accounting Policies (continued)

#### Over time Revenue Recognition (Commission and Royalty Income): Measurement of Progress towards Complete Satisfaction of a Performance Obligation

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

#### Refund Liabilities

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

#### Sale with a Right of Return/Exchange

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

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

#### Revenue Recognition (prior to January 1, 2018)

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

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

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

Commission income is recognized when services are provided.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

#### Taxation

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

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

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

#### **Taxation (continued)**

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

#### **Foreign Currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that form part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognized in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US\$) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 3. Significant Accounting Policies (continued)

### Foreign Currencies (continued)

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

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

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

### Borrowing Costs

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

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

### Equity-Settled Share-Based Payment Transactions

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee share-based compensation reserve.

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

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

When the trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under the share award scheme. Accordingly, the related expense of the granted shares vested is reversed from the employee share-based compensation reserve. The difference arising from this transfer is debited/credited to retained profits. At the end of the reporting period, the Group revises its estimate of the number of shares that are expected to ultimately vest. The impact of the revision of the estimate, if any, is recognized in profit or loss with a corresponding adjustment to the employee share-based compensation reserve.

### Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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

#### **Retirement Benefit Schemes**

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

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

Defined benefit costs are categorized as follows:

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

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

The retirement benefit obligations recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### **Short-term and other Long-term Employee Benefits**

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

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

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service costs, interests and remeasurements are recognized in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

### **4. Key Sources of Accounting Estimates**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

#### **Key Sources of Estimation Uncertainty**

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of their recoverable amounts, which is the higher of the value in use and fair value less costs of disposal of the cash-generating units to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2018, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$581,215,000 (2017: US\$555,350,000) and approximately US\$227,640,000 (2017: US\$219,440,000) respectively. Details of the recoverable amount calculation are disclosed in Note 20. In determining whether the goodwill and intangible assets with indefinite useful lives are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the cash-generating units. When the actual revenues and future cash flows are less than expected, a material impairment loss may arise and need to be recognized. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates that adjustments are required.

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

Determining the development costs, including the time and costs for individual projects, to be capitalized requires estimations and assumptions based on the expected future economic benefits to be generated by the products resulting from these development costs. Other important estimations and assumptions in this assessment process are the feasibility of mass production, the distinction between research and development and the estimated useful life. As at December 31, 2018, the carrying amounts of deferred development costs of the Group are US\$338,230,000 (2017: US\$316,312,000). The estimation of their useful lives impacts the level of annual amortization recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material impairment loss may arise and need to be recognized. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates that adjustments are required.

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

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. As at December 31, 2018, the Group's carrying amount of property, plant and equipment is US\$790,936,000 (2017: US\$688,868,000). The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life of the equipment placed into production reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate assets' carrying values are written down to their recoverable amount and the amount of the write-down is charged against the results of operations.

#### Income Taxes

As at December 31, 2018, a deferred tax asset of approximately US\$30,608,000 (2017: US\$46,523,000) in relation to unused tax losses and approximately US\$23,535,000 (2017: US\$24,196,000) in relation to employee related provisions has been recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient taxable profits, or taxable temporary differences, will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognized in profit or loss for the period in which the reversal takes place. During the year, deferred tax assets of approximately US\$3,326,000 (2017: US\$15,116,000) in relation to unused tax losses were utilized.

#### Provision of ECL for Trade Receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 37 and 25 respectively.

## 5. Segment Information

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

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

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

Information regarding the above segments is reported below.

### Segment Revenue and Results

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

**For the year ended December 31, 2018**

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	6,009,495	1,011,687	—	7,021,182
Inter-segment sales	—	1,442	(1,442)	—
Total segment revenue	6,009,495	1,013,129	(1,442)	7,021,182

Inter-segment sales are charged at prevailing market rates.

<b>Result</b>				
Segment results	598,283	9,172	—	607,455
Interest income				25,204
Finance costs				(38,049)
Profit before taxation				594,610
Taxation charge				(42,070)
Profit for the year				552,540

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 5. Segment Information (continued)

### Segment Revenue and Results (continued)

For the year ended December 31, 2017

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>Segment revenue</b>				
External sales	5,137,697	925,936	—	6,063,633
Inter-segment sales	—	1,915	(1,915)	—
Total segment revenue	5,137,697	927,851	(1,915)	6,063,633

Inter-segment sales are charged at prevailing market rates.

### Result

Segment results	511,722	7,462	—	519,184
Interest income				10,792
Finance costs				(24,480)
Profit before taxation				505,496
Taxation charge				(34,972)
Profit for the year				470,524

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment without the allocation of interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resources allocation and performance assessment.

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the chief operating decision makers for review.

### Other Segment Information

For the year ended December 31, 2018

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	14,415	2,444	16,859
Write down of inventories	27,220	364	27,584
Impairment loss on trade receivables, net of reversal	20,197	2,648	22,845
Depreciation and amortization	182,200	56,534	238,734

## 5. Segment Information (continued)

### Other Segment Information (continued)

For the year ended December 31, 2017

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	11,593	921	12,514
Write down of inventories	5,304	1,645	6,949
Impairment loss on trade receivables, net of reversal	17,566	889	18,455
Depreciation and amortization	157,192	51,981	209,173

### Revenue from Major Products

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

	2018 US\$'000	2017 US\$'000
Power Equipment	6,009,495	5,137,697
Floor Care and Appliances	1,011,687	925,936
Total	7,021,182	6,063,633

### Geographical Information

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

	Revenue from external customers		Non-Current Assets*	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
North America	5,371,768	4,625,483	1,037,973	896,578
Europe	1,071,056	918,833	113,851	121,978
Other countries	578,358	519,317	869,603	836,922
Total	7,021,182	6,063,633	2,021,427	1,855,478

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

### Information about Major Customer

During the years ended December 31, 2018 and 2017, the Group's largest customer contributed total revenue of US\$3,194,744,000 (2017: US\$2,760,045,000), of which US\$3,143,450,000 (2017: US\$2,688,536,000) was under the Power Equipment segment and US\$51,294,000 (2017: US\$71,509,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total revenue.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 6. Revenue

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

	2018 US\$'000	2017 US\$'000
Sales of goods	<b>7,009,861</b>	6,042,103
Commission and royalty income	<b>11,321</b>	21,530
	<b>7,021,182</b>	6,063,633

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

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

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

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

As at December 31, 2018, no material revenue for unsatisfied contracts to be recognized by the Group are over one year. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## 7. Other Income

Other income in both 2018 and 2017 mainly comprises of the sale of scrap materials and claims and reimbursements from customers and vendors.

## 8. Interest Income

Interest income represents interest earned on bank deposits.

## 9. Finance Costs

	2018 US\$'000	2017 US\$'000
Interests on:		
Bank borrowings	<b>37,407</b>	23,699
Obligations under finance leases	<b>642</b>	781
	<b>38,049</b>	24,480

## 10. Taxation Charge

	2018 US\$'000	2017 US\$'000
Current tax:		
Hong Kong Profits Tax	(1,088)	(2,035)
Underprovision in prior years	(2,057)	(1,542)
	<b>(3,145)</b>	(3,577)
Overseas taxation	(30,575)	(39,847)
Overprovision in prior years	404	59,381
	<b>(30,171)</b>	19,534
Deferred tax (Note 42):		
Current year	17,544	49,093
Deferred tax asset impairment	(26,969)	(40,374)
Change in tax rates	671	(59,648)
	<b>(8,754)</b>	(50,929)
	<b>(42,070)</b>	(34,972)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The substantial deferred tax expense in 2017 was the result of the change in marginal United States ("US") Federal tax rates from 35% to 21% that triggered a substantial write-down of the 2017 US net deferred tax assets amounted to US\$59,552,000 which was primarily comprised of tax loss carryforwards.

The tax charge for the year is reconciled as follows:

	2018 US\$'000	2018 %	2017 US\$'000	2017 %
Profit before taxation	<b>594,610</b>		505,496	
Tax at Hong Kong Profits Tax rate	(98,111)	16.5%	(83,407)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	74,295	(12.5%)	79,537	(15.7%)
Tax effect of expenses not deductible for tax purposes	(6,537)	1.1%	(15,571)	3.0%
Tax effect of income not taxable for tax purposes	8,779	(1.4%)	22,386	(4.4%)
Utilization of deductible temporary differences previously not recognized	3,326	(0.6%)	2,100	(0.4%)
Tax effect of tax losses and deductible temporary differences not recognized	4,129	(0.7%)	2,166	(0.5%)
Deferred tax asset impairment	(26,969)	4.5%	(40,374)	8.0%
(Under) over provision in respect of prior years	(1,653)	0.3%	57,839	(11.4%)
Tax effect of changes in tax rates	671	(0.1%)	(59,648)	11.8%
Tax charge for the year	<b>(42,070)</b>	<b>7.1%</b>	(34,972)	6.9%

Details of deferred tax are set out in Note 42.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 11. Profit for the Year

	2018 US\$'000	2017 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	<b>108,758</b>	93,938
Amortization of lease prepayments	<b>747</b>	732
Auditors' remuneration	<b>3,267</b>	3,352
Cost of inventories recognized as an expense	<b>4,406,605</b>	3,837,426
Depreciation and amortization on property, plant and equipment		
Owned assets	<b>126,396</b>	111,363
Assets held under finance leases	<b>2,833</b>	3,140
Fair value (gain) loss on foreign currency forward contracts	<b>(17,954)</b>	8,920
Fair value loss (gain) on listed equity securities	<b>5,570</b>	(2,447)
Fair value gain on club membership debentures	<b>(114)</b>	—
Fair value loss on derivative financial instruments	<b>117</b>	428
Impairment loss on trade receivables, net of reversal	<b>22,845</b>	18,455
Loss on disposal of property, plant and equipment	<b>16,859</b>	12,514
Gain on disposal of listed equity securities	<b>(236)</b>	—
Net exchange gain	<b>(20,788)</b>	(1,999)
Operating lease expenses recognized in respect of:		
Motor vehicles	<b>23,825</b>	20,448
Plant and machinery	<b>11,910</b>	10,058
Premises	<b>43,932</b>	43,356
Other assets	<b>2,632</b>	2,820
Unconditional government grants	<b>(382)</b>	(315)
Write off of intangible assets	<b>3,236</b>	3,760
Write down of inventories	<b>27,584</b>	6,949
Staff costs		
Directors' remuneration		
Fees	<b>315</b>	273
Other emoluments	<b>41,205</b>	42,913
	<b>41,520</b>	43,186
Other staff costs	<b>856,920</b>	767,285
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)		
Defined contribution plans	<b>11,979</b>	10,286
Defined benefit plans (Note 41)	<b>2,277</b>	1,925
	<b>912,696</b>	822,682

Staff costs disclosed above do not include an amount of US\$149,073,000 (2017: US\$140,125,000) of staff costs incurred relating to research and development activities.

## 12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2017: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

### For the year ended December 31, 2018

	Other emoluments					
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000		Bonus US\$'000	Share-based payments US\$'000
			2	180		
Mr Horst Julius Pudwill (Note i)	—	1,671	2	10,195	1,295	13,163
Mr Stephan Horst Pudwill (Note i)	—	362	2	1,960	505	2,829
Mr Joseph Galli Jr (Note i)	—	1,696	180	14,100	827	16,803
Mr Kin Wah Chan (Note i)	—	722	2	2,136	505	3,365
Mr Chi Chung Chan (Note i)	—	719	2	2,486	505	3,712
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	45	6	—	—	150	201
Mr Camille Jojo (Note ii)	45	13	—	—	231	289
Mr Christopher Patrick Langley OBE (Note iii)	45	19	—	—	150	214
Mr Manfred Kuhlmann (Note iii)	45	44	—	—	150	239
Mr Peter David Sullivan (Note iii)	45	47	—	—	150	242
Mr Vincent Ting Kau Cheung (Note iii)	45	48	—	—	150	243
Mr Johannes-Gerhard Hesse (Note iii)	45	31	—	—	144	220
Total	315	5,378	188	30,877	4,762	41,520

### For the year ended December 31, 2017

	Other emoluments					
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000		Bonus US\$'000	Share-based payments US\$'000
			2	180		
Mr Horst Julius Pudwill (Note i)	—	1,671	2	11,815	1,268	14,756
Mr Stephan Horst Pudwill (Note i)	—	353	2	1,420	348	2,123
Mr Joseph Galli Jr (Note i)	—	1,661	180	13,100	3,263	18,204
Mr Kin Wah Chan (Note i)	—	722	2	1,732	348	2,804
Mr Chi Chung Chan (Note i)	—	719	2	2,595	348	3,664
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	39	6	—	338	117	500
Mr Camille Jojo (Note ii)	39	13	—	—	199	251
Mr Christopher Patrick Langley OBE (Note iii)	39	15	—	—	117	171
Mr Manfred Kuhlmann (Note iii)	39	43	—	—	117	199
Mr Peter David Sullivan (Note iii)	39	45	—	—	117	201
Mr Vincent Ting Kau Cheung (Note iii)	39	47	—	—	117	203
Mr Johannes-Gerhard Hesse (Note iii)	39	10	—	—	61	110
Total	273	5,305	188	31,000	6,420	43,186

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 12. Directors' Emoluments (continued)

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

Note ii: The individuals represent the Non-Executive Directors of the Company. The Non-Executive Directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

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

The bonuses were based on past performance of the Group.

The above emoluments include the value of share options granted and shares awarded to certain directors under the Company's share option schemes and share award scheme, respectively, as estimated at the date of grant and award. Details of these benefits in kind are disclosed under the sections "Share Options" and "Share Award Scheme" in Notes 47 and 48 respectively.

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2017: three) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2017: two) individuals for the year ended December 31, 2018 were as follows:

	2018 US\$'000	2017 US\$'000
Basic salaries and allowances	773	1,265
Contributions to retirement benefits schemes	191	152
Bonus	4,000	6,366
Other benefit	59	59
Share-based payments	—	—
	<b>5,023</b>	7,842

The emoluments of these one (2017: two) highest paid individuals for the year ended December 31, 2018 were within the following bands:

HK\$	No. of persons	
	2018	2017
24,000,001 to 24,500,000	—	1
36,500,001 to 37,000,000	—	1
39,000,001 to 39,500,000	1	—

During each of the two years ended December 31, 2018 and 2017, no emoluments have been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during those years.

## 14. Dividends

	2018 US\$'000	2017 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2017: HK39.75 cents (approximately US5.12 cents)		
(2016: HK30.00 cents (approximately US3.86 cents)) per share	93,827	70,778
Interim dividend paid:		
2018: HK38.00 cents (approximately US4.89 cents)		
(2017: HK27.75 cents (approximately US3.57 cents)) per share	89,595	65,507
	<b>183,422</b>	136,285

The final dividend of HK50.00 cents (approximately US6.44 cents) per share with a total of approximately US\$117,666,000 in respect of the year ended December 31, 2018 (2017: final dividend of HK39.75 cents (approximately US5.12 cents) per share in respect of the year ended December 31, 2017) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

## 15. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to Owners of the Company is based on the following data:

	2018 US\$'000	2017 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	552,463	470,425
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,831,782,645</b>	1,833,278,393
Effect of dilutive potential ordinary shares:		
Share options	5,678,803	5,403,141
Share award	505,165	147,754
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,837,966,613</b>	1,838,829,288

The computation of diluted earnings per share does not assume the exercise of certain of the Company's share options because the exercise prices of those options were higher than the average market price of the Company's shares for the year ended December 31, 2018.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 16. Property, Plant and Equipment

	Land and buildings (Note)	Leasehold improvements	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles	Moulds and tooling US\$'000	Vessels US\$'000	Aircraft	Construction in progress US\$'000	Total US\$'000
<b>Cost</b>										
At January 1, 2017	182,384	73,164	209,600	279,352	5,744	290,952	2,369	—	104,921	1,148,486
Currency realignment	4,226	3,322	7,218	14,615	212	4,497	—	—	1,323	35,413
Additions	895	2,072	10,783	14,386	970	15,795	—	—	160,383	205,284
Disposals	(23,450)	(178)	(19,020)	(1,714)	(765)	(59,187)	—	—	(6,356)	(110,670)
Reclassification	29,184	10,811	17,066	15,507	110	60,003	—	—	(132,681)	—
At December 31, 2017	193,239	89,191	225,647	322,146	6,271	312,060	2,369	—	127,590	1,278,513
Currency realignment	(2,047)	(2,911)	(3,709)	(10,067)	(161)	(4,109)	—	—	(856)	(23,860)
Additions	7,530	3,808	12,315	23,110	590	2,226	4,737	31,283	173,635	259,234
Acquisition of a subsidiary (Note 43)	1,280	—	165	1,157	—	273	—	—	87	2,962
Disposals	(14)	(1,860)	(10,207)	(17,572)	(1,034)	(36,647)	—	—	(4,442)	(71,776)
Reclassification	5,611	1,188	13,406	17,971	225	69,822	—	—	(108,223)	—
At December 31, 2018	205,599	89,416	237,617	336,745	5,891	343,625	7,106	31,283	187,791	1,445,073
<b>Depreciation and Impairment</b>										
At January 1, 2017	42,656	31,449	144,931	140,029	3,826	182,060	2,305	—	—	547,256
Currency realignment	1,008	2,447	4,556	5,731	202	2,422	—	—	—	16,366
Provided for the year	6,009	7,717	16,795	27,338	878	55,752	14	—	—	114,503
Eliminated on disposals	(18,450)	(16)	(18,440)	(482)	(638)	(50,454)	—	—	—	(88,480)
At December 31, 2017	31,223	41,597	147,842	172,616	4,268	189,780	2,319	—	—	589,645
Currency realignment	(734)	(1,295)	(2,200)	(5,141)	(104)	(2,217)	—	—	—	(11,691)
Provided for the year	6,389	6,117	22,227	29,083	782	63,693	704	234	—	129,229
Eliminated on disposals	(2)	(1,802)	(7,732)	(12,947)	(898)	(29,665)	—	—	—	(53,046)
At December 31, 2018	36,876	44,617	160,137	183,611	4,048	221,591	3,023	234	—	654,137
<b>Carrying amounts</b>										
At December 31, 2018	168,723	44,799	77,480	153,134	1,843	122,034	4,083	31,049	187,791	790,936
At December 31, 2017	162,016	47,594	77,805	149,530	2,003	122,280	50	—	127,590	688,868

Note: Buildings with a carrying amount of US\$18,485,000 (2017: US\$20,633,000) are erected on leasehold land that is presented as lease prepayments on the consolidated statement of financial position.

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

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

Freehold land	Nil
Leasehold land	Shorter of lease term or useful life
Buildings	2½% – 6⅔%
Leasehold improvements	2½% – 33⅓%
Office equipment, furniture and fixtures	10% – 33⅓%
Plant and machinery	9% – 25%
Motor vehicles	10% – 33⅓%
Moulds and tooling	18% – 33⅓%
Vessels	20% – 25%
Aircraft	10%

The carrying amounts of properties shown above comprise:

	2018 US\$'000	2017 US\$'000
Land and buildings situated outside Hong Kong are analyzed as follows:		
Freehold	85,310	75,058
Leasehold	18,485	20,633
Land and buildings situated in Hong Kong		
	103,795	95,691
	64,928	66,325
	<b>168,723</b>	162,016

The carrying amounts of the Group's property, plant and equipment include amounts of approximately US\$715,000 (2017: US\$10,665,000) in respect of assets held under finance leases.

The gross carrying amount of the Group's property, plant and equipment includes amounts of approximately US\$290,105,000 (2017: US\$283,554,000) in respect of fully depreciated property, plant and equipment that are still in use.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

### 17. Lease Prepayments

	US\$'000
<b>Cost</b>	
At January 1, 2017	35,562
Currency realignment	2,420
At December 31, 2017	37,982
Currency realignment	<b>(2,054)</b>
Additions	<b>27</b>
<b>At December 31, 2018</b>	<b>35,955</b>
<b>Amortization</b>	
At January 1, 2017	5,981
Currency realignment	433
Provided for the year	732
At December 31, 2017	7,146
Currency realignment	<b>(413)</b>
Provided for the year	<b>747</b>
<b>At December 31, 2018</b>	<b>7,480</b>
<b>Carrying amounts</b>	
<b>At December 31, 2018</b>	<b>28,475</b>
At December 31, 2017	30,836

All lease prepayments are related to leases outside Hong Kong.

### 18. Goodwill

	US\$'000
At January 1, 2017	553,194
Currency realignment	2,156
At December 31, 2017	555,350
Currency realignment	<b>(782)</b>
Arising on acquisition of a subsidiary (Note 43)	<b>26,647</b>
<b>At December 31, 2018</b>	<b>581,215</b>

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

## 19. Intangible Assets

	Deferred development costs US\$'000	Patents US\$'000	Trademarks US\$'000	Manufacturing know-how US\$'000	Retailer and service relationships US\$'000	Non compete agreement US\$'000	Total US\$'000
<b>Cost</b>							
At January 1, 2017	729,782	67,610	234,290	453	10,500	10,634	1,053,269
Currency realignment	222	31	—	—	—	—	253
Additions	108,965	22,450	—	—	—	—	131,415
Written off in the year	(37,479)	(1,252)	(78)	—	—	(10,634)	(49,443)
At December 31, 2017	801,490	88,839	234,212	453	10,500	—	1,135,494
Currency realignment	(17)	—	—	—	—	—	(17)
Additions	124,489	11,150	—	—	—	—	135,639
Acquisition of a subsidiary (Note 43)	—	47	8,200	1,300	5,900	1,300	16,747
Written off in the year	(9,414)	(222)	—	—	—	—	(9,636)
<b>At December 31, 2018</b>	<b>916,548</b>	<b>99,814</b>	<b>242,412</b>	<b>1,753</b>	<b>16,400</b>	<b>1,300</b>	<b>1,278,227</b>
<b>Amortization</b>							
At January 1, 2017	432,521	47,573	12,723	453	3,614	9,749	506,633
Currency realignment	181	1	—	—	—	—	182
Provided for the year	86,780	5,220	461	—	592	885	93,938
Eliminated on write off	(34,304)	(699)	(46)	—	—	(10,634)	(45,683)
At December 31, 2017	485,178	52,095	13,138	453	4,206	—	555,070
Currency realignment	(2)	—	—	—	—	—	(2)
Provided for the year	99,542	7,975	453	33	690	65	108,758
Eliminated on write off	(6,400)	—	—	—	—	—	(6,400)
<b>At December 31, 2018</b>	<b>578,318</b>	<b>60,070</b>	<b>13,591</b>	<b>486</b>	<b>4,896</b>	<b>65</b>	<b>657,426</b>
<b>Carrying amounts</b>							
<b>At December 31, 2018</b>	<b>338,230</b>	<b>39,744</b>	<b>228,821</b>	<b>1,267</b>	<b>11,504</b>	<b>1,235</b>	<b>620,801</b>
At December 31, 2017	316,312	36,744	221,074	—	6,294	—	580,424

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

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

### 19. Intangible Assets (continued)

Included in trademarks of the Group, US\$227,640,000 (2017: US\$219,440,000) are trademarks as considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 20.

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

Deferred development costs	20% – 33½%
Patents	10% – 25%
Trademarks with finite useful lives	6⅔%
Manufacturing know-how	10%
Retailer and service relationships	5% – 6⅔%
Non compete agreement	20%

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

As explained in Note 5, the Group uses the types of goods sold for operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 18 and 19, the majority of the amounts have been allocated to five major individual cash-generating units ("CGUs"), including four units in the Power Equipment segment and one unit in the Floor Care and Appliances segment. The carrying amounts of goodwill and trademarks as at December 31, 2018 allocated to these units are as follows:

	Goodwill		Trademarks	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Power Equipment – MET	443,264	416,617	126,607	118,407
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	22,128	22,909	—	—
Power Equipment – Baja	9,017	9,017	3,200	3,200
Floor Care and Appliances – RAM/Hoover/VAX	75,748	75,748	67,179	67,179
Others	23,566	23,567	6	6
	581,215	555,350	227,640	219,440

No impairment of goodwill and trademarks have been recognized for the years ended December 31, 2018 and 2017.

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

#### Power Equipment – MET ("MET")

The recoverable amount of MET's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 10.0% (2017: 10.0%) per annum.

Cash flow projections during the budget period for MET are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on MET's past performance, management's expectations of the market development, the success in new products launched, the success in reducing the working capital requirements and the success of the cost cutting strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2017: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of MET's goodwill and intangibles to exceed the recoverable amounts.

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

### **Power Equipment – HCP (“HCP”)**

The recoverable amount of HCP’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2017: 11.0%) per annum.

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

### **Power Equipment – Drebo (“Drebo”)**

The recoverable amount of Drebo’s goodwill has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2017: 11.0%) per annum.

Cash flow projections during the budget period for Drebo are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Drebo’s past performance, management’s expectations of the market development, the success in new products launched and the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 1.0% (2017: 1.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Drebo’s goodwill to exceed the recoverable amount.

### **Power Equipment – Baja (“Baja”)**

The recoverable amount of Baja’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 12.0% (2017: 12.0%) per annum.

Cash flow projections during the budget period for Baja are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Baja’s past performance, management’s expectations of the market development and the success of the cost cutting strategy implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2017: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Baja’s goodwill and intangibles to exceed the aggregate recoverable amounts.

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

The recoverable amount of RAM/Hoover/VAX’s goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 14.0% (2017: 14.0%) per annum.

Cash flow projections during the budget period for RAM/Hoover/VAX are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses, capital expenditures and working capital requirements. The assumptions and estimations are based on RAM/Hoover/VAX’s past performance, management’s expectations of the market development, the success in reducing the working capital requirements and the success of the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2017: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of RAM/Hoover/VAX’s goodwill and intangibles to exceed the aggregate recoverable amounts.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 21. Interests in Associates

	2018 US\$'000	2017 US\$'000
Unlisted shares, at cost less impairment loss recognized	1,470	—
Amounts due from associates	2,194	2,780
	<b>3,664</b>	2,780

Particulars of the principal associate as at December 31, 2018 and December 31, 2017 are set out in Note 54.

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

At the end of the reporting period, amongst the associates, the Group held 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together the "Gimelli Group companies"). The Group has discontinued recognizing its share of the losses of the Gimelli Group companies. The unrecognized share of profit (loss) for the year and cumulatively, extracted from the relevant unaudited management accounts of the associates, are US\$504,000 (2017: US\$424,000) and (US\$3,451,000) (2017: (US\$3,955,000)) respectively.

In September 2018, the Group acquired a 49% equity interest in Wuerth Master Power Tools Limited "Wuerth" for the consideration of US\$1,470,000. Wuerth is engaged in the manufacture and sale of power equipment.

## 22. AFS Investments

	2018 US\$'000	2017 US\$'000
Unlisted equity securities and club membership debentures, at cost less impairment loss recognized	—	3,697

As at December 31, 2017, all AFS investments mainly represented investments in unlisted equity securities and club membership debentures. They were measured at cost less impairment at the reporting date because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that their fair values cannot be measured reliably.

Due to the adoption of HKFRS 9, the AFS investments are reclassified as financial assets at FVTPL on January 1, 2018 (Note 23).

## 23. Financial assets at FVTPL

	Note	2018 US\$'000	2017 US\$'000
Club membership debentures	(a)	2,316	—
Unlisted equity securities	(b)	3,000	—
Listed equity securities	(c)	32,828	—
Other		45	—
		<b>38,189</b>	—
<b>Analyzed for reporting purposes as:</b>			
Current assets		32,828	—
Non-current assets		5,361	—
		<b>38,189</b>	—

Note:

- (a) As at December 31, 2018, the club membership debentures measured at fair value with reference to recent transaction prices for similar comparables with similar characteristic.
- (b) As at December 31, 2018, the unlisted equity securities represented the interest in a private company incorporated in the US. The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in private market.
- (c) The Group's listed equity securities were carried at fair value using the market bid prices on the reporting date.

## 24. Inventories

	2018 US\$'000	2017 US\$'000
Raw materials	<b>112,049</b>	87,481
Work in progress	<b>41,723</b>	37,195
Finished goods	<b>1,612,950</b>	1,342,744
	<b>1,766,722</b>	1,467,420

## 25. Trade and Other Receivables

	2018 US\$'000	2017 US\$'000
Trade receivables	<b>1,140,923</b>	1,143,319
Less: Allowances for credit losses	<b>(51,760)</b>	(37,114)
	<b>1,089,163</b>	1,106,205
Other receivables	<b>37,635</b>	30,671
	<b>1,126,798</b>	1,136,876

As at December 31, 2018 and January 1, 2018, all trade receivables are derived from contracts with customers.

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

	2018 US\$'000	2017 US\$'000
0 to 60 days	<b>680,424</b>	753,407
61 to 120 days	<b>346,055</b>	276,964
121 days or above	<b>62,684</b>	75,834
Total trade receivables	<b>1,089,163</b>	1,106,205

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

As at December 31, 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$268,543,000 which are past due as at the reporting date. Out of the past due balances, US\$218,511,000 is not considered as in default as they are related to a number of independent customers that have a good payment track record with the Group.

As at December 31, 2017, included in the Group's trade receivables balance were debtors with a carrying amount of US\$159,086,000 which were past due at the reporting date for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances. The average age of these receivables was 59 days.

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

### 25. Trade and Other Receivables (continued)

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

	2017 US\$'000
1 – 60 days	130,324
61 – 120 days	12,656
121 – 365 days	15,271
1 – 2 years	730
Over 2 years	105
<b>Total</b>	<b>159,086</b>

#### Movement in the Allowance for Doubtful Debts

	2017 US\$'000
Balance at beginning of the year	20,025
Currency realignment	968
Impairment losses recognized on receivables	21,940
Amounts written off as uncollectible	(2,334)
Amounts recovered during the year	(3,485)
<b>Balance at end of the year</b>	<b>37,114</b>

Included in the allowance for doubtful debts were individually impaired trade receivables amounting to US\$37,114,000 as at December 31, 2017 which had the worst credit scoring attributable under the internal credit scoring system used by the Group. The Group did not hold any collateral over these balances.

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

	2017 US\$'000
0 – 120 days	3,641
121 – 365 days	19,169
1 – 2 years	12,554
Over 2 years	1,750
<b>Total</b>	<b>37,114</b>

Details of impairment assessment of trade and other receivables for the year ended December 31, 2018 are set out in Note 37.

In accordance with receivables purchase agreements, certain trade receivables were factored to banks (the “Factored Trade Receivables”). As the Group still retained the risks associated in respect of default payments, the Group has continued to recognize the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of approximately US\$75,000,000 (2017: US\$75,000,000) were recognized as liabilities and included in “Unsecured borrowings – due within one year” in the consolidated statement of financial position.

## 26. Bills Receivable

All the Group's bills receivable at December 31, 2018 and 2017 are due within 120 days.

## 27. Trade Receivables from an Associate

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

## 28. Derivative Financial Instruments

	2018 US\$'000	2017 US\$'000
<b>Assets</b>		
Acquisition right of certain property, plant and equipment	9,441	9,558
Foreign currency forward contracts – under hedge accounting	33,477	3,641
Foreign currency forward contracts – not under hedge accounting	311	157
	<b>43,229</b>	13,356
<b>Liabilities</b>		
Foreign currency forward contracts – under hedge accounting	135	43,830
Foreign currency forward contracts – not under hedge accounting	577	—
	<b>712</b>	43,830

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

As at December 31, 2018 and 2017, the Group owned a right to acquire certain property, plant and equipment which was acquired as part of the acquisition of the Oreck business from the Oreck Bankruptcy Estate. The right is expected to be exercised in 2032. The fair value of the property, plant and equipment was US\$9,441,000 valued on September 30, 2018 (2017: US\$9,558,000 valued on September 30, 2017) by Duff & Phelps, LLC., an independent valuer not related to the Group.

### Foreign Currency Forward Contracts

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

### Foreign Currency Forward Contracts under Hedge Accounting

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 28. Derivative Financial Instruments (continued)

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

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

**2018**

Notional amounts in millions	Maturity
Sell AUD 129M, Buy US\$	January 30, 2019 to December 30, 2019
Sell EUR 312M, Buy US\$	January 30, 2019 to December 30, 2019
Sell US\$60.2M, Buy RMB	January 30, 2019
Sell AUD 276.6M, Buy USD	January 30, 2019 to December 30, 2019
Sell USD12.8M, Buy EUR	January 7, 2019 to August 23, 2019
Sell GBP 33M, Buy EUR	January 17, 2019 to November 14, 2019
Sell CHF 3.3M, Buy EUR	January 17, 2019 to December 12, 2019
Sell SEK 48M, Buy EUR	January 17, 2019 to March 14, 2019
Buy US\$68M, Sell GBP	January 4, 2019 to December 2, 2019
Buy US\$22M, Sell EUR	January 4, 2019 to December 16, 2019

**2017**

Notional amounts in millions	Maturity
Sell EUR 601M, Buy US\$	January 31, 2018 to December 30, 2019
Sell US\$170M, Buy RMB	September 27, 2018 to December 28, 2018
Sell GBP 30M, Buy EUR	January 16, 2018 to December 11, 2018
Sell PLN 30M, Buy EUR	January 18, 2018 to May 17, 2018
Buy US\$223M, Sell AUD	January 31, 2018 to December 31, 2018
Buy US\$66M, Sell GBP	January 2, 2018 to December 21, 2018
Buy US\$34.5M, Sell EUR	January 12, 2018 to December 28, 2018
Buy US\$163M, Sell CA\$	January 31, 2018 to October 31, 2018
Buy US\$3M, Sell KRW	January 10, 2018 to February 19, 2018

As at December 31, 2018, a fair value gain of US\$51,730,000 (December 31, 2017: fair value loss of US\$47,485,000) has been recognized in other comprehensive income and accumulated in reserves and is expected to be reclassified to profit or loss.

During the year, a fair value loss of US\$28,784,000 (2017: gain of US\$18,152,000) was reclassified from reserves to profit or loss.

### Foreign Currency Forward Contracts not under hedge accounting

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

**2018**

Notional amounts in millions	Maturity
Buy EUR 4.2M, Sell AUD	January 21, 2019 to December 20, 2019
Buy US\$9M, Sell AUD	January 22, 2019 to December 19, 2019
Buy US\$34.5M, Sell NZD	January 22, 2019 to December 20, 2019

**2017**

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

## **29. Held-for-Trading Investments**

The Group's held-for-trading investments at December 31, 2017 were carried at fair value using the market bid prices on the reporting date.

Held-for-trading investments include:

	2018 US\$'000	2017 US\$'000
Equity securities:		
– Listed shares	—	32,293
	—	32,293

Due to the adoption of HKFRS 9, the held-for-trading investments are reclassified as financial assets at FVTPL as at January 1, 2018 (Note 23).

## **30. Bank Balances, Deposits and Cash**

Bank balances carry interest at market rates which range from 0.001% to 4.20% (2017: 0.01% to 2.02%) per annum.

## **31. Trade and other Payables**

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

	2018 US\$'000	2017 US\$'000
0 to 60 days	<b>822,557</b>	629,355
61 to 120 days	<b>248,261</b>	171,577
121 days or above	<b>15,006</b>	7,719
Total trade payables	<b>1,085,824</b>	808,651
Other payables	<b>835,628</b>	765,751
	<b>1,921,452</b>	1,574,402

The credit period on the purchase of goods ranges from 30 days to 120 days (2017: 30 days to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

## **32. Bills Payable**

All the Group's bills payable at December 31, 2018 and 2017 are due within 120 days.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

### 33. Warranty Provision

	US\$'000
At January 1, 2017	80,088
Currency realignment	3,353
Additional provision in the year	114,481
Utilization of provision	(100,654)
At December 31, 2017	97,268
Adoption of HKFRS 15 (Note 2)	(3,004)
At January 1, 2018 (as restated)	94,264
Currency realignment	(2,601)
Additional provision in the year	135,423
Acquisition of a subsidiary	39
Utilization of provision	(121,910)
<b>At December 31, 2018</b>	<b>105,215</b>

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

### 34. Obligations under Finance Leases

It is the Group's policy to lease certain of its land and buildings, plant and machinery and fixtures and equipment under finance leases, with lease terms ranging from 2.5 years to 20 years. Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 6.00% to 8.54% (December 31, 2017: 5.06% to 8.98%) per annum. No arrangements have been entered into that include contingent rental payments.

The maturity of obligations under finance leases is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Amounts payable under finance leases:				
Within one year	<b>356</b>	3,518	<b>288</b>	2,895
In more than one year but not more than two years	<b>305</b>	3,421	<b>260</b>	2,970
In more than two years but not more than three years	<b>286</b>	3,300	<b>261</b>	3,028
In more than three years but not more than four years	<b>152</b>	2,459	<b>142</b>	2,361
In more than four years but not more than five years	<b>63</b>	315	<b>62</b>	301
More than five years	—	63	—	62
	<b>1,162</b>	13,076	<b>1,013</b>	11,617
Less: future finance charges	<b>(149)</b>	(1,459)	—	—
Present value of lease obligations	<b>1,013</b>	11,617	<b>1,013</b>	11,617
Less: Amount due within one year shown under current liabilities			<b>(288)</b>	(2,895)
Amount due after one year			<b>725</b>	8,722

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

## 35. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 2.76% per annum (2017: 2.06% per annum) have maturity profiles of less than 120 days.

## 36. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

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

### Gearing Ratio

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

The gearing ratio at the year end was as follows:

	2018 US\$'000	2017 US\$'000
Bank balances, deposits and cash	1,103,880	863,515
Debt <sup>(i)</sup>	(964,815)	(849,474)
Net cash	139,065	14,041
Equity <sup>(ii)</sup>	3,057,771	2,741,225
Net debt to equity ratio	-4.55%	-0.51%

(i) Debt comprises obligations under finance leases, discounted bills with recourse and unsecured borrowings but excludes bank advances from factored trade receivables as detailed in Notes 34, 35, 38 and 25 respectively.

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 37. Financial Instruments

### 37.1 Categories of Financial Instruments

	2018 US\$'000	2017 US\$'000
<b>Financial assets</b>		
<i>FVTPL</i>		
Financial assets at FVTPL	<b>38,189</b>	—
Held-for-trading investments	—	32,293
	<b>38,189</b>	32,293
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	<b>9,441</b>	9,558
Foreign currency forward contracts – <i>under hedge accounting</i>	<b>33,477</b>	3,641
Foreign currency forward contracts – <i>not under hedge accounting</i>	<b>311</b>	157
	<b>43,229</b>	13,356
<i>AFS investments</i>	—	3,697
<i>Loans and receivables (including cash &amp; cash equivalents)</i>	—	2,011,189
<i>Financial assets at amortized cost</i>		
Trade and other receivables	<b>1,126,798</b>	—
Bills receivable	<b>5,057</b>	—
Trade receivables from an associate	<b>2,253</b>	—
Bank balances, deposits and cash	<b>1,103,880</b>	—
	<b>2,237,988</b>	—
<b>Financial liabilities</b>		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts – <i>under hedge accounting</i>	<b>135</b>	43,830
Foreign currency forward contracts – <i>not under hedge accounting</i>	<b>577</b>	—
	<b>712</b>	43,830
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	<b>1,921,452</b>	1,574,402
Bills payable	<b>41,164</b>	54,952
Discounted bills with recourse	<b>243,360</b>	87,837
Unsecured borrowings	<b>795,442</b>	825,020
	<b>3,001,418</b>	2,542,211

## 37. Financial Instruments (continued)

### 37.2 Financial Risk Management Objectives and Policies

The Group's corporate treasury function provides risk management advice to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These financial risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

#### 37.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 21.9% (2017: 22.1%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 47.2% (2017: 48.5%) of purchases are denominated in the group entity's respective functional currency.

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

	Liabilities		Assets	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Foreign Currency				
EURO	<b>115,160</b>	131,797	<b>214,474</b>	212,455

Note: For group entities with their functional currency as the US\$, monetary assets and monetary liabilities denominated in Hong Kong dollars have no material foreign currency risk exposure as the Hong Kong dollar is pegged with the US\$.

The Group requires its group entities to use foreign exchange forward contracts to reduce the currency exposure. The foreign exchange forward contracts must be in the same currency as the hedged item. On this basis, the Group has entered into forward contracts in relation to the foreign currency amounting to US\$357,800,000 (2017: US\$721,579,000). It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness (see Note 28 for details).

#### Sensitivity Analysis

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

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

	2018 US\$'000	2017 US\$'000
Impact of EURO		
Profit for the year (i)	<b>4,614</b>	3,754

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 37. Financial Instruments (continued)

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

#### 37.2.2 Interest Rate Risk Management

The Group's exposure to interest rates on financial assets and liabilities is detailed in the liquidity risk management section of this note. The Group is exposed to cash flow interest rate risk in relation to variable-rate borrowing (see Note 38 for details of these borrowings), discounted bills with recourse, bank balances and deposits. The Group's cash flow interest rate risk is mainly concentrated on London Interbank Offered Rate ("LIBOR") arising from the Group's US\$ and EURO denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk is insignificant. The management continuously monitors interest rate fluctuations and will consider further hedging interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 38 for details of these borrowings).

During the year, the Group obtained new bank borrowings of US\$2,519 million (2017: US\$2,206 million) which are either at fixed rate or LIBOR based. The proceeds were used for refinancing the Group's borrowings.

#### *Sensitivity analysis*

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2018 would decrease/increase by US\$4,338,000 (2017: decrease/increase by US\$3,761,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

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

#### 37.2.3 Other Price Risk

The Group is exposed to price risk through its financial assets at FVTPL.

#### *Sensitivity analysis*

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

If the prices of the listed equity securities had been 10% higher the profit for the year ended December 31, 2018 of the Group would increase by US\$3,283,000 (2017: would increase by US\$3,229,000) as a result of the changes in fair value of financial assets at FVTPL.

#### 37.2.4 Credit Risk Management and Impairment Assessment

As at December 31, 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk of US\$2,237,988,000, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group is disclosed in Note 46. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

#### *Trade receivables arising from contracts with customers*

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 37. Financial Instruments (continued)

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

#### 37.2.4 Credit Risk Management and Impairment Assessment (continued)

##### **Bank balances**

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

The Group's internal credit risk grading assessment is performed based on the following provision matrix:

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

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

2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount US\$'000
Trade receivables	25	N/A	(Note 2)	Lifetime ECL (not credit-impaired) Lifetime ECL (credit-impaired)	1,140,923 —
Other receivables	25	N/A	(Note 1)	12-month ECL	37,635
Bills receivable	26	A- To AA-	N/A	12-month ECL	5,057
Trade receivables from an associate	27	N/A	(Note 1)	12-month ECL	2,253
Bank balances, deposits and cash	30	A- To AA+	N/A	12-month ECL	1,103,880

Notes:

1. Trade receivables from an associate and other receivables amounted to US\$2,253,000 and US\$37,635,000 respectively with no fixed repayment terms. The Group has assessed these balances using 12-month ECL basis as these had been no significant increase in credit risk since initial recognition. The loss allowance at December 31, 2018 was insignificant.
2. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix grouped by internal credit rating.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 37. Financial Instruments (continued)

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

#### 37.2.4 Credit Risk Management and Impairment Assessment (continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation.

The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at December 31, 2018.

	Average loss rate	Gross carrying amount US\$'000	Impairment loss allowance US\$'000
Internal credit rating			
No risk	0%	246,139	—
Low risk	1-5%	454,309	3,086
Medium risk	6-20%	411,623	34,527
High risk	Over 20%	28,852	14,147
		1,140,923	51,760

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

During the year ended December 31, 2018, the Group provided US\$51,760,000 for impairment allowances for trade receivables.

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

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

	Lifetime ECL (not credit-impaired) US\$'000
As at January 1, 2018	37,114
Currency realignment	(562)
Impairment losses recognized, net of reversal	22,845
Acquisition of a subsidiary	25
Write-offs	(7,662)
<b>As at December 31, 2018</b>	<b>51,760</b>

## 37. Financial Instruments (continued)

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

#### 37.2.5 Liquidity Risk Management

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

As at December 31, 2018, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$419 million (2017: US\$274 million) and US\$1,466 million (2017: US\$1,694 million) respectively.

#### Liquidity Tables

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

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

	Weighted average effective interest rate	Less than 1 month/ on demand	1-3 months	4 months- 1 year	1-2 years	2+ years	Total undiscounted cash flows	Total carrying amount at December 31, 2018
	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>2018</b>								
<b>Non-derivative financial assets</b>								
Financial assets at FVTPL	—	32,828	—	—	5,361	—	38,189	38,189
Trade and other receivables	—	730,503	387,643	8,652	—	—	1,126,798	1,126,798
Bills receivable	—	1,916	3,141	—	—	—	5,057	5,057
Trade receivables from an associates	—	5	2,027	221	—	—	2,253	2,253
Bank balances, deposits and cash	0.001% - 4.20%	1,023,112	80,905	—	—	—	1,104,017	1,103,880
		1,788,364	473,716	8,873	5,361	—	2,276,314	2,276,177
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(1,158,086)	(627,490)	(135,876)	—	—	(1,921,452)	(1,921,452)
Bills payable	—	(12,801)	(27,906)	(457)	—	—	(41,164)	(41,164)
Discounted bills with recourse	2.76%	(88,396)	(148,763)	(7,024)	—	—	(244,183)	(243,360)
Bank borrowings	0.10% - 3.57%	(40,228)	(140,428)	(76,032)	(114,423)	(443,555)	(814,666)	(795,442)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(1,308,388)	(944,587)	(219,389)	(114,423)	(443,555)	(3,030,342)	(3,001,418)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 37. Financial Instruments (continued)

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

#### 37.2.5 Liquidity Risk Management (continued)

##### *Liquidity Tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand	1-3 months	4 months- 1 year	1-2 years	2+ years	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2018 US\$'000
<b>2018</b>								
<b>Derivatives – net settlement</b>								
Acquisition right of certain property, plant & equipment								
–	–	–	–	–	–	–	9,441	9,441
	–	–	–	–	–	–	9,441	9,441
<b>Derivatives – gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– EUR	–	10,187	19,110	54,850	–	–	84,147	84,147
– RMB	–	60,619	–	–	–	–	60,619	60,619
– GBP	–	7,044	11,542	49,366	–	–	67,952	67,952
– US\$	–	70,535	105,604	500,275	–	–	676,414	676,414
– AUD	–	1,098	2,198	9,910	–	–	13,206	13,206
– NZD	–	4,012	4,911	25,590	–	–	34,513	34,513
	–	153,495	143,365	639,991	–	–	936,851	936,851
– outflow								
– EUR	–	(10,035)	(18,770)	(53,882)	–	–	(82,687)	(82,687)
– RMB	–	(60,200)	–	–	–	–	(60,200)	(60,200)
– GBP	–	(6,538)	(10,369)	(45,539)	–	–	(62,446)	(62,446)
– US\$	–	(67,682)	(101,377)	(481,400)	–	–	(650,459)	(650,459)
– AUD	–	(1,069)	(2,141)	(9,684)	–	–	(12,894)	(12,894)
– NZD	–	(4,043)	(5,000)	(26,046)	–	–	(35,089)	(35,089)
	–	(149,567)	(137,657)	(616,551)	–	–	(903,775)	(903,775)
	–	3,928	5,708	23,440	–	–	33,076	33,076

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

## 37. Financial Instruments (continued)

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

#### 37.2.5 Liquidity Risk Management (continued)

##### Liquidity Tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand	1-3 months	4 months- 1 year	1-2 years	2+ years	Total undiscounted cash flows	Total carrying amount at December 31, 2017
<b>2017</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments	—	32,293	—	—	—	—	32,293	32,293
AFS investments (Note)	—	—	—	—	3,697	—	3,697	3,697
Trade and other receivables	—	669,933	453,860	13,083	—	—	1,136,876	1,136,876
Bills receivable	—	879	7,129	—	—	—	8,008	8,008
Trade receivables from an associate	—	5	2,420	365	—	—	2,790	2,790
Bank balances, deposits and cash	0.01% - 2.02%	732,534	131,202	—	—	—	863,736	863,515
		1,435,644	594,611	13,448	3,697	—	2,047,400	2,047,179
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(996,318)	(505,029)	(73,055)	—	—	(1,574,402)	(1,574,402)
Bills payable	—	(18,362)	(36,590)	—	—	—	(54,952)	(54,952)
Discounted bills with recourse	2.06%	(28,122)	(56,065)	(3,901)	—	—	(88,088)	(87,837)
Bank borrowings	0.66% - 3.10%	(101,642)	(67,174)	(98,116)	(30,565)	(549,802)	(847,299)	(825,020)
Financial guarantee contracts	—	(9,298)	—	—	—	—	(9,298)	—
		(1,153,742)	(664,858)	(175,072)	(30,565)	(549,802)	(2,574,039)	(2,542,211)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 37. Financial Instruments (continued)

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

#### 37.2.5 Liquidity Risk Management (continued)

##### Liquidity Tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand	1-3 months	4 months- 1 year	1-2 years	2+ years	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2017 US\$'000
<b>2017</b>								
<b>Derivatives – net settlement</b>								
Acquisition right of certain property, plant & equipment								
–	–	–	–	–	–	–	9,558	9,558
Foreign currency forward contracts								
– US\$	–	–	(535)	(2,147)	–	–	(2,682)	(2,682)
		–	(535)	(2,147)	–	9,558	6,876	6,876
<b>Derivatives – gross settlement</b>								
Foreign currency forward contracts								
– inflow								
– EUR	–	7,574	15,209	60,781	–	–	83,564	83,564
– RMB	–	–	–	173,355	–	–	173,355	173,355
– GBP	–	3,543	13,055	49,400	–	–	65,998	65,998
– US\$	–	–	153,127	781,570	–	–	934,697	934,697
– AUD	–	299	–	–	–	–	299	299
– NZD	–	4,002	8,004	18,013	–	–	30,019	30,019
– KRW	–	1,807	1,167	–	–	–	2,974	2,974
		17,225	190,562	1,083,119	–	–	1,290,906	1,290,906
– outflow								
– EUR	–	(7,717)	(15,372)	(63,020)	–	–	(86,109)	(86,109)
– RMB	–	–	–	(170,007)	–	–	(170,007)	(170,007)
– GBP	–	(3,772)	(13,997)	(52,668)	–	–	(70,437)	(70,437)
– US\$	–	–	(158,501)	(810,070)	–	–	(968,571)	(968,571)
– AUD	–	(297)	–	–	–	–	(297)	(297)
– NZD	–	(3,988)	(7,979)	(17,842)	–	–	(29,809)	(29,809)
– KRW	–	(1,855)	(1,171)	–	–	–	(3,026)	(3,026)
		(17,629)	(197,020)	(1,113,607)	–	–	(1,328,256)	(1,328,256)
		(404)	(6,458)	(30,488)	–	–	(37,350)	(37,350)

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

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

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

## **37. Financial Instruments** (continued)

### **37.3 Fair Value**

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

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

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

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 37. Financial Instruments (continued)

### 37.3 Fair Value (continued)

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

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	2018	2017		
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	<b>Acquisition right of certain property, plant and equipment: US\$9,441,000</b>	Acquisition right of certain property, plant and equipment: US\$9,558,000	Level 2	Measured at the fair value of the land and buildings associated with the acquisition right which is based on a valuation by 3 <sup>rd</sup> party independent valuer at the end of the financial year.
2) Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	<b>Assets – US\$33,788,000; and Liabilities – US\$712,000</b>	Assets – US\$3,798,000; and Liabilities – US\$43,830,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
3) Listed equity securities classified as financial assets at FVTPL (2017: held-for-trading investments) in the consolidated statement of financial position	<b>Listed shares: US\$32,828,000</b>	Listed shares: US\$32,293,000	Level 1	Quoted bid prices in an active market.
4) Other financial assets classified as financial assets at FVTPL in the consolidated statement of financial position	<b>Club membership debentures: US\$2,316,000</b>	N/A	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristic.
	<b>Unlisted equity securities: US\$3,000,000</b>	N/A	Level 3	The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in private market.
	<b>Other: US\$45,000</b>	N/A	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristic.

## 37. Financial Instruments (continued)

### 37.3 Fair Value (continued)

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

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<b>2018</b>				
<b>Financial assets</b>				
Acquisition right of certain property, plant and equipment	—	9,441	—	9,441
Foreign currency forward contracts	—	33,788	—	33,788
Financial assets at FVTPL	32,828	2,361	3,000	38,189
<b>Total</b>	<b>32,828</b>	<b>45,590</b>	<b>3,000</b>	<b>81,418</b>
<b>Financial liabilities</b>				
Foreign currency forward contracts	—	(712)	—	(712)
<b>Total</b>	<b>—</b>	<b>(712)</b>	<b>—</b>	<b>(712)</b>
<b>2017</b>				
<b>Financial assets</b>				
Acquisition right of certain property, plant and equipment	—	9,558	—	9,558
Foreign currency forward contracts	—	3,798	—	3,798
Held-for-trading investments	32,293	—	—	32,293
<b>Total</b>	<b>32,293</b>	<b>13,356</b>	<b>—</b>	<b>45,649</b>
<b>Financial liabilities</b>				
Foreign currency forward contracts	—	(43,830)	—	(43,830)
<b>Total</b>	<b>—</b>	<b>(43,830)</b>	<b>—</b>	<b>(43,830)</b>

The Group owns equity interest in a private company incorporated in the US that is classified as financial assets at FVTPL (2017: AFS investment) and is measured at fair value at the reporting date.

### 37.4 Transfers of financial assets

The following were the Group's financial assets as at December 31, 2018 that were transferred to banks by discounting or factoring those trade and bills receivables on a full recourse basis. As the Group retained substantially all of the significant risks and rewards relating to these receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as discounted bills with recourse (see Note 35) and unsecured borrowings – due within one year (see Note 38). These financial assets are carried at amortized cost in the Group's consolidated statement of financial position.

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

	2018 US\$'000	2017 US\$'000
Carrying amount of transferred assets	318,360	162,837
Carrying amount of associated liabilities	(318,360)	(162,837)
Net position	—	—

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## 38. Unsecured Borrowings

	2018 US\$'000	2017 US\$'000
Bank advance from Factored Trade Receivables	75,000	75,000
Bank loans	720,442	750,020
<b>Total borrowings</b>	<b>795,442</b>	825,020

The borrowings of the Group are repayable as follows:

	2018 US\$'000	2017 US\$'000
<b>Fixed rate</b>		
In more than one year but not more than two years	20,904	—
In more than two years but not more than five years	83,903	104,735
<b>Floating rate</b>		
Within one year	255,228	260,342
In more than one year but not more than two years	91,457	25,022
In more than two years but not more than five years	343,950	434,921
	<b>795,442</b>	825,020
Less: Amount due within one year shown under current liabilities	(255,228)	(260,342)
Amount due after one year	<b>540,214</b>	564,678

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

	2018	2017
Effective interest rate:		
Fixed-rate borrowings	<b>2.55% to 3.10%</b>	2.55% to 3.10%
Variable-rate borrowings	<b>0.10% to 3.57%</b>	0.66% to 3.07%

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

	US\$'000
<b>As at December 31, 2018</b>	<b>14,843</b>
As at December 31, 2017	13,542

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

## 39. Share Capital

	2018 Number of shares	2017 Number of shares	2018 US\$'000	2017 US\$'000
<b>Ordinary shares</b>				
Authorized shares	<b>2,400,000,000</b>	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the year	<b>1,835,021,941</b>	1,833,896,941	<b>653,918</b>	649,214
Issue of shares upon exercise of share options	<b>600,000</b>	2,625,000	<b>1,073</b>	4,704
Buy-back of shares	<b>(7,100,000)</b>	(1,500,000)	—	—
At the end of the year	<b>1,828,521,941</b>	1,835,021,941	<b>654,991</b>	653,918

Details of the share options are set out in Note 47.

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

Month of cancellation	No. of ordinary shares	Price per share		Aggregate consideration paid US\$'000
		Highest HK\$	Lowest HK\$	
March 2018	1,000,000	46.25	45.00	5,911
May 2018	500,000	45.35	44.75	2,906
June 2018	672,000	47.55	43.85	3,947
July 2018	1,378,000	43.50	41.70	7,634
September 2018	200,000	47.25	47.00	1,218
October 2018	250,000	43.90	43.75	1,415
November 2018	3,100,000	41.40	36.25	15,577
	<b>7,100,000</b>			<b>38,608</b>

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$38,608,000 was charged to retained profits.

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For the year ended December 31, 2018

## 40. Reserves

	Shares held for share award scheme US\$'000	Employee share-based compensation reserve US\$'000	Retained profits US\$'000	Total US\$'000
<b>The Company</b>				
At January 1, 2017	(10,476)	7,010	1,236,931	1,233,465
Loss for the year	—	—	(27,472)	(27,472)
Total comprehensive loss for the year	—	—	(27,472)	(27,472)
Shares issued at premium on exercise of options	—	(917)	—	(917)
Buy-back of shares	—	—	(5,388)	(5,388)
Vesting of awarded shares	3,370	(3,370)	—	—
Shares for share award scheme	(3,455)	—	—	(3,455)
Recognition of equity-settled share-based payments	—	4,193	—	4,193
Lapse of share options	—	(14)	14	—
Final dividend – 2016	—	—	(70,778)	(70,778)
Interim dividend – 2017	—	—	(65,507)	(65,507)
At December 31, 2017	(10,561)	6,902	1,067,800	1,064,141
Adjustment for adoption of HKFRS 9 (Note 2)	—	—	<b>811</b>	<b>811</b>
At January 1, 2018 (restated)	<b>(10,561)</b>	<b>6,902</b>	<b>1,068,611</b>	<b>1,064,952</b>
Loss for the year	—	—	(128,138)	(128,138)
Total comprehensive loss for the year	—	—	(128,138)	(128,138)
Shares issued at premium on exercise of options	—	(205)	—	(205)
Buy-back of shares	—	—	(38,608)	(38,608)
Vesting of awarded shares	637	(637)	—	—
Shares for share award scheme	(15,191)	—	—	(15,191)
Recognition of equity-settled share-based payments	—	4,978	—	4,978
Lapse of share options	—	(6)	6	—
Final dividend – 2017	—	—	(93,827)	(93,827)
Interim dividend – 2018	—	—	(89,595)	(89,595)
<b>At December 31, 2018</b>	<b>(25,115)</b>	<b>11,032</b>	<b>718,449</b>	<b>704,366</b>

As at December 31, 2018, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$718,449,000 (2017: US\$1,067,800,000).

## 41. Retirement Benefit Obligations

### Defined Contribution Plans:

The Company and its subsidiaries operating in Hong Kong have participated in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Schemes Ordinance since December 2000. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the MPF Schemes with a maximum amount of HK\$18,000 (2017: HK\$18,000) per employee per annum, which contribution is matched by the employee.

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

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

The total expense recognized in profit or loss of US\$12,167,000 (2017: US\$10,474,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

### Defined Benefits Plans:

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

	2018 US\$'000	2017 US\$'000
Pension plan obligations (Note i)	77,619	82,764
Post-retirement, medical and dental plan obligations (Note ii)	1	19
Life and medical insurance plan (Note ii)	1,257	1,431
Post-employment benefit plan obligations (Note iii)	2,129	13,348
Others	38,968	26,955
	<b>119,974</b>	124,517

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the employees are entitled to retirement benefits varying between 10% and 20% of final salary (based on the average of the last three years) on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out on January 1, 2019, by BDO AG Wirtschaftsprüfungsgesellschaft, Germany.

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

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on January 3, 2019 by Willis Towers Watsons.

Note iii: Post-employment benefit plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on December 1, 2018 by CBIZ Benefits & Insurance Services.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 41. Retirement Benefit Obligations (continued)

### Defined Benefits Plans: (continued)

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

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

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

The main actuarial assumptions used were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate	1.50%	1.65%	1.00%	1.00%	3.75%	3.00%	3.46%	3.90%
Expected rate of salary increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	3.46%	3.90%
Future pension increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Medical cost trend rates	N/A	N/A	5.00%	5.00%	5.00%	5.00%	N/A	N/A

The actuarial valuation showed that the market value of plan assets was US\$15,024,000 (2017: US\$5,272,000) and that the actuarial value of these assets represented 87.6% (2017: 28.3%) of the benefits that had accrued to members.

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Current service cost and interest cost	N/A	N/A	—	—	3	3	N/A	N/A
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	—	—	77	93	N/A	N/A

## 41. Retirement Benefit Obligations (continued)

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

	Pension plan		Post-retirement medical and dental plan		Life & medical Insurance plan		Post-employment benefit plan	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Service cost:								
Current service cost	509	478	—	—	—	—	—	—
Net interest on defined benefit liabilities	1,265	966	—	—	41	43	462	438
<b>Components of defined benefit costs recognized in profit or loss</b>	<b>1,774</b>	<b>1,444</b>	<b>—</b>	<b>—</b>	<b>41</b>	<b>43</b>	<b>462</b>	<b>438</b>
Remeasurement on the net defined benefit liability:								
Actuarial losses (gains) arising from changes in financial assumptions	666	(3,472)	(9)	(42)	(182)	(186)	(446)	1,676
<b>Components of defined benefit costs recognized in other comprehensive income</b>	<b>666</b>	<b>(3,472)</b>	<b>(9)</b>	<b>(42)</b>	<b>(182)</b>	<b>(186)</b>	<b>(446)</b>	<b>1,676</b>
<b>Total</b>	<b>2,440</b>	<b>(2,028)</b>	<b>(9)</b>	<b>(42)</b>	<b>(141)</b>	<b>(143)</b>	<b>16</b>	<b>2,114</b>

The charge for the year has been included in staff costs.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the major plans is as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Present value of funded obligations	—	—	—	—	—	—	17,153	18,620
Fair value of plan assets	—	—	—	—	—	—	(15,024)	(5,272)
	—	—	—	—	—	—	2,129	13,348
Present value of unfunded obligations	77,619	82,764	1	19	1,257	1,431	—	—
	77,619	82,764	1	19	1,257	1,431	2,129	13,348

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For the year ended December 31, 2018

## 41. Retirement Benefit Obligations (continued)

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
At January 1	<b>82,764</b>	78,020	<b>19</b>	68	<b>1,431</b>	1,630	<b>18,620</b>	18,336
Exchange differences	(3,688)	10,767	—	—	—	—	—	—
Current service cost	<b>509</b>	478	—	—	—	—	—	—
Actuarial losses (gains)	<b>666</b>	(3,472)	(9)	(42)	(182)	(186)	(406)	1,514
Interest cost	<b>1,265</b>	966	—	—	<b>41</b>	43	<b>613</b>	677
Benefit paid	(3,897)	(3,995)	(9)	(7)	(33)	(56)	(1,674)	(1,907)
At December 31	<b>77,619</b>	82,764	<b>1</b>	19	<b>1,257</b>	1,431	<b>17,153</b>	18,620

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
At January 1	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>5,272</b>	7,102
Exchange differences	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	—	—
Expected return on plan assets	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>151</b>	239
Actuarial losses	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>40</b>	(162)
Contribution from employer	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>11,235</b>	—
Benefit paid	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	(1,674)	(1,907)
At December 31	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>15,024</b>	5,272

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 3.46% (2017: 3.90%).

The actual return on plan assets was US\$191,000 (2017: US\$77,000).

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

The Group expects to make no contribution (2017: US\$4,000,000) to the defined benefit plans during the next financial year.

## 42. Deferred Tax Assets (Liabilities)

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

	Accelerated tax depreciation US\$'000	Warranty provision US\$'000	Employee related provision US\$'000	Tax losses US\$'000	Inventory provision and LIFO US\$'000	Others US\$'000	Total US\$'000
At January 1, 2017	(12,880)	13,613	48,199	89,952	10,876	(13,934)	135,826
Currency realignment	1	275	845	(850)	52	2,115	2,438
Credit to hedging reserve	—	—	—	—	—	549	549
(Charge) credit to profit or loss	(15,297)	3,027	(6,689)	22,525	(1,730)	6,883	8,719
Change in tax rates	9,390	(4,286)	(8,810)	(65,104)	(2,822)	11,984	(59,648)
Charge to equity	—	—	(9,349)	—	—	—	(9,349)
At December 31, 2017	(18,786)	12,629	24,196	46,523	6,376	7,597	78,535
Reclassify to refund liabilities from right of return	—	—	—	—	—	2,231	2,231
At January 1, 2018 (as restated)	(18,786)	12,629	24,196	46,523	6,376	9,828	80,766
Currency realignment	(26)	(392)	(453)	2,574	(94)	(2,718)	(1,109)
Charge to hedging reserve	—	—	—	—	—	(1,498)	(1,498)
(Charge) credit to profit or loss	(10,004)	2,522	(184)	(18,825)	3,003	14,063	(9,425)
Change in tax rates	21	—	58	336	5	251	671
Charge to equity	—	—	(82)	—	—	—	(82)
At December 31, 2018	(28,795)	14,759	23,535	30,608	9,290	19,926	69,323

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:

	2018 US\$'000	2017 US\$'000
Deferred tax assets	83,945	92,939
Deferred tax liabilities	(14,622)	(14,404)
	69,323	78,535

At the end of the reporting period, the Group has unused tax losses of US\$1,611 million (2017: US\$1,296 million) available for offset against future taxable profits. Of the US\$1,611 million of unused losses approximately US\$478 million expire over the next 10 to 19 years with the remaining loss carryforwards do not expire. No deferred tax asset has been recognized in respect of tax losses of US\$1,475 million (2017: US\$1,114 million) due to the lack of probable future taxable profits.

In respect of all unrepatriated foreign earnings, the Group has provided deferred taxes of US\$13 million (2017: Nil) as these unrepatriated foreign earnings are not considered permanently reinvested.

# Notes to the Consolidated Financial Statements

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## 43. Acquisition of a Subsidiary

In October 2018, the Group acquired a 100% equity interest in Imperial Blades LLC (“Imperial”) for the consideration of approximately US\$49,597,000. Imperial’s business was acquired so as to continue the expansion of the Group’s power equipment business. Imperial is engaged in manufacture and sale of oscillating saw blades and accessories and is included in the Power Equipment segment.

	Fair value US\$'000
<b>Net Assets Acquired</b>	
Property, plant and equipment	2,962
Intangible assets	16,747
Inventories	2,130
Trade and other receivables, deposits and prepayments	3,567
Bank balances and cash	250
Trade and other payables	(2,667)
Warranty provision	(39)
	<b>22,950</b>
Goodwill arising on acquisition of a subsidiary	26,647
<b>Total consideration</b>	<b>49,597</b>
Net cash outflow arising on acquisition:	
Total consideration	49,597
Less: Bank balances and cash acquired	(250)
<b>Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary</b>	<b>49,347</b>

Intangible assets of US\$16,747,000 and goodwill of US\$26,647,000 arose on the acquisition of Imperial’s business from patents, trademarks, manufacturing know-how, retailer and service relationships, non compete agreement and the anticipated profitability arising from new product synergies and cost savings within the Power Equipment segment.

The fair value and contractual amounts of trade and other receivables at the date of acquisition amounted to US\$3,404,000. All amount are expected to be collected.

Goodwill arising on this acquisition is included in Power Equipment-MET CGU and subject for impairment testing as at December 31, 2018 (Note 20). None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

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

The business acquired contributed approximately US\$4,123,000 to the Group’s turnover, and approximately US\$393,000 increase in the Group’s profit before taxation for the period between the respective dates of acquisition and the reporting date as at December 31, 2018.

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

#### **44. Major Non-Cash Transactions**

During the year ended December 31, 2018, the Group entered into finance lease arrangements in respect of assets at the inception of the finance leases of US\$147,000 (2017: US\$1,654,000).

#### **45. Lease Commitments**

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

	<b>2018</b> US\$'000	2017 US\$'000
Within one year	<b>63,159</b>	66,532
In the second to fifth year inclusive	<b>153,247</b>	149,640
After five years	<b>99,967</b>	101,099
	<b>316,373</b>	317,271

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

#### **46. Contingent Liabilities**

	<b>2018</b> US\$'000	2017 US\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	<b>8,877</b>	9,298

In addition, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at December 31, 2018 amounted to US\$514,367,000 (2017: US\$372,530,000).

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## 47. Share Options

### Scheme Option Schemes

The Company has two share option schemes in place – Scheme D and Scheme E. Scheme D was adopted on May 29, 2007 and expired on May 28, 2017, though its provisions shall remain in full force and effect in all other respects. Following the expiry of Scheme D, Scheme E was adopted on May 19, 2017 and will expire on May 18, 2027.

Both Scheme D and Scheme E are aimed for recognition of the contribution to the development and growth of the Group by the eligible persons. The scheme rules of both Scheme D and Scheme E are substantially identical and below are the summary of the principal terms of both schemes:

The Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

- (i) employees; or
- (ii) Directors; or
- (iii) secondees; or
- (iv) any shareholders of any member of the Group or invested entity or controlling shareholders or any holders of any securities issued by any member of the Group; or
- (v) business partners; or
- (vi) suppliers; or
- (vii) customers; or
- (viii) advisers of the Group.

Share options granted must be taken up within 21 days of the date of grant, upon payment of consideration to be determined by the Board for the grant thereof. Share options may be exercised at any time, subject to vesting conditions from the date of grant to the tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer.

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

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

## 47. Share Options (continued)

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

**2018**

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	—	—	155,500	32.100	17.3.2018 – 16.3.2027
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 – 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 – 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	250,000	—	—	250,000	47.900	14.3.2019 – 13.3.2028
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Christopher Patrick Langley OBE	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Manfred Kuhlmann	11.9.2015	D	25,000	—	(25,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	(75,000)	—	75,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 – 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 – 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Vincent Ting Kau Cheung	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
<b>Total for directors</b>			<b>9,913,500</b>	<b>1,450,000</b>	<b>(100,000)</b>	<b>—</b>	<b>11,263,500</b>		

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 47. Share Options (continued)

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

**2018**

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
Employees	14.1.2008	D	25,000	—	—	(25,000)	—	7.566	14.1.2009 – 13.1.2018
	17.4.2008	D	200,000	—	(200,000)	—	—	7.780	17.4.2009 – 16.4.2018
	16.11.2009	D	600,000	—	(300,000)	—	300,000	6.770	16.11.2010 – 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 – 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 – 16.1.2021
	23.3.2017	D	200,000	—	—	—	200,000	32.150	23.3.2018 – 22.3.2027
	19.6.2017	E	350,000	—	—	—	350,000	36.300	19.6.2018 – 18.6.2027
<b>Total for employees</b>			<b>1,425,000</b>	<b>—</b>	<b>(500,000)</b>	<b>(25,000)</b>	<b>900,000</b>		
<b>Total for all categories</b>			<b>11,338,500</b>	<b>1,450,000</b>	<b>(600,000)</b>	<b>(25,000)</b>	<b>12,163,500</b>		
<b>Exercisable at the end of the year</b>							<b>9,043,250</b>		

## 47. Share Options (continued)

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

2017

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
Directors									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	155,500	—	—	155,500	32.100	17.3.2018 – 16.3.2027
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 – 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 – 16.3.2027
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 – 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 – 16.3.2027
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 – 16.3.2027
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 – 16.3.2027
Mr Camille Jojo	17.3.2017	D	—	250,000	—	—	250,000	32.100	17.3.2018 – 16.3.2027
Mr Christopher Patrick Langley OBE	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 – 16.3.2027
Mr Manfred Kuhlmann	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 – 20.5.2022
	11.9.2015	D	150,000	—	(125,000)	—	25,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 – 16.3.2027
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 – 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 – 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 – 16.3.2027
Mr Vincent Ting Kau Cheung	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 – 16.3.2027
Mr Johannes-Gerhard Hesse	19.6.2017	E	—	135,000	—	—	135,000	36.300	19.6.2018 – 18.6.2027
Total for directors			7,798,000	2,790,500	(675,000)	—	9,913,500		

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 47. Share Options (continued)

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

2017

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$		Exercise period
Employees	24.8.2007	D	670,000	—	(620,000)	(50,000)	—	8.390	24.8.2008 –	23.8.2017
	16.10.2007	D	15,000	—	(15,000)	—	—	8.810	16.10.2008 –	15.10.2017
	14.1.2008	D	430,000	—	(405,000)	—	25,000	7.566	14.1.2009 –	13.1.2018
	17.4.2008	D	250,000	—	(50,000)	—	200,000	7.780	17.4.2009 –	16.4.2018
	14.5.2008	D	40,000	—	(40,000)	—	—	7.500	14.5.2009 –	13.5.2018
	16.11.2009	D	1,420,000	—	(820,000)	—	600,000	6.770	16.11.2010 –	15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 –	27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 –	16.1.2021
	23.3.2017	D	—	200,000	—	—	200,000	32.150	23.3.2018 –	22.3.2027
	19.6.2017	E	—	350,000	—	—	350,000	36.300	19.6.2018 –	18.6.2027
Total for employees			2,875,000	550,000	(1,950,000)	(50,000)	1,425,000			
Total for all categories			10,673,000	3,340,500	(2,625,000)	(50,000)	11,338,500			
Exercisable at the end of the year							7,998,000			

## 47. Share Options (continued)

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

Date of grant	Exercise price HK\$	Expected life of share options	Expected volatility based on historical volatility of share prices	Yields of Hong Kong Government Bonds	Expected annual dividend yield
<b>For the year ended December 31, 2018</b>					
<b>14.3.2018</b>	<b>47.900</b>	<b>3 years</b>	<b>38%</b>	<b>1.507%</b>	<b>1.5%</b>
For the year ended December 31, 2017					
17.3.2017	32.100	3 years	39%	1.207%	1.5%
23.3.2017	32.150	3 years	39%	1.057%	1.5%
19.6.2017	36.300	3 years	38%	0.778%	1.5%

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The weighted average closing price of the Company's shares immediately before the various dates on which the share options were granted during 2018 was HK\$48.50 (2017: HK\$32.42).

The closing price of the Company's shares immediately before the various dates on which the share options were granted was HK\$48.50 in 2018 (2017: HK\$31.80 to HK\$36.00).

The weighted average closing prices of the Company's shares immediately before various dates during 2018 and 2017 on which the share options were exercised were HK\$46.63 and HK\$38.21 respectively.

The Group recognized a total expense of US\$2,634,000 for the year ended December 31, 2018 (2017: US\$2,246,000) in relation to share options granted by the Company.

The fair values of the share options granted in 2018 measured at various dates on which the share options were granted was HK\$11.82 (2017: HK\$7.98 to HK\$8.68). The weighted average fair value of the share options granted in 2018 was HK\$11.82 (2017: HK\$8.11) per option.

The Company had 12,163,500 share options outstanding (2017: 11,338,500), which represented approximately 0.67% (2017: 0.62%) of the issued share capital of the Company as at December 31, 2018. No option was cancelled during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.23% of the issued shares of the Company as at December 31, 2018. Total securities available for issue under Scheme E are 183,299,194 shares, which represented approximately 10.02% of the issued shares of the Company as at December 31, 2018.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 48. Share Award Scheme

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

The share award scheme of the Company was adopted by the Board of Directors on January 9, 2008 and renewed on January 17, 2018. The Board may from time to time at their absolute discretion select any eligible person for participation in the scheme as a selected grantee and determine the number of shares to be awarded or make reference to a nominal amount. The Board must cause to be paid to the trustee the purchase price and the related expenses. The trustee must either purchase shares from the market or subscribe for new shares. The trustee must hold the shares until they are vested in accordance with the scheme rules. When the selected grantee has satisfied all vesting conditions specified by the Board at the time of making the award and becomes entitled to the shares forming the subject of the award, the trustee will transfer the relevant vested shares together with the income derived therefrom (net of accrued interest) to the selected grantee.

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

Recognition of share-based payment expenses under the share award scheme during the year was US\$2,344,000 (2017: US\$1,947,000). During 2018, 160,500 shares (2017: 1,036,500 shares) were transferred to the awardees upon vesting.

(i) Movements in the number of awarded shares and their related average fair value were as follows:

	Number	
	2018	2017
At January 1	300,000	1,025,000
Awarded (Note (a))	1,174,500	311,500
Vested	(160,500)	(1,036,500)
<b>At December 31 (Note (b))</b>	<b>1,314,000</b>	300,000

Notes:

- (a) All the awarded shares were purchased from the market.
- (b) At the end of the year, the average fair value per share is HK\$30.30 (2017: HK\$30.82). The average fair value of the awarded shares is based on the average purchase cost.

(ii) The remaining vesting periods of the awarded shares outstanding are as follows:

	Number of awarded shares	
	2018	2017
Less than 1 year	441,000	150,000
More than 1 year	873,000	150,000
	<b>1,314,000</b>	300,000

## 49. Capital Commitments

	2018 US\$'000	2017 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<b>119,350</b>	21,888

## 50. Related Party Transactions

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

	2018 US\$'000	2017 US\$'000
Sales income	5,141	5,801
Purchases	<b>5,142</b>	5,719

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

	2018 US\$'000	2017 US\$'000
Short-term benefits	61,249	59,348
Post-employment benefits	856	808
Share-based payments	4,762	6,420
	<b>66,867</b>	66,576

Details of the balances and transactions with related parties are set out in the statements of financial position and Notes 21, 27 and 46.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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

	Dividend payable US\$'000	Unsecured borrowings Note 38 US\$'000	Discounted bills with recourse Note 35 US\$'000	Obligations under finance leases Note 34 US\$'000	Total US\$'000
At January 1, 2017	—	894,277	93,897	13,742	1,001,916
Financing cash flows:					
New bank loans obtained	—	2,206,220	—	—	2,206,220
Repayment	—	(2,275,477)	(6,060)	(3,786)	(2,285,323)
Foreign exchange translation	—	—	—	7	7
Inception of finance lease	—	—	—	1,654	1,654
Interest expenses	—	23,699	—	781	24,480
Interest paid	—	(23,699)	—	(781)	(24,480)
Dividend declared	136,285	—	—	—	136,285
Dividend paid	(136,285)	—	—	—	(136,285)
At December 31, 2017 and January 1, 2018	—	825,020	87,837	11,617	924,474
Financing cash flows:					
New bank loans obtained	—	2,519,087	155,523	—	2,674,610
Repayment	—	(2,548,665)	—	(10,751)	(2,559,416)
Inception of finance lease	—	—	—	147	147
Interest expenses	—	37,407	—	642	38,049
Interest paid	—	(37,407)	—	(642)	(38,049)
Dividend declared	183,422	—	—	—	183,422
Dividend paid	(183,422)	—	—	—	(183,422)
<b>At December 31, 2018</b>	<b>—</b>	<b>795,442</b>	<b>243,360</b>	<b>1,013</b>	<b>1,039,815</b>

## 52. Statement of Financial Position of the Company

As at December 31, 2018

	Note	2018 US\$'000	2017 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		5,380	2,898
Intangible assets		19	4
Investments in subsidiaries		2,692,850	1,168,489
Loans to subsidiaries		829,857	860,741
Interests in associates		2,371	1,488
AFS investments		—	3,311
Financial assets at FVTPL		4,148	—
		<b>3,534,625</b>	2,036,931
<b>Current assets</b>			
Other receivables		9	46
Deposits and prepayments		12,397	4,046
Held-for-trading investments		—	32,293
Financial assets at FVTPL		32,828	—
Tax recoverable		1,794	—
Amounts due from subsidiaries		1,225,045	2,041,292
Bank balances, deposits and cash		225,764	261,018
		<b>1,497,837</b>	2,338,695
<b>Current liabilities</b>			
Trade and other payables		58,402	57,864
Tax payable		—	815
Amounts due to subsidiaries		3,049,630	2,003,610
Unsecured borrowings – due within one year		25,600	30,600
		<b>3,133,632</b>	2,092,889
Net current (liabilities) assets		(1,635,795)	245,806
Total assets less current liabilities		<b>1,898,830</b>	2,282,737
<b>Capital and Reserves</b>			
Share capital		654,991	653,918
Reserves	40	704,366	1,064,141
		<b>1,359,357</b>	1,718,059
<b>Non-current Liabilities</b>			
Unsecured borrowings – due after one year		539,473	564,678
Total equity and non-current liabilities		<b>1,898,830</b>	2,282,737

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 6, 2019 and are signed on its behalf by:

**Chi Chung Chan**  
Group Executive Director

**Stephan Horst Pudwill**  
Vice Chairman

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 53. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2018 and December 31, 2017 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Baja, Inc.	US	US\$17.36	—	100	Trading of outdoor power equipment products
DreBo Werkzeugfabrik GmbH *	Germany	EUR1,000,000	—	100	Trading and manufacture of power equipment products
Homelite Consumer Products, Inc.	US	US\$10	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	US\$1	—	100	Trading and manufacture of floor care products
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK\$100,000	100	—	Trading of household electronic and electrical products
Milwaukee Electric Tool Corporation	US	US\$50,000,000	—	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	US	US\$10	—	100	Trading of power equipment products
Royal Appliance International GmbH	Germany	EUR2,050,000	100	—	Trading of floor care products
Royal Appliance Mfg. Co.	US	US\$1	—	100	Trading and manufacture of floor care products
Sang Tech Industries Limited	Hong Kong	HK\$1,000,000	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$2,000,000	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK\$2,000,000	75.725	—	Manufacture of electronic products
Techtronic Floor Care Technology Limited	British Virgin Islands ("BVI")	US\$1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd. <sup>#</sup>	PRC	US\$47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT\$5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP4,000,000	—	100	Trading of power equipment products

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

Name of subsidiaries	Place of incorporation/operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Techtronic Industries Australia Pty. Limited	Australia	AU\$25,575,762	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR25,600	—	100	Trading of power equipment products
Techtronic Industries ELC GmbH*	Germany	EUR25,000	—	100	Trading of power equipment products and outdoor power equipment products
Techtronic Industries France SAS	France	EUR14,919,832	—	100	Trading of power equipment products
Techtronic Industries GmbH <sup>+</sup>	Germany	EUR20,452,500	100	—	Trading and manufacture of power equipment products
Techtronic Industries Korea Limited	Korea	KRW3,400,000,000	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN50,000 (Serie I) MXN362,720,990 (Serie II)	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZ\$4,165,500	100	—	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries North America, Inc.	US	US\$10	100	—	Investment holding
Techtronic Outdoor Products Technology Limited	Bermuda	US\$12,000	100	—	Investment and intellectual properties holding
Techtronic Power Tools Technology Limited	BVI	US\$1	100	—	Investment and intellectual properties holding
Techtronic Product Development Limited	Hong Kong	HK\$2	100	—	Engage in research and development activities
Techtronic Trading Limited	Hong Kong	HK\$2	100	—	Trading of power equipment, floor care and outdoor power equipment products

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

## 53. Particulars of Principal Subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
TTI (Macao Commercial Offshore) Limited	Macau	MOP780,000	—	100	Trading of power equipment, floor care and outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HK\$2	100	—	Investment holding
Vax Limited	United Kingdom	GBP30,000 (Ordinary A shares)  GBP2,500 (Ordinary B shares)	100	—	Trading of household electrical and floor care products

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

# A wholly foreign owned enterprise.

+ Indirectly 100% held by the Company as at December 31, 2017.

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

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

Principal activities	Principal place of business	Number of subsidiaries	
		2018	2017
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US and others	7	5
Trading of power equipment, floor care and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	34	33
Investment holding	Australia, BVI, Europe, Hong Kong, US	24	23
Dormant	BVI, Europe, Hong Kong, US	13	13

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

## 54. Particulars of Principal Associate

Particulars of the principal associate are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company directly		Principal activities
			2018 %	2017 %	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	40.8	40.8	Investment holding

# Financial Summary

## Results

	Year ended December 31				
	2014 US\$'000	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000
Revenue	4,752,960	5,038,004	5,480,413	6,063,633	<b>7,021,182</b>
Profit before taxation	325,159	386,957	440,029	505,496	<b>594,610</b>
Taxation charge	(25,680)	(32,814)	(31,242)	(34,972)	<b>(42,070)</b>
Profit for the year	299,479	354,143	408,787	470,524	<b>552,540</b>
Attributable to:					
Owners of the Company	300,330	354,427	408,982	470,425	<b>552,463</b>
Non-controlling interests	(851)	(284)	(195)	99	<b>77</b>
Profit for the year	299,479	354,143	408,787	470,524	<b>552,540</b>
Basic earnings per share (US cents)	16.41	19.37	22.32	25.66	<b>30.16</b>

## Assets and Liabilities

	As at December 31				
	2014 US\$'000	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000
Total assets	4,351,383	4,802,718	5,120,407	5,598,477	<b>6,348,862</b>
Total liabilities	2,384,357	2,647,146	2,721,475	2,857,759	<b>3,291,521</b>
	1,967,026	2,155,572	2,398,932	2,740,718	<b>3,057,341</b>
Equity attributable to Owners of the Company	1,967,153	2,155,983	2,399,538	2,741,225	<b>3,057,771</b>
Non-controlling interests	(127)	(411)	(606)	(507)	<b>(430)</b>
	1,967,026	2,155,572	2,398,932	2,740,718	<b>3,057,341</b>

# Corporate Information

## Board of Directors

### Group Executive Directors

Mr Horst Julius Pudwill  
*Chairman*

Mr Stephan Horst Pudwill  
*Vice Chairman*

Mr Joseph Galli Jr  
*Chief Executive Officer*

Mr Patrick Kin Wah Chan  
Mr Frank Chi Chung Chan

### Non-executive Directors

Prof Roy Chi Ping Chung GBS BBS JP  
Mr Camille Jojo

### Independent Non-executive Directors

Mr Christopher Patrick Langley OBE  
Mr Manfred Kuhlmann  
Mr Peter David Sullivan  
Mr Vincent Ting Kau Cheung  
Mr Johannes-Gerhard Hesse

## Financial Calendar 2019

- March 6 : Announcement of 2018 annual results  
May 14 : Last day to register for the entitlement to attend and vote at Annual General Meeting  
May 15-17 : Book closure period for the entitlement to attend and vote at Annual General Meeting  
May 17 : Annual General Meeting  
May 23 : Last day to register for 2018 final dividend  
May 24 : Book closure period for 2018 final dividend  
June 21 : Final dividend payment  
June 30 : Six months interim period end  
December 31: Financial year end

## Investor Relations Contact

Investor Relations and Communications  
Techtronic Industries Co. Ltd.  
29/F, Tower 2  
Kowloon Commerce Centre  
51 Kwai Cheong Road  
Kwai Chung, N.T.  
Hong Kong  
email: ir@tti.com.hk

## Listing Information

The Stock Exchange of Hong Kong Limited  
Ordinary Shares (stock code: 669)  
ADR Level 1 Programme (symbol: TTNDY)

## Share Registrar and Transfer Office

Tricor Secretaries Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong  
Tel: (852) 2980 1888

## ADR Depositary

The Bank of New York

## Principal Bankers

Bank of America, N.A.  
Bank of China  
The Hongkong and Shanghai Banking Corporation Limited  
Standard Chartered Bank  
Citibank N.A.  
MUFG Bank, Ltd.  
Mizuho Bank, Ltd., Hong Kong Branch

## Solicitors

Vincent T.K. Cheung, Yap & Co.

## Auditor

Deloitte Touche Tohmatsu

## Company Secretary

Ms Veronica Ka Po Ng

## Trademarks

All trademarks and trade names listed other than AEG and RYOBI are owned by the Group.

AEG is a registered trademark of AB Electrolux (publ.), and is used under license.

RYOBI is a registered trademark of Ryobi Limited, and is used under license.

## Website

[www.ttigroup.com](http://www.ttigroup.com)  
Earnings results, annual/interim reports are available online.





AEG

RYOBI

Homelite®

Empire

IMPERIAL  
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HART



ORECK

VAX

Dirt  
Devil®