

Annual Report **2019**





MILWAUKEE MX FUEL 14" Cut-Off Saw

Delivers the best 14" cut-off saw experience by providing true 14" cut capacity, the fastest cuts from start to finish, and no gas headaches. No emissions, less vibration, and quiet operation allows users to work safer and be more productive.



NO EMISSIONS



NO PULL START



**NO MIXING
PETROL AND OIL**



**NO ENGINE
MAINTENANCE**

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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 for Do-It-Yourself (DIY), professional and industrial users in the home improvement, repair, maintenance, construction and infrastructure industries. The Company is committed to accelerating the transformation of these industries through superior environmentally friendly cordless technology. The TTI brands like MILWAUKEE, RYOBI and HOOVER are recognized worldwide for their deep heritage and cordless product platforms of superior quality, outstanding performance, safety, productivity and compelling innovation.

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 maintains a powerful brand portfolio, global manufacturing and product development footprint, healthy financial position with record 2019 worldwide sales of US\$7.7 billion and over 30,000 employees. TTI designs, develops, manufactures and markets leading-edge, high-performance and high-quality emission free cordless power tools and equipment through a variety of distribution channels in a growing number of countries.

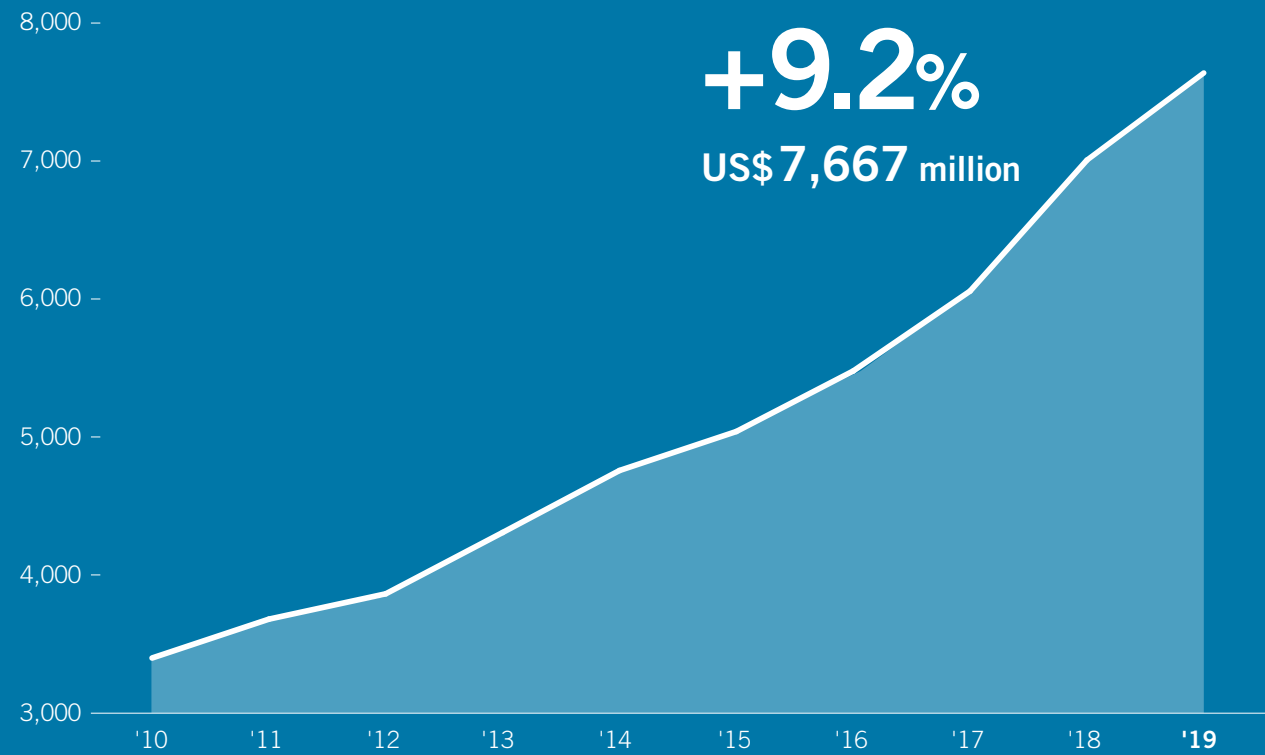
Financial Highlights

10th consecutive year of record revenue

- Flagship Milwaukee Tool business continues to grow 20%+ in local currency
- RYOBI cordless delivered double-digit sales growth

Revenue

US\$m



+9.2%
US\$7,667 million

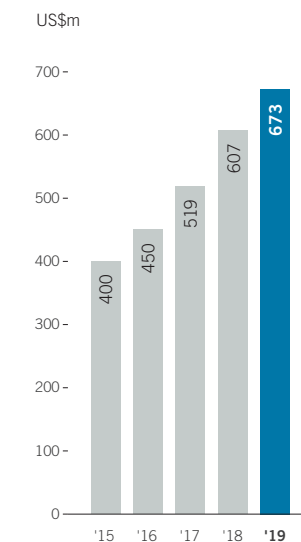
For the year ended December 31, 2019

	2019 US\$' million	2018 US\$' million	Changes
Revenue	7,667	7,021	+9.2%
Gross profit margin	37.7%	37.2%	+50 bps
EBIT	673	607	+10.9%
Profit attributable to Owners of the Company	615	552	+11.3%
Basic earnings per share (US cents)	33.67	30.16	+11.6%
Dividend per share (approx. US cents)	13.26	11.33	+17.0%

EBIT

+10.9%
US\$673 million

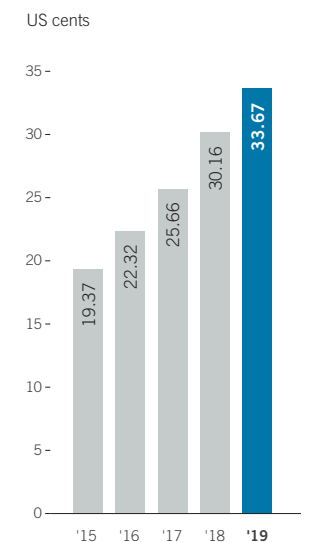
Outpaced our topline growth



Basic Earnings per Share

+11.6%
US33.67 cents

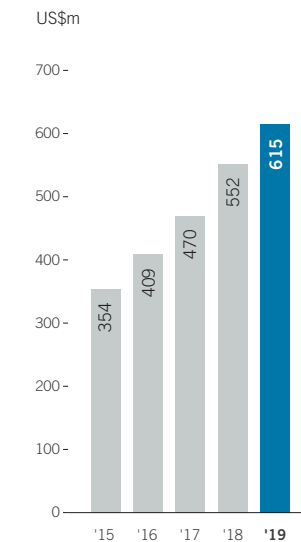
Delivered the twelfth consecutive year of record basic EPS



Net Profit

+11.3%
US\$615 million

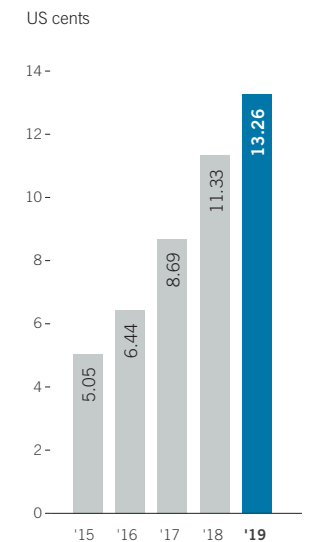
The development of new products and expansion across all categories



Dividend per Share

+17.0%
US13.26 cents

The final dividend is US\$7.46 cents per share

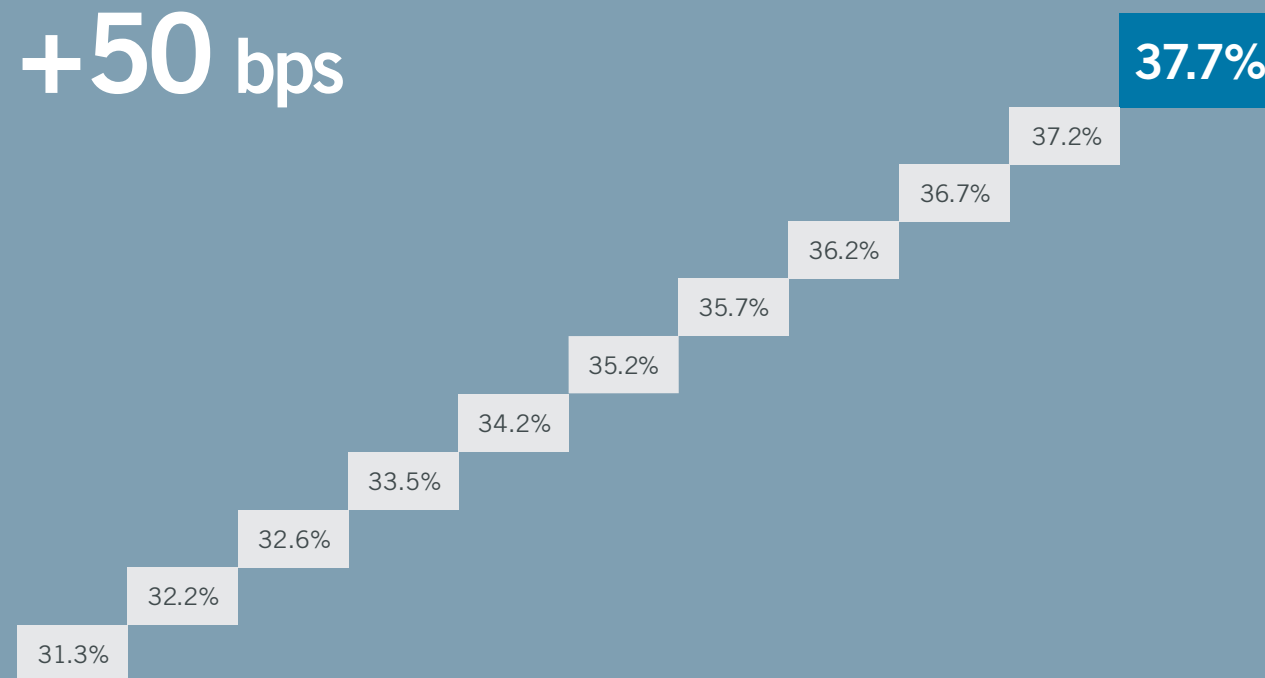


11th consecutive year of Gross Margin improvement

Gross Profit Margin

'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
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+50 bps

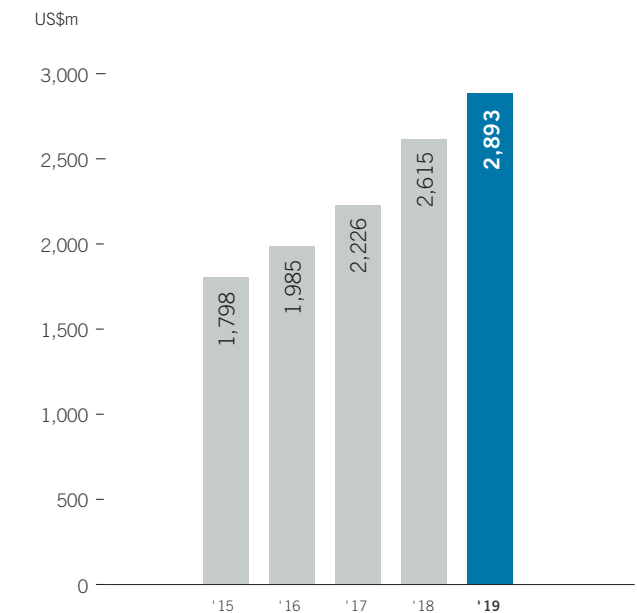


For the year ended December 31, 2019

Gross Margin Improvement

+10.6%
US\$2,893 million
 Drive Gross Margin Improvement

Gross Profit



+50 bps
37.7%
 Gross Margin % improved from 37.2% in 2018

8 years of at least
+50 bps
 Annual Gross Margin % Increases

US\$278 million
 Gross Profit Increase

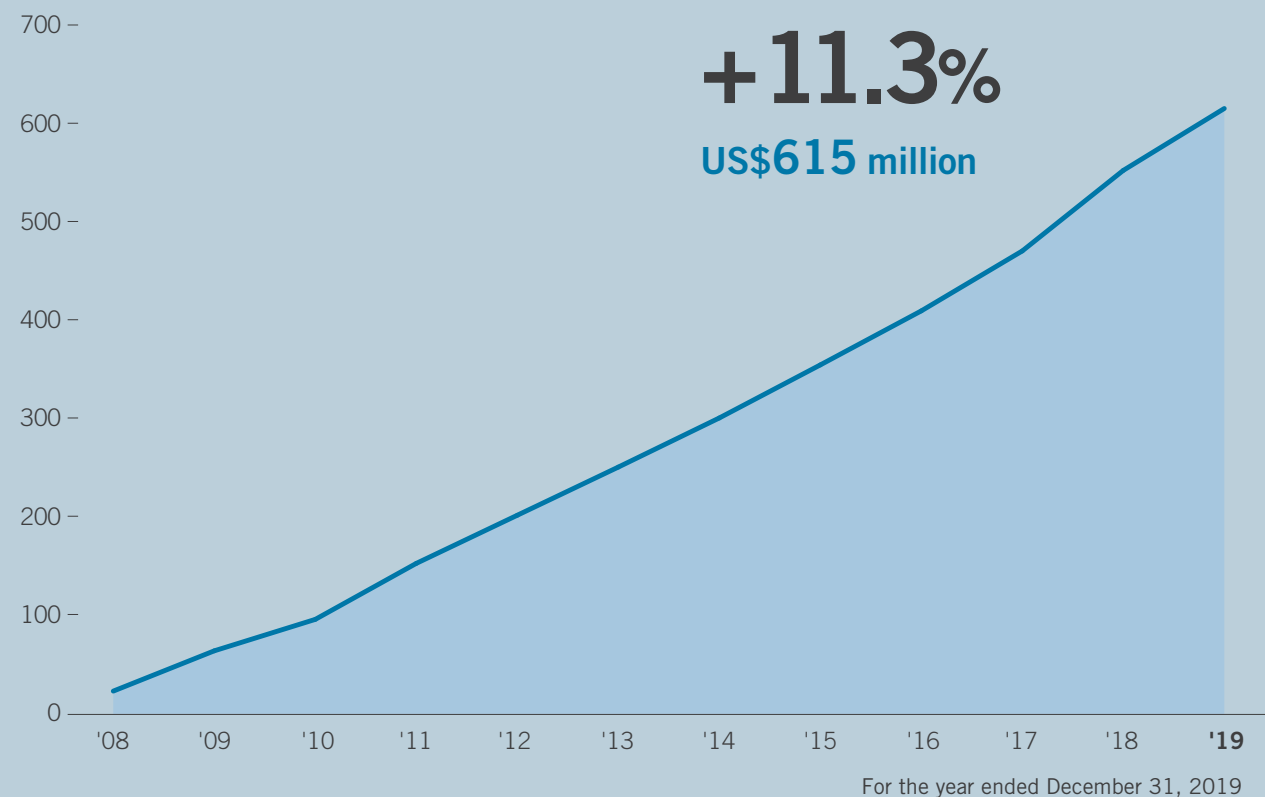


12th consecutive year of record profit

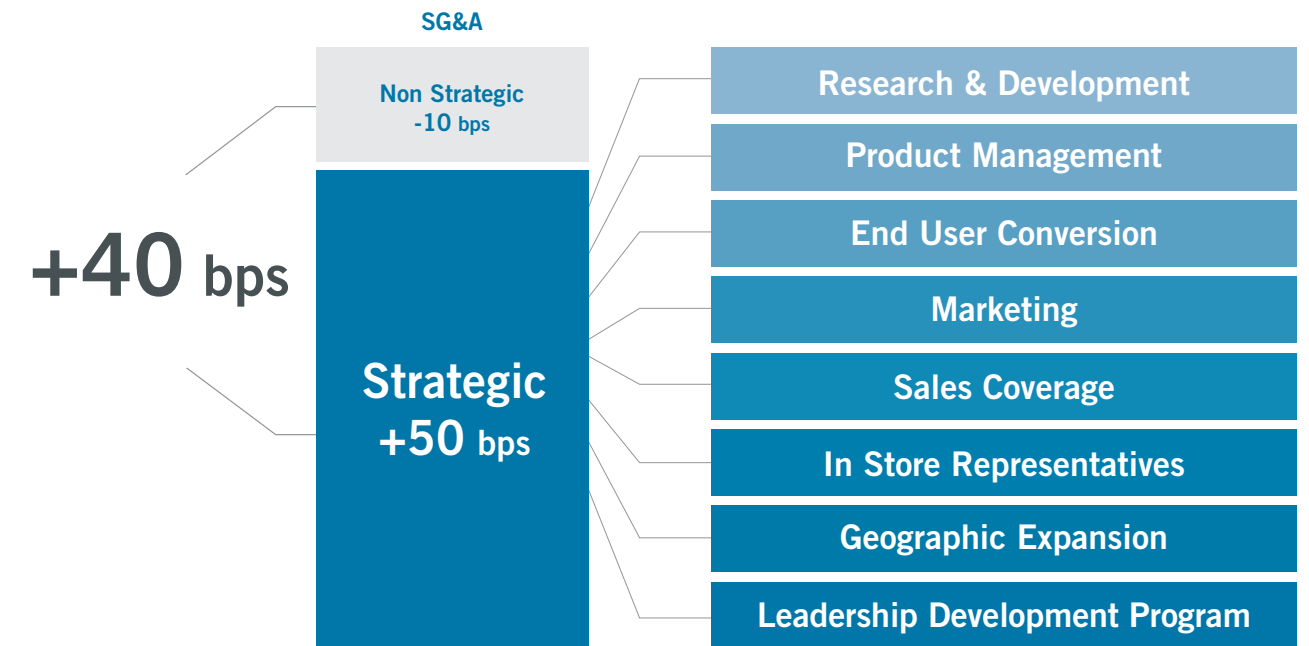
- EBIT margin improved 10 bps to 8.8%
- Net profit margin grew to 8.0% as compared to 7.9% last year

Net Profit

US\$m



Strategic SG&A Investments



2019 Working Capital

	2019 US\$' million	2018 US\$' million	Changes
Inventory	2,113	1,767	+9 days
Turnover Days	101	92	
Receivables	1,161	1,089	-2 days
Turnover Days	55	57	
Payables	2,177	1,922	+4 days
Turnover Days	104	100	
Working Capital as a Percentage of Sales	+14.3%	+13.3%	+1.0%

Chairman's Statement



“I am proud to report that TTI had a strong year of financial performance with record profits delivering a decade of consecutive annual revenue growth.”

I am pleased to announce our 2019 performance achieved record profits marking a decade of revenue growth. We built on our strong first half performance by delivering record second half results, driven by the development of new products and expansion across all categories, verticals and geographies.

Gross margin, EBIT, and net profit outpaced our impressive topline growth. TTI enters 2020 with a formidable record of industry leading performance, focused on our strategic drivers of powerful brands, innovative products, leading edge technology, exceptional people, and operational excellence.

Solid Corporate Performance

TTI reported sales of US\$7.7 billion, an increase of 9.2% over 2018 and 10.7% growth in local currency. The defining force behind our sustained success is our cordless leadership strategy. We continue to expand our cordless product families by further investing in our core lithium battery platforms, driving cutting-edge brushless motor technology and developing state-of-the-art electronics and power management systems. The result is a flow of new products with demonstrable end-user benefits. Our flagship Power Equipment business, representing 88.6% of total sales, grew 13.0% to US\$6.8 billion. Driving this stellar performance is our Milwaukee Tool business with another year of impressive performance of 21.7% growth in local currency while the RYOBI ONE+ business generated a high single digit sales increase. We continued to make progress in

the Floor Care and Appliance business with the strategic cordless and carpet washing categories up 18.9% over 2018. The overall Floor Care business declined 13.5%, however EBIT improved 12.8% as we strengthened the division by exiting certain European markets and discontinuing non-strategic legacy categories. Despite the sales decline, we are very encouraged with the performance of our cordless and carpet washing categories, which have both been well received by the market and have delivered significant growth.

TTI continued to consolidate and strengthen its position in North America delivering industry leading growth of over 10.2% while EMEA grew an outstanding 13.5% in local currency. Our selective geographic expansion into targeted under-represented markets is progressing with successes in key markets in the Nordic and Eastern European arena. In rest of world, Australia and our Asia businesses again produced another excellent year with above market growth at 10.0% in local currency.

Continuing Operational Excellence

Our flow of high margin new products, mix management, productivity gains and volume leverage helped drive the gross margin up for the 11th successive year. Gross margin expanded from 37.2% in 2018 to 37.7% in 2019. We maintained a relentless focus on operational excellence through the TTI OPEX System, generating efficiencies throughout our operations and expanding the supply chain beyond the traditional base. To support our rapid growth,

we have made investments to expand our global manufacturing footprint in Asia, Mexico and the USA. Our manufacturing operation in Vietnam which has expanded rapidly over the last year has now become a strategically important part of our global manufacturing operations. These initiatives are delivering world-class service levels, high quality products, while helping us mitigate headwinds, including tariffs, and positioning TTI for future growth.

Delivering Financial Performance

EBIT increased 10.9% to US\$673 million, with the EBIT margin improving by 10 basis points to 8.8%. Shareholders' profits rose 11.3% to US\$615 million, with earnings per share increasing 11.6% over 2018 to US\$33.67 cents. Through our disciplined working capital management, we delivered a gearing of 0.5% and working capital as 14.3% of sales.

The Board is recommending a final dividend of HK\$58.00 cents (approximately US\$7.46 cents) per share. Together, with the interim dividend of HK\$45.00 cents (approximately US\$5.79 cents) per share, this will result in a full-year dividend of HK\$103.00 cents (approximately US\$13.26 cents) per share, against HK\$88.00 cents (approximately US\$11.33 cents) per share in 2018, an increase of 17.0%.

High-Performance Strategy

A core foundation for our continued success has been an uninterrupted strategic focus on cordless technology over the years. We have remained dedicated to the four strategic pillars of Powerful Brands, Innovative Products, Exceptional People and Operational Excellence that have allowed us to concentrate on building an organization that delivers sustained performance, growth and profitability. TTI has followed its cordless leadership strategy in prioritizing the development of the cordless technologies necessary to bring revolutionary and ergonomic products to our end-users. We are leveraging our global product development resources and enhancing our well established power tool battery platforms for MILWAUKEE and RYOBI that are the most extensive in the industry as well as our newly launched battery platform for our floor care business. We see a bright future as we pursue the expansion of our cordless technology into new product categories.

We have identified new targets which are in line with our product development. An exciting and revolutionary development is the launch of the industrial MILWAUKEE MX FUEL Equipment system. The system is the result of extensive research and development into the industrial construction and maintenance equipment industries. This new groundbreaking cordless system is the platform that provides the technology and capability for Milwaukee Tool to step into the light equipment space.

Strong Outlook

TTI has an enviable track record of organically growing the top and bottom lines faster than our competitors. Looking forward, we have outlined strategic targets for expanding the product families around our leading MILWAUKEE and RYOBI battery platforms, entering new vertical markets and selective geographic expansion which create exciting opportunities for continued, above-market, sustained growth. These targets are aligned with our investments in R&D, strategic SG&A and new product development teams to continue delivering a flow of technically advanced innovative products that are fundamentally changing the way our users work at home and on the jobsite.

The Coronavirus is a global concern and with the situation as it currently stands today, we believe that we are well positioned given our diversified manufacturing base and supply chain to deal with the challenges that may present themselves and we are confident we will be able to deliver a solid 2020.

TTI remains committed to our strategic initiative of expanding our cordless leadership. One of the key factors is TTI OPEX which supports our world class product development system, drives deep management discipline and financial rigor. TTI is highly focused on further developing our world-class organization and has a pool of talent progressing through our Leadership Development Program. We are dedicated to stringent governance practices, sustainability and to increasing our positive impact on the environment.

I would like to thank our loyal customers, suppliers, shareholders, Board and entire TTI organization for another outstanding year. Our dedicated, skilled and passionate teams across the globe are enabling us to continuously achieve outstanding results. It is our unrelenting bold vision, customer focus and business momentum that will make 2020 another successful year and position TTI with exciting opportunities in the decade to come.

Horst Julius Pudwill
Chairman
March 4, 2020

Chief Executive Officer's Message



“We are not just selling more cordless power tools than the competition, we are building a great tool company for the future.”

TTI continues to outpace the competition by accelerating the transition to cordless tools and equipment, delivering impressive organic growth while consistently generating gross margin improvement and record earnings. This extraordinary performance marks the success of our bold strategy, our powerful culture of execution and commitment to our deeply entrenched TTI OPEX System. We are at the leading edge of the cordless revolution in power tools, outdoor products, floor care and now light equipment with our innovative, zero emissions cordless products. It is through this strategic direction and tremendous drive that TTI reliably delivers on the financial goals of outgrowing the market, driving continuous gross margin improvement, investing in strategic SG&A and growing profit faster than sales. Our relentless cordless technology creation, new product development, geographic expansion and manufacturing advancements have TTI positioned for extraordinary future growth.

Unassailable Competitive Advantages

Our business strategy generates unassailable competitive advantages through in-house technology investment in which we have the capacity and capability to develop sophisticated cordless system components in brushless motors, battery technologies, advanced electronics and proprietary software. Our growing scale allows us to

generate more advanced technology, expanding our competitive advantage and generating a virtuous cycle of new innovative products.

- Initiatives like our new Advanced Energy Center are set to impact the evolution of battery technologies enabling future breakthrough cordless product successes. This state-of-the-art facility focuses on next generation battery system technology, evaluation, prototyping and testing which integrates with our deep competency in cordless system technologies and manufacturing proficiencies for the creation of breakthrough innovative product solutions.
- We have taken the next step in revolutionizing the power tool industry with the MILWAUKEE MX FUEL ground-breaking system of cordless light equipment. The MX FUEL system is a super high-voltage lithium cordless platform designed to replace continuous use corded electric, gas and hydraulic driven products. We view this equipment launch as an incredibly significant and historic event because we are making a statement that lithium powered products are truly superior to traditional powered equipment. The breakthrough MX FUEL system is replacing outdated power sources with ultra-clean, ultra-safe cordless technology.

Superior Performance Commitment

A company-wide commitment to superior performance drives our organization, fuels our culture and defines our processes. TTI has established a highly tuned new product innovation machine. We vigorously drive our TTI OPEX System throughout the company by measuring results, improving productivity, eliminating waste and unnecessary costs, controlling non-strategic overhead and SG&A. It is the stringent application of our TTI OPEX System coupled with successful new products that produces an endless cycle of improvement, generating gross margin increases, funding new product development and marketing programs.

- Our team has done a magnificent job mitigating tariffs and excelling in today's dynamic environment. We are in a strong position with our diversified manufacturing base and flexible, broad supply chain reach. TTI is prepared for sustained growth with the significant manufacturing expansion into Vietnam and Mexico, the move to US manufacturing of our carpet-washing category, and the announced hand tool manufacturing facility in the US. We continue to be encouraged about the momentum in our global operations and the improvements generated from our disciplined TTI OPEX System.
- We have an exceptional culture and the best team in the industry. The impressively talented TTI leaders are both rigorously developed at TTI and selectively chosen from the industry. The team is driving our business success on a growing global scale. Our successful leaders have the drive and passion to

achieve vast product and industry knowledge, and create a culture of high-performance and accountability in their organizations. It is our relentless, focused, motivated and outstanding people who differentiate TTI from our competitors. The growing scale of the TTI enterprise demands our highly competent leadership and robust management processes to drive success at every level of the organization. It is our exceptional TTI team which will confidently deliver our outstanding performance in the future.

- LDP (Leadership Development Program) is uniquely important in the development of our exceptional leaders to support and feed our growth. We feel strongly that our recruiting, hiring, mentoring and organizational development process are absolute TTI strengths. The process begins with investing in campus recruiting and hiring into our thriving LDP top level, high-potential college graduates from over 100 campuses. Started over twelve years ago, this investment has generated a pipeline for superstars that are populating our sales, marketing, engineering, purchasing, supply-chain, manufacturing and finance disciplines throughout the company around the world. Today, some of these LDP graduates hold roles as vice president and president. Utilizing a unique to TTI highly selective process which identifies high-potential candidates, we are planning to hire over 770 graduates from top universities in 2020. Our vision is to develop more and more of our talented LDPs to progress quickly into meaningful leadership roles throughout the organization.

Financial Goals



Vast Growth Opportunity

We have vast growth opportunities in our core professional trade, industrial markets and DIY markets and are reaching incremental new markets further expanding our future potential. The Network Effect from our leading cordless battery platforms continue to gain traction, generating an unassailable advantage.

- Milwaukee Tool has built the world's broadest, best-selling line of full-size lithium cordless in M18, dominates the subcompact category with M12, and introduces MX FUEL as the first ever real light equipment replacement, another game-changing technology. Benefiting from our cordless new product stream and extensive MILWAUKEE product family we are growing with our core mechanical, electrical and plumbing trades and expanding into carpentry, remodeling, transportation and power utility with more increment verticals being targeted.
- The RYOBI brand is transforming the global DIY market with ONE+ and 40V battery systems powering the industry's broadest range of tools and outdoor products. The relentless transformation to cordless brings massive opportunities for the RYOBI brand and we are building out our ONE+ and 40V families. The full suite of RYOBI mowers is leading the cordless revolution in outdoor products. We see growing demand for

batteries, tool replacement and tool upgrades generated through the Network Effect of our battery systems. The future of our floorcare business is promising as HOOVER and VAX implement our strategic cordless leadership strategy with new products utilizing the detachable ONEPWR battery platform.

- Our strategically targeted geographic expansion continues to deliver results. The European theater of operations is a major focus with great potential for TTI. We are delighted with our accelerating growth rates being achieved throughout the European market. Canada, and Australia and New Zealand are bright successes where we have substantially outperformed the market and hold commanding leadership positions with our key brands. Asia is an emerging opportunity for TTI. We are highly selective where we invest. Asia is a professional market and we are focused on building the Milwaukee Asia business one country after another.

Strategic Approach to Sustainability

TTI's cordless leadership strategy is transforming older technologies with new environmentally friendly lithium battery tools and equipment. Through our zero emissions cordless products and employment of best practices in battery recycling, product refurbishment and packaging reduction we are actively contributing to the global

sustainability initiative. Our commitment to sustainable business practices in the Environmental, Social and Governance (ESG) arena is of utmost importance, and will continue to be an important factor in TTI's strategies going forward.

Breakthrough Leadership

I am sincerely inspired by our industry leading performance. We have achieved great success delivering a decade of impressive results. TTI has created a powerful platform with our extraordinary brands, highly focused new product development teams, TTI OPEX System and targeted geographic expansion. We strive for breakthrough leadership in cordless technology and product innovation, thus creating a seismic shift in growth opportunities. We are set to continue delivering consistent growth in gross margins thanks to highly strategic investments in productivity, mix and accretive new products, plus efficiencies from volume leverage. Our teams have built outstanding partnerships with great customers around the world. TTI is embarking on the next decade of industry leading performance and cordless leadership.

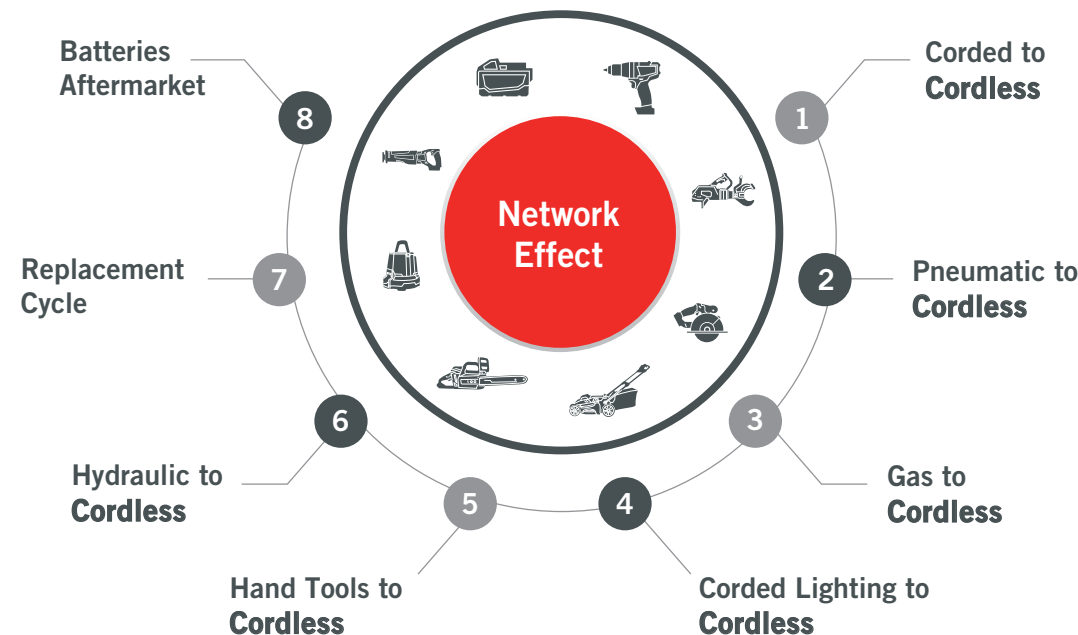
I deeply appreciate the tremendous mentorship and guidance provided by our Chairman, Horst Pudwill, during our record breaking year in 2019. His bold vision generates exceptional clarity and drive which are the foundations of our high-performance culture.

At its very beginnings, Horst sent TTI on the cordless leadership path. This foresight and unwavering commitment to cordless technology and confident investments to deliver industry changing cordless products have TTI positioned for continued record achieving results. It is this bold, cordless vision that Horst and I share for building an exceptional future at TTI.



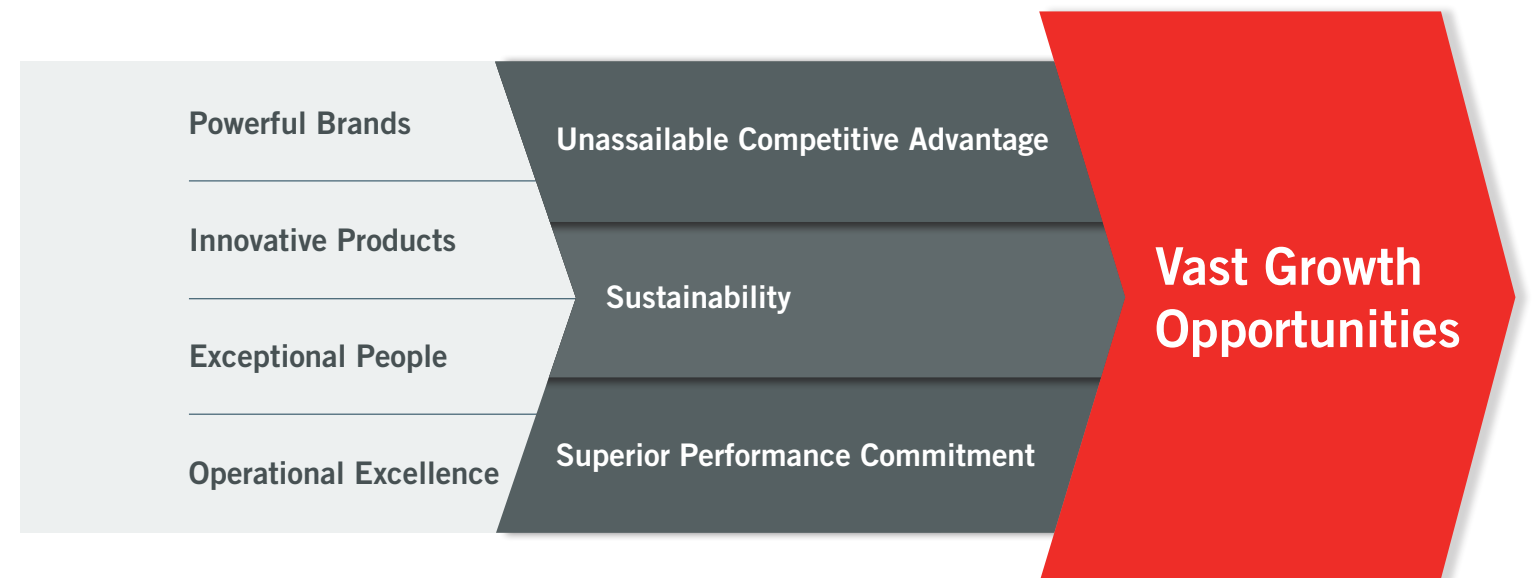
Joseph Galli Jr
Chief Executive Officer
March 4, 2020

Cordless Leadership



Our Strategic Focus

TTI has a powerful strategy and a disciplined process that create vast growth opportunities.



Our Strategic Focus



MILWAUKEE M18 FUEL 1" High Torque Impact Wrench with ONE-KEY

MILWAUKEE M18 FUEL 1" High Torque Impact Wrench with ONE-KEY is the world's first cordless 1" High Torque Impact Wrench. The POWERSTATE Brushless Motor delivers up to 1,800 ft-lbs of torque, making this the most powerful cordless impact wrench. The ONE-KEY technology, featuring the ability to Customize, Track and Manage the impact wrench, also has repeatable torque output for maximum control.

Unassailable Competitive Advantage

TTI is at the forefront, transforming the global market for industrial, professional and DIY tools and equipment from traditional power sources to revolutionary lithium cordless power. We have been investing in technologies ranging from lithium batteries, powerful brushless motors to the system electronics necessary to develop product innovations that are disrupting our industry. This unrelenting dedication to advancing cordless technologies are underpinning product innovations aimed at performance, safety, reliability and productivity for the user while minimizing the environmental impact. The TTI product portfolio is filled with breakthrough cordless products with innovative user benefits and features. TTI holds an unassailable leadership position with cutting-edge cordless battery platforms and their extensive range of innovative products.

| Breakthrough Technologies | Product Innovation

Breakthrough Technologies

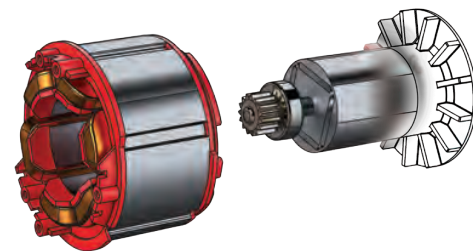


DRIVEN TO OUTPERFORM.

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 200+ 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

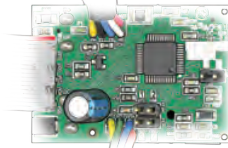
LONGER MOTOR LIFE | MORE POWER | MORE RUN-TIME



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.

- Over 2X more recharges than leading competitor
- Fuel gauge displays remaining charge
- Operates Below -18°C / 0°F



Unassailable Competitive Advantage

Product Innovation



EQUIPMENT REDEFINED TRADE FOCUSED SYSTEM WIDE

The MX FUEL Equipment System revolutionizes the light equipment market by delivering the performance, run-time and durability demanded by the trades without the hazards associated with emissions, noise, vibration and the frustrations of gas maintenance. This completely compatible system goes beyond the limitations of gasoline and power cord units, utilizing the industry's most advanced batteries, motors and electronics to deliver a best-in-class experience for users. This is Equipment Redefined.



Unassailable Competitive Advantage

Product Innovation



Continued 40V Innovation

The cordless revolution continues with the addition of innovative new RYOBI 40V products and the expansion of brushless tool offerings. Each tool is powered by a 40V lithium-ion battery that is compatible with all RYOBI 40V tools, allowing for endless lawn and garden project possibilities on a single battery platform.

#1 Cordless Lawn and Garden Brand*

RYOBI remains the #1 Cordless Lawn and Garden Brand in the US* with a wide range of tools, cutting-edge technology, and GAS-LIKE POWER. The 40V platform offers a variety of tools such as string trimmers, lawn mowers, blowers, chain saws, and more.

* Based on TraQline 2019 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.

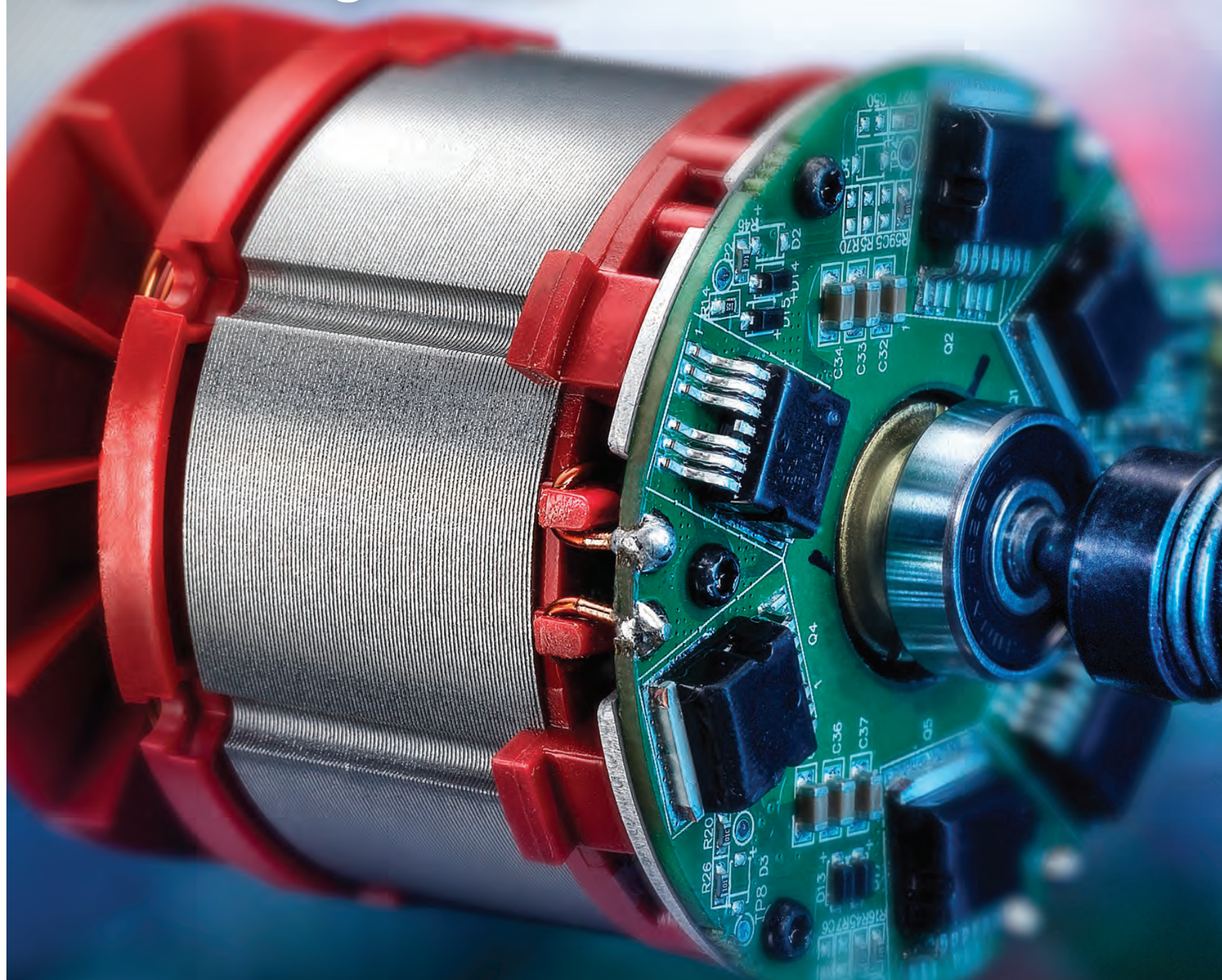


RYOBI 40V 21" Brushless Self-Propelled Mower

RYOBI redefines power and convenience with the new 40V 21" Self-Propelled Cordless Lawn Mower. Combining 40V of lithium power with advanced brushless technology, this mower delivers GAS-LIKE POWER, surrendering nothing but gas. The high capacity 7.5 Ah battery delivers maximum run-time and instant power to cut up to half an acre on a single charge.



Our Strategic Focus



MILWAUKEE M18 FUEL 6½" Circular Saw Brushless Motor

Superior Performance Commitment

TTI relentlessly drives robust processes in new product development, operations and supply chain, organizational development and cost management at all levels of the Company. Our new product development is connected across numerous R&D sites, operating 24/7, generating innovative new products on a growing scale. We have diversified our focused manufacturing capabilities in Asia, North America and Europe as part of our operations strategy. Operations and global supply chain harness cost efficiencies with the flexibility to handle our growth while adapting to an ever-changing market. At the core of our superior performance commitment is the TTI OPEX System which extracts cost savings, improves quality and delivers productivity in all functions. Driving these processes is the TTI organization, which is built on a foundation of internally developed high performance leaders trained and mentored through our Leadership Development Program (LDP). TTI has the organization, systems and processes committed to delivering superior performance.

New Product
Machine

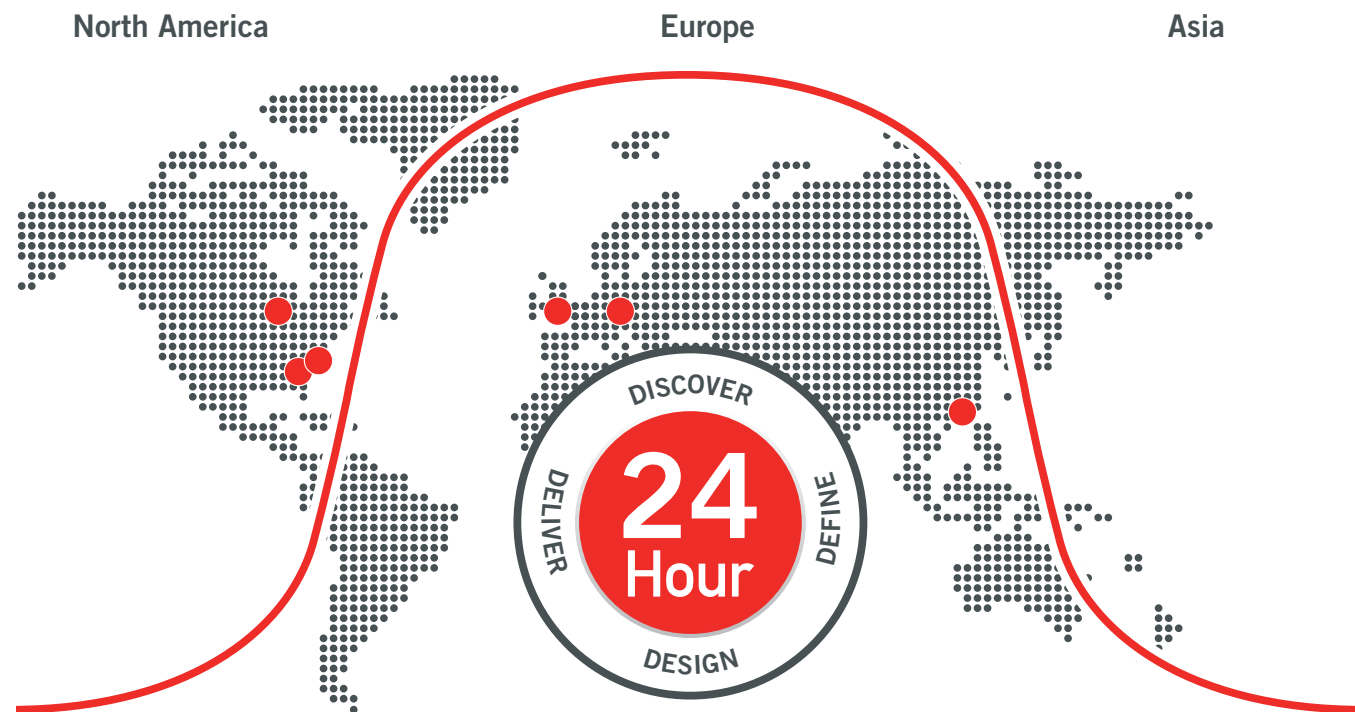
Operational
Excellence

Leadership
Development
Program

New Product Machine

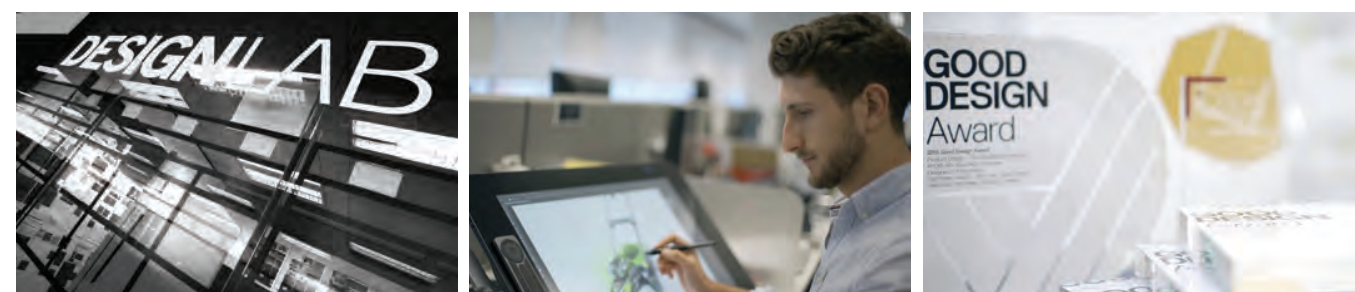
A TTI strategy is the investment in R&D to drive innovative, technology-rich product development. We have built a powerful high-speed new product development system that delivers a continuous stream of innovative new products to improve the performance, safety and productivity of our users. Our innovation network of world class

Concept Centers includes researchers, designers, engineers and product experts, working collaboratively across multiple time zones around the globe. The TTI New Product Machine is introducing one breakthrough product after another and delivering a high level of product vitality year after year.



24 HOUR R&D, Delivering New and Innovative Products at High Speed-to-Market

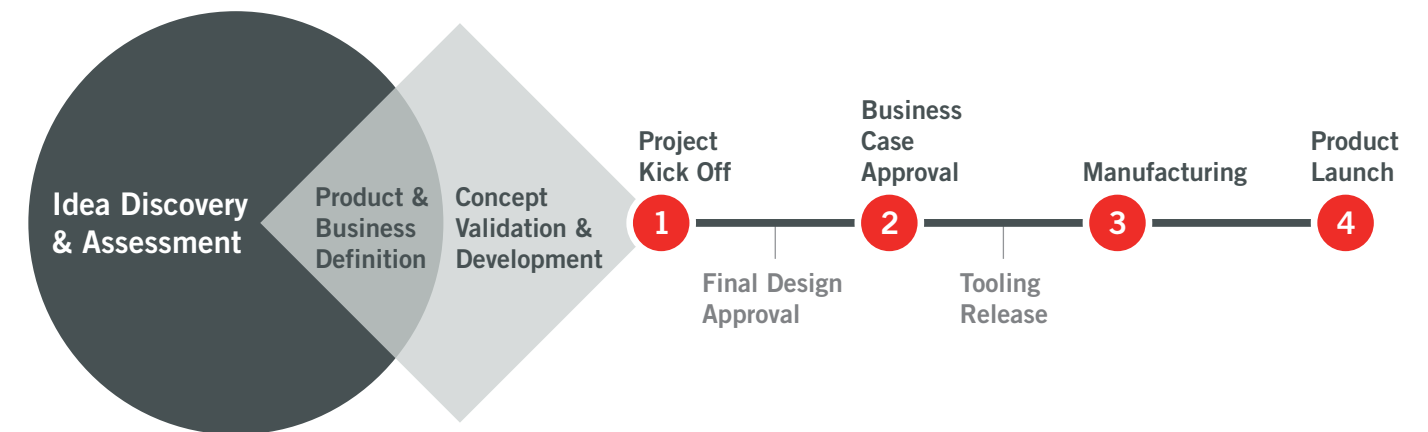
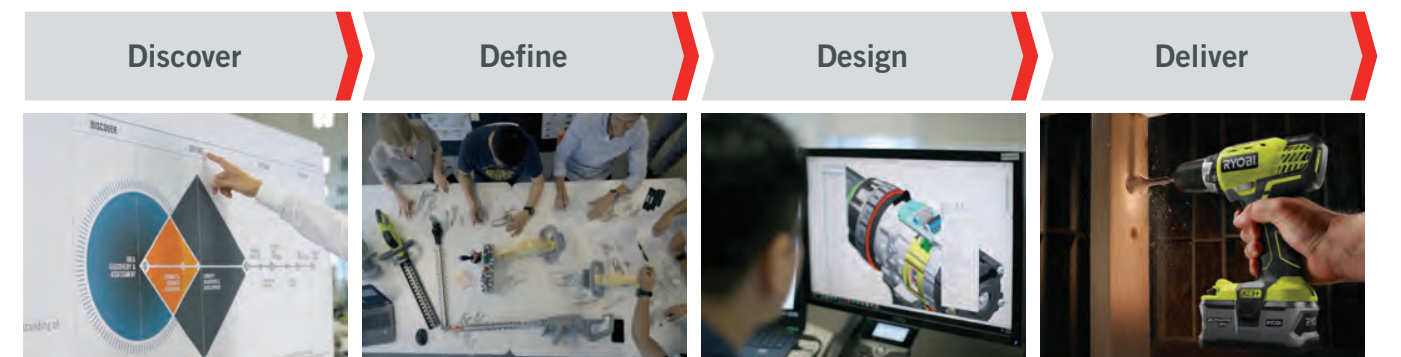
<p>World Class Concept Studios 6 studios across 3 continents North America Europe Asia</p>	<p>High Caliber Talent Multi-disciplinary concept staff consisting of researchers, designers, engineers and product experts</p>	<p>Product Impact Over 100 international design awards in 2019</p>
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Process

Creating and launching new products at TTI is a strategic and rigorous process that ensures high quality, game changing technology and innovative products. Our process, broadly defined in the four phases of discovery, define, design and delivery, connects user insights with

brand, technology and leading-edge cordless solutions. Our world-class product development teams drive the process delivering speed-to-market competitive advantage.



Innovation

TTI new product development initiates with researching trends, gathering insights with users and on jobsites, and defining concept solutions through the latest design software and 3D rapid prototyping capabilities. Our advanced engineering capabilities are deep into technology, materials, software development and design,

envisioning and producing the next generation of breakthrough products. Through the TTI centers of development excellence in North America, Europe, Australia and Asia, we rapidly progress from concepts to innovative products.



Operational Excellence

Strategic Global Manufacturing Diversification

TTI has a global manufacturing footprint providing strategic geographic diversification. We are globally aligned in production and supply chain capacity to support our growth. We source and manufacture in the best cost locations to supply our global businesses. TTI has moved rapidly to expand operations in Vietnam, US and Mexico bringing capacity and balance in the face of global uncertainties.

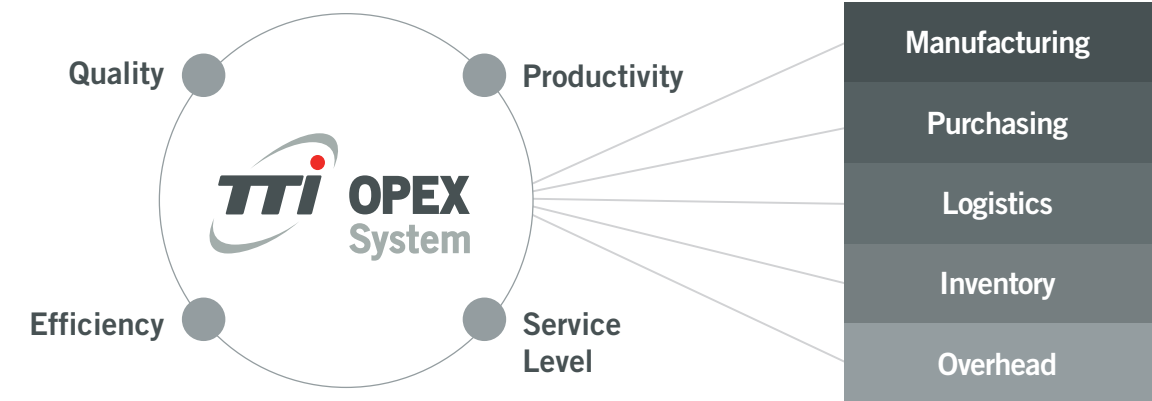
As all our manufacturing facilities execute the TTI OPEX System, cellular and lean manufacturing practices are vertically integrated on key components and linked to our global purchasing network. Our global manufacturing and supply chain allow rapid response, best cost and are diligently focused on service.



Operational Excellence System

TTI has a relentless focus on Operational Excellence. Through a disciplined execution of the TTI OPEX System, we are generating efficiencies throughout our operations. The TTI OPEX System establishes performance targets and measures results that

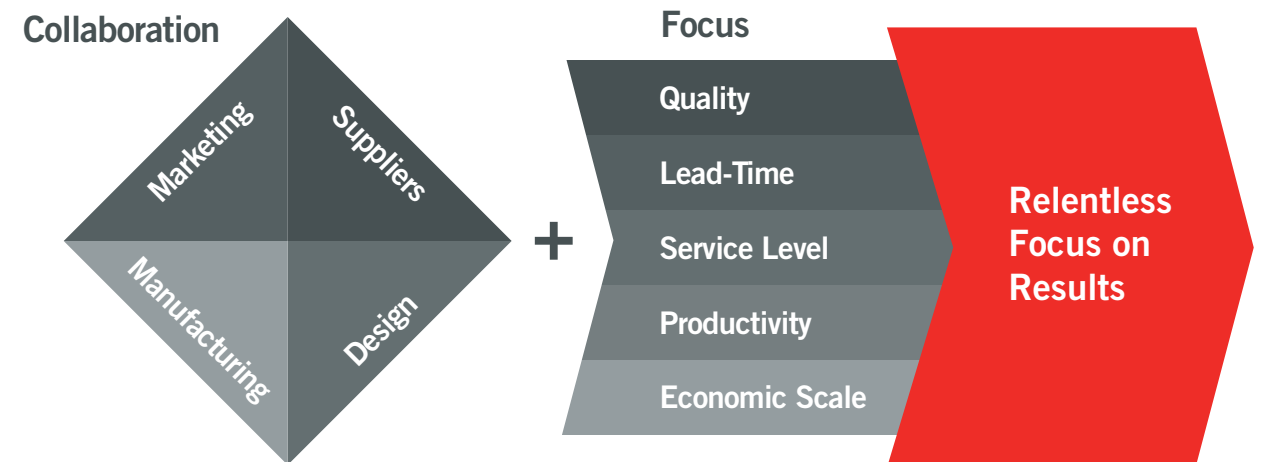
improve productivity and quality, eliminates waste and unnecessary costs, and controls non-strategic overhead. Our TTI OPEX System generates a cycle of improvement at all levels of operations.



Superior Supply Chain Management

TTI understands the importance of continuous engagement and collaboration throughout our product development cycle. Our high performance products and breakthrough technologies demand supplier partnerships and process coordination. By driving our process of collaboration, we are delivering innovation, best costs and superior quality products.

We are highly focused on our Performance Scorecard Goals to improve our supply chain productivity and efficiency, deliver high quality, lower costs and support our expanding scale. TTI supply chain process integrates with suppliers to align impactful improvements like lead-time reductions, JIT inventory and other cost eliminating activities. We are aggressive in managing our global supply chain partners to deliver flexibility, support the flow of TTI disruptive innovations and drive to outperform our Performance Scorecard Goals.



Superior Performance Commitment

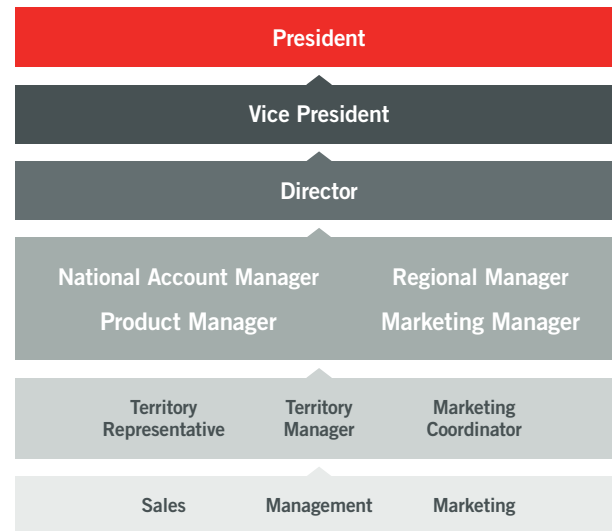
Leadership Development Program

Since its inception in 2007, the TTI Leadership Development Program (LDP) has been a key initiative with the recruitment of high-potential graduates from top universities for a vast array of job roles followed by dedicated systems focusing on training, mentoring, and promoting.

Over the last 13 years, TTI has hired over 4,000 LDPs with many becoming leaders within the organization and a number serving in international positions. Our flourishing LDP program continues to grow and has been expanded worldwide from the USA into Europe, Canada, Latin America, Australia and New Zealand.

TTI continues to invest in its LDP program and plans to hire over 800 graduates in 2020. Our unwavering commitment to the program will continue to propel TTI's growth and feed talent into key positions throughout the company, forming the foundation of future TTI leaders.

LDP Career Path



Global LDP Hires – 2007-2019



LDP 2019 – Campus Hires



Our Strategic Focus



MILWAUKEE MX FUEL 25KG Class 28mm Hex Breaker

This breaker is the most productive, lowest vibration, lightest weight cordless breaker in the industry. It can power 2 tons per charge, and has a runtime of up to 90* minutes with the XC406 REDLITHIUM extended battery. An unbeatable faster, safer and easier way for demolition.

* 35 minutes runtime with the CP203 battery.

Vast Growth Opportunities

TTI believes that the expansion of cordless technology into new categories and businesses is vast. Removing cords, hoses, and gasoline from all job sites appeals to every professional and homeowner because it reduces costs, creates a safer work place, increases productivity and benefits the environment. We have targeted cordless as the future of power tools and equipment. The TTI portfolio of powerful brands are the names on the world's leading cordless platforms and product families. Our new product development is targeting incremental new categories and vertical markets, further expanding our user base and battery network. Bringing the benefits of TTI cordless technology to strategically targeted geographies is adding to our user network around the globe. As the mounting network effect from our leading cordless battery platforms continue to gain traction, we are generating vast growth opportunities.

Platform
Expansion

Category
Expansion

Vertical
Expansion

Geographic
Expansion

Vast Growth Opportunities

Platform Expansion



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 100 professional cordless solutions focused on providing tool belt portability, without sacrificing power and speed.



Vast Growth Opportunities

Platform Expansion



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 200 performance-driven solutions so users can perform an entire day's work on one battery system.



Vast Growth Opportunities

Platform Expansion



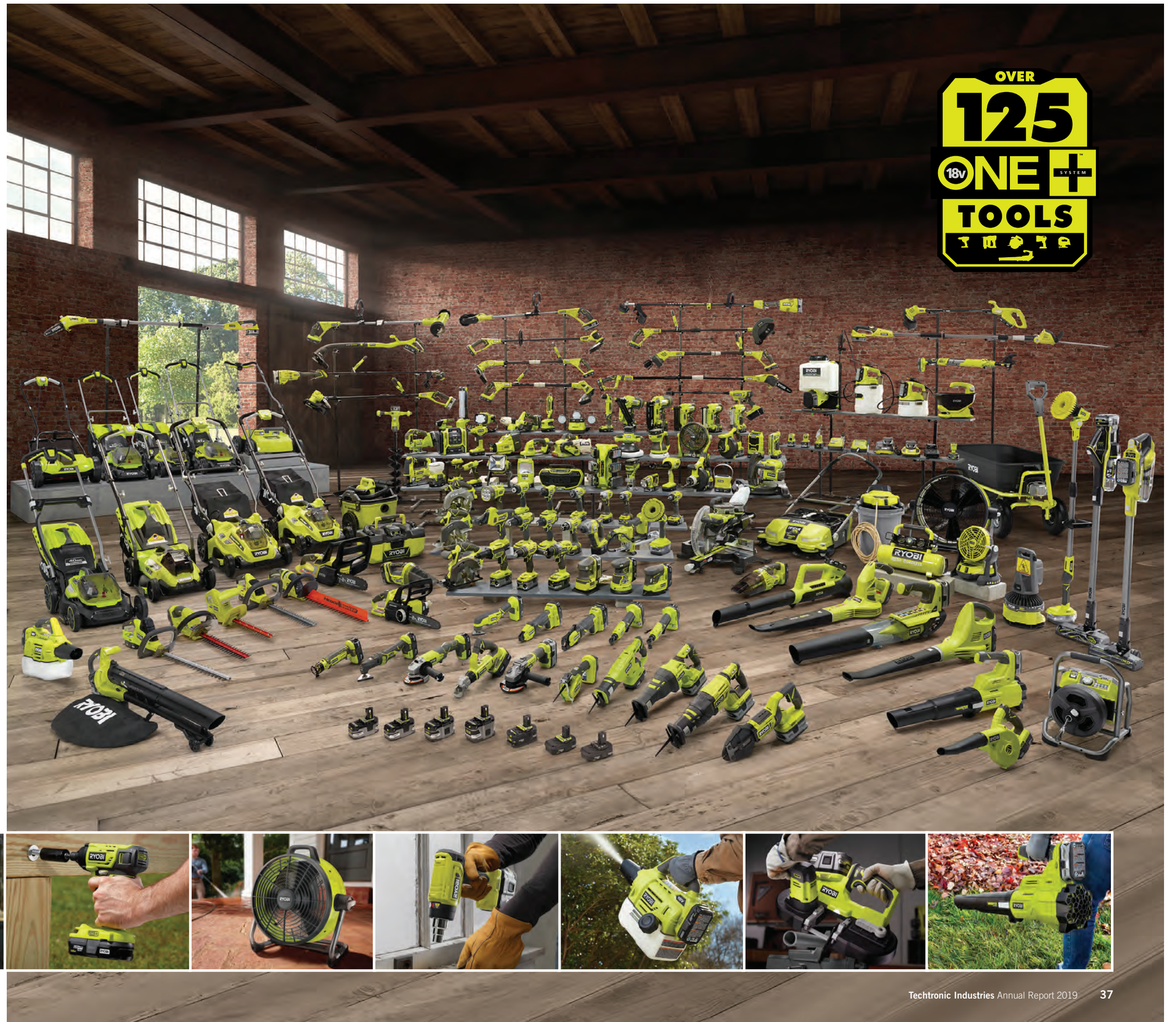
Technology Leaders

RYOBI leads the industry when it comes to innovation. From Consumer Power Tools to Outdoor Power Equipment, we combine state-of-the-art technology with customer-focused value and features. Every year, RYOBI offers more tools with brushless technology, giving our products the edge in power, runtime and life expectancy. Battery improvement is an on-going obsession, as we work toward better performance, smarter features, and wider selections.

ONE+ System

When the 18V ONE+ platform first launched in 1996, RYOBI's ambition was to create a tool family that never goes out of date. Using the same 18V battery pack, RYOBI continues to improve, innovate and update the ONE+ family, all without abandoning the customers who made our tools a household staple over 20 years ago. All tools and batteries from 1996 through today are compatible in the ONE+ system.

Today, RYOBI ONE+ is the most popular Consumer Power Tool brand in the US, and DIY enthusiasts worldwide look to ONE+ to deliver the industry's most advanced, affordable tools. The RYOBI 18V ONE+ family offers an extensive tool and battery selection to meet our consumer's every need – from lawn care to home construction projects and everything in between.



Vast Growth Opportunities

Platform Expansion



ONEPWR Platforms

Leveraging the HOOVER and VAX brand's core strengths and TTI's leadership in battery technology, the ONEPWR platforms offer a differentiating proposition that other brands can't replicate. The ONEPWR system is an innovative family of cord-free, high-performance cleaning products that share the same removable and replaceable lithium-ion battery platform. ONEPWR is the first true

cordless cleaning system, combining advance lithium-ion battery technology with high performance cordless floorcare products. ONEPWR offers brilliant products for multiple cleaning applications without the added expense of having to purchase a new battery every time you want a new product.



POWERDASH PET Carpet Cleaner

SMARTWASH Carpet Cleaner

The POWERDASH PET Carpet Cleaner has proven to be one of the best-selling carpet cleaners ever. Convenient, compact and effective, POWERDASH provides an affordable option for many consumers. Additionally, HOOVER's line of pre-treatment and cleaning solutions are formulated to offer a deep clean and leave carpets looking and smelling fresh.

Eliminate the guesswork with SMARTWASH, 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.



PLATINUM POWER MAX Carpet Cleaner

VAX is the UK's number one name in carpet washing. VAX Antimicrobial carpet washers are the more hygienic way to clean your carpets. VAX's Antimicrobial treatment protects your machines brushes from bacteria and fungi, reducing growth by up to 99%. Our antimicrobial treatment is guaranteed to last the lifetime of the product. Don't rent someone else's dirt and germs. Doing it yourself is easier and more hygienic than ever.

The PLATINUM POWER MAX is the UK's number 1 best-selling carpet washer. The PLATINUM POWER MAX is proven to out clean the UK's leading rental machine and removes 93% bacteria, leaving your carpets looking, feeling and smelling like new. For ease of use, in quick clean mode, carpets are dry in under an hour.



Vast Growth Opportunities

Category Expansion



PACKOUT
MODULAR STORAGE SYSTEM

In 2019, 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 new-to-the-world PACKOUT modular storage system delivering the most versatile and durable storage, MILWAUKEE develops its products from the ground up, disrupting stagnant categories in the market.



PERSONAL PROTECTIVE EQUIPMENT

STAY SAFE.  STAY PRODUCTIVE.

Personal Protective Equipment has seen little innovation over the years, driving users to modify their gear to better meet their needs. MILWAUKEE has developed PPE from the ground up, delivering hard hats that allow users to adapt to each job and safety glasses that can be worn all day with lasting fog-free lenses. MILWAUKEE is focused on creating innovative solutions that won't slow users down, helping them stay safe and stay productive on the jobsite.

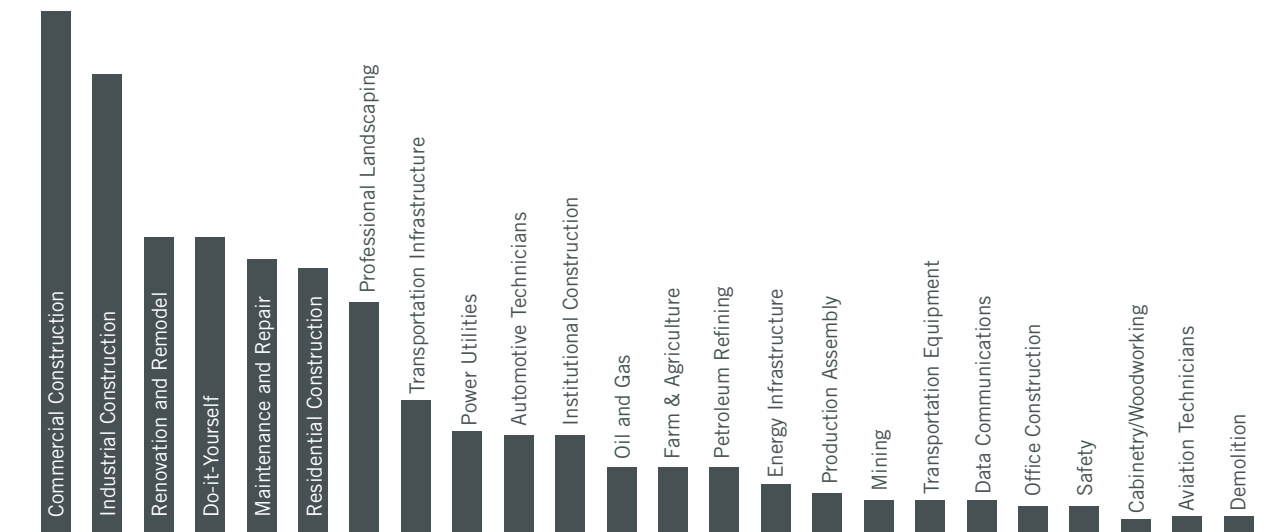


Vast Growth Opportunities

Vertical Expansion



Vertical Markets



Our vision for a cordless future is vast. TTI is leading the world's rapid transition to cordless, displacing old technologies, entering new categories and expanding our served industries. For example, Milwaukee Tool is highly focused on providing solutions for trade professionals such as the commercial plumber, linesmen, commercial

electrician and datacom electrician in vertical industries from industrial construction, maintenance, infrastructure projects, power distribution and well beyond. With a growing product offering and disruptive technology, Milwaukee Tool is creating opportunities in new verticals.



Geographic Expansion

TTI is successfully building a global presence beyond a strong foundation in the US, expanding into new countries with a very thoughtful, risk managed strategy. We enter a market and go boldly to establish our platforms of cordless tools and equipment. Today we have a network of vibrant marketing companies in key geographies, allowing us to further harvest the benefit of our industry leading cordless platforms.

Our teams in Canada, Australia and New Zealand, and Europe, are delivering significant results. We are building out selective targets in Asia and Latin America, which are gaining momentum and bringing the cordless benefits of safety and productivity to users in these markets.



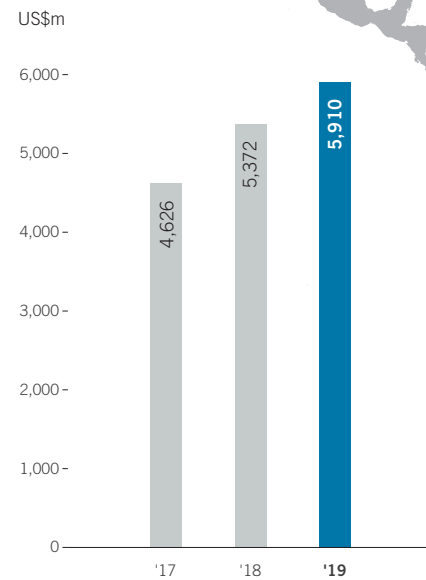
Sales Contribution



North America
+10.0%
us\$5,910 million



+21.3%
Sales Growth in 2019
(in local currency)



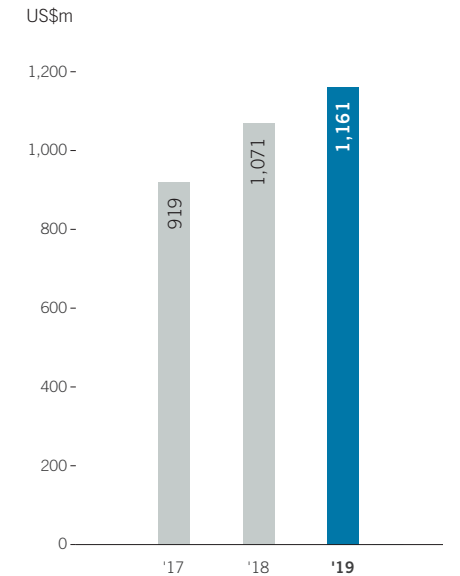
Sales Contribution



Europe
+8.4%
us\$1,161 million



+24.6%
Sales Growth in 2019
(in local currency)



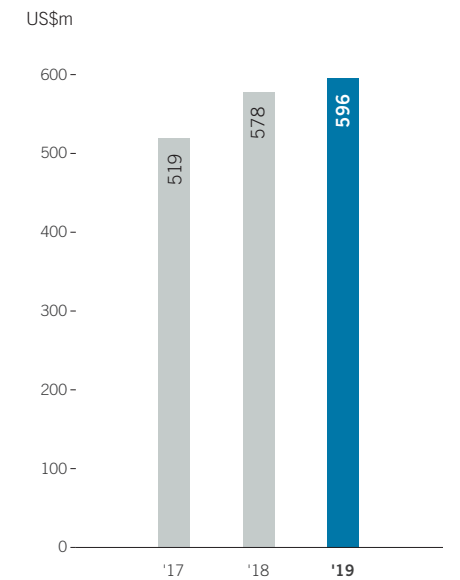
Sales Contribution



Rest of World
+3.1%
us\$596 million



+20.6%
Sales Growth in 2019
(in local currency)



Management's Discussion and Analysis



MILWAUKEE MX FUEL Handheld Core Drill

13.0%
Revenue growth of
Power Equipment business

US\$663 million
The business delivered operating profit of
US\$663 million, a 10.8% increase over
the previous year

**Flagship Milwaukee Tool business
continues to grow 20%+ in local currency**

**RYOBI cordless sales delivered
double-digit sales growth**

Review of Operations

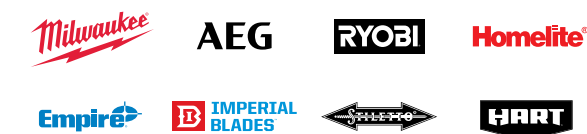
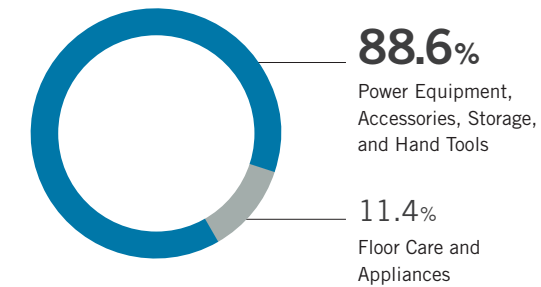
Power Equipment, Accessories, Storage
and Hand Tools

TTI's Power Equipment business, featuring MILWAUKEE industrial tools, RYOBI DIY power tools and RYOBI outdoor products delivered outstanding organic growth in all key markets with revenue increasing 13.0% to US\$6.8 billion.

The relentless development of new innovative products, targeted sales and marketing investments and strategic geographic expansion all drove the stellar 2019 performance. Operating profit was up 10.8% to US\$663 million. The Power Equipment business represented 88.6% of total sales.

US\$6.8 billion
Sales in Power Equipment, Accessories,
Storage and Hand Tools

Sales by Business



Industrial

Our flagship MILWAUKEE Industrial Tool business delivered exceptional worldwide sales growth of over 21.7% in local currency. The ongoing introduction of disruptive technology and innovative new products resulted in significant expansion across new and existing product categories and geographies. Milwaukee Tool is capturing new users in targeted core trades of electrical, mechanical, plumbing, remodeling, transportation maintenance and power utility. Driven by technological advancements, MILWAUKEE products deliver improved safety, performance and productivity solutions for professional and industrial users throughout the world.

Power Tools

Our MILWAUKEE Power Tool business is leveraging on its disruptive cordless technology, converting users to our clean lithium battery energy from legacy power systems such as corded, pneumatic, hydraulic and gas. Leading the way is the MILWAUKEE M18 platform with over 195 tools on a single platform and the M12 platform with over 115 compatible products.

MILWAUKEE remains focused on introducing new technology to support existing system users in addition to attracting new users to the extensive MILWAUKEE M12 and M18 cordless systems. The introduction of the M18 REDLITHIUM HIGH OUTPUT CP 3.0 and XC 8.0 battery packs offer 50% more power while running 50% cooler and delivering up to 60% more runtime. In addition, Milwaukee Tool continues investing and expanding the solutions in the FUEL brushless system enabling the conversion of alternate power sources while increasing safety and productivity on the jobsite. As an example, the M18 FUEL 9" Cutoff Saw eliminates the inconveniences in dealing with gas-powered cutoff saws while the M18 FUEL 7-1/4" Rear Handle Circular Saw delivers more power and faster cuts than an AC corded saw. The M18 FUEL 1" High Torque Impact Wrench is the world's first and most powerful impact wrench on the market enabling users to eliminate pneumatic hoses and cords on the worksite. The relentless dedication to the professional trades is evident throughout Milwaukee Tool's targeted industry verticals.



MILWAUKEE M18 FUEL 9" Cut-off Saw

We recently announced the revolutionary cordless MX FUEL Equipment System. The MX FUEL cordless platform will redefine the professional light equipment sector with breakthrough levels of power delivery and one completely compatible battery system.

Set to replace legacy powered technologies of corded electric, pneumatic, hydraulic and gas powered equipment, this system transforms the light equipment market by delivering the performance, run-time and durability demanded by the trades without the hazards associated with emissions, noise, vibration and the frustrations of gas maintenance.

Launching with 10 products, the new MX FUEL Equipment System is the platform that provides the technology and capability for MILWAUKEE to take a giant step into the light equipment space.



MILWAUKEE MX FUEL Family

Accessories

Our MILWAUKEE high-performance cordless tools are increasingly powerful and technologically advanced. The MILWAUKEE Accessory business is focused on developing accessories engineered to optimize the performance on cordless tools.



MILWAUKEE SHOCKWAVE IMPACT DUTY Driver Bit

Double-digit growth in the accessories business was fueled by the launch of the third generation of SHOCKWAVE driving accessories which are engineered to be the most durable, best fitting driver bits on the market. Investments in the Imperial Blades operations coupled with the introduction of product innovations drove the expansion of the high-growth oscillating category. The MILWAUKEE Carbide Cutting technology advancements are delivering user demand and resulting in exciting category growth.

Hand Tools

In 2019, the MILWAUKEE Hand Tools delivered exceptional growth propelled by innovative new products. A range of innovative mechanics hand tools with best in class features rolled out in 2019. In addition, we have launched a breakthrough range of tape measures that feature industry leading performance.



MILWAUKEE PACKOUT Modular Storage System with M18 PACKOUT Radio + Charger

Storage

The number of tools owned by users continues to grow, creating a massive opportunity for modular and portable jobsite storage solutions. Milwaukee Tool's versatile PACKOUT system exceeds all expectations. With an astonishing growth rate in 2019, PACKOUT is now the largest assortment of professional modular storage in North America with over 20 unique products across the system. Exciting additions to the system include the PACKOUT crates, dolly, and mounting plates and most notably, the M18 PACKOUT Radio + Charger. This radio combines the powerful M18 technology with the innovative PACKOUT system resulting in the ultimate jobsite sound system. Built from the ground-up to be fully compatible with all PACKOUT modular storage products and the ability to charge all M18 Batteries, it is the ultimate connected charging solution for the jobsite.

Personal Protective Equipment

Milwaukee Tool's commitment to productivity and safety inspired the expansion into the personal protective equipment market with the introduction of over 180 new solutions thoughtfully designed to keep users safe, while improving productivity on the jobsite. These include new hard hats, safety glasses, high-visibility safety vests, respirators, hearing protection and impact resistant gloves that offer breakthrough versatility, flexibility, and durability in a market space that has seen stagnant innovation for years.

Consumer Power Tools & Outdoor Products

The RYOBI cordless business delivered double digit sales growth in 2019. After years of focused investment, RYOBI is now the global leader in DIY cordless power tools and outdoor cordless products with the 18V ONE+ and 40V Systems. The RYOBI brand is at the forefront of the cordless revolution disrupting the DIY industry with an impressive flow of new products targeting the remodeler, hobbyist, automotive and value oriented professional users to name a few. The RYOBI commitment to platform compatibility has inspired a loyal following of users and has driven significant household penetration.



RYOBI ONE+ 18V Multi-Purpose Fogger

The RYOBI Outdoor business generated strong mid-teen sales growth in key markets in 2019. Our RYOBI ONE+ and 40V cordless platforms are flourishing as consumers convert from gas to our environmentally friendly high-performing cordless solutions. Our cordless technology is driving a once in a generation revolution. RYOBI is now the number one cordless DIY outdoor product brand globally.

We are aggressively investing in a myriad of new ONE+ and 40V outdoor products. The new product pipeline in the 40V platform is the growth engine driving the expansion of the system. The entire 40V hand-held product range was updated for 2019, with the most significant launches including the attachment capable string trimmer, jet fan blower, hedge trimmer and a brushless chainsaw. Additionally, we launched two powerful new brushless self-propelled mowers on the 40V platform in 2019.



RYOBI ONE+ 18V Impact Driver

The RYOBI brushless range is gaining traction worldwide. The RYOBI power tool product development focus on the DIY user is set to expand the ONE+ System beyond today's 130 tools with continued innovation breakthroughs.



RYOBI 40V WHISPER Brushless JET FAN Blower



HOOVER ONEPWR FLOORMATE JET Cordless Hard Floor Cleaner

18.9% growth in cordless cleaning and carpet washer categories

US\$10 million
The Floor Care and Appliance business generated US\$10 million of operating profit, up 12.8% from 2018.

HOOVER and VAX cordless ONEPWR products have great potential

Expansion of in-house manufacturing in the US and Vietnam

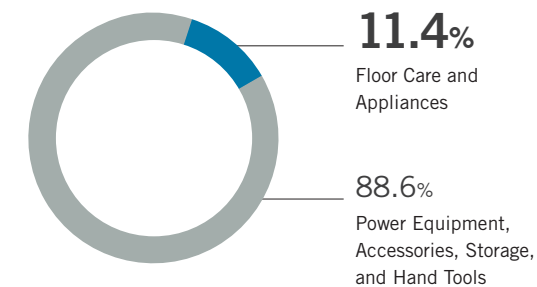
Floor Care and Appliances

In 2019, the Floor Care and Appliance business made outstanding progress developing the categories of Cordless cleaning and Carpet Washers.

The transition has resulted in 18.9% growth in these categories year-over-year making a significant contribution to the overall business. We have been disciplined in transitioning our floor care business from dated legacy corded floor care products to high-performance cordless and newly engineered state-of-the-art carpet washers. The floor care and appliance sales decline of 13.5% from prior year was a result of our successful strategic exit of the German floor care business while improving our profitability in the segment. The disciplined expansion of in-house manufacturing for our strategic categories in cordless cleaning and carpet washing products to the US and Vietnam has been a great success.

US\$875 million
Sales in Floor Care and Appliances

Sales by Business



The Floorcare and Appliances business accounted for 11.4% of TTI total sales and generated US\$10 million of operating profit, up 12.8% from 2018.

The HOOVER and VAX cordless ONEPWR floor care family has great potential. We launched with seven ONEPWR products including the JET Multi-floor Cleaner and the BLADE Stick Vac. Our HOOVER and VAX Carpet Washers impressively delivered strong double-digit growth, fueled by the expansion of our SMARTWASH, POWERDASH and PLATINUM platforms, the leading carpet washers in North America and the UK.

We are excited about the potential of our Floor Care business with our key strategic focus on cordless, carpet washing and solutions. We made significant progress in 2019 in our product and manufacturing strategy, positioning the business to deliver consistently improving financial results in the years ahead.



HOOVER POWERDASH Pet Compact Carpet Cleaner



VAX ONEPWR BLADE+ Cordless Vacuum

US\$7.7 billion
Revenue

US\$673 million
EBIT

US\$1.85
(2018: US\$1.67)
Book Value per Share

3.0% of Turnover
(2018: 2.9% of turnover)
Investments in Product Design and Development

Financial Review

Financial Results

Result Analysis

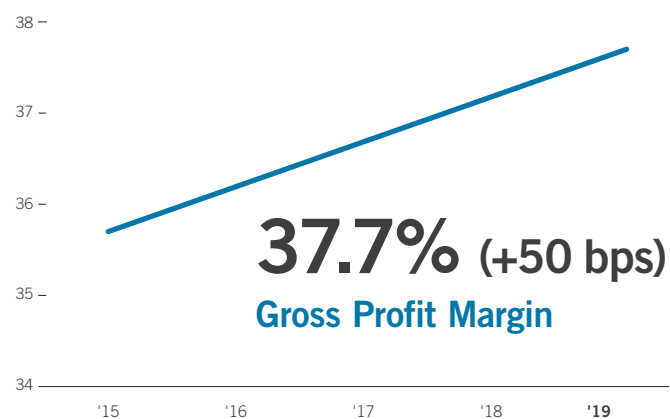
The Group's revenue for the year amounted to US\$7.7 billion, an increase of 9.2% as compared to US\$7.0 billion in 2018.

Profit attributable to Owners of the Company amounted to US\$615 million as compared to US\$552 million in 2018, an increase of 11.3%. Basic earnings per share for the year improved to US33.67 cents as compared to US30.16 cents in 2018.

EBIT amounted to US\$673 million, an increase of 10.9% as compared to US\$607 million in 2018.

Gross Margin

Gross margin improved to 37.7% as compared to 37.2% last year. The margin improvement was the result of new product introduction, mix management, category expansion, highly disciplined and efficient operation systems and volume leverage together with very effective action plans mitigating tariffs impact.



Operating Expenses

Total operating expenses for the year amounted to US\$2,230 million as compared to US\$2,014 million in 2018, representing 29.1% of turnover (2018: 28.7%). 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\$230 million, representing 3.0% of turnover (2018: 2.9%) 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\$12 million as compared to US\$13 million in 2018, a reduction of US\$1 million or 5.7% despite the increase in business volume and higher interest rate environment as compared to previous year. Interest coverage, expressed as a multiple of EBITDA to total interest was 19.8 times (2018: 22.9 times).

The effective tax rate, being tax charged for the year to before tax profits was at 7.0% (2018: 7.1%). 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\$3.4 billion as compared to US\$3.1 billion in 2018. Book value per share was at US\$1.85 as compared to US\$1.67 last year, an increase of 10.8%.

Financial Position

The Group continued to maintain a strong financial position.

As at December 31, 2019, the Group's cash and cash equivalents amounted to US\$1,412 million (2018: US\$1,104 million), of which 44.6%, 28.6%, 9.4% and 17.4% 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 0.5% as compared to net cash in 2018. The Group remains confident that gearing will remain low going forward.

Bank Borrowings

Long term borrowings accounted for 52.9% of total debts (2018: 56.0%).

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 12.6% of the total bank borrowings, the balance being floating rate debts.

Working Capital

Total inventory was at US\$2,113 million as compared to US\$1,767 million in 2018. Days inventory increased by 9 days from 92 days to 101 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 and to mitigate tariffs impact. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivable turnover days were at 55 days as compared to 57 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 52 days as compared to 53 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 104 days as compared to 100 days in 2018 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 14.3% as compared to 13.3% in 2018.

Capital Expenditure

Total capital expenditures for the year amounted to US\$375 million and an additional US\$82 million for the headquarters located in the USA (2018: US\$259 million).

Capital Commitments and Contingent Liabilities

As at December 31, 2019, total capital commitments for the acquisition of property, plant and equipment contracted for but not provided amounted to US\$58 million (2018: US\$119 million), and there were no material contingent liabilities or off balance sheet obligations.

Management's Discussion and Analysis

Charge

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

Major Customers and Suppliers

For the year ended December 31, 2019

- (i) the Group's largest customer and five largest customers accounted for approximately 46.8% and 55.7% respectively of the Group's total revenue; and
- (ii) the Group's largest supplier and five largest suppliers accounted for approximately 7.0% and 19.1% 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 33,177 employees as at December 31, 2019 (2018: 28,972) in Hong Kong and overseas. Total staff cost for the year under review amounted to US\$1,337 million (2018: US\$1,117 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 2019.

In 2019, we continued to develop our Sustainability Strategy and Implementation Plan to align our actions and goals globally with the United Nations Sustainable Development Goals. In terms of governance, the ESG Working Committee with the guidance of the ESG Executive Committee and the Board of directors has continued to implement our Sustainability strategy and monitored activities and ESG 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 2019 are shared on pages 74 to 121.

Purchase, Sale or Redemption of Securities

A total of 2,350,000 ordinary shares were cancelled by the Company during the year, among which (i) 850,000 shares were bought back and settled during the year at prices ranging from HK\$40.45 to HK\$41.50; and (ii) 1,500,000 shares were bought back in December 2018 and cancelled in January 2019 at prices ranging from HK\$41.25 to HK\$43.00. The aggregate amount paid by the Company for such buy-backs cancelled during the year amounting to US\$12,644,000 was charged to the retained earnings.

The shares bought back were cancelled immediately and accordingly the issued share capital of the Company was reduced correspondingly. 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, 2019. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Dividend

The Directors have recommended a final dividend of HK58.00 cents (approximately US7.46 cents) per share with a total of approximately US\$136,603,000 for the year ended December 31, 2019 (2018: HK50.00 cents (approximately US6.44 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 22, 2020. Subject to the approval by the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about June 19, 2020. This payment, together with the interim dividend of HK45.00 cents (approximately US5.79 cents) per share (2018: HK38.00 cents (approximately US4.89 cents)) paid on September 20, 2019, makes a total payment of HK103.00 cents (approximately US13.26 cents) per share for 2019 (2018: HK88.00 cents (approximately US11.33 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 2020 Annual General Meeting, the register of members of the Company will be closed from May 13, 2020 to May 15, 2020, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 12, 2020.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 22, 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 21, 2020.

Board of Directors

Group Executive Directors

Horst Julius Pudwill MSc
Chairman

Mr Horst Julius Pudwill, aged 75, 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.

Stephan Horst Pudwill
Vice Chairman

Mr Stephan Horst Pudwill, aged 43, 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)

Joseph Galli Jr BSBA, MBA
Chief Executive Officer

Mr Joseph Galli Jr, aged 61, 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.

Patrick Kin Wah Chan FCCA, FCPA
Operations Director

Mr Patrick Kin Wah Chan, aged 60, 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, 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.

Frank Chi Chung Chan FCCA, FCPA,
CPA (Practising)
Group Chief Financial Officer

Mr Frank Chi Chung Chan, aged 66, 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

Roy Chi Ping Chung GBS, BBS, JP

Prof Roy Chi Ping Chung GBS BBS JP, aged 67, 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 a Doctor of Business Administration honoris causa by the University of Macau and an Honorary Doctor of Science by the University of Warwick, United Kingdom in 2019, 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 was appointed as Chairman of Vocational Training Council from January 1, 2018 until December 31, 2019.

Prof Chung is also an Independent Non-executive Director of TK Group (Holdings) Limited, Fujikon Industrial Holdings Limited and Vitasoy International Holdings Limited.

Camille Jojo

Mr Camille Jojo, aged 63, 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 17th 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

Christopher Patrick Langley OBE

Mr Christopher Patrick Langley, aged 75, was appointed as an Independent Non-executive Director in May 2001.

Mr Langley first came to Hong Kong in 1972 with HSBC Group, having joined HSBC Group in London in 1961. After holding various appointments in the Middle East and Asia, Mr Langley was appointed Deputy Chairman and Chief Executive of Hongkong Bank Malaysia Berhad (now HSBC Bank Malaysia Berhad) in 1994, and Executive Director, Hong Kong and Mainland China for The Hongkong and Shanghai Banking Corporation Ltd. in 1998. Mr Langley retired from HSBC Group in 2000 and continues to maintain close ties with the business community in Hong Kong. He has held a number of directorships in listed companies including Hang Seng Bank Ltd., The Wharf Holdings Ltd, Hutchison Whampoa Ltd., Hong Kong Electric Ltd., Cathay Pacific Airways Ltd., Wing Tai Holdings Ltd. (Singapore) and Gieves & Hawkes Plc. (UK), and is currently a Non-Executive Director of Lei Shing Hong Limited (privatized in 2008). Mr Langley has also held senior appointments in Hong Kong and Malaysia including Chairman of The Hong Kong Association of Banks and Chairman of The British Malaysia Industry and Trade Association.

Mr Langley was awarded the Darjah Dato' Setia Negeri Sembilan (DSNS) in 1995 and therefore carries the title of Dato' in Malaysia. In 1996, Mr Langley was appointed Officer of the Order of the British Empire (OBE).

Peter David Sullivan BS

Mr Peter David Sullivan, aged 71, 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).

Independent Non-executive Directors (continued)

Vincent Ting Kau Cheung

Mr Vincent Ting Kau Cheung, aged 78, 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.

Johannes-Gerhard Hesse

Mr Johannes-Gerhard Hesse (commonly known as Hans-Gerd Hesse), aged 60, 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. He lives in Germany and holds a Hong Kong permanent resident status.

Independent Non-executive Directors (continued)

Robert Hinman Getz

Mr Robert Hinman Getz, aged 57, was appointed as an Independent Non-executive Director of the Company with effect from January 1, 2020. Mr Getz has over 30 years of experience as a private equity investor and advisor. He has extensive experience in private and public equity and debt transactions and international mergers and acquisitions. Mr Getz holds a Master of Business Administration Degree in Finance from New York University, and a Bachelor of Arts Degree in International Relations, cum laude, from Boston University.

Mr Getz currently serves as the Founder and Managing Partner of Pecksland Capital, a private investment and advisory firm since 2016. Mr Getz previously served as Co-Founder and Managing Director of Cornerstone Equity Investors, a New York based private equity concern, from 1996 to 2016. Before the formation of Cornerstone in 1996, Mr Getz served as a Managing Director and Partner of Prudential Equity Investors and its predecessor firm Prudential Venture Capital.

Mr Getz has served as a Director of numerous United States and international public and private companies in the technology, manufacturing, finance, and metals and mining sectors. Currently, Mr Getz serves as the Non-executive Chairman of the Board of Directors of Haynes International, Inc. (HAYN:NASDAQ), a public United States-based integrated developer and producer of specialty alloys primarily for use in the aerospace industry and industrial applications. He also serves as a Non-executive Director of Ero Copper Corp. (ERO:TSE), a public Brazilian copper mining and exploration company. Mr Getz previously served until 2016 as a Non-Executive Director of Newmarket Gold Inc., a public Australian gold mining and exploration company prior to its acquisition by Kirkland Lake Gold in 2017. He also served until December 2019 as a Non-Executive Director of Jaguar Mining Inc., a public Brazilian gold mining company. Mr Getz is a member of the National Association of Corporate Directors.

Corporate Governance Report

The Company strikes for high standard corporate governance to promote sustainable development and enhance shareholders' interests. A quality board of directors (the "Board") for effective internal controls and leadership, as well as accountability and transparency 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, 2019, 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

Corporate governance is vital to the development of the Company. The Board continuously reviews, monitors and develops 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:

- monitor and review the Directors' and the senior management's training and continuous professional development.
- review compliance of the Corporate Governance Code and the disclosure set out in this Corporate Governance Report.
- review and monitor the 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.

Board of Directors

Roles and Responsibilities

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

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

The Board continuously monitors the delegation and reservation for decision and consideration of specifically identified matters, with specific functions are delegated to Board Committees and senior management of the Group. Formal written procedures which are reviewed regularly have been adopted by the Company 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)

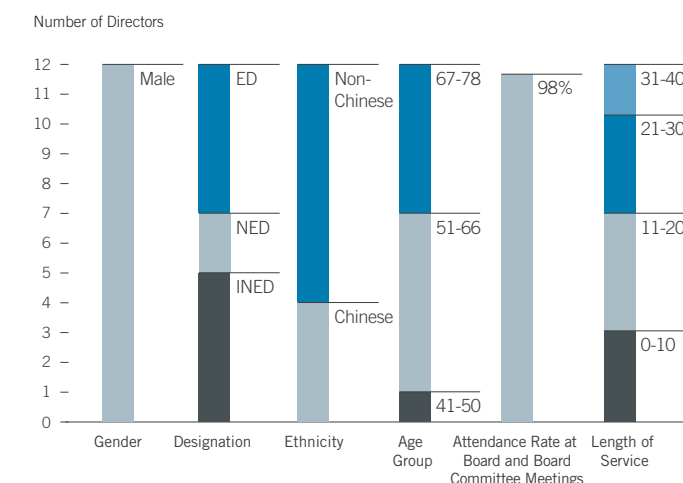
Non-executive Directors

Prof Roy Chi Ping Chung GBS BBS JP
 Mr Camille Jojo

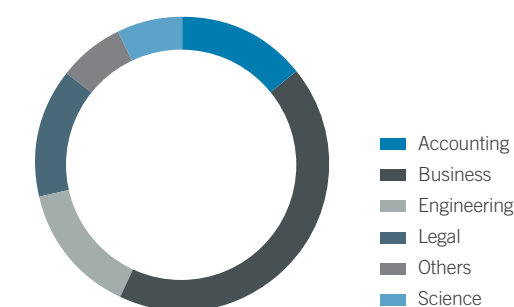
Independent Non-executive Directors

Mr Christopher Patrick Langley OBE
 Mr Peter David Sullivan
 Mr Vincent Ting Kau Cheung
 Mr Johannes-Gerhard Hesse
 Mr Robert Hinman Getz

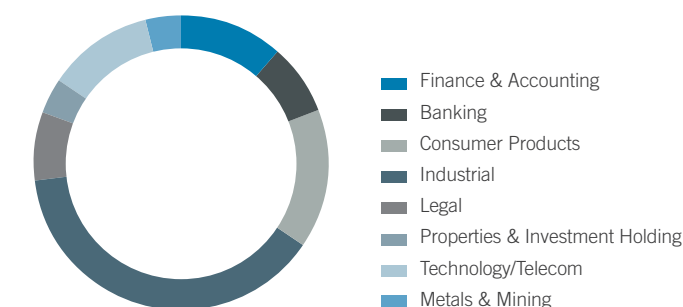
Biographical details and relevant relationships of the members of the Board are set out on pages 56 to 61 of this annual report. A list of Directors and their roles and functions are published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk).



Educational Background



Professional Experience



In order to promote balance of power, authority and accountability, 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:

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

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

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

Appointment of directors is recommended by the Nomination Committee for approval of the Board. Directors are aware that they must be able to contribute sufficient time and attention to the affairs of the Company before accepting their appointment. 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.

In accordance with the Company's Articles of Association and the Listing Rules, Directors are subject to retirement by rotation at least once every three years. 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.

Appropriate Directors' and Officers' liability insurance has been arranged by the Board 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

All Directors are provided with regular training, updates and written materials on relevant laws, rules and regulations to ensure that they are aware of the latest development in the commercial and regulatory environment in which the Company conducts its business. 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 2019 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
Group Executive Directors			
Mr Horst Julius Pudwill	√	√	
Mr Stephan Horst Pudwill	√	√	
Mr Joseph Galli Jr	√	√	
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 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, 2019.

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).

Board Meetings

Board meetings of the Company are held regularly, where 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 2019, 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 2019" at the end of this report.

Board meeting, Board Committee meeting and Annual General Meeting dates for 2020 were agreed upon at the Board meeting held in August 2019 to ensure maximum attendance of Directors. 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.

Accurate, reliable and complete information on the affairs of the Group are provided to all Directors 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) and the Stock Exchange's website (www.hkexnews.hk).

Independent Non-executive Directors form majority of all Board Committees. With active participation and regular attendance of Independent Non-executive Directors, independent views and opinions are encouraged to be contributed and expressed at the Board Committee meetings. The Board oversees and monitors 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 2019" at the end of this report.

Audit Committee

The Audit Committee is chaired by Mr Peter David Sullivan with other members being Mr Vincent Ting Kau Cheung, Mr Johannes-Gerhard Hesse and Mr Camille Jojo (who has been appointed with effect from August 14, 2019). All members except Mr Camille Jojo are Independent Non-executive Directors. 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 2019 and performed duties summarized below:

- 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.
- review and monitor the Group's accounting principles and practices, financial reporting matters and significant financial matters.
- review and make recommendations to the Board for the approval of the interim and annual financial statements of the Group.
- review the extent, scope and effectiveness of internal audit function of the Group.

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 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. When considering suitable candidates of Directors, the Nomination Committee considers factors including, but not limited to, integrity, ethics, professional knowledge, personal skills, industry experience and as well as the ability to contribute sufficient time and attention to the Board in their recommendations.

The Nomination Committee held two meetings in 2019. The work performed by the Nomination Committee in 2019, with sufficient resources provided by the Company and/or independent professional advice when necessary, included:

- review of the size, structure and composition of the Board on a regular basis.
- assess the independence of Independent Non-executive Directors.
- review the Nomination Policy and the Board Diversity Policy.
- make recommendations to the Board on relevant matters relating to the retirement and re-election of the Directors at the 2019 Annual General Meeting.

The Board has adopted the Board Diversity Policy in August 2013, which is published on the Company's website (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, educational background, cultural, 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 63 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 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 merit, competence and qualifications, and having regard to individual performance, the Company's operating results and return to shareholders, and comparable market statistics. 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 2019 and performed, among other work, the following:

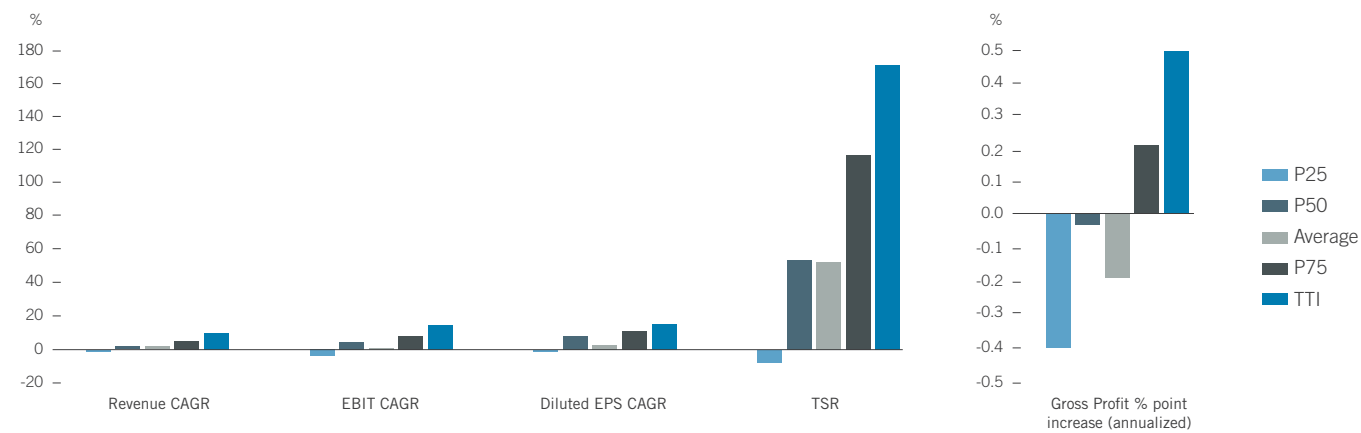
- review and make recommendations on the existing Remuneration Policy for Directors and senior management.
- assess the Executive Directors' performance and remuneration packages.

The Group engages a global executive compensation consulting firm as an independent third party to review the compensation of the Chairman, the CEO and other Executive Directors. The compensation packages of the Group's Executive Directors were assessed relative to similar 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.

Corporate Governance Report

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 2019 incentive payouts for the Chairman, the CEO and other Executive Directors commensurate with the exceptional performance delivered by the Group.

As noted in the 2018 Annual Report, 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. The CEO Share Awards were conditioned upon the Company's meeting the Performance Criteria each year. Under the terms of the CEO Share Awards, Mr Galli delivered exceptional performance in 2019 and was awarded one million shares on January 3, 2020 for the Company's share price and operational performance over the three-year period ending in 2019 ("2019 Award"). These shares are scheduled to vest to Mr Galli on January 1, 2025. The remainder of the CEO Share Awards (up to four million shares) will be awarded subject to the Company's future performance meeting the goals set out in the CEO Share Awards plan from 2020 to 2023. The 2019 Award was made under the 2018 Share Award Scheme.

The Company has adopted two share award schemes, 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 the schemes.

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, 2019, 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\$66,000. During the year ended December 31, 2019, 150,000 shares were transferred to certain Selected Grantees upon vesting under the 2008 Share Award Scheme. The total payout, including related expenses, amounted to US\$595,000.

Since the 2018 Adoption Date and up to December 31, 2019, a total of 2,724,000 shares had been awarded under the 2018 Share Award Scheme, representing 0.15% 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\$4,090,000. During the year ended December 31, 2019, a total of 1,560,000 shares had been awarded under the 2018 Share Award Scheme to two Directors and certain Selected Grantees of the Company, representing 0.09% of the issued share capital of the Company as at the 2018 Adoption Date. The total payout, including related expenses, amounted to US\$8,276,000. In addition, during the year ended December 31, 2019, 301,000 shares were transferred to certain Selected Grantees upon vesting under the 2018 Share Award Scheme. As at December 31, 2019, detailed of the awarded shares granted to the Directors of the Company 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					Closing price at the Date of Award	
				As at January 1, 2019	Awarded during the year	Vested during the year	Lapsed during the year	As at December 31, 2019		
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	150,000	—	(150,000)	—	—	23.3.2018 – 23.3.2019	HK\$32.15
	21.3.2018	2018	500,000	500,000	—	(125,000)	—	375,000	15.3.2019 – 15.3.2022	HK\$47.00
Mr Stephan Horst Pudwill	20.5.2019	2018	300,000	—	300,000	—	—	300,000	20.5.2020 – 20.5.2022	HK\$50.20
	15.10.2015	2008	100,000	—	—	—	—	—	15.10.2016	HK\$27.10
Mr Joseph Galli Jr. ⁽⁵⁾	21.3.2018	2018	50,000	50,000	—	(12,500)	—	37,500	15.3.2019 – 15.3.2022	HK\$47.00
	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
Mr Kin Wah Chan	19.8.2016	2008	1,000,000	—	—	—	—	—	31.8.2016	HK\$30.50
	21.3.2018	2018	514,000	514,000	—	(128,500)	—	385,500	15.3.2019 – 15.3.2022	HK\$47.00
	15.10.2015	2008	100,000	—	—	—	—	—	15.10.2016	HK\$27.10
Mr Chi Chung Chan	21.3.2018	2018	50,000	50,000	—	(12,500)	—	37,500	15.3.2019 – 15.3.2022	HK\$47.00
	15.10.2015	2008	100,000	—	—	—	—	—	15.10.2016	HK\$27.10
Mr Camille Jojo	21.3.2018	2018	50,000	50,000	—	(12,500)	—	37,500	15.3.2019 – 15.3.2022	HK\$47.00
	4.1.2017	2008	11,500	—	—	—	—	—	4.1.2017	HK\$28.00
	8.1.2018	2008	10,500	—	—	—	—	—	8.1.2018	HK\$51.50
	2.1.2019	2018	10,000	—	10,000	(10,000)	—	—	2.1.2019	HK\$41.10
	20.5.2019	2018	150,000	—	150,000	—	—	150,000	20.5.2020 – 20.5.2022	HK\$50.20
Total			5,570,000	1,314,000	460,000	(451,000)	—	1,323,000		

Notes:

- All the awarded shares are purchased from the market.
- At the end of the year, the average fair value per share is HK\$41.22. The average fair value of the awarded shares is based on the average purchase cost.
- During the reporting year, a total of 1,300,000 shares were purchased at an aggregate consideration of US\$8,477,000 for satisfying the awards granted pursuant to the 2008 Share Award Scheme and the 2018 Share Award Scheme.
- 12,500 shares were awarded and vested to Mr Camille Jojo on January 3, 2020.
- Details of the agreement for the separate 5,000,000 awarded shares to be granted to Mr Joseph Galli Jr between 2020 and 2024 in five equal tranches (i.e. 1,000,000 awarded shares per year) provided the Company meets certain performance criteria each year as disclosed above are not included. The first tranche of 1,000,000 shares was awarded to Mr Galli on January 3, 2020.

Change in Director's Emoluments

The Remuneration Committee reviewed and recommended changes to Directors' Emoluments in March 2019. These changes were approved by the Board and have been taken effect 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:

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

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 is entitled to the Nomination Committee fee which has been fixed by the Board.

In addition, Mr Camille Jojo, a Non-executive Director, was appointed as member of the Audit Committee with effect from August 14, 2019. Mr Camille Jojo is entitled to the Audit Committee fee which has been fixed by the Board.

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 2019 included:

- the regular internal audit updates.
- the performance and adequacy of accounting and financial reporting functions.
- the delegated authorities and organization structure as well as the strategic and annual operating plan.
- 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 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 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 maintain 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 2019:

Nature of Services	Amount (US\$ million)
External Audit Services	2.30
Taxation Services	0.10
Other Services	0.02

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).

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 2019 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). 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), 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) and the Stock Exchange's website (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), 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).

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 2019. The constitutional document of the Company was published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk).

Board, Board Committee and General Meetings in 2019

A summary of attendance of Board, Board Committee and general meetings in 2019 are detailed in the following table:

	Meetings attended/Held in 2019				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	General Meeting
Number of meeting(s) held during the year	5	4	2	2	1
Group Executive Directors					
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	4/5				1/1
Mr Chi Chung Chan	5/5				1/1
Non-executive Directors					
Prof Roy Chi Ping Chung GBS BBS JP	5/5				1/1
Mr Camille Jojo ⁽¹⁾	5/5	1/1		2/2	1/1
Independent Non-executive Directors					
Mr Christopher Patrick Langley OBE	4/5		2/2	2/2	1/1
Mr Manfred Kuhlmann ⁽²⁾	3/3	2/2	1/1	1/1	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 ⁽³⁾	5/5	4/4	1/1		1/1
Date(s) of meeting(s)	16.1.2019 6.3.2019 16.5.2019 14.8.2019 25.10.2019	5.3.2019 16.5.2019 13.8.2019	6.3.2019 13.8.2019	6.3.2019 13.8.2019	17.5.2019

Notes:

- (1) Mr Camille Jojo was appointed as a member of the Audit Committee with effect from August 14, 2019.
- (2) Mr Manfred Kuhlmann retired as Independent Non-executive Director after the conclusion of the 2019 Annual General Meeting.
- (3) Mr Johannes-Gerhard Hesse was appointed as a member of the Nomination Committee with effect from March 6, 2019.

Environmental, Social and Governance Report



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About This Report

This report covers the Environment Social and Governance (ESG) initiatives and performance of TTI for the calendar year 2019 with reference to previous performance where relevant. Our HKEX ESG Guide Content Index is available on TTI's corporate website and outlines how we address the Hong Kong Exchanges and Clearing Limited's mandatory "comply or explain" requirements and recommended disclosures. This report has also been prepared in reference to the GRI Standards: Core option, and our GRI Content Index, which specifies how we fulfill the Standards, is also available on our website. TTI's previous report was endorsed by the Board of Directors (the "Board") on March 6 2019, as was this report on March 4 2020. The data in this report, unless otherwise stated, covers our operations in Asia, Australia and New Zealand, Central, North and South America and EMEA. Environmental information and data from TTI business units is presented by region with data from TTI AIP Dongguan highlighted separately to show progress from the previous year. Environmental data for Central and South America is not included as TTI has only 21 staff across the region working in offices with immaterial environmental impact. For a full list of TTI business units covered under each region and abbreviations used in this report, refer to page 121. For any questions regarding this report, please contact our Investor Relations Department at ir@tti.com.hk.

CEO's Sustainability Message

“Sustainability is a big deal. With our no emission cordless leadership strategy, we are helping to make the world a better place.”

We are accelerating our actions to further our global commitment to sustainability. TTI is reshaping sustainability into a core competence by embracing best environmental, social and governance (ESG) practices. Our sustainability principles and practices extend throughout our operations, supply chain and products with priorities to responsibly source, conserve, reuse and recycle resources, provide safe respectful workplaces and always be in compliance with applicable laws and policies. We have long taken responsibility to improve the lives of our customers by disrupting the power tool, outdoor product and floorcare markets with reduced environmental impact Lithium cordless tools and equipment. Our global organization understands that economic, social and environmental aims are all interrelated and firmly believes that our ability to grow, innovate and prosper is linked to our ESG performance. TTI's core strategic drivers and culture are closely aligned with our ESG practices and standards to ensure that sustainability is firmly entrenched at all levels of our value chain.

Sustainability Improvements

Now in our fifth year of reporting on sustainability separately in our annual report, I am very pleased to state that we continue to strengthen managing ESG issues that are directly linked to our activities and products. Under the management of our ESG Executive and Working Committees, we have made significant strides in improving our sustainability performance both internally and in engagements with all our stakeholders. In 2019, we implemented and strengthened the important initiatives shared in this report to further our sustainability strategy.

Enhanced Data Management: Greenstone

With the understanding that increased transparency is key to improving ESG performance, in 2019 TTI partnered with software data specialists to collect, analyze and better manage our ESG data. This allows us to greatly enhance the quality of our oversight and extend the breadth and credibility of our disclosures to meet the expectations of stakeholders, including investors.

Cobalt Procurement Policy

The newly-implemented TTI Cobalt Procurement Policy signifies our ongoing effort to do the right thing across our value chain. This policy outlines the standards that TTI and its suppliers must follow to ensure that all cobalt is from reputable sources, free from conflict or other human rights violations.

Commitment to Global Initiatives

Recognizing the importance of adopting a comprehensive international and independent standard to understand and communicate our impact on global issues such as climate change, human rights and anti-corruption, in 2019 TTI became a member of the Responsible Minerals Initiative (RMI) and actively began working towards becoming a Community Member of the Global Reporting Initiative (GRI) in January 2020.

Our commitment to global action on sustainability was also strengthened in aligning our strategy with the United Nations (UN) Global Compact's universal principles on human rights, labor, environment and anti-corruption, and the advancement of societal goals. By supporting 14 of the 17 UN's Sustainable Development Goals (SDGs) most relevant to TTI's business, we have outlined a strategic roadmap for TTI to follow to further our sustainability performance.

Confidently Moving Forward

I am confident that our adoption of enhanced data management tools, more robust procurement mechanisms and our commitment to global initiatives and principles will help us manage risks and opportunities in the ESG arena to achieve our targets in the short to medium term with a view towards longer-term success. I would like to thank all the TTI team members for their dedication and hard work to make sustainability a powerful thrust of the TTI culture. We look forward to working with all our stakeholders to create sustainable value and to build a better world for all. At TTI, we strongly believe that cordless technology is helping us all along this journey.

Joseph Galli Jr
Chief Executive Officer
March 4, 2020

Global Performance Highlights for 2019

GOVERNANCE	ENVIRONMENT	SUPPLY CHAIN MANAGEMENT	SOCIAL	COMMUNITY
Zero Public legal cases of corruption were brought against TTI Group	-39% Reduction in product packaging materials	Zero Cases of child labour	149,780 Training hours (on e-learning)	+63% Increase in in-kind and cash donation contributions
Zero Cases of identified leaks, theft or loss of customer data	-6% Reduction of TTI AIP scope 1 and 2 GHG emissions intensity	Zero High-risk cases in sourcing of conflict minerals or cobalt	+1.5% Increase in ratio of female to male employees	Over 50 Non-Governmental Organisations (NGO) and charities that TTI partners with and supports
Greenstone Global implementation of ESG data software	-2% and -15% Reduction of TTI AIP electricity and natural gas intensity	Responsible Mineral Initiative (RMI) Membership	1,475 Graduates in our Leadership Development Program (LDP)	Habitat for Humanity Global partnership
GRI Incorporation of Global Reporting Initiative Standards	+200% Increase in battery collection at TTI's North American sites	Cobalt Procurement Policy launched	Zero Work-related fatality cases	Asian University for Women Global partnership

Our Sustainability Commitment

Stakeholder Engagement and Materiality

At TTI, we believe that aligning our long-term interests with those of our stakeholders is the path to corporate sustainability and a more sustainable world. Employees, customers, suppliers, investors and the broader community are our key stakeholder groups. We maintain regular communication with regulatory authorities, business partners, customers, suppliers, employees, shareholders,

investors and community members to understand their priorities and sustainability-related concerns. Our ESG Working Committee has identified a number of material issues, which we believe are of utmost importance to our stakeholders. The table below identifies our key stakeholders, their main areas of interest that inform the content of our reporting, and the ways that we engage with them.

Stakeholder Groups	Key Concerns / Areas of Interest	Engagement Channels	Frequency
Employees	<ul style="list-style-type: none"> Working terms, conditions and benefits Equal opportunities Health, safety and wellness Training and development Governance Community engagement 	<ul style="list-style-type: none"> Compliance hotline TTI Group Intranet Learn TTI (e-learning platform) Face-to-face trainings Engagement with NGOs Social media ESG sub-committees 	<ul style="list-style-type: none"> Ongoing basis Annual compliance training Topic-specific training available all year round
Customers	<ul style="list-style-type: none"> Social and environmental responsibility Modern slavery Conflict minerals and cobalt Packaging Battery recycling Quality of products, including safety and environmental impact Circular economy Transport, storage and recycling of products 	<ul style="list-style-type: none"> Acknowledge customers' policies and codes Conduct audits and implement corrective action plans in accordance with TTI's requirements and communicate regularly on progress Complete declarations for conflict minerals and conduct due diligence Focus groups at product development stage Customer service Social media 	<ul style="list-style-type: none"> Ongoing basis Declarations and audits once a year Product presentation conferences once a year
Suppliers	<ul style="list-style-type: none"> Governance Anti-corruption Social and environmental responsibility (SER) Quality of products including safety and environmental impact 	<ul style="list-style-type: none"> Compliance hotline Online compliance platform Regular meetings On-site presence of our quality and SER employees Regular audits Supplier conferences 	<ul style="list-style-type: none"> Ongoing basis Annual training Conferences once a year

Stakeholder Groups	Key Concerns / Areas of Interest	Engagement Channels	Frequency
Investors	<ul style="list-style-type: none"> Governance Independence and engagement of board members Diversity Climate change strategy and greenhouse gas emission reduction Risk management Supply chain management Conflict minerals and cobalt 	<ul style="list-style-type: none"> Host meetings to understand ESG expectations Surveys / interviews conducted by external facilitators 	<ul style="list-style-type: none"> Ongoing basis Annual roadshow One survey conducted by an external facilitator in 2019
Community	<ul style="list-style-type: none"> Diversity of employees Equal opportunities Training and development programs Social and environmental responsibility Climate change strategy Product and manufacturing health and safety 	<ul style="list-style-type: none"> Local and international engagement with NGOs Community events with local associations School fairs Internship programs 	<ul style="list-style-type: none"> Ongoing basis






Our Strategic Approach to Sustainability

To enhance our sustainability performance and transparency, TTI has engaged in a number of global initiatives, one of these involves working towards meeting the Global Reporting Initiative (GRI) Standards for sustainability reporting. In 2019 we engaged with GRI to discuss the scope of our membership and became a member in January 2020. As a member, TTI will have access to a variety of sustainability resources such as webinars with experts from GRI and the opportunity

to exchange information with leaders from the corporate world who are championing sustainability reporting. By joining this global community of more than 500 organizations that are committed to sustainability, TTI will be able to contribute to improving the quality of reporting. One of TTI's key priorities in joining GRI is to be part of the leadership committee on supply chain and in particular, the modern slavery committee to enhance sustainable practices across

our supply chain. Along with GRI membership, we remain committed to meeting global responsibilities by working towards 14 of the 17 SDGs that are most relevant to TTI's operations and doing our part in furthering sustainability initiatives in our communities. The table aligns the focus areas of our strategy: Innovative Products, Operational Excellence, Powerful Brands and Exceptional People, with the SDGs and support our four strategic drivers, as well as the relevant material

issues and their related risks and opportunities we must take into account. The key initiatives we undertake to implement our strategy and achieve our ESG goals, and the progress we are making, are also outlined here. As part of this journey, we engage our stakeholders on an ongoing basis to review our approach, integrate their priorities into our strategies and reporting, and identify opportunities to both enhance our sustainability performance and collaborate as partners.

Governance						
Material Issues (grouped with related SDG)	Risks	Opportunities	Key Goals	Initiatives	Progress	
<ul style="list-style-type: none"> Corporate governance Ethical conduct and practices 	<ul style="list-style-type: none"> Change in trade regulations Diversification of manufacturing footprint 	<ul style="list-style-type: none"> Expansion and diversification of manufacturing footprint (USA, Vietnam and Mexico) Opportunities for TTI to have group policies and processes in place for compliance with regional/local laws 	<ul style="list-style-type: none"> ▲ Zero incidents of non-compliance with TTI's Policies and Codes with transparency in reporting and remediation when necessary 	<ul style="list-style-type: none"> Code of Ethics and Business Conduct (COC) and Business Partner Code of Conduct (BPCOC) with policies and guidelines restating requirements and relaunched in 2019 Policies and trainings being implemented at new manufacturing sites 	<ul style="list-style-type: none"> 90% of training completed on COC on e-learning platforms and additional face to face training, with close to 100% of employees trained 	
	<ul style="list-style-type: none"> Breach of intellectual property 	<ul style="list-style-type: none"> Be innovative and increase the number of TTI's qualitative IP rights Safeguarding valuable assets (e.g. logos, patents, trademarks, copyrights, software) 	<ul style="list-style-type: none"> ■ Protect and enforce TTI's IP rights 	<ul style="list-style-type: none"> COC and BPCOC with policies and guidelines that set requirements Intellectual Property clearance, protection and enforcement process Strong online enforcement 	<ul style="list-style-type: none"> 2,888 take downs by Milwaukee only in 2019 One enforcement action settled 	
	<ul style="list-style-type: none"> Breach of data privacy 	<ul style="list-style-type: none"> Protection of customer data, business strategy and intellectual property 	<ul style="list-style-type: none"> ■ Compliance with new regulations, GDPR, preparation for compliance with the California Consumer Privacy Act as of January 1, 2020 	<ul style="list-style-type: none"> Data privacy policy in place and training delivered End users data privacy policy updated in the USA Screening of external emails (Canada and EMEA) 8 cybersecurity policies launched in 2017 on a three-year rollout plan with appropriate training, and global auditing to begin in 2020 	<ul style="list-style-type: none"> One data privacy incident with no loss of personal information or customer data Customized the IT process for structured and unstructured data (EMEA) 	
	<ul style="list-style-type: none"> Cyber attacks due to large exchange of data 	<ul style="list-style-type: none"> Protection of TTI and customer information, and TTI's systems and operational integrity 	<ul style="list-style-type: none"> ■ Minimize any risk of business disruption ■ No breaches or incidents 	<ul style="list-style-type: none"> Cybersecurity committee at a group level, which meets on a monthly basis Ongoing monitoring of anyone clicking on known phishing links 		
<ul style="list-style-type: none"> Anti-corruption Supply chain management 	<ul style="list-style-type: none"> Risks of non-compliance to international and local laws due the broad scope of TTI's group operations 	<ul style="list-style-type: none"> Training of employees in new manufacturing sites on COC and new suppliers on compliance with BPCOC and other TTI policies 	<ul style="list-style-type: none"> ▲ Zero incidents of non-compliance with TTI's Policies and Codes with transparency in reporting and remediation when necessary 	<ul style="list-style-type: none"> COC and BPCOC that set requirements and emphasize the prohibition of corruption and bribes providing guidelines that are acknowledged by all employees and suppliers New anti-corruption training and updated policy in 2019 Amendment to the BPCOC to expand on trade compliance provision 	<ul style="list-style-type: none"> No public corruption cases 	
			<ul style="list-style-type: none"> Zero cases of corruption among TTI Group and its business partners 	<ul style="list-style-type: none"> ▲ Establish strategic partnerships with industry partners and NGOs 	<ul style="list-style-type: none"> TTI Compliance hotline for employees and suppliers Complaint resolution policy Anti-corruption declarations, internal audit investigations and ongoing compliance monitoring across TTI and TTI's suppliers 	<ul style="list-style-type: none"> 22 separate complaints received through either the compliance hotline or management 100% of complaints have been addressed in a timely manner
<ul style="list-style-type: none"> Partnerships Community engagement 	<ul style="list-style-type: none"> Reputational risk of not being engaged in industry initiatives or from not supporting local community needs 	<ul style="list-style-type: none"> Contribute to policy and program development to affect change across the industry and supply chain 	<ul style="list-style-type: none"> ▲ Establish strategic partnerships with industry partners and NGOs 	<ul style="list-style-type: none"> Engagement against corruption by participating in an anti-fraud association (Enterprise Anti-Fraud Alliance in China) Membership to the Global Reporting Initiative (GRI) to further transparency and performance in disclosure Membership to Responsible Mineral Initiatives (RMI) to share industry best practices 	<ul style="list-style-type: none"> Ongoing membership partnerships Engaged GRI to become a member in January 2020 RMI membership in November 2019 	

▲ Key Goals ■ Supporting Key Goals



Our Strategic Approach to Sustainability (continued)

Environment					
Material Issues (grouped with related SDG)	Risks	Opportunities	Key Goals	Initiatives	Progress
<ul style="list-style-type: none"> Innovation and reduced environmental impact along product lifecycle 	<ul style="list-style-type: none"> Consumer trends in purchasing products with environmental attributes / certifications 	<ul style="list-style-type: none"> Eco-design opportunities 	<ul style="list-style-type: none"> ▲ Reduce environmental impact through innovation in product design, packaging design, manufacturing, use and end of useful life phases 	<ul style="list-style-type: none"> Environmental policies and procedures, and COC, outlining our commitments for reducing environmental impact Engagement of partnership for reconditioning of power tools Community engagement and partnership with NGOs Service and repair centers globally (improving the lifecycle of products) Online enforcement (take down of fake batteries) Improving packaging and packing to reduce material consumption and environmental impact 	<ul style="list-style-type: none"> Launch of factory outlet where refurbished products are being sold to end-users RMI membership in November 2019
<ul style="list-style-type: none"> Energy and climate change 	<ul style="list-style-type: none"> Climate change Natural disasters Financial risks Political risks 	<ul style="list-style-type: none"> Strategic mitigation 	<ul style="list-style-type: none"> ▲ Reduce energy consumption and GHG emissions ▲ Adopt renewable energy ▲ Develop climate resilience strategy 	<ul style="list-style-type: none"> Energy and GHG emissions management procedures Energy reduction initiatives in manufacturing plants and offices Introducing fuel efficient and electric vehicles Adopt renewable energy and recycling initiatives within the supply chain 	<ul style="list-style-type: none"> -2% electricity and -15% natural gas intensity reductions at TTI AIP
<ul style="list-style-type: none"> Resource / material efficiency, chemical and waste management 	<ul style="list-style-type: none"> Commodity pricing and sourcing Environmental impact 	<ul style="list-style-type: none"> Research and development of new technologies Resource conservation and cost savings Leadership in environmental and health and safety performance 	<ul style="list-style-type: none"> ▲ Reduce water consumption at TTI's operations ■ Reduce packaging and increase adoption of reduced impact packaging and packing ■ Reduce usage and safely manage chemicals and waste 	<ul style="list-style-type: none"> Water reuse initiatives in manufacturing operations Improving packaging and packing to reduce material consumption and environmental impact Compliance with policies and procedures for chemical and waste management with priority on toxicity waste reduction and recycling 	<ul style="list-style-type: none"> Reduction of packaging material by nearly 39% -12% absolute and -18% intensity reductions of non-hazardous waste at TTI AIP
<ul style="list-style-type: none"> Tool and battery recycling 	<ul style="list-style-type: none"> Financial management of recycling programs Availability of recycling programs in new markets and distribution networks 	<ul style="list-style-type: none"> Improve the end of useful life of products / push for circular economy Implement recycling programs 	<ul style="list-style-type: none"> ▲ Increase the volume of battery and tool collection and recycling ▲ Establish strategic partnerships with industry partners and NGOs 	<ul style="list-style-type: none"> Battery recycling programs to reduce electronic waste and tool recycling programs Partnership with recycling partners Audit of recycling facilities and recycling process 	<ul style="list-style-type: none"> Increased the battery recycling at TTI's North American sites by 200%
<ul style="list-style-type: none"> Supply chain environmental performance 	<ul style="list-style-type: none"> Risk of not meeting the same level of environmental management standards across global manufacturing sites and the supply chain 	<ul style="list-style-type: none"> Diversification of manufacturing and supply chain 	<ul style="list-style-type: none"> ▲ Substantive initiatives to raise awareness and reduce environmental impact in the supply chain ■ Reduce GHG emissions, energy and water consumption and packaging in the supply chain ■ Require suppliers to collect environmental data 	<ul style="list-style-type: none"> Environmental policies for suppliers to reduce impact and ensure compliance throughout the supply chain Reporting on environmental impact metrics 	<ul style="list-style-type: none"> Zero environmental non-compliance issues found in supply chain

▲ Key Goals ■ Supporting Key Goals

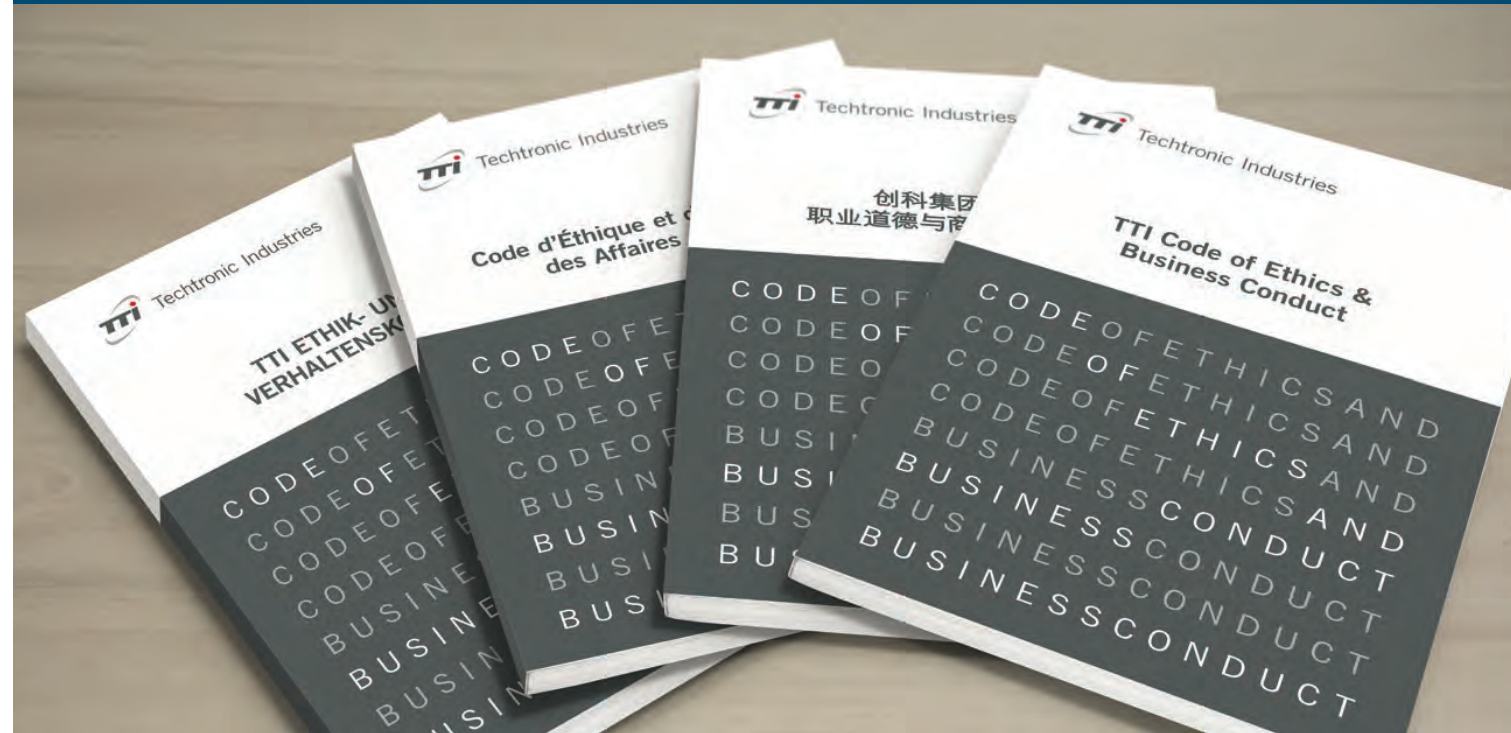


Our Strategic Approach to Sustainability (continued)

Social						
Material Issues (grouped with related SDG)	Risks	Opportunities	Key Goals	Initiatives	Progress	
<ul style="list-style-type: none"> Talent attraction and retention 	<ul style="list-style-type: none"> Low unemployment rate globally Turnover / recruitment / salary cost Not finding qualified candidates 	<ul style="list-style-type: none"> Development of long-term career opportunities Development of partnerships with universities / trade associations / organizations Development of global expatriation program 	<ul style="list-style-type: none"> Attract and retain the best talent 	<ul style="list-style-type: none"> Providing competitive working terms, conditions and benefits Leadership Development Program (LDP) implemented globally Apprenticeship / internship programs Continuous training and development Referral policies Partnership with universities Engagement survey Promoting from within policies / succession planning 	<ul style="list-style-type: none"> 1,475 LDPs recruited in 2019 	
<ul style="list-style-type: none"> Equal opportunities, inclusion and diversity 	<ul style="list-style-type: none"> Male dominated industry: challenging to attract female employees and to achieve gender diversity at management levels 	<ul style="list-style-type: none"> Attracting talent from different cultures to achieve diverse thinking, methods, values and perspectives within TTI 	<ul style="list-style-type: none"> Promote respect, inclusion and diversity in the workplace Zero incidents of non-compliance with TTI's policies and codes with reporting and remediation when necessary 	<ul style="list-style-type: none"> COC that outlines our values and requirements for human and labor rights Policies for equal employment and to protect human and labor rights Gender equality initiatives 	<ul style="list-style-type: none"> Increased female employees globally by 1.5% 	
<ul style="list-style-type: none"> Occupational, health, safety (OHS) and wellness 	<ul style="list-style-type: none"> Safety of end users, job sites and TTI employees 	<ul style="list-style-type: none"> Tools with safety functions Safe workplace practices at TTI 	<ul style="list-style-type: none"> Promote healthy and safe workplaces Zero fatal accidents in our workplaces Compliance with laws 	<ul style="list-style-type: none"> Hiring practices (respect diversity and equal opportunities) Monitor compliance with OSH requirements Expanding and enhancing wellness programs 	<ul style="list-style-type: none"> Zero work related fatality case 	
<ul style="list-style-type: none"> Training and development 	<ul style="list-style-type: none"> Investment costs Skill and experience of workforce Succession planning 	<ul style="list-style-type: none"> Development of TTI employees Attraction and retention of talent 	<ul style="list-style-type: none"> Continuous training and development 	<ul style="list-style-type: none"> Training employees on compliance, education, leadership, professional and skill development 	<ul style="list-style-type: none"> 149,780 hours of training provided on TTI's e-learning platform, globally 	
<ul style="list-style-type: none"> Human rights (modern slavery, human trafficking, conflict minerals and cobalt) 	<ul style="list-style-type: none"> Disruption of supply chain Fines from violations / claims Reputational damage Commercial risk 	<ul style="list-style-type: none"> Positive recognition as a responsible corporate citizen Responsible employer and supply chain partner Supplier capacity building 	<ul style="list-style-type: none"> Zero incidents of non-compliance with TTI's policies and codes with transparency in reporting and remediation when necessary, including incidents and reporting of child and forced labor Substantive initiatives to raise awareness and improve human rights conditions in the supply chain Effective partnerships with NGOs in major countries of operations and where there is a greater risk of human rights violations within the supply chain 	<ul style="list-style-type: none"> BPCOC Policy Against Slavery and Human Trafficking for own business and supply chain Policies on Conflict Minerals and Cobalt Procurement for supply chain Strategic partnerships with industry partners and NGOs 	<ul style="list-style-type: none"> Zero incidents of non-compliance with TTI's Policies and Codes in relation to human rights 	
<ul style="list-style-type: none"> Product responsibility, quality and safety Customer service 	<ul style="list-style-type: none"> Fines from product claims or recalls Reputational damage Commercial risk Cost of claims or recalls 	<ul style="list-style-type: none"> Positive recognition for safe products Improvements in the quality of products and customer service capability 	<ul style="list-style-type: none"> Innovative product design to enhance user experience with improved quality, safety and environmental / health benefits Promote tool reconditioning and recycling services 	<ul style="list-style-type: none"> Policies and procedures and COC that outline our commitments to product quality, environmental performance, reconditioning and recycling Product safety policy and training Factory outlet setup 	<ul style="list-style-type: none"> No recalls in 2019 	
<ul style="list-style-type: none"> Community investment and engagement 	<ul style="list-style-type: none"> Risk of not meeting expectations of customers and potential employees / young talent Reputational risk management Corruption risk 	<ul style="list-style-type: none"> Positive recognition as a responsible corporate citizen Global engagement Support work of NGOs Give back to the community Build brand loyalty 	<ul style="list-style-type: none"> Establish strategic partnerships with NGOs Develop impact metrics to track our community investment and engagement activities 	<ul style="list-style-type: none"> Strategic initiatives and partnerships to bring social, environmental and economic benefits for local communities Launch of new anti-corruption policy and trainings 	<ul style="list-style-type: none"> Global Partnership with Habitat for Humanity Increase of donations from US\$1.2 Million to nearly US\$2 Million 	

▲ Key Goals ■ Supporting Key Goals

Governance



Zero

Public legal cases of corruption were brought against TTI Group

Zero

Cases of identified leaks, theft or loss of customer data

Greenstone

Global implementation of ESG data software

GRI

Incorporation of Global Reporting Initiative Standards



Overview

Good corporate governance is material to the long-term health of our company as it allows us to achieve our objectives, driving growth and positive change while our Exceptional People continually maintain high legal and ethical standards in all aspects of our business. TTI's governance strategy is implemented through codes and policies that set requirements and emphasize accountability and responsibility to maintain Operational Excellence throughout our business. Our performance is continually evaluated by a number of mechanisms including an independent compliance hotline, internal audit investigations and ongoing compliance monitoring to ensure that our processes of disclosure and transparency are effectively maintained.

TTI's global strategy is aligned with key SDGs. In our pursuit of good governance, we promote inclusive societies and strive to build accessible, effective and accountable channels for engaging our stakeholders. We also play a part in strengthening the global partnership for sustainable development by participating in effective multi-stakeholder partnerships across markets where we operate.

Governance Structure

TTI's principles of good governance form a solid foundation from which we make progress toward our targets and build stakeholders' confidence in our performance. The codes and policies that define our business management and ethical performance reflect our fastidious commitment to do the right thing by our stakeholders.

Our governance structure provides clear direction and assigns roles, responsibilities and accountability to individuals within the company. Stringent governance practices are championed by the TTI Board of Directors and our Executive Committees. The Board of Directors approves the ESG strategy of the Group, including the goals, targets and Key Performance Indicators ("KPIs"). The ESG Executive Committee oversees our ESG Working Committee which in turn is responsible for managing our overall Sustainability Strategy. The ESG Working Committee, made up of 13 members representing business units in each region, works to enhance ESG performance by fine-tuning policies, establishing goals and targets, and setting KPIs that are used to monitor our performance against our goals and targets.

Each business unit across TTI develops its own implementation plan and KPIs based upon local needs as per the medium – and long-term strategies developed by the ESG Working Committee. This exercise entails the review of performance on an annual basis against the KPIs that are set at the beginning of each financial year. In 2019, the Board endorsed TTI's ESG strategy. Our CEO requested regular updates on sustainability initiatives and results from all business units, which were presented to management across the group at the year-end of 2019. The ESG Working Committee's annual meeting was postponed due to social unrest in Hong Kong in 2019, but the Committee conducted its business through three conference calls for this period as a result.

In 2019, the ESG Working Committee's working approach and initiatives included:

- Enhancing ESG performance and strategy implementation management by partnering with software data specialists – Greenstone – to collect, analyze and better manage our ESG data. This has been instrumental in stepping up our internal auditing capabilities and ongoing compliance monitoring. Our comprehensive global data collection and information sharing system also allows us to identify and manage economic, environmental and social impacts more efficiently
- Responsible Mineral Initiative (RMI) – As a member since November 2019, we joined more than 380 companies and organizations to address responsible mineral sourcing in the supply chain
- Global Reporting Initiative (GRI) – Reporting with reference to the GRI Standards furthers our ongoing efforts to enhance our environmental, social and governance performance and transparency in reporting to all of our stakeholders
- Non-Governmental Organizations (NGO) – Becoming a corporate member of Habitat for Humanity allows us to support local communities and reach parts of the world where we have engaged in new business activities with the support of our tools, monetary resources and volunteers. More details about our global partnerships and community initiatives can be found in the Community Engagement section of this report.

Environment



-39%

Reduction in product packaging materials

-6%

Reduction of TTI AIP scope 1 and 2 GHG emissions intensity

-2% and -15%

Reduction of TTI AIP electricity and natural gas intensity

+200%

Increase in battery collection at TTI's North American sites



Overview

TTI is committed to minimizing environmental impact throughout the lifecycle of our products and across our value chain. Driven by our focus on Innovative Products and Operational Excellence, our responsible sourcing and innovative designs have made us a leader in our industry. We continuously strive to improve our environmental performance through research and development, long-term product planning, responsible manufacturing and understanding consumer needs.

Through our environmental initiatives we are focused on furthering relevant SDGs. These include striving for clean water and sanitation, affordable and clean energy options in our operations and through our supply chain, encouraging industry innovation and infrastructure, building sustainable cities and communities, championing responsible consumption and production in all markets where we operate and taking action to combat climate change and its impacts.

Environmental Management

TTI's environmental strategy for our internal operations is outlined in this section and details how this is managed with suppliers is included in the Supply Chain section of this report. In subsequent sections, environmental information and data from TTI business units are presented by region with data from TTI AIP Dongguan highlighted separately to show progress from previous years.

Environmental Management Strategy

In 2019, we continued to enhance our environmental management strategy across the company with the following priorities:

Our manufacturing sites and offices implement these priorities, follow stringent environmental policies, track and measure environmental metrics and encourage an ethos of sustainability at all sites. Employees receive regular communications on environmental issues and how to minimize their impact.

Actions taken across our business units include the ongoing monitoring and timely maintenance of air-conditioning, heating, ventilation and building management systems to ensure energy efficiency and healthy indoor air quality. In addition, other initiatives are implemented such as adopting LED-efficient lighting, adjusting lighting levels based on occupancy needs and the availability of natural lighting, and separating materials for recycling.

A key part of our environmental strategy is focused on developing climate resilience. We assess climate change risk, such as impacts arising from extreme weather events that affect our operations and our supply chain, as part of our risk management approach. This includes ensuring our facilities are able to mitigate the impact of climate changes through diversifying our manufacturing and supply chain, to reducing our greenhouse gas emissions and adopting renewable energy. Our continued engagement with Greenstone in 2020 will enable us to have the appropriate system to collect and report on the financial implications of climate change.



Environmental Compliance

We are committed to ensuring that our operations and those of our suppliers are in compliance with all relevant environmental, legal, and regulatory requirements. For a full list of legal and regulatory requirements that have the potential to have a significant impact to our operations and performance, please refer to Appendix A of our HKEX ESG Guide Content Index on our website.

As a power equipment and household appliance manufacturer, we understand the environmental impact of our operations must be properly managed. We continuously strive to improve our environmental performance by ensuring our operations not only follow local regulations but also meet the high expectations of our customers and other stakeholders. Given the critical global need to minimize the impact of climate change, TTI's individual business units have environmental management policies in place that cover a wide array of issues ranging from energy and greenhouse gas (GHG) emission management to sustainable buildings for our manufacturing sites. Our efforts include striving to manufacture defect-free products to reduce waste, enhancing our environmental and hazardous substance management systems, investing in new technology and equipment, and raising the awareness and skills of our employees thereby minimizing our overall environmental impact.

Data Collection and Audit

A renewed focus on measuring environmental performance data across our markets was applied in 2019. Greenstone's ESG data collection and analysis software was implemented at all locations of TTI. Accordingly, our report provides more comprehensive data on air and GHG emissions, energy, water and packaging consumption, and hazardous and non-hazardous waste material usage across our markets.

In 2019, TTI AIP and some business units in North America and the EMEA regions conducted regular audits of their ISO 14001-certified

Environmental Management Systems (EMS). Offices in Germany are also certified to several DIN ISO standards, including ISO 9001 and ISO 14001, and are regularly audited by fiscal authorities as well as by the German statutory pension insurance body. In addition, in North America, TTI PE underwent two significant government regulatory inspections, one for air permit compliance and another for wastewater discharge compliance, achieving 100% compliance.

Environmental Impact

Reducing Air and GHG Emissions

TTI is consistently working to responsibly manage air emissions globally. Air and GHG emissions are mainly the result of office energy consumption, transportation and manufacturing processes. Air emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), sulphur oxide (SO_x) and fine particulate matter (PM) emitted from cars, trucks and other small machinery, and from combustion processes to generate electricity for manufacturing, lighting, building management systems, heating and cooling. Fluorinated gases, such as HCFC-22, R-410a and R-404a, are also consumed as refrigerants.

Operational Improvements

In 2019, TTI did not have any incidents of non-compliance with emissions regulations. We report our Scope 1, 2 and 3 GHG emissions below for those business units for which data is available. Scope 1 emissions arise from onsite sources identified above, Scope 2 indirectly arise from purchased electricity and Scope 3 arise from business travel, marine transport, and from consumption of water and generation of waste. We are continuing to work on expanding our disclosure of GHG emissions as we strive to enhance transparency across all markets. TTI's total GHG emissions in 2019 amounted to 186,793 tonnes of carbon dioxide equivalent (tCO₂e).

TTI GHG Emissions by Region

	Scope 1	Scope 2	Total Scope 1 and 2 emissions (tCO ₂ e)	Scope 3*	Total emissions (tCO ₂ e)
Asia	5,770	51,435	57,205	14,853	72,058
ANZ	1,817	2,020	3,837	823	4,660
EMEA	4,922	4,853	9,775	12,546	22,321
North America	8,414	67,297	75,711	12,043	87,754
TTI Total	20,923	125,605	146,528	40,265	186,793

* In 2019, Scope 3 emissions only include data from TTI HK (business travel) and VAX UK (marine transport).

Our business units took the following measures to decrease emissions in 2019.

Asia

In Zhuhai, PRC, TTI's manufacturing operation has various initiatives to conserve gas, electricity and water, to enable the reduction of GHG emissions. These included buying air conditioners that use refrigerants with reduced environmental impact and organizing commuter buses for employees, with three of the eight being electric vehicles.

EMEA

At TTI ELC GmbH a partnership was formed with Interseroh which works together with the Fraunhofer Institute to calculate the reduction of GHG emissions per year related to polyethylene, polypropylene, mixed plastic, paper, cartons and wood.

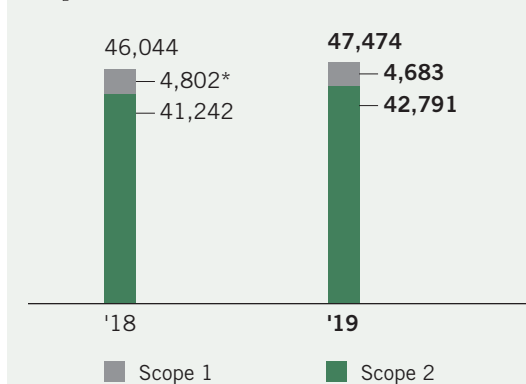
North America

Low-NOx boilers were installed in Milwaukee's Innovation Center.

TTI AIP

TTI AIP's GHG emission figures are highlighted in the table below. In 2019, Scope 1 decreased by 2% due to our Continuous Improvement Program (CIP) which is designed to reduce energy consumption in our operations. This resulted in an overall emission intensity reduction of 6% as compared to 2018, despite an increase in production value of 7% in that same period. In 2019, the heat produced by two air compressors, comprising waste heat recovered from the manufacturing process, was used to warm water. The warm water is used as bath water for the workers living in the company dormitory. This is the third year that a reduction in emission intensity has been achieved since 2017.

TTI AIP GHG Emissions (Scope 1 & 2)



	US\$ million production value	Intensity (tCO ₂ e per US\$ million production value)
TTI AIP 2019	2,892	16
TTI AIP 2018*	2,692	17
Changes in % (2019 vs. 2018)	7%	-6%

* In 2018, TTI AIP's Scope 1 GHG emissions of 7,790 tCO₂e and TTI AIP's Scope 2 GHG emissions of 54,341 tCO₂e as disclosed were calculated using the ISO 14064-1:2006 methodology. 2018 and 2019 emissions disclosed in the above table were calculated using the GHG Protocol methodology.

TTI AIP GHG Emissions (Scope 1, 2 & 3)

	Scope 1	Scope 2	Scope 3	Total emissions (tCO ₂ e)	US\$ million production value	Intensity (tCO ₂ e per US\$ million production value)
TTI AIP 2019	4,683	42,791	11,574	59,048	2,892	20

Product Improvements

TTI produces a number of Innovative Products that minimize environmental impact. Specific product categories with improved features include our cordless tools and lawnmowers as well as our low-emission generators.

Gas to Cordless Innovation

Our cordless products are more environmentally-responsible and superior in terms of safety and productivity over gas products. Examples of these products include the MILWAUKEE MX FUEL Equipment System and the RYOBI RLM18X41H240 Cordless Lawn Mower.

MX FUEL Equipment System

While our MILWAUKEE tool line is well known for revolutionary cordless power tools using our lithium-ion technology, the brand took a groundbreaking step by introducing the cordless MX FUEL Equipment System in 2019.



The MX FUEL Equipment System is the output of years of tireless research and investment in new technology and ground up development of new batteries, motors and electronics. This system aims to eliminate the environmental and health related hazards associated with emissions and reduces overall noise and vibration while delivering the performance, run time and durability demanded by the construction industry. By operating off one completely compatible battery system, the system eliminates the limitations of gasoline and power cords, thereby taking away the frustrations of gas maintenance.

RYOBI Cordless Lawn Mower

Another of our environmentally-conscious products is the RYOBI cordless lawn mower. One of our cordless lawn mowers was compared with one of our petrol lawn mowers to understand the benefits of the cordless technology. The results of the analysis conducted by an independent expert showed there is a reduction of 8% in the GHG emission footprint of the cordless lawn mower when looking purely at the products, namely as a result of their materials, manufacturing and assembly. However, an indicative scenario of 500 uses of the two products yields different results.

Testing showed that after 500 uses, the RYOBI Cordless Lawn mower had a significantly lower GHG emissions footprint, approximately 166% or 2.6 times lower than the gas lawn mower equivalent.



Low-emission Generator

RYOBI RY907022FI Portable Generator

Our RYOBI RY907022FI Portable Generator has also been recognized for minimizing carbon monoxide (CO) emissions, as well as having safety features that save lives. Portable generators can emit high levels of CO. This product is highly regarded for both its built-in sensor that triggers an automatic shutoff if CO builds up to dangerous levels and its low-emission engine that releases less CO.

Other generators with safety features meet the standard created by the Portable Generator Manufacturers' Association (PGMA), approved by the American National Standards Institute. The PGMA standard requires that the shutoff mechanism of generators automatically stop the engine before CO reaches 800 ppm or if the average exceeds 400 ppm over any 10-minute period. TTI, however, follows the more stringent UL standard that shuts off if an average of 150 ppm across any 10-minute period or a peak of 400 ppm arises. Since our product was the only one voluntarily tested to meet the UL 2201 CO safety standard, with its automatic shutoff and for its significantly reduced CO emissions, the RYOBI RY907022FI Portable Generator was rated No. 1 out of 11 generator models by Consumer Reports in 2019.

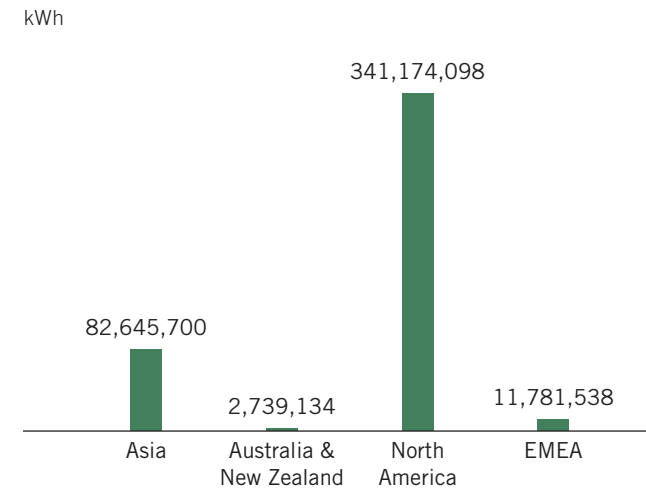


Improving Energy Efficiency

As our business continues to grow with higher production rates that make reducing energy consumption difficult to accomplish, we therefore focus on improving energy efficiency. TTI is committed to embracing and investing in both cleaner and renewable sources of energy across all our manufacturing operations.

TTI's total electricity consumption in 2019 amounted to 438,340,470 kWh. Consumption figures by region are included in the table below.

TTI Electricity Consumption by Region



Business units across the globe took the following initiatives to improve energy efficiency.

Asia

In TTI Zhuhai, PRC, production was scheduled to minimize changeover so machines were not left idle. In addition, heat treatment and painting machines were run continuously to avoid wasting energy during warm up and cool down periods.

At TTI AIP, a cooling pump that stops automatically when the air conditioning compressor is stopped, was implemented on one of the building's air-conditioning lines to save electricity.

EMEA

DreBo Germany installed a new compressor and used waste heat to reduce gas consumption for the factory heating system. The business unit also adopted its first hybrid car and is in the process of installing electronic car charging stations and providing electronic bikes for employees. All employees were educated on the importance of turning off lights and devices when leaving the office and only running the dishwasher once a day.

North America

In North America, the TTI FC facility in Cookeville installed energy-efficient hybrid injection presses in the molding area. Various energy-efficiency initiatives were also implemented at Milwaukee. To keep systems running efficiently, biannual preventative maintenance was conducted on heating, ventilation, and air-conditioning (HVAC) equipment such as remote terminal units (RTUs), boilers and pumps. In addition, all HVAC controls were put on a building automation system (BAS) to help monitor and maintain heating systems for maximum efficiency. Also, filters on all RTUs and exhaust systems were changed regularly to help with airflow to reduce strain on fan motors. With regards to lighting, a building automation system was added to control light levels and run times more effectively.

TTI AIP

Manufacturing output increased by approximately 7% and part of the warehouse facilities were re-purposed as a workshop. As a result, overall electricity consumption increased by 5% in 2019 over the previous year. The use of natural gas decreased by 9% compared to 2018 due to changes in the kitchen equipment. Another key initiative in 2019 was the replacement of the original screw chiller with the energy-saving Maglev central chiller. The estimated power savings per year due to this replacement is over 590,000 kWh.

TTI AIP Electricity and Natural Gas Consumption

	Electricity			Natural gas		
	Consumption (kWh)	US\$ million production value	Intensity (kWh per US\$ million production value)	Consumption (m³)	US\$ million production value	Intensity (m³ per US\$ million production value)
TTI AIP 2019	68,356,004	2,892	23,636	544,736	2,892	188
TTI AIP 2018	64,946,273	2,692	24,126*	595,410	2,692	221
TTI AIP 2017	60,357,750	2,062	29,271*	541,990	2,062	263
Changes in % (2019 vs. 2018)	5%	7%	-2%	-9%	7%	-15%
Changes in % (2018 vs. 2017)	8%	31%	-18%	10%	31%	-16%

* The electricity intensity of 2017 and 2018 have been restated.

Reducing Water Usage

TTI is also actively working to improve our water management to address worldwide concerns over water scarcity. Our efforts are put towards finding ways to consume water efficiently and maximize its beneficial use. TTI obtains all water for its operations from local sources and has not had any issues with sourcing. All of our operations follow regulations for water usage and wastewater discharge and, in 2019, there were no incidents of non-compliance.

In 2019, TTI's total water consumption amounted to 1,288,367 m³. Consumption figures by region are included in the tables below.

TTI Water Consumption by Region

	2018 (m ³)	2019 (m ³)
Asia	1,056,431	1,164,387
ANZ	N/A	262
EMEA	5,031*	29,488
North America	7,777*	94,230
TTI Total	1,069,239	1,288,367

* In 2018, only partial data from EMEA and North America were disclosed.

Examples of market-specific water conservation initiatives are as follows.

Asia

In TTI's Zhuhai PRC operation, cooling water was recycled, regular checks were conducted on water pipes and water usage was closely monitored to detect leakage. In addition, conservation of water and other natural resources was promoted.

EMEA

DreBo Germany continues to avoid fluid cooling systems for machining when possible to minimize water consumption.

North America

At TTI PE, water-saving fixtures were installed in new facilities and fixtures were checked to ensure they are set to optimize water use.

In addition to managing our own water consumption, we also ensure that any legacy issues at the sites that we operate at are addressed. For example, 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 160 million liters of groundwater have been treated.

At Milwaukee, motion-sensing faucets were installed in all restrooms to reduce water flow.

TTI AIP

To work towards achieving its water reduction targets, TTI AIP maintained its wastewater recycling system and took steps to strengthen awareness about water conservation among staff. The wastewater recycling system reduces consumption of fresh water and reduces wastewater discharge to the municipal sewage system. A total of 195,955 m³ of water was reused through this system at TTI AIP in 2019.

TTI AIP's consumption rate increased by 5% in 2019 due to a break in an underground water pipe. Once detected and fixed, additional pipe maintenance was conducted to prevent and minimize the impact of future occurrences.

TTI AIP Water Consumption

	Water consumption (m ³)
TTI AIP 2019	1,105,146
TTI AIP 2018	1,054,058
TTI AIP 2017	847,212
Changes in % (2019 vs. 2018)	5%
Changes in % (2018 vs. 2017)	24%

Waste, Materials and Recycling Management

TTI is focused on reducing our consumption of materials and minimizing the generation of waste throughout our operations. When waste production cannot be avoided, we ensure recycling or responsible disposal procedures are followed. Across our facilities and offices, building management services provide separate bins for recyclables and properly dispose of non-hazardous and hazardous waste.

Hazardous waste is managed using scheduled pick-ups by licensed professionals to ensure its proper disposal. To improve our waste management process, we continuously track the types of waste disposed of by our business units. In 2019, there were no incidents of non-compliance with waste management regulations.

In 2019, TTI produced 38,563 tonnes of non-hazardous waste and 1,570 tonnes of hazardous waste. Waste primarily consists of cutting fluid, dye coating, filter, oily sludge, organic solvent, packaging bucket, packaging / container, rags, batteries, and WEEE waste.

TTI's Non-hazardous and Hazardous Waste by Region

	Non-hazardous waste (tonnes)	Hazardous waste (tonnes)
Asia	14,168	271
ANZ	1,091	0
EMEA	6,935	1,167
North America	16,369	132
TTI Total	38,563	1,570

Local regulations and building management procedures determine how waste is managed in each of our locations. Initiatives by region are outlined as follows.

Asia

TTI AIP provided recycling training and campaigns for employees twice in the year and achieved an overall recycling rate of 97.1%. Recycled input materials used in primary products consisted of 4,688 tonnes of recycled paper, which amounted to 13.5% of all paper consumed in 2019. Overall, at TTI AIP, the quantity of hazardous waste generated increased substantively in 2019 by 30%. The increase in hazardous waste generation resulted from several factors, including increased testing conducted at our laboratories, and by our regulatory team, operating a new chemical testing laboratory, our TTI Suzhou laboratory moving operations back to TTI AIP, as well as floorcare products, which went from being outsourced to being produced by TTI AIP. In TTI Zhuhai, materials such as paint containers, cooling water and plastic boxes were recycled. Paint line changes were also minimized to reduce the hazardous waste generated with each change.

TTI AIP Non-hazardous and Hazardous Waste

	Non-hazardous waste		Hazardous waste	
	Quantities (tonnes)	Intensity (tonnes per US\$ million production value)	Quantities (tonnes)	Intensity (tonnes per US\$ million production value)
TTI AIP 2019	13,060	4.5	243	0.084
TTI AIP 2018	14,900	5.5	187*	0.065
TTI AIP 2017	7,239	3.5	120	0.058
Changes in % (2019 vs. 2018)	-12%	-18%	30%	29%
Changes in % (2018 vs. 2017)	106%	57%	56%	12%

* Hazardous waste data for 2018 that was previously disclosed as totaling 122 tonnes, has been restated in the above table to include waste that was generated in 2018 but had yet to be quantified as it was sent for proper disposal in 2019.

EMEA

In Germany, offices recycled scrap, paper, emulsion, used oil and batteries according to local laws. DreBo Germany achieved an overall recycling rate of 90%. At TTI ELC GmbH, 80% of input materials used to manufacture primary products comprised recycled materials. Actions to reduce hazardous and non-hazardous waste products were taken according to two European directives, REACH and RoHS. Lead material was added to the scope of REACH, which led to efforts to track the amount of lead used and to work on corrective actions with suppliers to remove or substitute lead materials. In addition, responsible waste disposal initiatives were adopted for batteries, recyclables and organics.

North America

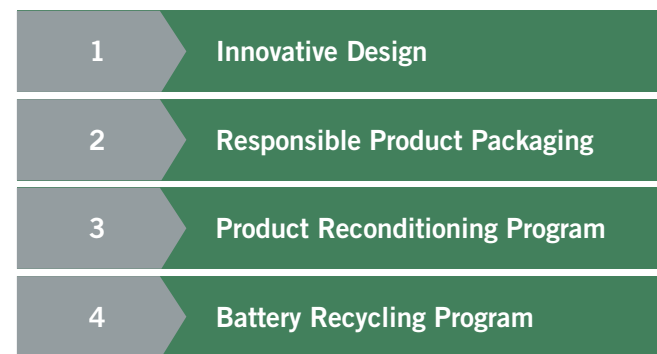
At TTI NA, single stream recycling of Styrofoam, glass, office paper, cardboard and plastic bottles is conducted using separate containers for dry recyclables and wet waste provided by building management. In addition to paper recycling containers, the pantry has designated waste receptacles for recyclables and waste. The bags for waste and recyclables are made from biodegradable and compostable material.

At TTI PE, washable tableware was purchased for the cafeteria, break areas and conference catering. A dishwasher was also installed, reusable takeout containers provided and a food bio-digester for food waste management was installed. In addition, the office paper recycling program was upgraded and a plastic bottle and aluminum can recycling program was added, achieving an 83% solid waste diversion rate in 2019. In Canada, a new waste diversion program was initiated at all offices in 2019. This included separating organic and non-organic waste and eliminating all single-use plastic at the head office and service centers. As a result, 0.091 tonnes of plastic and 0.141 tonnes of disposable paper cups were avoided. The in-house recycling program now captures 90% of recyclable materials.

The principles of minimizing waste and effectively managing materials are built into our product planning process and considered from the design stage through to after sales. As described in the next section, the initiatives embedded in the product lifecycle of our Powerful Brands, including our design, packaging, product reconditioning scheme and battery recycling programs are key to our environmental strategy.

Product Lifecycle Management

Measures to reduce environmental impact are, when feasible, integrated across the lifecycle of our products starting from product design as a key part of the production process, all the way through to the end of the product's life. Even after products are sold, our efforts to minimize waste continue through our comprehensive product reconditioning schemes and battery recycling programs across all markets.



1. Innovative Design

Our environmental considerations begin with design innovation. Our research and development projects aim to enhance the user experience, ensure the safety of the production process and of the end user, reduce emissions, improve resource efficiency, and increase the durability and recyclability of our products where possible, in order to work towards a closed loop, circular economy. TTI conducts lifecycle assessments and takes recyclability, reparability and longevity of products into consideration during our design development stage.

One example is the successful RYOBI cordless tools which currently rely on One+ lithium-ion battery technology. This brand platform meets all our design objectives as they are easier for customers to use and also effectively reduce resource consumption and waste. Our cordless tools effectively minimize waste as they are powered by a system which has remained consistent since the launch of TTI's first RYOBI ONE+ Battery Tool in 1996. The original ONE+ Battery was a NiCad battery and it was replaced by our newer lithium-ion battery platform in 2007. Tools which use these NiCad batteries can still be used with the lithium-ion battery. Likewise, a battery from a previous generation can also be used with a newly launched tool. With the connection system remaining consistent between the battery and the tool, our system has allowed end users to buy compatible tools, batteries and chargers separately, minimizing waste and excess consumption for the past 23 years.

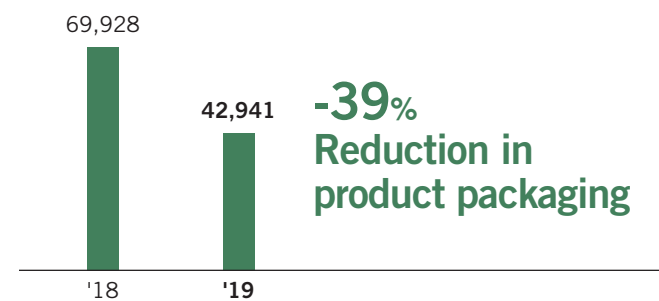
2. Responsible Product Packaging

Another environmental management initiative in our product lifecycle is in the way we approach packaging materials. Environmentally responsible packaging and packing materials are a key focus for TTI as these minimize our impact and reduce our material and transportation costs. The most common materials we use for packaging include paper for boxes, cartons, die cut sheets, and plastic for polybags, bubble bags, clamshells and tool bags. We consciously use recycled materials whenever possible, opting for corrugated cardboard, honeycomb board, chipboard, paperboard and/or molded pulp. We also use biodegradable packaging and paper in packaging products.

Driven by our consistent efforts to achieve Operational Excellence in all areas of our business, TTI strives to adopt more environmentally responsible packaging and packing options across our business units. This resulted in a nearly 39% reduction of packaging used in 2019 as compared to the year before. Packaging and paper data globally and by region are included in the below charts.

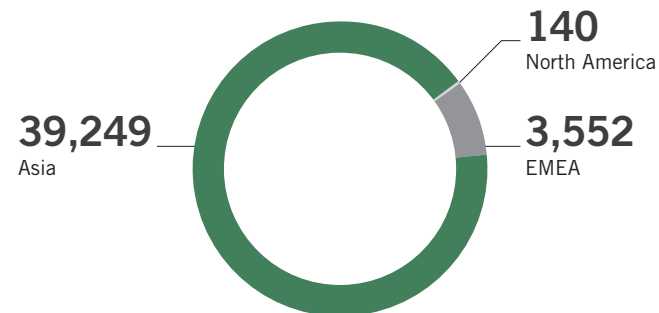
TTI Product Packaging Data Comparison

Packaging used (tonnes)



TTI Product Packaging Data Comparison by Region

Packaging used (tonnes)

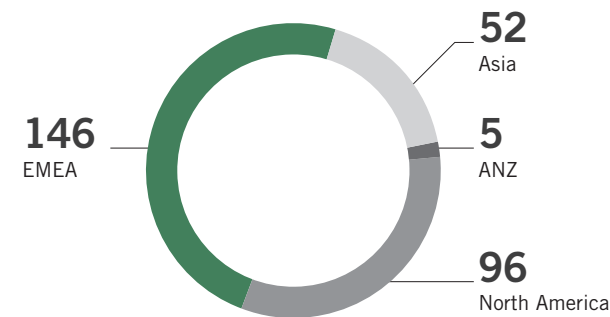


In 2019, TTI consumed 300 tonnes of paper across our offices in Asia, Australia, New Zealand, North America and Europe. Of the 300 tonnes, 4.67 tonnes (1.6%) of total paper was classified as 100% recycled paper content.

Examples of initiatives to monitor and reduce packaging and paper consumption by region in 2019 were as follows.

TTI Paper Consumption Data by Region

Paper used (tonnes)



Asia

TTI AIP monitors its packaging material composition and recycling on a daily basis. In 2019, packaging redesign resulted in avoided consumption of 201 tonnes of paper and 25.8 tonnes of plastic. Overall, packaging consumption comprised 31,492 tonnes of paper, approximately 300 tonnes of polyfoam and 4,536 tonnes of bags for DIY tools. The performance of our PRC operations provides a good example of our progress in this area. More information is provided in the TTI AIP Packaging Initiative spotlight example.

EMEA

TTI Central Europe maintained an almost paperless office, with TTI Eastern Europe using recycled Xerox paper for internal use and reusing carton boxes for deliveries. TTI ELC GmbH adopted measures to reduce paper consumed in the sample inspection report process.

North America

TTI PE teams are always looking for sustainable and efficient packaging options that meet shipping requirements. In 2019, testing was implemented to replace or reduce polybags, Styrofoam and corrugated materials. Testing was completed and changes were implemented that are expected to result in a 113 tonnes reduction in corrugated material in the coming year. Also, testing is underway and looking favorable to reduce the use of polybags in favor of biodegradable materials. At TTI FC, initiatives to reduce foam packaging and cardboard were implemented at our manufacturing operations in Cookeville.

TTI AIP Packaging Initiative

While packaging reduction efforts in the PRC have been successful, improvements are needed in other areas including the use of polybags. Our consumption of polybags amounted to 86 million pieces in 2019, which is equivalent to 534 tonnes of plastic and 942 tonnes of CO₂ emissions. To minimize the environmental impact of this, we have invested in three key initiatives.

1. TTI has invested in a Random Vibration Machine (RVM) for use in testing products before they are shipped. This machine performs a more realistic ISTA-2A standard compliant pre-shipment test which is better at simulating the shipping process in comparison to the ordinarily used, Fixed Displacement Vibration Machine (FDVM). As the RVM is less damaging to the products, it shows where polybag protection can be eliminated, hence reducing plastic.
2. TTI is working to replace polybag packaging for batteries with biodegradable bags that are compliant with shipment safety requirements.
3. TTI is aiming to replace polybags that hold manuals, leaflets and accessories with paper bags. This will reduce polybag consumption by 133 tonnes, which is equivalent to an 82-tonne reduction of CO₂.

With these initiatives in place, our PRC operations hope to meet the following targets in 2020:

- ▼ Avoid 58 million polybags
- ↔ Replace 28 million polybags with biodegradable bags
- ↔ Replace 35 million polybags with paper bags
- ▼ Avoid 425 tonnes of plastic
- ▼ Avoid 597 tonnes of GHG emissions

Manuals and Safety Literature

Another area where our responsible packaging initiatives have been successful is in our approach to the instruction manuals and safety literature, which accompany our products.

Beginning in 2012, TTI business units initiated various cost reduction measures, which also minimize our environmental impact, mainly by reducing the amount of paper we use in manuals. As a result, ANZ and EMEA regions reduced the number of pages in their outdoor and power tool manuals by 48% and 36%, respectively. The techniques used to achieve these types of savings include:

- Implementing new manual templates to reduce overall white space and thus page count
- Reducing manual paper weight, thereby reducing the cost and amount of paper
- Transitioning from wood-free paper to 100% recycled paper
- Eliminating redundant warnings, instructions and specifications for less complex tools, thereby reducing the length of manuals
- Replacing manuals with simple one page instructions or installation sheets for spare parts and consumables such as filters
- Replacing instructional text with instructional graphics and pictograms where appropriate, thereby reducing manual length

3. Product Reconditioning Program

Our product reconditioning scheme is another initiative that minimizes environmental impact, and results in 80% of the original product being reused with labor being conserved. Reconditioned tools, power tools and outdoor equipment under our consumer power tools brands are sold through our Direct Tools Factory Outlets. As a result, waste is avoided, TTI can guarantee quality and our customers are able to reuse the products with a one year warranty.

All reconditioned products, including batteries and chargers, are rigorously inspected for mechanical problems. Products are then professionally repaired by manufacturer-trained technicians who use replacement parts from our factory. After this, the products are tested to ensure they are working at optimal standards and packaged as certified pre-owned units. In this way, the lifecycle of our products is extended without compromising on quality.

Across the globe, TTI has service centers where products are professionally repaired to extend usage and minimize waste. TTI operates 45 service centers and 1,386 are operated by third parties.

4. Battery Recycling Program

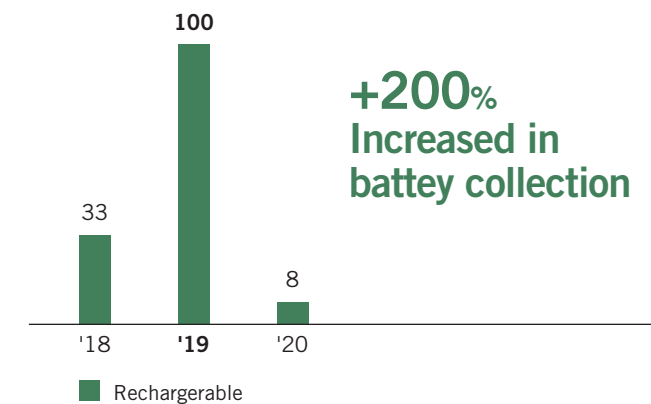
Another important product lifecycle initiative to reduce environmental impact is our battery recycling program. As described above, TTI is a leader in the design and manufacturing of lithium-ion batteries, which are interchangeable within each brand to reduce battery waste. We strive to implement recycling partnerships globally with the goal of increasing the recycling rate of batteries and products, which have reached the end of their useful lives.

Different markets partner with various external organizations to reduce battery waste, thereby responsibly recycling our batteries and our products containing batteries. In North America, rechargeable battery recycling is done through our partner, Call2Recycle®. Call2Recycle®, North America's first and largest battery stewardship program, has been collecting and recycling batteries since 1994 and is the first program of its kind to receive the Responsible Recycling Practices Standard (R2) certification.

In 2019, over 100 tonnes of batteries were collected for recycling from TTI's plants and offices across North America. This significant increase from the 33 tonnes collected in 2018 was due to TTI's active efforts in facilitating collection from sites. TTI pays stewardship fees to Call2Recycle® based on North American battery and battery product sales. In return, TTI has the licensing rights to apply the Call2Recycle® battery recycling seals on our batteries, products and packaging. Customers can easily access the toll-free number on the seal in order to locate collection sites in the United States and Canada. Customers can also go to the website at www.call2recycle.org to find the locations of more than 25,000 collection sites, including local household hazardous waste sites and national retailers.



2018-2020 Total Collection at TTI's North America Sites
Weight (tonnes)



In partnership with Call2Recycle

Region	Battery collection (tonnes)
Asia	74
ANZ	38
EMEA	26
North America	104

In 2019, Call2Recycle® collected and recycled over 3,175 tonnes of batteries in North America with rechargeable batteries accounting for approximately 2,268 tonnes of that total. Based on a recent audit, 65-70% of rechargeable batteries collected are power tool batteries, many of which are TTI brands. Since its inception, Call2Recycle® has collected and recycled more than 71,214 tonnes of batteries in North America.

Apart from our partnership with Call2Recycle®, we partner with recycling organizations across the globe as outlined below.

Asia

In the PRC, TTI has been partnering with recycling companies specializing in battery recycling for several years. In 2019, 74 tonnes of batteries and cells were collected and recycled from TTI's sites.

ANZ

In Australia and New Zealand, the business units have partnered with Envirostream and other retail partners to ensure battery recycling stations have been established in their stores. Battery drop-off stations are provided at point of sale locations and within service centers. The batteries are crushed down to recover cobalt, copper, steel and aluminium. These materials are then returned to the manufacturing sector. This process also produces Mixed Metal Dust (MMD) which is used as an input material in the manufacture of cathode materials for new batteries. This revolutionary approach to battery recycling ensured that over 38 tonnes of battery waste was repurposed and saved from landfills through the partnership with Envirostream in 2019. TTI continued to participate in the industry-led voluntary program, Batteries 4 Planet Ark (B4PA) stewardship scheme in Australia in 2019. This program also helps divert batteries from landfill and supports a circular economic model which returns materials in manufacturing sectors.

EMEA

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 sorting facilities where the batteries are sorted according to their various electrochemical system properties and materials. 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 to ensure compliance with all legal requirements and environmental, health and safety standards. 26 tonnes of batteries were recycled in 2019.

North America

In addition to Call2Recycle®, other battery recycling partnerships were pursued by business units in North America. At TTI FC, batteries were recycled through Blue Sky Recycling with batteries collected from our facility by a vendor. In 2019, 4 tonnes of batteries were recycled by Brown's Recycling.

Supply Chain Management



Zero

Cases of child labour

Zero

High-risk cases in sourcing of conflict minerals or cobalt

Responsible Mineral Initiative (RMI)

Membership

Cobalt

Procurement Policy launched



Overview

Our ESG initiatives on both a global and market-specific level extend to our suppliers. TTI works with a large number of suppliers around the world. We encourage our business units to engage with local suppliers as much as possible to support local economies and create a positive impact. Our suppliers are essential to the quality of our products and our overall success. As a result, we work to ensure that sustainability practices are properly 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.

The TTI Social & Environmental Responsibility (SER) Compliance Program is used to manage all TTI suppliers around the globe. Key compliance requirements are outlined in codes and policies that form part of the agreement terms with our suppliers. All suppliers must acknowledge and comply with our policies, especially those outlined in our Business Partner Code of Conduct, which was revised in 2019 and will be re-launched in 2020 to address updated trade sanction provisions.

TTI's Online Compliance Platform allows business units to work with suppliers globally to improve the transparency of our supply chain and the efficiency of our data collection process. Through this platform, business units request supplier information, and suppliers are able to access training materials and acknowledge their acceptance of key compliance requirements online. The information received from suppliers is used to generate a rating which forms part of each supplier's overall KPI. This allows TTI to determine whether to continue the relationship with the supplier. Key compliance policies accessible to suppliers online include:

Key Compliance Policies

● Governance ● Social ● Environment

● Business Partner Code of Conduct, Anti-Corruption Declaration, Conflict of Interest Declaration

● Product Liability Insurance check

● Anti-human Trafficking and Modern Slavery Policy acknowledgement and questionnaire

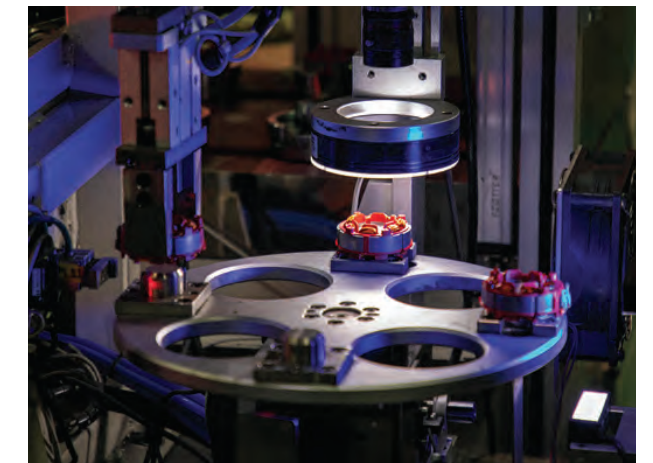
● Social Environmental Responsibility questionnaires

● Conflict Minerals Policy and the Cobalt Procurement Policy

All suppliers also have access to our third-party operated, TTI compliance hotline so they can play an active role in compliance and improved performance. Suppliers are encouraged to actively report actions that are in violation of our codes and policies. In 2019, three suppliers contacted the hotline regarding three non-compliance issues. Those were related to a contract violation, an allegation of overpayment for equipment and a quality issue.

TTI considers anti-corruption and bribery prevention a top priority. Our supply chain is regularly assessed for corruption risk and misconduct is not allowed among suppliers. We not only conduct investigations upon receiving tips and complaints, but also proactively conduct supplier and service provider audits as described below. There were no cases of anti-competitive behavior, anti-trust or monopoly practices in 2019.

In 2019, TTI also took measures to enhance our approach to trade compliance by hiring a global trade compliance vice president and trade compliance officers across our business units. We also amended our Business Partner Code of Conduct hiring to expand on the trade compliance provisions, which clearly outline our requirements in relation to trade sanctions.

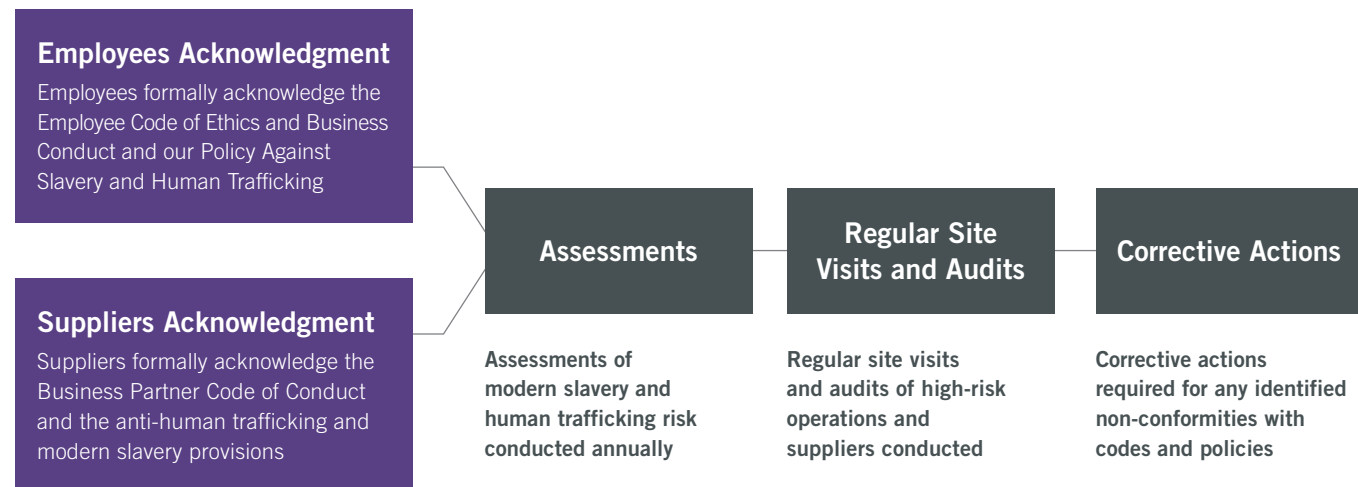


Environmental and Social Responsibility in the Supply Chain

TTI works with suppliers that are committed to minimizing their environmental impact and upholding high standards for human rights. On the environmental front, pollution prevention, resource efficiency and responsible sourcing are some of the key initiatives that are monitored. Recognizing that the sourcing of raw materials, as well as activities along the supply chain and at product end of life can have an impact on biodiversity, we actively engage with suppliers to maintain accountability. We perform extensive due diligence to ensure our suppliers are meeting our environmental standards across all markets. As outlined in the Supplier Auditing section below, all new suppliers must undergo a rigorous vetting process and we regularly review existing suppliers to ensure they adhere to all regulations and our stringent policies.

Our environmental initiatives go hand in hand with raising awareness and improving human rights conditions in the supply chain. The SER Compliance Program focuses on stringent labor rights, in particular reinforcing TTI's commitment to no child or forced labor. In 2019, there were no incidents of non-compliance raised.

A number of policies outlined in our Governance section above protect human rights in our supply chain. Of these, our Policy Against Slavery and Human Trafficking specifically addresses TTI's expectations in relation to human rights and modern slavery and the consequences of non-compliance. This policy has been communicated globally to all our suppliers and is available in all local languages where we operate. Suppliers are required to fill in detailed questionnaires. The steps taken by TTI to proactively avoid and address risks related to modern slavery and human trafficking in the supply chain are as follows:



Our protection of human rights extends to our conflict minerals initiatives. 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's Conflict Minerals Policy outlines the standards that TTI and its suppliers must follow to ensure that any 3TG is from reputable sources, free from conflict or other human rights violations. Conflict Minerals Declaration forms are completed by suppliers annually, according to which all suppliers must provide details about their source of 3TG and acknowledge compliance with the Conflict Minerals Policy. Our policy also mandates that suppliers must source from a conflict-free smelter.

In 2018, we conducted a review of suppliers using cobalt in products sold to TTI and as a result, a procurement policy for cobalt was implemented in 2019. As with the Conflict Minerals Policy, suppliers must comply with the policy and report the source of cobalt used in the manufacturing of TTI products. The Cobalt Procurement Policy, aimed at eliminating any form of human rights violations in cobalt sourcing, was launched through our supply chain compliance platform. As with conflict minerals, we engaged a US-based, third party to conduct ongoing analysis of compliance data and risk assessments.

In 2019, no high-risk cases were identified in our conflict minerals and our cobalt due diligence campaigns.

Also, in 2019, TTI became a member of the Responsible Minerals Initiative (RMI), which facilitates effective due diligence over conflict mineral and cobalt supply chains in accordance with the OECD Due Diligence Guidance. Through RMI, TTI has access to a number of valuable resources that can support responsible sourcing decisions. The resources include:

- Reasonable country of origin (RCOI) data: country of origin information associated with smelters and refiners that are validated through the Responsible Minerals Assurance Process (RMAP)
- Smelter database: an online database of data obtained through RMAP and workgroup research on thousands of companies in the 3TG and cobalt supply chains
- Country risk assessment platform: a practical tool for companies to identify conflict-affected and high-risk areas using resources recommended by the OECD and the European Commission

A member of



Supplier Auditing

TTI's SER Compliance team and external auditors conduct quality management system audits on a regular basis. The SER audits involve a comprehensive supplier scorecard that tracks a number of issues including anti-corruption, workers' rights and safety and environmental impact. New suppliers are also required to complete a screening and audit process before engagement. The engagement of new suppliers is conditional on them having SER policies and practices that are in accordance with our policies, best practices, and applicable laws and regulations. Suppliers with an unacceptable rating are given a probation period to rectify any issues and are then re-evaluated. Suppliers are audited every 12 to 18 months if their previous audit result was rated acceptable. More frequent audits are 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. In 2019, our internal audit department launched investigations and conducted audits into several sectors, including raw material and part suppliers, administration service providers, fire protection and security suppliers as well as scrap handling and transportation suppliers. The results of all investigations were addressed and reported. As a result, six employees and three suppliers were disciplined.

Our approach to managing ESG concerns in our supply chain are highlighted for specific regions below.

Asia

At TTI AIP, our global sourcing and purchasing department and teams from the quality department are responsible for supply chain performance. In 2019, the TTI AIP team engaged with suppliers from different regions, Asia, Europe, and the USA. 230 audits were conducted on existing suppliers and all new suppliers were screened for environmental and social criteria with no major non-compliance found. In TTI Zhuhai, the initiatives included an annual quality audit of key suppliers and full audits of new suppliers covering areas such as Hazardous Substances Process Management (HSPM), social and environmental responsibility, environment management systems and factory security.

EMEA

In the EMEA region, we worked with suppliers from Europe, the USA and Asia in 2019. At TTI ELC GmbH, our purchasing team audited non-EU suppliers on ISO 14001 compliance.

North America

In North America, we worked with suppliers from Europe, the USA and Asia in 2019. The TTI PE team engaged with suppliers to reduce plastic in packaging and as part of this initiative, Hart Tools also implemented a program to reduce corrugated material by 114 tonnes in 2020.



Social



149,780

Training hours (on e-learning)

+1.5%

Increase in ratio of female to male employees

1,475

Graduates in our Leadership Development Program (LDP)

Zero

Work-related fatality cases



Overview

Our social policies and codes are designed to ensure that we can attract and retain the best talent, our customers can count on product integrity and protection and that the communities in which we operate flourish.

TTI has a long history of investing in employee development. For over 10 years we have been actively recruiting college graduates over 100 campuses worldwide. Our recruitment practices bring high-potential candidates to the LDP, ensuring our focus on nurturing Exceptional People is maintained across all areas of our business.

An important aspect of our strategy is to create positive social impact through comprehensive employee initiatives, robust customer-centric policies, and active community investment across all markets. Through these initiatives, we strive to achieve some of the United Nation's most crucial SDGs namely, the elimination of poverty, reduction of inequality and the promotion of good health and wellbeing, quality education, gender equality, and decent work and economic growth. Our policies are aimed at championing justice through strong institutions and engaging in multi-stakeholder partnerships across markets for the betterment of communities at large.

Employee Management

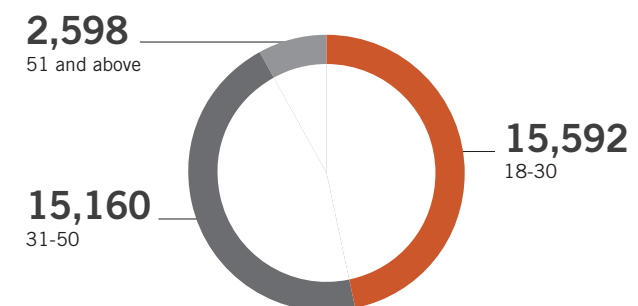
A Diverse Global Team

TTI operates in 40 jurisdictions globally, employing over 33,350 employees of varied backgrounds, skill sets and experience. Our diverse teams bring invaluable ideas that enrich our company. As a result, we consider respecting diversity and providing equal opportunities as key to our success. As one of TTI's core strategic focus areas is the development of Exceptional People, recruiting, hiring and mentoring diverse youth is our key strategy.

We invest heavily in our employees, providing extensive opportunities for staff training and development, robust health and safety measures and competitive remuneration and benefits in order to recruit and retain the best talent.

Detailed information about our employee profile is as follows.

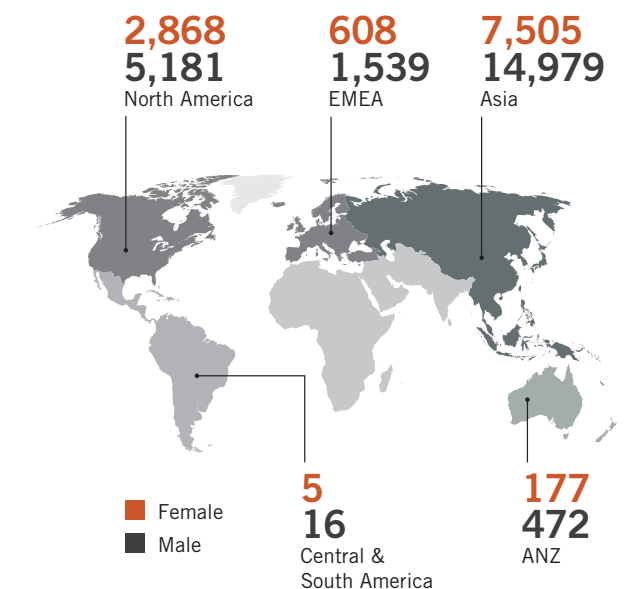
Global Employees by Age Group



Global Employees by Gender



Global Employees Headcount by Region and Gender



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

	Full time	Part time	Total
Asia	22,431	53	22,484
ANZ	646	3	649
EMEA	2,055	92	2,147
Central and South America	21	0	21
North America	8,024	25	8,049
TTI Total	33,177	173	33,350

Global Permanent and Temporary Employee Headcount by Geographic Region

	Permanent		Temporary	
	Female	Male	Female	Male
Asia	6,190	13,513	1,311	1,470
ANZ	177	472	0	0
EMEA	570	1,467	41	69
Central and South America	5	16	0	0
North America	2,550	4,744	318	437
TTI Total	9,492	20,212	1,670	1,976

Average Turnover Rate by Region, Gender and Age Group

Turnover rate		Turnover rate		Turnover rate	
Asia	114*	Female	13	Age 18-20	20
ANZ	11	Male	24	Age 21-30	29
EMEA	19			Age 31-40	12
North America	14			Age 41-50	9
				Age 51-60	3
				Age 60+	5

*High turnover rate due to the closure of TTI Suzhou.

Working at TTI

Employee Handbook and Code of 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 when significant changes occur. All employees are required to read and sign off on the Employee Handbook when they join, as well as when changes are made.

Everyone at TTI, including employees, officers and directors across different business units, are expected to fully adhere to our Code of Ethics and Business Conduct. All of TTI's new hires are required to complete training on the Code of Ethics and Business Conduct and everyone must take an e-learning course on modern 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. Employees are encouraged to actively report activities that are not compliant with our codes and policies to senior management or via the compliance hotline, as outlined in the Governance section of this report.

Human and Labor Rights

TTI takes human and labor rights very seriously. We comply with all international, national, state and local employment laws, in addition to International Labor Organization (ILO) core labor standards to ensure our workers are treated fairly. TTI does not tolerate child or forced labor under any circumstances. As such, we always ensure that workers are of appropriate age and that working hours are managed according to legal requirements. Across all markets, workers must have the required legal permits to work at our facilities and we ensure the same requirements are applied and respected in our supply chain.

A full list of legal and regulatory requirements related to human and labor rights that have the potential to have a significant impact to TTI operations and performance can be found in Appendix A of our HKEX ESG Guide Content Index on our website.

Some examples of our labor practices in specific regions are as follows.

Asia

Policies followed by our People's Republic of China (PRC) business units demonstrate how we manage fair labor practices. We have stringent policies regarding child labor, juvenile workers and forced labor. Our PRC facilities never hire anyone under the age of 16 and only hire workers between the ages of 16 and 18 during peak seasons for non-hazardous work. TTI requires our PRC locations to adhere to the Juvenile Worker Protection Policy and register workers with the local labor bureau. In addition to following TTI policies, our PRC locations have instituted several preventative actions including checking identification cards (with date of birth information) via a system linked with public security agencies, and registering the names of all juvenile workers with the local labor bureau. To ensure freedom of association and collective bargaining rights are respected, workers have access to the union where they can express their concerns and opinions, which are in addition to TTI's established channels.

ANZ

In Australia and New Zealand, the business units are legally obligated to consult with employees in the event of any major workplace change. This practice is continuously adopted by TTI ANZ and as a result, the company has not had any litigation cases related to a breach of procedural fairness.

North America

Our business units in the United States also provide a good example of how fair labor practices are maintained. All employees must complete a formal application for employment. For workers between the ages of 16 and 18, we follow local guidelines that limit the number of hours allowed and we ensure that working hours are approved by the parent or legal guardian.

Equal Employment Opportunities

TTI is committed to treating all individuals with dignity and respect. 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. Our commitment to equal opportunity practices is outlined in our Code of Ethics and Business Conduct, which covers our overall philosophy and approach to harassment prevention, anti-discrimination and anti-retaliation. Our employees receive regular training on our e-learning platform and in face-to-face sessions. All employees are required to take an e-learning course on addressing discriminatory issues to understand how to manage any such incidents, should they occur.

In 2019, no incidents of discrimination were found to have occurred and therefore, no corrective actions had to be taken.

Our equal opportunity practices are aligned to cultivate inclusion and diversity, celebrate differences and welcome all employees to participate fully in our business. Practices in regions highlighted below serve as examples of our commitment.

Asia

In Asia, TTI AIP offers a special recruitment campaign for disabled persons in the community. Across the PRC, business units follow local laws that protect female employees. Qualified candidates are hired regardless of gender, with many female students and individuals from under represented groups joining the company.

ANZ

In Australia and New Zealand, business units work to achieve merit-based selection and promotion and to apply the principle of fairness in decision making. This policy extends to external contractors and anyone who provides goods and services to our customers. Bullying is not tolerated under any circumstances and no employee is penalized or disadvantaged as a result of raising genuine concerns or complaints relating to discrimination or harassment.

EMEA

In EMEA, DreBo Germany follows German laws that set a quota on the integration of employees with a disability.

North America

In the United States, TTI’s Equal Employment Opportunity (EEO) Policy, as well as its affirmative action obligations, have full support from senior management. All employees are encouraged to be engaged in the EEO Policy and affirmative action initiatives to ensure the success of the program. TTI FC NA develops affirmative action programs in accordance with the EEO policy on an annual basis. At TTI PE, the team actively recruits female engineers to apply to TTI, and also attends career fairs hosted by women’s organizations, such as Clemson’s Women in Engineering to keep the recruitment pool diverse. At TTI Canada, the policy is to hire the best candidate for the role, with job postings advertised on national job boards to encourage a wide range of applicants.

Employee Benefits and Wellbeing

TTI considers employee benefits to be a valuable part of working at TTI. The wellbeing of our employees is very important, and this is reflected in our practice of ensuring employees receive competitive benefits above and beyond what is legally mandated. Each of our business units puts special emphasis on providing incentives such as gym memberships, sports facilities and flexible working hours that are relevant to their local employees. Here are some examples across our regions. Apart from wellness initiatives, TTI offers parental leave benefits to employees, with 1,044 females taking leave in 2019.

Asia

In Asia, TTI AIP contributes to a housing fund for all employees as per local government requirements. Employees can access the full amount of this fund when they retire or when they need to purchase a house. In addition to government-stipulated benefits, TTI AIP also offers family-friendly initiatives such as games and DIY competitions for employees and their families, as well as an office tour and a free buffet lunch so families can visit and learn more about the company. TTI AIP received the 2019 American Chamber of Commerce in Southern China’s HR Best Practice – Premium Innovation Pioneer Award for its initiatives. Other PRC business units also provide similar benefits. In TTI Suzhou and TTI Shanghai, employees are offered annual physical check ups and small gifts to celebrate traditional holidays such as the moon and dragon-boat festivals. In TTI Zhuhai, team building activities, such as a day out at the Mysterious Land Park, were organized.

In Hong Kong, TTI has set up a “Wellbeing Room” 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 run a weekly Green Monday program to encourage employees to eat healthier vegetarian meals.

ANZ

In Australia and New Zealand employees are provided with an Employee Assistance Program (EAP), which gives them access to online wellbeing portals as well as six free sessions with a trained counselor. Offsite team building days are encouraged to ensure good camaraderie within teams, creating fun within the workplace. Offices also offer bonus incentive programs to the majority of our employees and healthy initiatives such as company-supplied fruit bowls. TTI ANZ has a paid parental leave policy which is above government entitlements for paid maternity and paternity leave. This is designed to provide a supportive and inclusive approach towards people, and is awarded based on a years of continuous service to promote engagement and retention.

EMEA

In the EMEA region, DreBo Germany provides flexibility in shift work planning and incentives for long service. At our operations in TTI MEA, ergonomic seating and monitors that reduce eye strain are provided.

North America

In North America, TTI provides a basic level of benefits, called “Core Benefits” at no cost to the employee. In addition, employees have the opportunity to enroll in “Additional Coverage” for themselves and their families. For most plans, coverage is effective on the first day of active employment. Benefits include comprehensive medical, dental, vision, life insurance, flexible spending accounts and disability coverage. In addition, employees can participate in a tax-qualified savings plan to help them save for their retirement. The savings plan provides Pre-Tax, Roth* and After-Tax options, including a generous match. All employees, regardless of whether they are full-time, part-time or temporary hires are eligible to contribute immediately to the savings plan.

TTI NA offers flexible work programs, including reduced hours and work-from-home options, which are offered on a case-by-case basis. Other offices like TTI PE has an onsite Wellness Director with 250 employees participating in wellness classes each week. A new onsite Healthy Choice cafeteria program with incentives and regular lunch and learn nutrition classes are also offered. Outreach to those with special dietary needs and the opportunity to meet with a dietician and wellness director has also been implemented. As a result, the new cafeteria has seen up to 300 transactions a day. At TTI Canada, some initiatives include annual monetary wellness benefits, a daily fruit bowl, healthy snack breaks, monthly in-house yoga sessions and massages. Milwaukee hired a new chef to revamp the cafeteria menu and provide healthier food options for employees.

Parental Leave by TTI Employees

	Total female employees who took parental leave	Total females who returned to work after parental leave and were still with TTI after 12 months	Total male employees who took parental leave	Total males who returned to work after parental leave and were still with TTI after 12 months
Asia	592	441	838	523
ANZ	4	4	9	9
EMEA	31	16	31	34
North America	417	8	2	18
TTI Total	1,044	469	880	584

Social Impact

Our social initiatives are designed to benefit employees, customers as well as the wider community.

Employee Initiatives

When it comes to our employees, positive impact is created by ensuring their health, safety and wellbeing is well taken care of and they are provided with training and development opportunities to broaden their skills and reach their potential.

Occupational Health and Safety

TTI employees are the foundation of our business and we are committed to their safety at work. To do this, we focus on monitoring our occupational health and safety performance across all our markets. Our Environmental Health & Safety (EHS) and Occupational Hazard Management Policies and systems are designed to ensure that all safety issues, risks and hazards are identified with measures adopted to avoid, eradicate and minimize wherever possible any potential injury, harm or other occurrence, and to mitigate and address any incidents or violations with follow-up investigations and corrective actions adopted. Comprehensive Occupational Health and Safety (OHS) training initiatives in local markets are an important part of our strategy to uphold the highest standards of workplace safety. Our OHS management systems ensure we comply stringently with all relevant legal requirements and in 2019, there were no incidents of

non-compliance with regulations or voluntary codes. Despite this, there were 184 recorded work-related injuries and 2,625 lost days due to injury across our global operations. There were 16 high-consequence injuries recorded, including those involving splinters, cuts, strains and bruising arising from slips, falls, manual handling or mechanical work. In 2019, there were no work-related fatality cases reported.

TTI Lost Work Days Due to Injury by Region

	Lost days due to injury
Asia	1,412
ANZ	0
EMEA	309
North America	904
TTI Total	2,625

A complete list of relevant health and safety legal and regulatory requirements that have the potential to have a significant impact to TTI’s operations and performance can be found in Appendix A of our HKEX ESG Guide Content Index on our website.

TTI takes proactive measures to make safety a top priority. Examples of initiatives we have taken by region are as follows.

* Roth Individual Retirement Account.

Asia

All our business units have OHS management systems covering onsite work activities as well as traffic safety and safety practices in dormitories and the canteen. Health and safety training is provided to all employees and EHS teams conduct regular inspections of health and safety performance. In addition, third parties are brought in to regularly identify and monitor hazards and ensure procedures are properly implemented to prevent incidents.

ANZ

TTI ANZ's Work Health and Safety Committees meet at least quarterly and report on performance and compliance to the Group HR Manager and Presidents of the business unit. Toolbox talks focusing on safety regularly take place and all facilities have trained first aid officers and dedicated fire wardens.

EMEA

In addition to comprehensive OHS management systems implemented across the EMEA region, each of our German business units also engage external health and safety officers and company doctors as required by law, who are also members of health and safety steering committees along with representatives of the workers' council and employees.

North America

OHS policies are regularly reviewed to ensure standards are maintained across our North American business units. At TTI PE, provincial health and safety officials make periodic visits to sites to ensure compliance with legal requirements. At TTI FC, an onsite EHS Director and Coordinator monitors safe working practices onsite and holds regular employee briefings to receive suggestions for improvement. TTI Canada has a health and safety committee that meets on a quarterly basis and provides first-aid courses for both employees across its operations and personnel at all of its service centers.

Training and Development

As a key part of their development, employees receive annual performance reviews conducted by their managers. During these yearly appraisals, training needs and targets are planned and discussed with managers.

Another major employee initiative is the provision of training and development opportunities. Across our regional business units, training is provided according to job levels and for specific functions. Training topics range from new hire orientation to technical skills and product training, to marketing and customer service. TTI sponsors professional memberships, fully reimburses seminars and business conferences and organizes in-house and external training, coaching and mentorship programs to support our people to enhance their skills. We also provide financial support for continuing education.

Training and employee development at TTI is focused around Learn TTI, an online training platform that offers courses for employees, ranging from mandatory courses on compliance for all employees, to professional courses designed for employees at different levels of the company. A total of 362 unique courses were launched on Learn TTI in 2019. Of these, training courses on TTI's three new policies in relation to compliance and ESG, were implemented globally. TTI employees engaged in 919 courses through Learn TTI, equivalent to 149,780 training hours this year. In addition, other e-learning platforms such as TTI's intranet and Litmos in ANZ are also used for training. Training hours completed by region are listed in the table below.

TTI E-learning Total Training Hours

By region	Total users	Total users trained	Percentage of users trained	Total hours trained	Hours trained per user	% trained female	% trained male
Asia	4,668	3,773	81%	12,388	3.28	74%	72%
ANZ	673	673	100%	10,095	15	100%	100%
EMEA	1,992	1,649	83%	5,160	3	86%	86%
North, Central & South America	6,717	5,071	75%	122,137	24	65%	85%
Total	14,050	11,166	79%	149,780	13		

TTI Average Training Hours by Region, Gender, Age and Employment Category

By region	Female	Male	Employees age 18 to 30	Employees age 31 to 50	Employees age over 50	General employees	Managerial employees
Asia	9	8	4*	3*	3*	4	6
ANZ	15	15	15	15	15	15	15
EMEA	11	16	10	5	1	14	16
Central, North & South America	28	25	40	14	8	25	17

* Data of e-learning training hours only.

Leadership Development Program (LDP)

The Leadership Development Program is a key initiative for TTI. This challenging program nurtures talent with training, support and freedom to experience numerous aspects of the business by providing opportunities to move across sales, marketing and management roles. Many of our executives have been through the LDP and have been promoted to serve at the top level of management. There were 509 promotions as a result of the LDP in 2019.



The table below shows the female and male numbers in LDP.

2019 LDP by Gender

TTI Group	Female	Male	Total
Total	425	1,050	1,475

Promotions through LDP by Gender

TTI Group	Female	Male	Total
Total	136	373	509

Customer Initiatives

TTI's customer centric practices focus on user satisfaction, safety and protection. We strive to build continuous improvement into our processes, to provide customers with the best possible products and user experience.

Customer Satisfaction

Customer satisfaction of all our products – whether they are designed, manufactured, distributed or licensed by TTI – is extremely important to us. We provide a product warranty period so that our customers have a satisfactory after-purchase experience. In addition, we have a policy of taking all customer feedback seriously and proactively review comments on social media and online sales platforms. If a complaint or after-sale service request is received, all issues are recorded and analyzed so our design team can utilize the data to improve the product.

Examples of initiatives taken by specific regions to ensure customer satisfaction are as follows.

Asia

In the PRC, the Shanghai business unit established a product service center to provide repair services to customers, with more service centers to be established in 2020. The sales and Jobsite Solution teams also offer product safety training to customers.



EMEA

In the EMEA region, TTI ELC GmbH arranges technical training at the product information center for customers, including dealers and OEM partners. At TTI MEA, around 50 end user safety training sessions were held and service agent training was also conducted. At TTI Iberia, end user safety presentations are provided by the Job Site Solution team.

North America

At TTI PE, customer service lines are staffed seven days per week for all tool brands. Every effort is made to satisfy each caller including sending new tools and parts free of charge when appropriate. At TTI Canada all our Field Service and Customer Service Representatives must attend a course on Building Customer Relationships. Customer and trade school demonstrations are also run, where safe tool handling practices are followed.

We meet or exceed all applicable and voluntary industry standards globally. Relevant legal and regulatory requirements related to health and safety, advertising, labeling and privacy matters relating to our products that have the potential to significantly impact our operations and performance are listed in Appendix A of our HKEX ESG Guide Content Index on our website.



Safety of End Users

A key part of our customer relations policy is focused on ensuring the safety of our end users. All our products are tested for safety and quality to ensure TTI products are the safest and most innovative items available. Internal audit investigations and ongoing compliance monitoring are key to our customer management strategy so that high standards are maintained and immediate remedial actions can be taken if and when required. Our comprehensive product safety and consumer product regulatory compliance policy and systems are managed by our Global Product Safety Director. At each business unit, our Product Safety Directors, Committees and teams oversee the safety, quality and regulatory compliance of our products. We strive for continual improvement of our safety and regulatory functions globally.



Any 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 disposal. 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.

In 2019, there were no recalls of TTI products due to health and safety reasons.

Data Privacy and Cybersecurity

Our commitment to customer protection extends to the safety of their personal data. To ensure that all collected data is protected, we comply with all 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 over eight global security policies in place to protect our data systems. In 2019, there were not any substantiated complaints concerning breaches of customer privacy and data.

TTI's management of cybersecurity covers the protection of customer data, the growth of our business and intellectual property. Cybersecurity is managed by our Group Senior Manager Cybersecurity who leads the Informational Technology Steering Committee (ITSC) which meets monthly. We follow the National Institute of Standards and Technology Cybersecurity Framework. This framework includes our guidelines and outlines our approach to cybersecurity. All systems in the company run anti-virus and anti-malware programs and we have local firewall rules, file integrity scanning and network-level firewalls in place. All our employees are updated about cyberattacks and email phishing and are trained on how to remain protected. For cloud-based services, we ensure that protection of both TTI's and our customer's information is properly managed through relevant agreements and practices.

Intellectual Property Rights

Along with data, our intellectual property is one of TTI's most valuable assets. TTI's intellectual property portfolio includes logos, patents, trademarks, copyrights, computer software and trade secrets. We have procedures and policies in place for the proper use and protection of our intellectual property rights and for our protection from infringement by others. 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.

Community



+63%

Increase in in-kind and cash donation contributions

Over 50

NGOs and charities that TTI partners with and supports

Habitat for Humanity

Global partnership

Asian University for Women

Global partnership



Overview

TTI has a long-standing commitment to supporting communities in which we operate. With the understanding that the robust community programs are good for business and our stakeholders, oversight of our community investment strategy remains an important objective of our social initiatives.

TTI recognizes the importance of engaging with communities to jointly address environmental and social concerns. At the corporate level, our strategic plan for community engagement focuses 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. These include promoting women's rights and education, fighting modern slavery and poverty, developing clean technology and raw material sustainability and responsibility.

In 2019, 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 effort. 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 the environment, education, home building and child wellness to sports.

Some of our business units have formal committees that select organizations through which employees can embark on community engagement projects. Other business units sponsor the same causes annually while also evaluating new partnerships as they arise. In 2019, in-kind donations of tools and other items, equivalent to approximately US\$830,000, US\$1.1 million in financial support and over 4,100 hours of volunteer time were donated by TTI and our 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 by region in 2019.

Environmental and Disaster Relief Initiatives

Asia

An environmental initiative that continues to be championed by TTI HK is its Green Fair. The fair is held at the office to support local organic farmers and fair-trade merchants and all proceeds are donated to the New Life Psychiatric Rehabilitation Association to provide support to individuals with mental health issues in the community. As part of this initiative, TTI HK employees along with their family members visit the Go Green Organic Farm to enjoy a day out and learn about farming and biodiversity in Hong Kong.

EMEA

In TTI MEA, US\$15,000 worth of products, such as generators, pumps and lights, were donated to support disaster relief after the Mozambique hurricane.

North America

Another environmental endeavor is TTI Canada's participation in the CN Tower Climb, raising US\$1,636 for the World Wildlife Fund (WWF). In 2019, TTI Canada was proud to run a national program for 40ceans raising US\$1,152 which equates to eliminating the equivalent of 0.062 tonnes of waste from oceans and shorelines.

Home-building and Support for Veterans

In 2019, TTI became a global partner of Habitat for Humanity. Habitat for Humanity is an NGO with programs tackling the issue of homelessness in the community and focuses on building new homes for low-income households.

A global partner with



TTI PE donated products, helping Habitat affiliates build homes, communities and hope for various locations in the United States. TTI employees volunteered more than 480 hours in the Habitat Executive Build program, showing their support to the local communities where TTI sponsored house building for underprivileged families. TTI PE employees volunteer in the Habitat – Women's Build program and also support the program by raising money to fund the cost of building houses.

Apart from Habitat, TTI PE works with The Home Depot Foundation and Team Depot, a 400,000-strong army of associate volunteers, to improve the homes and lives of United States veterans. The Foundation trained skilled tradespeople to fill labor gaps and support communities impacted by natural disasters.



TTI Canada also supports Habitat for Humanity on a national level and 47 colleagues were involved in four Habitat for Humanity builds with one in both Montreal and Calgary and two in Toronto in 2019.

Another business unit, Milwaukee Brookfield also worked to build homes for those in need, specifically veterans. Milwaukee supported the Veterans Outreach of Wisconsin (VOW) and Operation Tiny Home (OTH) organizations in 2019. Engagement with VOW and OTH entailed eight volunteers contributing 88 hours to help homeless and at-risk veterans by providing food, clothing, shelter and other basic human needs. Cash contributions were also donated to purchase land and complete surveys, and 65 tools were donated to veterans.

Nurturing the Next Generation

Our business units support a number of educational and wellbeing initiatives for youth across the globe.

Asia

A number of Asian community initiatives are focused on youth development. In Hong Kong, TTI has been providing practical design technology workshops to BTEC Engineering high school students from the English School Foundation, West Island School. In 2019, the workshop extended into a 4-day study tour at TTI AIP. Through the tour, students were able to learn from experts representing different brands and production lines and receive hands-on tool training at the Pudwill Leadership Center (PLC).

Students from West Island School were also able to take part in an 8-week Concept Engineering Internship Program in 2019. During this, students studied drill and impact driver electro-mechanisms for one week, joined 101 PLC training sessions and a factory tour for one week and learned about concept development and prototyping for the remaining six weeks.

From 2017 to 2019, TTI HK 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. We provided internships for 41 individuals from around the world. Our interns are on average, 20-years old and hail from different educational backgrounds, with many coming from overseas universities, such as the University of British Columbia, Oxford University, McGill University and the University of Manchester. During the program, interns were assigned to various departments with some working for multiple departments during their time with TTI HK. Two interns joined TTI HK following their internship with the company.

Outside of Hong Kong, youth development is also pursued in locations like Cambodia. TTI provided power tools for the construction of three educational facilities at Kung Ruth Village, Cambodia through The IDEA Project in 2019, with the project and volunteer tour scheduled to take place in early 2020.



EMEA

In the EMEA region, German business units such as DreBo Germany supported specific areas of education, sports and local associations focusing on youth and children. Programs included support for children and teens in a local traditional music society, youth and children's festival support and engagement with local kindergartens.

North America

TTI Canada supports children's education and sports activities such as baseball and hockey through monetary donations. Milwaukee Brookfield also engaged in various projects to nurture youth. The main goal of their initiatives in 2019 included stimulating interest in Science, Technology, Engineering and Mathematics (STEM) education. As part of the STEM education program, the Milwaukee business unit organized a First Robotics Day for employees to be mentors to teams. For this project, 25 employees signed up to volunteer and six employees were placed as mentors contributing 350 hours as part of Weekly First Mentorships. Another initiative planned was a STEM activity for 60 students from Burleigh Elementary, whose task was to work with eight TTI volunteers to use lemons and potatoes to light up a light bulb. The Milwaukee team also participated in the NSBE Professional Partners in the Classroom (PPIC) program at a local high school, Bradley Tech, to discuss careers in STEM and financial information with high school students approaching graduation. Other initiatives were CareerX and Careers Uncovered programs where TTI participated with other companies to promote STEM technical careers at Milwaukee and Waukesha Schools. Our employees also volunteered in the LAUNCH Innovation Challenge where they mentored student teams on challenges posed by Milwaukee employees to solve real business problems.



Supporting Women and Girls

A member of



Asia

With women's rights and education identified as a key area for TTI, in 2019 TTI HK ran an internship program with the Asian University of Women (AUW). AUW caters to students from 20 countries around the region that are home to marginalized groups, including garment factory workers, Rohingya refugees and women from conflict zones in Afghanistan, Syria and Yemen. By recruiting from marginalized groups, AUW aims to identify talent in places where women's potential is undervalued or ignored. In this way, the university provides a platform for women with few opportunities to acquire a world-class education and create and sustain international networks of women leaders and their supporters.

TTI's internship program provided AUW students with invaluable work experience, while allowing personal and professional development to occur. Through this initiative, we were delighted to introduce these women to the professional working world, empowering them and giving them the opportunity to improve their decision-making, organizational, communication and interpersonal skills. TTI HK is committed to continuing this partnership with AUW in 2020.



North America

One of the initiatives TTI Canada is very proud of over the past four years is participation in the unique program, 'Girls Can Too', which introduces construction skills to female high school students from low-income families in Toronto. This practical program is operated by the Toronto Region Conservation Authority with the assistance and support of key members of the design, construction and related industries including E.R.A. Architects and Milwaukee Tools.



Healthcare Initiatives

North America

Other donations and programs supported by TTI are in the area of healthcare.

TTI PE contributed to the following initiatives in 2019:

- Replay for Life for American Cancer Society: a local fundraising effort by employees benefiting cancer research. US\$19,000 was contributed in 2019
- City of Hope: participation in fundraising in support of cancer research and caregiving with US\$30,000 donated annually
- American Red Cross: corporate donation to hurricane relief efforts with US\$50,000 given in 2019
- The Blood Connection: employee support of local blood bank every quarter
- Shalom Bike Race: providing holistic recovery for women addicted to alcohol and drugs

Participant of



TTI Canada also gives to local health charities through bereavement donations, supports the Canadian Cancer Society and participates in various other healthcare initiatives. In 2019, 29 colleagues participated in volleyball events to raise funds for the SickKids Foundation. In addition, 29 colleagues participated in the Heart & Stroke Big Bike Ride, raising US\$1,925 for research and care.

TTI NA supports Autism Speaks through monetary contributions and participation in a yearly walk and run for employees and their families.

ANZ

TTI ANZ continues a strong affiliation with a local mental health charity called Beyond Blue.

Other Community Programs

Other community initiatives by region in 2019 were as follows.

North America

TTI PE also runs a TTI Power Equipment campaign for United Way supported by employee contributions with over US\$30,000 contributed annually. Additionally, this business unit supported local YMCA efforts through fundraising donations, donating US\$10,000 worth of tools.

TTI Canada joined National Cupcake Day with 50 colleagues, raising funds in support of local shelters, SPCA's and Humane Societies to promote animal welfare. Other initiatives included 32

TTI colleagues working to sort and pack 2,500 gift boxes for underprivileged children as part of the Santa Claus Fund and four colleagues participating in a the 5K Holly Jolly Run at the Santa Claus Parade. In addition, in 2019, TTI Canada joined the Home Depot Foundation's charity golf tournament and ran a Volunteer for a Day program.

Milwaukee in Brookfield's other community initiatives included a number of hunger relief projects in 2019 where 172 volunteers contributed 555 hours of service. Initiatives included the distribution of food and material donations.

At Milwaukee's Olive Branch location, the company planned 12 events with 210 participants volunteering a total of 763 hours. Some focused on veterans appreciation and others food pantry donations, back-to-school drives and an industry mentorship program.

Industry Engagement

Our community engagement also takes the form of participation in industry-wide activities. We have been involved in the following international industry shows and exhibitions, and recognized with a number of awards for our Innovative Design.

Shows and Exhibitions:

- Technological and Higher Education Institute of Hong Kong Degree Show
- The Greater Bay Area – Dongguan Innovation and Creativity Based Show
- Poland and Brazil exhibition organized by the Hong Kong Electrical Appliance Industries Association
- Hong Kong Design Institute Degree Show



Legend and List of Business Units Under Each Region

Region/Name of business division	Abbreviation	Country/Location
Asia		
Techtronic Asia Company Limited	TTI HK	Hong Kong
Techtronic Industries Company Limited	TTI HK	Hong Kong
Techtronic Industries Korea LLC	TTI Korea	Korea
Techtronic Industries (Thailand) Limited	TTI Thailand	Thailand
Techtronic Product Development Philippines Branch Office	TTI Philippines	The Philippines
Techtronic Power Tools (M) Sdn Bhd. Limited	TTI Malaysia	Malaysia
Techtronic Industries Vietnam Company Limited	TTI Vietnam	Vietnam
Techtronic Industries Vietnam Manufacturing Company Limited	TTI Vietnam Manufacturing	Vietnam
Techtronic Tools Limited Taiwan Branch	TTI Taipei	Taipei, Taiwan
Techtronic Industries (Taiwan) Co. Limited	TTI Taichung	Taichung, Taiwan
Techtronic Industries (Dongguan) Company Limited	TTI AIP	Dongguan, PRC
Techtronic Industries (Zhuhai) Co. Limited	TTI Zhuhai	Zhuhai, PRC
Techtronic (Suzhou) Commercial Consulting Co. Limited	TTI Suzhou	Suzhou, PRC
Techtronic Trading (Shanghai) Limited	TTI Shanghai	Shanghai, PRC
ANZ		
Techtronic Industries Australia Pty Limited	TTI ANZ	Australia
Techtronic Industries N.Z. Limited	TTI ANZ	New Zealand
United States – North America		
Techtronic Industries North America, Inc.	TTI NA	North America
DreBo America Inc.	DreBo US	North America
Milwaukee Electric Tool Corporation	Milwaukee	North America
Techtronic Industries Power Equipment	TTI PE	North America
Techtronic Industries Floor Care North America	TTI FC NA	North America
TTI Canada Inc.	TTI Canada	Canada
Techtronic Industries Mexico S.A. de. C.V.	TTI Mexico	Mexico
Hart Consumer Products, Inc.	Hart Tools	USA
EMEA		
Techtronic Industries Middle East and Africa FZCO	TTI MEA	United Arab Emirates
Techtronic Industries Central Europe GmbH	TTI Central Europe	Central Europe
Techtronic Industries Eastern Europe	TTI Eastern Europe	Eastern Europe
DreBo Werkzeugfabrik GmbH	DreBo Germany	Germany
Techtronic Industries France SAS	TTI France	France
Techtronic Industries Iberia SL	TTI Iberia	Spain
Techtronic Industries Italia SRL	TTI Italia	Italy
Techtronic Industries Manufacturing CZ s.r.o. CR	TTI CZ	Czech Republic
Techtronic Industries Switzerland AG	TTI Switzerland	Switzerland
Techtronic Industries Nordic Aps	TTI Nordic	Nordic
Techtronic Industries GmbH	TTI GmbH	Germany
Techtronic Industries ELC GmbH	TTI ELC GmbH	Germany
Techtronic Industries UK Limited	TTI UK	United Kingdom
Vax Limited	VAX UK	United Kingdom
Techtronic Industries EMEA Limited	TTI UK	United Kingdom

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, 2019.

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 52 and 53 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, 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 136.

An interim dividend of HK45.00 cents (approximately US5.79 cents) per share amounting to approximately US\$105,973,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK58.00 cents (approximately US7.46 cents) per share to the shareholders on the register of members on May 22, 2020, amounting to approximately US\$136,603,000.

Property, Plant and Equipment

The Group continued to expand its business and during the year spent approximately US\$31,687,000 on leasehold land and buildings, acquired moulds and tooling for approximately US\$4,626,000, office equipment, furniture and fixtures for approximately US\$16,212,000 and plant and machinery for approximately US\$31,554,000. 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 2,350,000 ordinary shares were cancelled by the Company during the year, among which (i) 850,000 shares were bought back on the Stock Exchange and settled during the year at prices ranging from HK\$40.45 to HK\$41.50; and (ii) 1,500,000 shares were bought back on the Stock Exchange in December 2018 and cancelled in January 2019 at prices ranging from HK\$41.25 to HK\$43.00. The aggregate amount paid by the Company for such buy-backs cancelled during the year amounting to US\$12,644,000 was charged to the retained earnings.

The shares bought back were cancelled immediately and accordingly the issued share capital of the Company was reduced correspondingly. 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 Peter David Sullivan
Mr Vincent Ting Kau Cheung
Mr Johannes-Gerhard Hesse
Mr Robert Hinman Getz (appointed on January 1, 2020)
Mr Manfred Kuhlmann (retired after the conclusion of the annual general meeting of the Company held on May 17, 2019)

In accordance with Article 107(A) of the Company’s Articles of Association, Messrs. Horst Julius Pudwill, Joseph Galli Jr, Vincent Ting Kau Cheung and Johannes-Gerhard Hesse will retire at the forthcoming Annual General Meeting, being eligible, will offer themselves for re-election. In accordance with Article 98 of the Company’s Articles of Association, Mr Robert Hinman Getz, who was appointed on January 1, 2020, shall retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election.

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, 2019 and during the period from January 1, 2020 to the date of this Report are available on the Company’s website (www.ttigroup.com).

Directors’ and Chief Executive’s Interests

As at December 31, 2019, 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) ⁽¹⁾	Interests in underlying shares pursuant to equity derivatives ⁽¹⁾	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	Beneficial owner	150,973,500 ⁽²⁾	420,500	368,313,794	20.13%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	216,159,794 ⁽³⁾	—		
Mr Stephan Horst Pudwill	Beneficial owner	5,009,500 ⁽⁴⁾	2,500,000	41,517,000	2.27%
	Beneficiary of a trust	34,007,500 ⁽⁵⁾	—		
Mr Joseph Galli Jr	Beneficial owner	8,806,000 ⁽⁶⁾	—	8,806,000	0.48%
Mr Kin Wah Chan	Beneficial owner	37,500 ⁽⁷⁾	2,500,000	2,537,500	0.14%
Mr Chi Chung Chan	Beneficial owner	450,000 ⁽⁸⁾	2,100,000	2,550,000	0.14%
Prof Roy Chi Ping Chung GBS BBS JP	Beneficial owner	49,005,948	497,000	86,577,978	4.73%
	Interests of controlled corporation	37,075,030 ⁽⁹⁾	—		
Mr Camille Jojo	Beneficial owner	182,000 ⁽¹⁰⁾	447,000	629,000	0.03%
Mr Christopher Patrick Langley OBE	Beneficial owner	200,000	347,000	547,000	0.03%
Mr Peter David Sullivan	Beneficial owner	—	497,000	497,000	0.03%
Mr Vincent Ting Kau Cheung	Beneficial owner	4,240,000	147,000	4,387,000	0.24%
Mr Johannes-Gerhard Hesse	Beneficial owner	—	332,000	332,000	0.02%

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 675,000 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2019. 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.	179,084,764
Cordless Industries Company Limited*	37,075,030
	216,159,794

- (4) These included Mr Stephan Horst Pudwill's interests in 37,500 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2019. 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 385,500 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2019 and 5,000,000 shares agreed to be granted to Mr Galli in the following 5 years in 5 equal tranches (i.e. 1,000,000 shares each year) provided the Company meets certain performance criteria each year. 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 37,500 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2019. 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 37,500 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2019. 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.
- (10) These included Mr Camille Jojo's interests in 150,000 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2019. Details of Mr Camille Jojo's awarded shares are set out in the Corporate Governance Report.
- (11) The 45,674 shares held by Mr Robert Hinman Getz, an Independent Non-executive Director who was appointed on January 1, 2020 are not shown above.

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, 2019.

Share Options

Share Option Schemes

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

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

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

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

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

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

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

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
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
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
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
20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 – 19.5.2029	
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
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 – 19.5.2029
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	(400,000)	—	600,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 – 19.5.2029
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
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
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029

Share Options (continued)

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
Directors (continued)									
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
20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029	
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	—	(50,000)	—	50,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Manfred Kuhlmann <small>(retired after the conclusion of the annual general meeting of the Company held on May 17, 2019)</small>	17.3.2017	D	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
Total for directors			11,263,500	2,179,000	(3,555,000)	—	9,887,500		
Employees	16.11.2009	D	300,000	—	(250,000)	(50,000)	—	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			900,000	—	(280,000)	(50,000)	570,000		
Total for all categories			12,163,500	2,179,000	(3,835,000)	(50,000)	10,457,500		

The weighted average closing price of the Company's shares immediately before the date on which the share options were granted during 2019 was HK\$50.15 (2018: HK\$48.50).

The closing price of the Company's shares immediately before the date on which the share options were granted was HK\$50.15 in 2019 (2018: HK\$48.50).

The weighted average closing prices of the Company's shares immediately before various dates during 2019 and 2018 on which the share options were exercised were HK\$55.67 and HK\$46.63 respectively.

The fair value of the share options granted in 2019 measured at the date on which the share options were granted was HK\$12.69 (2018: HK\$11.82). The weighted average fair value of the share options granted in 2019 was HK\$12.69 (2018: HK\$11.82) 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, 2019, 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. ⁽¹⁾	94,073,945	(L)	5.14%
JPMorgan Chase & Co. ⁽²⁾	128,381,072	(L)	7.02%
	5,238,390	(S)	0.29%
	38,257,381	(LP)	2.09%
The Bank of New York Mellon Corporation ⁽³⁾	109,789,313	(L)	6.00%
	32,390,575	(S)	1.77%
	70,341,844	(LP)	3.84%

* (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	
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)	—	—	128,381,072	(L)	7.02%
		—	—	5,238,390	(S)	0.29%
		—	—	38,257,381	(LP)	2.09%
China International Fund Management Co., Ltd.	(2b)	66,000	(L)	—	—	0.00%
JPMorgan Asset Management (Taiwan) Limited	(2b)	496,500	(L)	—	—	0.03%
J.P. Morgan Bank Luxembourg S.A. – Amsterdam Branch	(2b)	116,459	(L)	—	—	0.01%
J.P. Morgan AG	(2b)	329,000	(L)	—	—	0.02%
J.P. Morgan Bank Luxembourg S.A. – Stockholm Bankfilial	(2b)	489,500	(L)	—	—	0.03%
J.P. Morgan Securities LLC	(2b)	683,430	(L)	—	—	0.04%
		455,930	(S)	—	—	0.02%
JPMORGAN CHASE BANK, N.A. – LONDON BRANCH	(2b)	8,945,784	(L)	—	—	0.49%
J.P. Morgan Investment Management Inc.	(2b)	62,736,500	(L)	—	—	3.43%
JPMORGAN ASSET MANAGEMENT (UK) LIMITED	(2b)	3,880,500	(L)	—	—	0.21%
J.P. Morgan Prime Inc.	(2b)	21,500	(L)	—	—	0.00%
		21,500	(S)	—	—	0.00%
J.P. Morgan Bank (Ireland) Public Limited Company	(2b)	1,000	(L)	—	—	0.00%
JPMorgan Chase Bank, N.A. – Sydney Branch	(2b)	6,217,803	(L)	—	—	0.34%
J.P. Morgan Bank Luxembourg S.A. – Oslo Branch	(2b)	33,500	(L)	—	—	0.00%
J.P. Morgan Bank Luxembourg S.A.	(2b)	382,000	(L)	—	—	0.02%
JPMorgan Asset Management (Japan) Limited	(2b)	740,772	(L)	—	—	0.04%
J.P. Morgan Trust Company of Delaware	(2b)	39,225	(L)	—	—	0.00%
JPMorgan Chase Bank, National Association	(2b)	22,535,221	(L)	—	—	1.23%
JPMorgan Chase Bank, N.A. – Hong Kong Branch	(2b)	2,896,752	(L)	—	—	0.16%
JPMorgan Asset Management (Asia Pacific) Limited	(2b)	10,992,000	(L)	—	—	0.60%
J.P. Morgan (Suisse) SA	(2b)	617,818	(L)	—	—	0.03%
J.P. MORGAN SECURITIES PLC	(2b)	6,159,808	(L)	—	—	0.34%
		4,760,960	(S)	—	—	0.26%

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 ASSET MANAGEMENT (UK) LIMITED	(2b)	—	—	66,000	(L)	0.00%
JPMORGAN ASSET MANAGEMENT HOLDINGS (UK) LIMITED	(2b)	—	—	3,946,500	(L)	0.22%
JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	(2b)	—	—	3,946,500	(L)	0.22%
JPMorgan Asset Management Holdings Inc.	(2b)	—	—	78,912,272	(L)	4.31%
JPMorgan Chase Holdings LLC	(2b)	—	—	79,656,427	(L)	4.35%
		—	—	477,430	(S)	0.03%
JPMorgan Asset Management (Asia) Inc.	(2b)	—	—	12,229,272	(L)	0.67%
J.P. Morgan Bank Luxembourg S.A.	(2b)	—	—	639,459	(L)	0.03%
J.P. Morgan International Finance Limited	(2b)	—	—	8,129,085	(L)	0.44%
		—	—	4,760,960	(S)	0.26%
JPMorgan Chase Bank, National Association	(2b)	—	—	26,189,424	(L)	1.43%
		—	—	4,760,960	(S)	0.26%
J.P. Morgan Broker-Dealer Holdings Inc.	(2b)	—	—	704,930	(L)	0.04%
		—	—	477,430	(S)	0.03%
J.P. Morgan Securities LLC	(2b)	—	—	21,500	(L)	0.00%
		—	—	21,500	(S)	0.00%
J.P. Morgan Equity Holdings, Inc.	(2b)	—	—	39,225	(L)	0.00%
J.P. MORGAN CAPITAL HOLDINGS LIMITED	(2b)	—	—	6,159,808	(L)	0.34%
		—	—	4,760,960	(S)	0.26%

Remarks:

- (2a) JPMorgan Chase & Co. is listed on New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 128,381,072 shares of long position, 5,238,390 shares of short position and 38,257,381 shares of lending pool respectively was as controlled corporation.
- (2b) China International Fund Management Co., Ltd., JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan Bank Luxembourg S.A. – Amsterdam Branch, J.P. Morgan AG, J.P. Morgan Bank Luxembourg S.A.- Stockholm Bankfilial, J.P. Morgan Securities LLC, JPMORGAN CHASE BANK, N.A. – LONDON BRANCH, J.P. Morgan Investment Management Inc., JPMORGAN ASSET MANAGEMENT (UK) LIMITED, J.P. Morgan Prime Inc., J.P. Morgan Bank (Ireland) Public Limited Company, JPMorgan Chase Bank, N.A. – Sydney Branch, J.P. Morgan Bank Luxembourg S.A. – Oslo Branch, J.P. Morgan Bank Luxembourg S.A., JPMorgan Asset Management (Japan) Limited, J.P. Morgan Trust Company of Delaware, JPMorgan Chase Bank, National Association, JPMorgan Chase Bank, N.A. – Hong Kong Branch, JPMorgan Asset Management (Asia Pacific) Limited, J.P. Morgan (Suisse) SA, J.P. MORGAN SECURITIES PLC, JPMORGAN ASSET MANAGEMENT (UK) LIMITED, JPMORGAN ASSET MANAGEMENT HOLDINGS (UK) LIMITED, JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED, JPMorgan Asset Management Holdings Inc., JPMorgan Chase Holdings LLC, JPMorgan Asset Management (Asia) Inc., J.P. Morgan Bank Luxembourg S.A., J.P. Morgan International Finance Limited, JPMorgan Chase Bank, National Association, J.P. Morgan Broker-Dealer Holdings Inc., J.P. Morgan Securities LLC, J.P. Morgan Equity Holdings, Inc. and J.P. MORGAN CAPITAL HOLDINGS 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 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	(3a)	—	—	109,789,313	(L)	6.00%
		—	—	32,390,575	(S)	1.77%
		—	—	70,341,844	(LP)	3.84%
The Bank of New York Mellon	(3b)	109,732,758	(L)	—	—	6.00%
		32,390,575	(S)	—	—	1.77%
BNY MELLON, NATIONAL ASSOCIATION	(3b)	56,555	(L)	—	—	0.00%

Remarks:

- (3a) 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 109,789,313 shares of long position, 32,390,575 shares of short position and 70,341,844 shares of lending pool respectively was as controlled corporation.
- (3b) The Bank of New York Mellon and BNY MELLON, NATIONAL ASSOCIATION were all 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 these subsidiaries.

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, 2019.

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 74 to 121.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended December 31, 2019.

Donations

During the year, the Group made charitable and other donations totalling US\$2,539,000.

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 4, 2020

Independent Auditor's Report

Deloitte.

TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED
創科實業有限公司
(Incorporated in Hong Kong with limited liability)

德勤

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 136 to 222, which comprise the consolidated statement of financial position as at December 31, 2019, 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, 2019, 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 ("HSAs") 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

Capitalization of Deferred Development Costs

We identified the capitalization of costs as internally-generated intangible assets as a key audit matter which requires estimations and assumptions about the expected future economic benefits to be generated by the products resulting from these development activities. The Group conducts a significant level of development activities and has to apply judgement in identifying those projects meeting the criteria for capitalization under the requirements of the accounting standards, the expected life of the products and, to capture accurate time and cost information for those projects.

As disclosed in Note 20 to the consolidated financial statements, as at December 31, 2019 the carrying value of deferred development costs was US\$388 million with the additions and amortization charge during the year being US\$152 million and US\$98 million respectively.

Recognition of income and deferred tax

We identified the recognition of income of income and deferred tax as a key audit matter as the Group operates in a complex multinational tax environment, in which the tax amounts, including provisions for potential tax exposures, and the realizability of the deferred tax asset, which depends on whether sufficient taxable profits or taxable temporary differences will be available in the future, are associated with a high degree of estimates and judgement.

As disclosed in Note 10 to the consolidated financial statements, as at December 31, 2019, the Group has recognized US\$46 million of income and deferred tax expense in the consolidated statement of profit or loss and other comprehensive income.

How our Audit Addressed the Key Audit Matter

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

- Obtaining an understanding of management's process and controls over the capitalization of deferred development costs;
- Evaluating the nature of the type of development expenses incurred that are capitalized into intangible assets;
- Assessing the reasonableness of the capitalization based on our knowledge of the Group's business strategy, historical track record and sales forecasts prepared by management; 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.

Our procedures in relation to management's assessment about the recognition of income and deferred tax included:

- Understanding and evaluating the management's procedures and relevant controls regarding the completeness of tax exposures and estimating the provision for income tax and deferred tax assets to be recognized.
- In understanding and evaluating management's estimates and judgements, we considered the status of current tax authority inquiries, judgmental positions taken in the tax returns, the outcome of previous inquiries and current estimates and developments in the tax environment;
- We used our tax specialists to evaluate and challenge the adequacy of management's key assumptions and read the latest correspondence with the tax authorities to assess management's estimates; and
- Evaluating management's assessment of the sufficiency of future taxable profits supporting the recognition of deferred tax assets.

Independent Auditor's Report

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 HKASs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKASs, 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.

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

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 4, 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

	Notes	2019 US\$'000	2018 US\$'000
Revenue	6	7,666,721	7,021,182
Cost of sales		(4,774,065)	(4,406,605)
Gross profit		2,892,656	2,614,577
Other income	7	10,542	7,013
Interest income	8	40,215	25,204
Selling, distribution and advertising expenses		(1,195,138)	(1,103,437)
Administrative expenses		(804,989)	(708,135)
Research and development costs		(229,796)	(202,563)
Finance costs	9	(52,323)	(38,049)
Profit before share of results of associates and taxation		661,167	594,610
Share of results of associates		119	—
Profit before taxation		661,286	594,610
Taxation charge	10	(46,290)	(42,070)
Profit for the year	11	614,996	552,540
Other comprehensive (loss) income:			
Item that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		(8,361)	(111)
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss) gain on foreign currency forward contracts and cross-currency interest rate swap in hedge accounting		(10,856)	50,232
Exchange differences on translation of foreign operations		(8,071)	(49,173)
Other comprehensive (loss) income for the year		(27,288)	948
Total comprehensive income for the year		587,708	553,488
Profit for the year attributable to:			
Owners of the Company		614,900	552,463
Non-controlling interests		96	77
		614,996	552,540
Total comprehensive income attributable to:			
Owners of the Company		587,612	553,411
Non-controlling interests		96	77
		587,708	553,488
Earnings per share (US cents)			
Basic	15	33.67	30.16
Diluted		33.55	30.06

Consolidated Statement of Financial Position

As at December 31, 2019

	Notes	2019 US\$'000	2018 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,086,559	790,936
Lease prepayments	17	—	28,475
Right of use assets	18	247,144	—
Goodwill	19	580,866	581,215
Intangible assets	20	666,705	620,801
Interests in associates	22	3,243	3,664
Financial assets at fair value through profit or loss	23	5,796	5,361
Derivative financial instruments	28	8,929	9,441
Deferred tax assets	42	74,947	83,945
		2,674,189	2,123,838
Current assets			
Inventories	24	2,112,931	1,766,722
Right to returned goods asset		15,342	14,005
Trade and other receivables	25	1,228,573	1,126,798
Deposits and prepayments		169,076	126,841
Bills receivable	26	6,076	5,057
Tax recoverable		23,887	12,852
Trade receivables from associates	27	6,494	2,253
Derivative financial instruments	28	25,065	33,788
Financial assets at fair value through profit or loss	23	24,597	32,828
Bank balances, deposits and cash	29	1,411,821	1,103,880
		5,023,862	4,225,024
Current liabilities			
Trade and other payables	30	2,177,417	1,921,452
Bills payable	31	46,170	41,164
Warranty provision	32	115,210	105,215
Tax payable		19,596	15,300
Derivative financial instruments	28	17,493	712
Lease liabilities	33	63,878	—
Obligations under finance leases – due within one year	34	—	288
Discounted bills with recourse	35	9,089	243,360
Unsecured borrowings – due within one year	38	732,380	255,228
Refund liabilities from right of return		36,474	33,267
		3,217,707	2,615,986
Net current assets		1,806,155	1,609,038
Total assets less current liabilities		4,480,344	3,732,876

Consolidated Statement of Financial Position

As at December 31, 2019

	Notes	2019 US\$'000	2018 US\$'000
Capital and Reserves			
Share capital	39	662,379	654,991
Reserves		2,732,266	2,402,780
Equity attributable to Owners of the Company		3,394,645	3,057,771
Non-controlling interests		(334)	(430)
Total equity		3,394,311	3,057,341
Non-current Liabilities			
Lease liabilities	33	174,490	—
Obligations under finance leases – due after one year	34	—	725
Unsecured borrowings – due after one year	38	754,628	540,214
Retirement benefit obligations	41	143,461	119,974
Deferred tax liabilities	42	13,454	14,622
		1,086,033	675,535
Total equity and non-current liabilities		4,480,344	3,732,876

The consolidated financial statements on pages 136 to 222 were approved and authorized for issue by the Board of Directors on March 4, 2020 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, 2019

	Attributable to Owners of the Company							Total US\$'000	Share of net assets of subsidiaries US\$'000	Total US\$'000	Attributable to non- controlling interests
	Share capital US\$'000	Shares held for share award scheme US\$'000	Translation reserve US\$'000	Employee share-based compensation reserve US\$'000	Defined benefit obligations remeasurement reserve US\$'000	Hedging reserve US\$'000	Retained profits US\$'000				
At January 1, 2018	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	—	—	—	—	—	—	1,570	1,570	—	1,570	
Adjustment for adoption of HKFRS 15	—	—	—	—	—	—	(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 income (loss) for the year	—	—	(49,173)	—	(111)	50,232	—	948	—	948	
Total comprehensive income (loss) 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 (audited)	654,991	(25,115)	(143,231)	11,032	(20,532)	21,448	2,559,178	3,057,771	(430)	3,057,341	
Adjustment for adoption of HKFRS 16 (Note 2.1)	—	—	—	—	—	—	(18,753)	(18,753)	—	(18,753)	
At January 1, 2019 (restated)	654,991	(25,115)	(143,231)	11,032	(20,532)	21,448	2,540,425	3,039,018	(430)	3,038,588	
Profit for the year	—	—	—	—	—	—	614,900	614,900	96	614,996	
Remeasurement of defined benefit obligations	—	—	—	—	(9,076)	—	—	(9,076)	—	(9,076)	
Fair value loss on foreign currency forward contracts and cross-currency interest rate swap in hedge accounting	—	—	—	—	—	(12,106)	—	(12,106)	—	(12,106)	
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	715	—	—	715	—	715	
Deferred tax liability on hedging reserve	—	—	—	—	—	1,250	—	1,250	—	1,250	
Exchange differences on translation of foreign operations	—	—	(8,071)	—	—	—	—	(8,071)	—	(8,071)	
Other comprehensive loss for the year	—	—	(8,071)	—	(8,361)	(10,856)	—	(27,288)	—	(27,288)	
Total comprehensive (loss) income for the year	—	—	(8,071)	—	(8,361)	(10,856)	614,900	587,612	96	587,708	
Shares issued at premium on exercise of options	7,388	—	—	(1,450)	—	—	—	5,938	—	5,938	
Buy-back of shares	—	—	—	—	—	—	(12,644)	(12,644)	—	(12,644)	
Vesting of awarded shares	—	1,765	—	(1,765)	—	—	—	—	—	—	
Shares for share award scheme	—	(8,477)	—	—	—	—	—	(8,477)	—	(8,477)	
Recognition of equity-settled share-based payments	—	—	—	6,792	—	—	—	6,792	—	6,792	
Lapse of share options	—	—	—	(10)	—	—	10	—	—	—	
Final dividend – 2018	—	—	—	—	—	—	(117,621)	(117,621)	—	(117,621)	
Interim dividend – 2019	—	—	—	—	—	—	(105,973)	(105,973)	—	(105,973)	
At December 31, 2019	662,379	(31,827)	(151,302)	14,599	(28,893)	10,592	2,919,097	3,394,645	(334)	3,394,311	

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 US\$'000	2018 US\$'000
Operating Activities		
Profit before taxation	661,286	594,610
Adjustments for:		
Amortization/write-off of intangible assets	113,101	111,994
Amortization of lease prepayments	—	747
Depreciation of right of use assets	67,719	—
Depreciation on property, plant and equipment	144,663	129,229
Employee share-based payments expense	6,792	4,978
Fair value loss (gain) on foreign currency forward contracts	11,007	(17,954)
Fair value loss on listed equity securities	8,231	5,570
Fair value gain on club membership debentures	(145)	(114)
Fair value loss on acquisition right of certain property, plant and equipment	512	117
Fair value loss on cross-currency interest rate swap	2,425	—
Finance costs	52,323	38,049
Gain on early termination of leases	(3,500)	—
Gain on disposal of listed equity securities	—	(236)
Impairment loss on trade receivables under expected credit loss model	1,321	22,845
Interest income	(40,215)	(25,204)
Loss on disposal of property, plant and equipment	6,330	16,859
Share of results of associates	(119)	—
Write down of inventories	34,455	27,584
Operating cash flows before movements in working capital	1,066,186	909,074
Increase in inventories	(383,721)	(348,651)
Increase in trade and other receivables, deposits and prepayments	(147,290)	(31,138)
Increase in right to returned goods asset	(1,337)	(576)
(Increase) decrease in bills receivable	(1,019)	2,951
(Increase) decrease in trade receivables from associates	(3,701)	537
Increase in trade and other payables	257,994	364,105
Increase in refund liabilities from right of return	3,207	2,457
Increase (decrease) in bills payable	5,006	(13,788)
Increase in warranty provision	9,900	13,512
Increase (decrease) in retirement benefit obligations	14,411	(4,571)
Net payment for purchase of shares for share award scheme	(8,477)	(15,191)
Cash generated from operations	811,159	878,721
Interest paid	(52,323)	(38,049)
Hong Kong Profits Tax paid	(3,568)	(9,582)
Overseas tax paid	(35,072)	(38,811)
Hong Kong Profits Tax refunded	965	59
Overseas tax refunded	3,112	1,302
Net Cash from Operating Activities	724,273	793,640

	2019 US\$'000	2018 US\$'000
Investing Activities		
Acquisition of a subsidiary	—	(49,347)
Additions to intangible assets	(158,971)	(135,639)
Equity interest acquired in an associate	—	(1,470)
Interest received	40,215	25,204
Proceeds from derecognition of right of use assets	25	—
Proceeds from disposal of listed equity securities	—	2,667
Proceeds from disposal of property, plant and equipment	7,154	1,869
Purchase of listed equity securities	—	(8,536)
Purchase of property, plant and equipment	(456,608)	(259,114)
Purchase of unlisted equity securities	(301)	—
Repayment from associates	—	586
Net Cash used in Investing Activities	(568,486)	(423,780)
Financing Activities		
(Decrease) increase in discounted bills with recourse	(234,271)	155,523
Dividends paid	(223,594)	(183,422)
New bank loans obtained	4,041,720	2,519,087
Proceeds from issue of shares	5,938	868
Repayment of bank loans	(3,350,154)	(2,548,665)
Repayment of lease liabilities	(64,230)	—
Repayment of obligations under finance leases	—	(10,751)
Buy-back of shares	(12,644)	(38,608)
Net Cash from (used in) Financing Activities	162,765	(105,968)
Net Increase in Cash and Cash Equivalents	318,552	263,892
Cash and Cash Equivalents at Beginning of the Year	1,103,880	863,515
Effect of Foreign Exchange Rate Changes	(10,611)	(23,527)
Cash and Cash Equivalents at End of the Year	1,411,821	1,103,880
Analysis of the Balances of Cash and Cash Equivalents		
Represented by:		
Bank balances, deposits and cash	1,411,821	1,103,880
	1,411,821	1,103,880

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and the 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 consolidated financial statements.

2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a Lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a Lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. As at January 1, 2019, the Group recognized additional lease liabilities and measured right of use assets ("ROU assets") at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16. C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- elected not to recognize ROU assets and lease liabilities for leases with lease term ending within 12 months from the date of initial application;

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

2.1 HKFRS 16 Leases (continued)

As a Lessee (continued)

- excluded initial direct costs from measuring the ROU assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is approximately 2.8%.

	At January 1, 2019 US\$'000
Operating lease commitments disclosed as at December 31, 2018	316,373
Lease liabilities discounted at relevant incremental borrowing rates	287,180
Add: Extension options reasonably certain to be exercised	1,863
Less: Recognition exemption – short-term leases	(585)
Recognition exemption – low value assets	(4,580)
Leases not yet commenced to which the entity is committed	(5,301)
Non-lease components to be excluded from the lease liability	(880)
Lease liabilities relating to operating leases recognized upon application of HKFRS 16	277,697
Add: Obligations under finance leases recognized at December 31, 2018 (note b)	1,013
Lease liabilities as at January 1, 2019	278,710
Analyzed as	
Current	55,559
Non-current	223,151
	278,710

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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

2.1 HKFRS 16 Leases (continued)

As a Lessee (continued)

The carrying amount of ROU assets as at January 1, 2019 comprises the following:

	Right of use assets US\$'000
Right of use assets relating to operating leases recognized upon application of HKFRS 16	255,558
Reclassification from lease prepayments (note a)	28,475
Amounts included in property, plant and equipment under HKAS 17	
– Assets previously under finance leases (note b)	715
	284,748
By class:	
Leasehold land (lease prepayments)	28,475
Land and buildings	210,715
Office equipment, furniture and fixtures	2,528
Plant and machinery	2,930
Motor vehicles	34,963
Aircraft	5,137
	284,748

Note a: Upfront payments for leasehold lands were classified as lease prepayments as at December 31, 2018. Upon application of HKFRS 16, the lease prepayments amounting to US\$28,475,000 were reclassified to ROU assets.

Note b: In relation to assets previously under finance leases, the Group recategorized the carrying amounts of the relevant assets which were still under lease as at January 1, 2019 amounting to US\$715,000 as ROU assets. In addition, the Group reclassified the obligations under finance leases of US\$288,000 and US\$725,000 to lease liabilities as current and non-current liabilities respectively at January 1, 2019.

The following table summarizes the impact of transition to HKFRS 16 on retained profits at January 1, 2019.

	Impact of adopting HKFRS 16 at January 1, 2019 US\$'000
Retained profits	
Recognition of the differences between right of use assets and lease liabilities	18,753

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

2.1 HKFRS 16 Leases (continued)

As a Lessee (continued)

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018 US\$'000	Reclassification US\$'000	Adjustments US\$'000	Carrying amounts under HKFRS 16 at January 1, 2019 US\$'000
Non-current Assets				
Property, plant and equipment	790,936	(715)	—	790,221
Lease prepayments	28,475	(28,475)	—	—
Right of use assets	—	29,190	255,558	284,748
Deferred tax assets	83,945	—	3,386	87,331
Current Liabilities				
Lease liabilities	—	288	55,271	55,559
Obligations under finance leases	288	(288)	—	—
Non-current Liabilities				
Lease liabilities	—	725	222,426	223,151
Obligations under finance leases	725	(725)	—	—
Capital and Reserves				
Retained profits	2,559,178	—	(18,753)	2,540,425

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after January 1, 2021.

² Effective for annual periods beginning on or after a date to be determined.

³ 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.

⁴ Effective for annual periods beginning on or after January 1, 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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

New and revised HKFRSs in issue but not yet effective (continued)

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be 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 would not have any material impact on the consolidated financial statements.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in HKFRS 9 Financial Instruments (“HKFRS 9”) and HKAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities’ hedging relationships are affected by the amendments. There are also amendments to HKFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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.

3. Significant Accounting Policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16 (since January 1, 2019) or HKAS 17 (before application of HKFRS 16), 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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

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);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date. ROU assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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 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.

3. Significant Accounting Policies (continued)

Goodwill (continued)

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.

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Interests in Associates (continued)

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).

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.

3. Significant Accounting Policies (continued)

Leases

Definition of a Lease (upon Application of HKFRS 16 in accordance with Transitions in note 2)

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

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

The Group as a Lessee (upon Application of HKFRS 16 in accordance with Transitions in note 2)

Allocation of Consideration to Components of a Contract

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

Non-lease components are separated from lease component on the basis of their relative standalone prices.

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

Short-term Leases and Leases of Low-value Assets

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

ROU Assets

The cost of ROU assets includes:

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

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

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

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

Refundable Rental Deposits

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

Lease Liabilities

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a Lessee (upon Application of HKFRS 16 in accordance with Transitions in note 2) (continued)

Lease Liabilities (continued)

The lease payments include:

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

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related ROU assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

Lease Modifications

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

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

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

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

The Group as Lessee (prior to 1 January 2019)

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.

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.

3. Significant Accounting Policies (continued)

The Group as Lessee (prior to 1 January 2019) (continued)

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.

Property, Plant & Equipment

PP&E 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 and are measured at cost less subsequent accumulated impairment losses.

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

Construction in progress includes PP&E 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 any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is classified to the appropriate category of PP&E when completed and ready for its intended use. Depreciation of these assets, on the same basis as other PP&E, commences when the assets are ready for their intended use.

Ownership Interests in Leasehold Land and Building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold is presented as "ROU assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as PP&E.

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

Impairment PP&E, ROU Assets 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 PP&E, ROU assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of PP&E, ROU assets 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. In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, 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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Impairment PP&E, ROU Assets and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above) (continued)

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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

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

Financial Assets

Classification and Subsequent Measurement of Financial Assets

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

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

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

- the financial asset is held within a business model whose objective is achieved by both 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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

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

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

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

The Group always recognizes lifetime ECL for trade receivables 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

(i) Significant Increase in Credit Risk (continued)

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.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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

(ii) Definition of Default

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

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

(iii) Credit-impaired Financial Assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

(iii) Credit-impaired Financial Assets (continued)

- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(iv) Write-off Policy

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

(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 associates 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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

(v) Measurement and Recognition of ECL (continued)

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.

Financial Liabilities and Equity

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

Equity Instrument

An equity instrument is any contract that evidences a residual interest in the assets of 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.

Financial Liabilities at Amortized Cost

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

Financial Liabilities at FVTPL

A financial liability is held for trading if:

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

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

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

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

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Liabilities and Equity (continued)

Hedge Accounting (continued)

Assessment of Hedging Relationship and Effectiveness (continued)

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

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. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Discontinuation of Hedge Accounting

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

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

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; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

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.

Offsetting a Financial Asset and a Financial Liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

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).

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories 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

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.

Over time Revenue Recognition (Commission and Royalty Income): Measurement of Progress towards Complete Satisfaction of a Performance Obligation

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

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

Refund Liabilities

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

Sale with a Right of Return/Exchange

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

- 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);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

3. Significant Accounting Policies (continued)

Taxation

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

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

Deferred tax is 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.

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Foreign Currencies (continued)

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).

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.

3. Significant Accounting Policies (continued)

Equity-Settled Share-Based Payment Transactions (continued)

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under the share award scheme. Accordingly, the related expense of the granted shares vested is reversed from the employee share-based compensation reserve. The difference arising from this transfer is debited/credited to retained profits. At the end of the reporting period, the Group revises its estimate of the number of shares that are expected to ultimately vest. The impact of the revision of the estimate, if any, is recognized in profit or loss with a corresponding adjustment to the employee share-based compensation reserve.

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognized as expenses the related costs for which the grants are intended to compensate.

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.

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

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

Defined benefit costs are categorized as follows:

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

The 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

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.

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, 2019, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$580,866,000 (2018: US\$581,215,000) and approximately US\$227,640,000 (2018: US\$227,640,000) respectively. Details of the recoverable amount calculation are disclosed in Note 21. 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, 2019, the carrying amounts of deferred development costs of the Group are US\$388,018,000 (2018: US\$338,230,000). 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.

4. Key Sources of Accounting Estimates (continued)

Useful Lives and Impairment Assessment of Property, Plant and Equipment

PP&E are stated at cost less accumulated depreciation and identified impairment losses. As at December 31, 2019, the Group's carrying amount of PP&E is US\$1,086,559,000 (2018: US\$790,936,000). 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 PP&E. PP&E 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, 2019, a deferred tax asset of approximately US\$28,165,000 (2018: US\$30,608,000) in relation to unused tax losses and approximately US\$31,984,000 (2018: US\$23,535,000) 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\$2,563,000 (2018: US\$3,326,000) 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. Segment Information (continued)

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, 2019

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	6,791,514	875,207	—	7,666,721
Inter-segment sales	—	205	(205)	—
Total segment revenue	6,791,514	875,412	(205)	7,666,721
Inter-segment sales are charged at prevailing market rates.				
Result				
Segment results	662,931	10,344	—	673,275
Interest income				40,215
Finance costs				(52,323)
Share of results of associates				119
Profit before taxation				661,286
Taxation charge				(46,290)
Profit for the year				614,996

For the year ended December 31, 2018

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
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.				
Result				
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

5. Segment Information (continued)

Segment Revenue and Results (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment without the allocation of interest income, finance costs and share of results of associates. 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, 2019

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	5,779	551	6,330
Write down of inventories	33,632	823	34,455
(Reversal of impairment loss) impairment loss on trade receivables under expected credit loss model	(1,876)	3,197	1,321
Depreciation and amortization	269,489	51,930	321,419
Gain on early termination of leases	(3,500)	—	(3,500)

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 under expected credit loss model	20,197	2,648	22,845
Depreciation and amortization	182,200	56,534	238,734

Revenue from Major Products

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

	2019 US\$'000	2018 US\$'000
Power Equipment	6,791,514	6,009,495
Floor Care and Appliances	875,207	1,011,687
Total	7,666,721	7,021,182

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. Segment Information (continued)

Geographical Information

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

	Revenue from external customers		Non-Current Assets*	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
North America	5,909,781	5,371,768	1,456,518	1,037,973
Europe	1,160,614	1,071,056	172,451	113,851
Other countries	596,326	578,358	952,305	869,603
Total	7,666,721	7,021,182	2,581,274	2,021,427

* 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, 2019 and 2018, the Group's largest customer contributed total revenue of US\$3,586,339,000 (2018: US\$3,194,744,000), of which US\$3,530,735,000 (2018: US\$3,143,450,000) was under the Power Equipment segment and US\$55,604,000 (2018: US\$51,294,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total revenue.

6. Revenue

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

	2019 US\$'000	2018 US\$'000
Sales of goods	7,641,865	7,009,861
Commission and royalty income	24,856	11,321
	7,666,721	7,021,182

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

As at December 31, 2019, revenue for unsatisfied contracts to be recognized by the Group over one year is immaterial. As permitted by HKFRS 15, the transaction price allocated to unsatisfied contracts for contracts with period of one year or less is not disclosed.

7. Other Income

Other income in both 2019 and 2018 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

	2019 US\$'000	2018 US\$'000
Interests on:		
Bank borrowings	45,620	37,407
Interest on lease liabilities	6,703	—
Obligations under finance leases	—	642
	52,323	38,049

10. Taxation Charge

	2019 US\$'000	2018 US\$'000
Current tax:		
Hong Kong Profits Tax	(1,309)	(1,088)
Over (Under) provision in prior years	596	(2,057)
	(713)	(3,145)
Overseas taxation	(32,279)	(30,575)
(Under) Over provision in prior years	(324)	404
	(32,603)	(30,171)
Deferred tax (Note 42):		
Current year	4,203	17,544
Deferred tax asset impairment	(16,653)	(26,969)
Change in tax rates	(524)	671
	(12,974)	(8,754)
	(46,290)	(42,070)

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.

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For the year ended December 31, 2019

10. Taxation Charge (continued)

The tax charge for the year is reconciled as follows:

	2019 US\$'000	2019 %	2018 US\$'000	2018 %
Profit before taxation	661,286		594,610	
Tax at Hong Kong Profits Tax rate	(109,112)	16.5%	(98,111)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	128,326	(19.4%)	74,295	(12.5%)
Tax effect of expenses not deductible for tax purposes	(25,431)	3.8%	(6,537)	1.1%
Tax effect of income not taxable for tax purposes	2,175	(0.3%)	8,779	(1.4%)
Utilization of deductible temporary differences previously not recognized	2,563	(0.4%)	3,326	(0.6%)
Tax effect of tax losses and deductible temporary differences not recognized	(28,025)	4.2%	4,129	(0.7%)
Deferred tax asset impairment	(16,653)	2.5%	(26,969)	4.5%
Over (under) provision in respect of prior years	272	0.0%	(1,653)	0.3%
Tax effect of changes in tax rates	(524)	0.1%	671	(0.1%)
Tax effect of share of results of associates	119	0.0%	—	—
Tax charge for the year	(46,290)	7.0%	(42,070)	7.1%

Details of deferred tax are set out in Note 42.

11. Profit for the Year

	2019 US\$'000	2018 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	109,037	108,758
Amortization of lease prepayments	—	747
Auditors' remuneration	3,247	3,267
Cost of inventories recognized as an expense	4,774,065	4,406,605
Depreciation of right of use assets	67,719	—
Depreciation on property, plant and equipment		
Owned assets	144,663	126,396
Assets held under finance leases	—	2,833
Fair value loss (gain) on foreign currency forward contracts	11,007	(17,954)
Fair value loss on listed equity securities	8,231	5,570
Fair value gain on club membership debentures	(145)	(114)
Fair value loss on acquisition right of certain property, plant and equipment	512	117
Fair value loss on cross-currency interest rate swap	2,425	—
Gain on early termination of leases	(3,500)	—
Gain on disposal of listed equity securities	—	(236)
Impairment loss on trade receivables under expected credit loss model	1,321	22,845
Loss on disposal of property, plant and equipment	6,330	16,859
Net exchange gain	(3,128)	(20,788)
Operating lease expenses/expenses relating to short-term leases and low-value assets recognized in respect of:		
Motor vehicles	640	23,825
Plant and machinery	10,198	11,910
Premises	8,162	43,932
Other assets	601	2,632
Share of results of associates	(119)	—
Unconditional government grants	(322)	(382)
Write off of intangible assets	4,064	3,236
Write down of inventories	34,455	27,584
Staff costs		
Directors' remuneration		
Fees	491	315
Other emoluments	48,663	41,205
	49,154	41,520
Other staff costs	1,097,733	911,760
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)		
Defined contribution plans	14,155	11,979
Defined benefit plans (Note 41)	1,660	2,277
	1,162,702	967,536

Staff costs disclosed above do not include an amount of US\$174,477,000 (2018: US\$149,073,000) of staff costs incurred relating to research and development activities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2018: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

For the year ended December 31, 2019

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	15,066	1,186	17,925
Mr Stephan Horst Pudwill (Note i)	—	390	2	2,057	601	3,050
Mr Joseph Galli Jr (Note i)	—	1,633	180	14,100	648	16,561
Mr Kin Wah Chan (Note i)	—	826	2	2,345	601	3,774
Mr Chi Chung Chan (Note i)	—	823	—	4,585	601	6,009
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	—	135	212
Mr Camille Jojo (Note ii)	77	15	—	—	453	545
Mr Christopher Patrick Langley OBE (Note iii)	77	15	—	—	135	227
Mr Manfred Kuhlmann (Note iii)	29	13	—	—	61	103
Mr Peter David Sullivan (Note iii)	77	37	—	—	135	249
Mr Vincent Ting Kau Cheung (Note iii)	77	40	—	—	135	252
Mr Johannes-Gerhard Hesse (Note iii)	77	26	—	—	144	247
Total	491	5,489	186	38,153	4,835	49,154

12. Directors' Emoluments (continued)

For the year ended December 31, 2018

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	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

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 46 and 47 respectively

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2018: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2018: one) individual for the year ended December 31, 2019 were as follows:

	2019 US\$'000	2018 US\$'000
Basic salaries and allowances	787	773
Contributions to retirement benefits schemes	74	191
Bonus	2,587	4,000
Other benefit	—	59
Share-based payments	1,635	—
	5,083	5,023

The emoluments of this one (2018: one) highest paid individual for the year ended December 31, 2019 were within the following bands:

HK\$	No. of persons	
	2019	2018
39,000,001 to 39,500,000	1	1

During each of the two years ended December 31, 2019 and 2018, 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

	2019 US\$'000	2018 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2018: HK50 cents (approximately US6.44 cents) (2017: HK39.75 cents (approximately US5.12 cents)) per share	117,621	93,827
Interim dividend paid:		
2019: HK45.00 cents (approximately US5.79 cents) (2018: HK38.00 cents (approximately US4.89 cents)) per share	105,973	89,595
	223,594	183,422

The final dividend of HK58.00 cents (approximately US7.46 cents) per share with a total of approximately US\$136,603,000 in respect of the year ended December 31, 2019 (2018: final dividend of HK50.00 cents (approximately US6.44 cents) per share in respect of the year ended December 31, 2018) 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:

	2019 US\$'000	2018 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	614,900	552,463
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,826,362,982	1,831,782,645
Effect of dilutive potential ordinary shares:		
Share options	5,004,102	5,678,803
Share award	1,155,989	505,165
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,832,523,073	1,837,966,613

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For the year ended December 31, 2019

16. Property, Plant and Equipment

	Land and buildings (Note) US\$'000	Leasehold improvements US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Moulds and tooling US\$'000	Vessels US\$'000	Aircraft US\$'000	Construction in progress US\$'000	Total US\$'000
Cost										
At January 1, 2018	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	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
Adjustments upon application of HKFRS 16	(3,094)	—	—	—	(393)	—	—	—	—	(3,487)
At January 1, 2019 (restated)	202,505	89,416	237,617	336,745	5,498	343,625	7,106	31,283	187,791	1,441,586
Currency realignment	1,080	302	(8,305)	1,316	197	(1,108)	—	—	(46)	(6,564)
Additions	31,687	3,989	16,212	31,554	409	4,626	—	312	367,819	456,608
Disposals	(307)	(3,786)	(19,494)	(7,104)	(440)	(28,892)	—	(3,900)	(3,882)	(67,805)
Reclassification	165,256	2,626	21,743	33,078	2,383	71,930	—	—	(297,016)	—
At December 31, 2019	400,221	92,547	247,773	395,589	8,047	390,181	7,106	27,695	254,666	1,823,825
Depreciation and Impairment										
At January 1, 2018	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
Adjustments upon application of HKFRS 16	(2,526)	—	—	—	(246)	—	—	—	—	(2,772)
At January 1, 2019 (restated)	34,350	44,617	160,137	183,611	3,802	221,591	3,023	234	—	651,365
Currency realignment	867	225	(6,021)	1,052	76	(640)	—	—	—	(4,441)
Provided for the year	9,026	7,509	22,579	33,611	1,050	67,789	1,198	1,901	—	144,663
Eliminated on disposals	(216)	(2,595)	(18,935)	(5,763)	(311)	(26,501)	—	—	—	(54,321)
At December 31, 2019	44,027	49,756	157,760	212,511	4,617	262,239	4,221	2,135	—	737,266
Carrying amounts										
At December 31, 2019	356,194	42,791	90,013	183,078	3,430	127,942	2,885	25,560	254,666	1,086,559
At December 31, 2018	168,723	44,799	77,480	153,134	1,843	122,034	4,083	31,049	187,791	790,936

Note: Buildings with a carrying amount of US\$16,655,000 (2018: US\$18,485,000) are erected on leasehold land that is presented as ROU assets (2018: lease prepayments) on the consolidated statement of financial position.

16. Property, Plant and Equipment (continued)

The above PP&E, 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% – 6¾%
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	6% – 16⅔%

The carrying amounts of properties shown above comprise:

	2019 US\$'000	2018 US\$'000
Properties situated outside Hong Kong are analyzed as follows:		
Freehold land	276,007	85,310
Leasehold land and buildings	16,655	18,485
	292,662	103,795
Land and buildings situated in Hong Kong	63,532	64,928
	356,194	168,723

As at December 31, 2018, the carrying amounts of the Group's PP&E includes approximately US\$715,000 in respect of assets held under finance leases.

The cost of the Group's PP&E includes amounts of approximately US\$342,522,000 (2018: US\$290,105,000) in respect of fully depreciated PP&E that are still in use.

17. Lease Prepayments

	US\$'000
Cost	
At January 1, 2018	37,982
Currency realignment	(2,054)
Additions	27
At December 31, 2018	35,955
Amortization	
At January 1, 2018	7,146
Currency realignment	(413)
Provided for the year	747
At December 31, 2018	7,480
Carrying amount	
At December 31, 2018	28,475

All lease prepayments were related to leases outside Hong Kong.

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18. Right of Use Assets

	Land and buildings US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Aircraft US\$'000	Leasehold land US\$'000	Total US\$'000
Cost							
Adjustments upon application of HKFRS 16 at January 1, 2019	352,851	4,313	4,842	64,143	12,582	35,955	474,686
Currency realignment	(992)	32	51	(597)	—	(436)	(1,942)
Additions	52,426	4,075	1,716	30,899	—	—	89,116
Termination of leases	(74,091)	(1,206)	—	(13,028)	—	(34)	(88,359)
At December 31, 2019	330,194	7,214	6,609	81,417	12,582	35,485	473,501
Depreciation							
Adjustments upon application of HKFRS 16 at January 1, 2019	142,136	1,785	1,912	29,180	7,445	7,480	189,938
Currency realignment	(842)	3	40	(521)	—	(96)	(1,416)
Provided for the year	43,668	1,392	1,149	19,537	1,258	715	67,719
Elimination on termination of leases	(16,903)	(879)	—	(12,102)	—	—	(29,884)
At December 31, 2019	168,059	2,301	3,101	36,094	8,703	8,099	226,357
Carrying amounts							
At January 1, 2019 (restated)	210,715	2,528	2,930	34,963	5,137	28,475	284,748
At December 31, 2019	162,135	4,913	3,508	45,323	3,879	27,386	247,144
							US\$'000
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16							11,844
Expense relating to leases of low-value assets, excluding short-term leases of low value assets							7,757
Total cash outflow for leases							83,831

For both years, the Group leases land and buildings, office equipment, furniture and fixtures, plant and machinery, motor vehicles, aircraft and leasehold land for its operations. Lease contracts are entered into for term of up to 18 years. Certain leases of land and buildings, plant and machinery and fixtures and equipment were accounted for as finance leases during the year ended December 31, 2018 and carried interest ranged from 6.00% to 8.54%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Leases committed

As at December 31, 2019, the Group entered into new leases for certain PP&E that have not yet commenced, with average non-cancellable period that range from 1 to 10 years with extension options, the total future undiscounted cash flows under which amounted to US\$33,475,000 over the non-cancellable period.

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

19. Goodwill

	US\$'000
At January 1, 2018	555,350
Currency realignment	(782)
Arising on acquisition of a subsidiary	26,647
At December 31, 2018	581,215
Currency realignment	(349)
At December 31, 2019	580,866

Particulars regarding impairment testing of goodwill are disclosed in Note 21.

20. 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
Cost							
At January 1, 2018	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	—	47	8,200	1,300	5,900	1,300	16,747
Written off in the year	(9,414)	(222)	—	—	—	—	(9,636)
At December 31, 2018	916,548	99,814	242,412	1,753	16,400	1,300	1,278,227
Currency realignment	53	—	—	—	—	—	53
Additions	151,931	7,040	—	—	—	—	158,971
Written off in the year	(6,075)	(198)	—	—	—	—	(6,273)
At December 31, 2019	1,062,457	106,656	242,412	1,753	16,400	1,300	1,430,978
Amortization							
At January 1, 2018	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)
At December 31, 2018	578,318	60,070	13,591	486	4,896	65	657,426
Currency realignment	19	—	—	—	—	—	19
Provided for the year	98,311	8,898	453	130	718	527	109,037
Eliminated on write off	(2,209)	—	—	—	—	—	(2,209)
At December 31, 2019	674,439	68,968	14,044	616	5,614	592	764,273
Carrying amounts							
At December 31, 2019	388,018	37,688	228,368	1,137	10,786	708	666,705
At December 31, 2018	338,230	39,744	228,821	1,267	11,504	1,235	620,801

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20. Intangible Assets (continued)

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

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

Included in trademarks of the Group, US\$227,640,000 (2018: US\$227,640,000) are trademarks considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 21.

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

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

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

As explained in Note 5, the Group uses the types of goods sold for preparing the operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 19 and 20, 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, 2019 allocated to these units are as follows:

	Goodwill		Trademarks	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Power Equipment – MET	443,264	443,264	126,607	126,607
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	21,779	22,128	—	—
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	23,566	6	6
	580,866	581,215	227,640	227,640

No impairment of goodwill and trademarks have been recognized for the years ended December 31, 2019 and 2018.

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

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% (2018: 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 of the 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% (2018: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of MET's goodwill and intangibles to exceed the recoverable amounts.

Power Equipment – HCP ("HCP")

The recoverable amount of HCP's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2018: 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 of the 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 amounts of HCP's goodwill and intangibles to exceed the 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 10.0% (2018: 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 of the new products launched and the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 1.0% (2018: 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% (2018: 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% (2018: 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.

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

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 13.5% (2018: 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% (2018: 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.

22. Interests in Associates

	2019 US\$’000	2018 US\$’000
Cost of investment in associates	1,470	1,470
Share of post-acquisition profits	119	—
Share of net assets	1,589	1,470
Amounts due from associates	1,654	2,194
	3,243	3,664

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

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

	2019 US\$’000	2018 US\$’000
Non-current assets	1,681	—
Current assets	7,484	3,000
Current liabilities	5,922	—
Net assets	3,243	3,000

	2019 US\$’000	2018 US\$’000
Revenue	44,386	—
Profit for the year	242	—

22. Interests in Associates (continued)

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

	2019 US\$’000	2018 US\$’000
Net assets	3,243	3,000
Proportion of the Group’s ownership interest	49.0%	49.0%
The Group’s share of net assets	1,589	1,470
Carrying amount of the Group’s interest	1,589	1,470

Particulars of the principal associate as at December 31, 2019 and 2018 are set out in Note 53.

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

At the end of the reporting period, amongst the associates, the Group holds 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\$215,000 (2018: US\$504,000) and (US\$3,236,000) (2018: (US\$3,451,000)) respectively.

23. Financial assets at FVTPL

	Notes	2019 US\$’000	2018 US\$’000
Club membership debentures	(a)	2,450	2,316
Unlisted equity securities	(b)	3,301	3,000
Listed equity securities	(c)	24,597	32,828
Other		45	45
		30,393	38,189
Analyzed for reporting purposes as:			
Current assets		24,597	32,828
Non-current assets		5,796	5,361
		30,393	38,189

Notes:

- As at December 31, 2019, the club membership debentures measured at fair value with reference to recent transaction prices for similar comparables with similar characteristic.
- As at December 31, 2019, the unlisted equity securities represented the interest in a private company incorporated in the United States (“US”). The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in a private market.
- The Group’s listed equity securities were carried at fair value using the market bid prices on the reporting date.

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24. Inventories

	2019 US\$'000	2018 US\$'000
Raw materials	209,495	112,049
Work in progress	43,832	41,723
Finished goods	1,859,604	1,612,950
	2,112,931	1,766,722

25. Trade and Other Receivables

	2019 US\$'000	2018 US\$'000
Trade receivables	1,195,630	1,140,923
Less: Allowances for credit losses	(34,529)	(51,760)
	1,161,101	1,089,163
Other receivables	67,472	37,635
	1,228,573	1,126,798

As at December 31, 2019 and January 1, 2019, 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:

	2019 US\$'000	2018 US\$'000
0 to 60 days	966,306	680,424
61 to 120 days	137,389	346,055
121 days or above	57,406	62,684
Total trade receivables	1,161,101	1,089,163

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, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$334,794,000 (2018: US\$268,543,000) which are past due as at the reporting date. Of the past due balances, US\$303,196,000 (2018: US\$218,511,000) are not considered as in default as they are due from a number of independent customers that have a good payment track record with the Group.

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

In accordance with receivables purchase agreements, certain trade receivables has been factored to banks (the "Factored Trade Receivables"). As the Group still retained the risks associated in respect of default payments, the Group has continued to recognize the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of approximately US\$68,700,000 (2018: 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, 2019 and 2018 are aged within 120 days based on invoice date.

27. Trade Receivables from Associates

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

28. Derivative Financial Instruments

	2019 US\$'000	2018 US\$'000
Assets		
Acquisition right of certain property, plant and equipment	8,929	9,441
Foreign currency forward contracts – under hedge accounting	25,065	33,477
Foreign currency forward contracts – not under hedge accounting	—	311
	33,994	43,229
Liabilities		
Foreign currency forward contracts – under hedge accounting	10,688	135
Foreign currency forward contracts – not under hedge accounting	4,380	577
Cross-currency interest rate swap – under hedge accounting	2,425	—
	17,493	712

Acquisition Right of Certain Property, Plant & Equipment

As at December 31, 2019 and 2018, the Group owned a right to acquire certain PP&E which was acquired as part of the acquisition of the Oreck business from the Oreck Bankruptcy Estate. The right is expected to be exercised in 2032. The fair value of the PP&E was US\$8,929,000 valued on September 30, 2019 (2018: US\$9,441,000 valued on September 30, 2018) 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.

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For the year ended December 31, 2019

28. Derivative Financial Instruments (continued)

Foreign Currency Forward Contracts under Hedge Accounting

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

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

2019

Notional amounts in millions	Maturity
Sell AUD 430M, Buy US\$	January 30, 2020 to December 30, 2020
Sell EUR 589M, Buy US\$	January 31, 2020 to December 30, 2021
Sell US\$354.3M, Buy RMB	January 31, 2020 to December 30, 2020
Sell US\$9M, Buy EUR	January 3, 2020 to May 22, 2020
Sell GBP 36.5M, Buy EUR	January 16, 2020 to December 10, 2020
Sell CHF 3M, Buy EUR	January 16, 2020 to December 10, 2020
Sell SEK 285M, Buy EUR	January 16, 2020 to December 10, 2020
Buy US\$95.9M, Sell GBP	January 3, 2020 to June 11, 2021

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 US\$	January 30, 2019 to December 30, 2019
Sell US\$12.8M, 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

As at December 31, 2019, a fair value loss of US\$9,681,000 (December 31, 2018: fair value gain of US\$51,730,000) 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 gain of US\$21,448,000 (2018: loss of US\$28,784,000) was reclassified from reserves to profit or loss.

28. Derivative Financial Instruments (continued)

Foreign Currency Forward Contracts not under hedge accounting

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

2019

Notional amounts in millions	Maturity
Buy EUR 4.8M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$21M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$35.9M, Sell NZD	January 17, 2020 to December 18, 2020
Buy US\$308.4M, Sell CAD	January 31, 2020 to August 21, 2020

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

Cross-currency Interest Rate Swap

The Group uses cross-currency interest rate swap designated as highly effective hedging instrument to minimize its exposures to foreign currency and interest rate risk of its US\$ bank borrowing by swapping the floating-rate US\$ bank borrowing to fixed-rate EUR bank borrowing.

The cross-currency interest rate swap with notional amount of US\$165,300,000 has fixed currency payments in EUR at exchange rate of EUR to US\$ at 1.102, fixed interest payments monthly in EUR at 0.305% per annum for periods up until October 2023 and October 2024.

The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the directors of the Company consider that the cross-currency interest rate swap is highly effective hedging instrument.

During the year, net adjustment on the above-mentioned cash flow hedges amounted to US\$2,425,000 and is included in other comprehensive income.

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

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

2019

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

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29. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which ranged from 0.001% to 3.95% (2018: 0.001% to 4.20%) per annum.

30. Trade and other Payables

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

	2019 US\$'000	2018 US\$'000
0 to 60 days	908,313	822,557
61 to 120 days	217,144	248,261
121 days or above	5,829	15,006
Total trade payables	1,131,286	1,085,824
Other payables	1,046,131	835,628
	2,177,417	1,921,452

The credit period on the purchase of goods ranges from 30 days to 120 days (2018: 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.

31. Bills Payable

All the Group's bills payable at December 31, 2019 and 2018 are aged within 120 days based on invoice date.

32. Warranty Provision

	US\$'000
At January 1, 2018	94,264
Currency realignment	(2,601)
Provision in the year	135,423
Acquisition of a subsidiary	39
Utilization of provision	(121,910)
At December 31, 2018	105,215
Currency realignment	95
Provision in the year	127,237
Utilization of provision	(117,337)
At December 31, 2019	115,210

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

33. Lease Liabilities

	2019 US\$'000
Amounts payable under lease liabilities:	
Within one year	63,878
In more than one year but not more than two years	53,152
In more than two years but not more than five years	82,080
More than five years	39,258
	238,368
Less: Amount due for settlement with 12 months shown under current liabilities	(63,878)
Amount due for settlement after 12 months shown under non-current liabilities	174,490

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

	EUR US\$'000	AUD US\$'000	GBP US\$'000
As at December 31, 2019	30,372	20,417	17,765

34. Obligations under Finance Leases

As at December 31, 2018, it was 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 were fixed at the respective contract dates ranging from 6.00% to 8.54% per annum. No arrangements had been entered into that include contingent rental payments.

The maturity of obligations under finance leases was as follows:

	Minimum lease payments 2018 US\$'000	Present value of minimum lease payments 2018 US\$'000
Amounts payable under finance leases:		
Within one year	356	288
In more than one year but not more than two years	305	260
In more than two years but not more than three years	286	261
In more than three years but not more than four years	152	142
In more than four years but not more than five years	63	62
More than five years	—	—
	1,162	1,013
Less: future finance charges	(149)	—
Present value of lease obligations	1,013	1,013
Less: Amount due within one year shown under current liabilities		(288)
Amount due after one year		725

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

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35. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 2.93% per annum (2018: 2.76% 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 balances. 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:

	2019 US\$'000	2018 US\$'000
Bank balances, deposits and cash	1,411,821	1,103,880
Debt ⁽ⁱ⁾	(1,427,397)	(964,815)
Net (debt) cash	(15,576)	139,065
Equity ⁽ⁱⁱ⁾	3,394,645	3,057,771
Net debt to equity ratio	0.46%	-4.55%

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

37. Financial Instruments

37.1 Categories of Financial Instruments

	2019 US\$'000	2018 US\$'000
Financial assets		
<i>FVTPL</i>		
Financial assets at FVTPL	30,393	38,189
	30,393	38,189
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	8,929	9,441
Foreign currency forward contracts – under hedge accounting	25,065	33,477
Foreign currency forward contracts – not under hedge accounting	—	311
	33,994	43,229
<i>Financial assets at amortized cost</i>		
Trade and other receivables	1,228,573	1,126,798
Bills receivable	6,076	5,057
Trade receivables from associates	6,494	2,253
Bank balances, deposits and cash	1,411,821	1,103,880
	2,652,964	2,237,988
Financial liabilities		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts – under hedge accounting	10,688	135
Foreign currency forward contracts – not under hedge accounting	4,380	577
Cross-currency interest rate swap – under hedge accounting	2,425	—
	17,493	712
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	2,177,417	1,921,452
Bills payable	46,170	41,164
Discounted bills with recourse	9,089	243,360
Unsecured borrowings	1,487,008	795,442
	3,719,684	3,001,418

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.

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For the year ended December 31, 2019

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 21.0% (2018: 21.9%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 38.2% (2018: 47.2%) of purchases are denominated in the group entity's respective functional currency.

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

	Liabilities		Assets	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Foreign Currency				
EURO	17,754	115,160	137,377	214,474

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\$660,461,000 (2018: US\$357,800,000). 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 and cross-currency interest rate swap 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.

	2019 US\$'000	2018 US\$'000
Impact of EURO		
Profit for the year ⁽ⁱ⁾	5,562	4,614

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

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 to be low. The management continuously monitors interest rate fluctuations and will consider further hedging the interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 38 for details of these borrowings) and lease liabilities.

During the year, the Group obtained new bank borrowings of US\$4,042 million (2018: US\$2,519 million) which are either at a 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 cross-currency 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, 2019 would decrease/increase by US\$6,120,000 (2018: decrease/increase by US\$4,338,000). 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.

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, 2019 of the Group would increase by US\$2,460,000 (2018: would increase by US\$3,283,000) as a result of the changes in the fair values of financial assets at FVTPL.

37.2.4 Credit Risk Management and Impairment Assessment

As at December 31, 2019, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk of US\$2,652,964,000 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 45. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

Trade receivables arising from contracts with customers

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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For the year ended December 31, 2019

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 comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/ Other items
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 exposure of the Group's financial assets, which are subject to ECL assessment:

	Note	Internal credit rating	12-month or lifetime ECL	2019		2018	
				External credit rating	Gross carrying amount US\$'000	External credit rating	Gross carrying amount US\$'000
Trade receivables	25	(Note 2)	Lifetime ECL (not credit-impaired) Lifetime ECL (credit-impaired)	N/A	1,195,630	N/A	1,140,923
Other receivables	25	(Note 1)	12-month ECL	N/A	67,472	N/A	37,635
Bills receivable	26	N/A	12-month ECL	A- To A	6,076	A- To AA-	5,057
Trade receivables from associates	27	(Note 1)	12-month ECL	N/A	6,494	N/A	2,253
Bank balances, deposits and cash	29	N/A	12-month ECL	A To AA-	1,411,821	A- To AA+	1,103,880
Financial guarantee contracts	N/A	(Note 3)	12-month ECL	N/A	8,877	N/A	8,877

Notes:

- Trade receivables from associates and other receivables amounted to US\$6,494,000 and US\$67,472,000 (2018: US\$2,253,000 and US\$37,635,000) respectively have no fixed repayment terms. The Group has assessed these balances on a 12-month ECL basis as there has been no significant increase in the credit risk since initial recognition.
- 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.
- For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

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, 2019.

Internal credit rating	2019			2018		
	Average loss rate	Gross carrying amount US\$'000	Impairment loss allowance US\$'000	Average loss rate	Gross carrying amount US\$'000	Impairment loss allowance US\$'000
No risk	Less than 1%	224,368	—	Less than 1%	246,139	—
Low risk	1-5%	904,009	12,777	1-5%	454,309	3,086
Medium risk	6-20%	42,682	4,498	6-20%	411,623	34,527
High risk	Over 20%	24,571	17,254	Over 20%	28,852	14,147
		1,195,630	34,529		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, 2019, the Group provided US\$34,529,000 (2018: 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.4 Credit Risk Management and Impairment Assessment (continued)

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

	Lifetime ECL (not credit- impaired) US\$'000
As at January 1, 2018	37,114
Currency realignment	(562)
Impairment losses reversed	(28,890)
Impairment losses recognized	51,735
Acquisition of a subsidiary	25
Write-offs	(7,662)
As at December 31, 2018	51,760
Currency realignment	(290)
Impairment losses reversed	(33,208)
Impairment losses recognized	34,529
Write-offs	(18,262)
As at December 31, 2019	34,529

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, 2019, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$345 million (2018: US\$419 million) and US\$1,506 million (2018: US\$1,466 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.

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 US\$'000	1-3 months US\$'000	4 months- 1 year US\$'000	1-2 years US\$'000	2+ years US\$'000	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2019 US\$'000
2019								
Non-derivative financial liabilities								
Trade and other payables	—	(1,517,478)	(583,207)	(76,732)	—	—	(2,177,417)	(2,177,417)
Bills payable	—	(15,835)	(30,335)	—	—	—	(46,170)	(46,170)
Lease liabilities	2.80%	(5,323)	(10,696)	(48,915)	(54,640)	(128,133)	(247,707)	(238,368)
Discounted bills with recourse	2.93%	(7,233)	(1,866)	—	—	—	(9,099)	(9,089)
Bank borrowings	0.31% – 3.52%	(554,957)	(11,951)	(167,887)	(153,885)	(626,753)	(1,515,433)	(1,487,008)
Refund liabilities from right of return	—	(25,640)	—	(10,834)	—	—	(36,474)	(36,474)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(2,135,343)	(638,055)	(304,368)	(208,525)	(754,886)	(4,041,177)	(3,994,526)
2019								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	8,929	8,929	8,929
Cross-currency interest rate swap contracts	—	308	600	2,571	3,333	(9,745)	(2,933)	(2,425)
Foreign currency forward contracts								
– US\$	—	—	(727)	(2,938)	—	—	(3,665)	(3,665)
		308	(127)	(367)	3,333	(816)	2,331	2,839
Derivatives – gross settlement								
Foreign currency forward contracts								
– inflow								
– EUR	—	8,318	16,233	63,054	—	—	87,605	87,605
– RMB	—	—	94,794	267,196	—	—	361,990	361,990
– GBP	—	5,000	9,987	51,117	29,168	—	95,272	95,272
– US\$	—	24,207	125,575	570,623	268,944	—	989,349	989,349
– AUD	—	2,155	4,307	19,347	—	—	25,809	25,809
– NZD	—	14,163	7,003	15,402	—	—	36,568	36,568
	—	53,843	257,899	986,739	298,112	—	1,596,593	1,596,593
– outflow								
– EUR	—	(8,658)	(16,679)	(64,400)	—	—	(89,737)	(89,737)
– RMB	—	—	(92,678)	(261,661)	—	—	(354,339)	(354,339)
– GBP	—	(5,435)	(10,860)	(52,527)	(28,890)	—	(97,712)	(97,712)
– US\$	—	(24,603)	(124,389)	(561,240)	(267,820)	—	(978,052)	(978,052)
– AUD	—	(2,200)	(4,401)	(19,798)	—	—	(26,399)	(26,399)
– NZD	—	(14,209)	(6,964)	(15,519)	—	—	(36,692)	(36,692)
	—	(55,105)	(255,971)	(975,145)	(296,710)	—	(1,582,931)	(1,582,931)
		(1,262)	1,928	11,594	1,402	—	13,662	13,662

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For the year ended December 31, 2019

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 US\$'000	1-3 months US\$'000	4 months- 1 year US\$'000	1-2 years US\$'000	2+ years US\$'000	Total undiscounted cash flows US\$'000	Total carrying amount at December 31, 2018 US\$'000
2018								
Non-derivative financial liabilities								
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)
2018								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,441	9,441	9,441
		—	—	—	—	9,441	9,441	9,441
Derivatives – gross settlement								
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)

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.

37.3 Fair Value

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

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

Fair Value Measurements Recognized in the 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).

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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
	2019	2018		
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	Acquisition right of certain property, plant and equipment: US\$8,929,000	Acquisition right of certain property, plant and equipment: US\$9,441,000	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 rd 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	Assets – US\$25,065,000; and Liabilities – US\$15,068,000	Assets – US\$33,788,000; and Liabilities – US\$712,000	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 (2018: held-for-trading investments) in the consolidated statement of financial position	Listed shares: US\$24,597,000	Listed shares: US\$32,828,000	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	Club membership debentures: US\$2,450,000	Club membership debentures: US\$2,316,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
	Unlisted equity securities: US\$3,301,000	Unlisted equity securities: US\$3,000,000	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.
	Other: US\$45,000	Other: US\$45,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
5) Cross-currency interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	Liabilities: US\$2,425,000	—	Level 2	Measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between US\$ and EUR, which is observable at the end of the reporting period.

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
2019				
Financial assets				
Acquisition right of certain property, plant and equipment	—	8,929	—	8,929
Foreign currency forward contracts	—	25,065	—	25,065
Financial assets at FVTPL	24,597	2,495	3,301	30,393
Total	24,597	36,489	3,301	64,387
Financial liabilities				
Foreign currency forward contracts	—	(15,068)	—	(15,068)
Cross-currency interest rate swaps	—	(2,425)	—	(2,425)
Total	—	(17,493)	—	(17,493)
2018				
Financial assets				
Acquisition right of certain property, plant and equipment	—	9,441	—	9,441
Foreign currency forward contracts	—	33,788	—	33,788
Held-for-trading investments	32,828	2,361	3,000	38,189
Total	32,828	45,590	3,000	81,418
Financial liabilities				
Foreign currency forward contracts	—	(712)	—	(712)
Total	—	(712)	—	(712)

The Group owns equity interest in a private company incorporated in the US that is classified as financial assets at FVTPL 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, 2019 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:

	2019 US\$'000	2018 US\$'000
Carrying amount of transferred assets	77,789	318,360
Carrying amount of associated liabilities	(77,789)	(318,360)
Net position	—	—

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38. Unsecured Borrowings

	2019 US\$'000	2018 US\$'000
Bank advance from Factored Trade Receivables	68,700	75,000
Bank loans	1,418,308	720,442
Total borrowings	1,487,008	795,442
The borrowings of the Group are repayable as follows:		
	2019 US\$'000	2018 US\$'000
Fixed rate		
Within one year	20,977	—
In more than one year but not more than two years	20,943	20,904
In more than two years but not more than five years	137,960	83,903
Floating rate		
Within one year	711,403	255,228
In more than one year but not more than two years	130,051	91,457
In more than two years but not more than five years	465,674	343,950
	1,487,008	795,442
Less: Amount due within one year shown under current liabilities	(732,380)	(255,228)
Amount due after one year	754,628	540,214

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

	2019	2018
Effective interest rate:		
Fixed-rate borrowings	2.55% to 3.52%	2.55% to 3.10%
Variable-rate borrowings	0.31% to 2.85%	0.10% to 3.57%

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
As at December 31, 2019	—
As at December 31, 2018	14,843

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

39. Share Capital

	2019 Number of shares	2018 Number of shares	2019 US\$'000	2018 US\$'000
Ordinary shares				
Authorized shares	2,400,000,000	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the year	1,828,521,941	1,835,021,941	654,991	653,918
Issue of shares upon exercise of share options	3,835,000	600,000	7,388	1,073
Buy-back of shares	(2,350,000)	(7,100,000)	—	—
At the end of the year	1,830,006,941	1,828,521,941	662,379	654,991

Details of the share options are set out in Note 46.

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\$	
January 2019	2,350,000	43.00	40.45	12,644

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$12,644,000 was charged to retained profits.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

40. Reserves

	Shares held for share award scheme US\$'000	Employee share-based compensation reserve US\$'000	Hedging reserve US\$'000	Retained profits US\$'000	Total US\$'000
The Company					
At January 1, 2018	(10,561)	6,902	—	1,068,611	1,064,952
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)
At December 31, 2018	(25,115)	11,032	—	718,449	704,366
Adjustment for adoption of HKFRS 16	—	—	—	(7)	(7)
At January 1, 2019 (restated)	(25,115)	11,032	—	718,442	704,359
Profit for the year	—	—	—	23,411,930	23,411,930
Fair value gain on foreign currency forward contracts and cross-currency interest rate swap in hedge accounting	—	—	16,522	—	16,522
Total comprehensive (loss) income for the year	—	—	16,522	23,411,930	23,428,452
Shares issued at premium on exercise of options	—	(1,450)	—	—	(1,450)
Buy-back of shares	—	—	—	(12,644)	(12,644)
Vesting of awarded shares	1,765	(1,765)	—	—	—
Shares for share award scheme	(8,477)	—	—	—	(8,477)
Recognition of equity-settled share-based payments	—	6,792	—	—	6,792
Lapse of share options	—	(10)	—	10	—
Final dividend – 2018	—	—	—	(117,621)	(117,621)
Interim dividend – 2019	—	—	—	(105,973)	(105,973)
At December 31, 2019	(31,827)	14,599	16,522	23,894,144	23,893,438

As at December 31, 2019, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$23,894,144,000 (2018: US\$718,449,000).

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 (2018: 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\$14,341,000 (2018: US\$12,167,000) 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:

	2019 US\$'000	2018 US\$'000
Pension plan obligations (Note i)	82,755	77,619
Post-retirement, medical and dental plan obligations (Note ii)	—	1
Life and medical insurance plan (Note ii)	1,269	1,257
Post-employment benefit plan obligations (Note iii)	2,884	2,129
Others (Note iv)	56,553	38,968
	143,461	119,974

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, 2020, by BDO AG Wirtschaftsprüfungsgesellschaft, Germany, an independent valuer not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

41. Retirement Benefit Obligations (continued)

Defined Benefits Plans: (continued)

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 Watson, an independent valuer not related to the Group.

Note iii: Post-employment benefit plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on January 9, 2020 by CBIZ Benefits & Insurance Services, an independent valuer not related to the Group.

Note iv: Others

Others mainly includes the a long-term incentive benefit that is offered to certain management executives of the Group. The benefit is based on the performance of the executives and will pay out after certain year of services.

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	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate	0.30%	1.50%	N/A	1.00%	2.50%	3.75%	4.14%	3.46%
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	4.14%	3.46%
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	N/A	5.00%	5.00%	5.00%	N/A	N/A

The actuarial valuation showed that the market value of plan assets was US\$5,994,000 (2018: US\$15,024,000) and that the actuarial value of these assets represented 67.5% (2018: 87.6%) of the benefits that had accrued to members.

41. Retirement Benefit Obligations (continued)

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	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Current service cost and interest cost	N/A	N/A	—	—	2	3	N/A	N/A
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	—	—	82	77	N/A	N/A

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	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Service cost:								
Current service cost	409	509	—	—	—	—	—	—
Net interest on defined benefit liabilities	1,118	1,265	—	—	45	41	88	462
Components of defined benefit costs recognized in profit or loss	1,527	1,774	—	—	45	41	88	462
Remeasurement on the net defined benefit liability:								
Actuarial losses (gains) arising from changes in financial assumptions	8,412	666	—	(9)	(2)	(182)	666	(446)
Components of defined benefit costs recognized in other comprehensive income	8,412	666	—	(9)	(2)	(182)	666	(446)
Total	9,939	2,440	—	(9)	43	(141)	754	16

The charge for the year has been included in staff costs.

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41. Retirement Benefit Obligations (continued)

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	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Present value of funded obligations	—	—	—	—	—	—	8,878	17,153
Fair value of plan assets	—	—	—	—	—	—	(5,994)	(15,024)
	—	—	—	—	—	—	2,884	2,129
Present value of unfunded obligations	82,755	77,619	—	1	1,269	1,257	—	—
	82,755	77,619	—	1	1,269	1,257	2,884	2,129

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	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
At January 1	77,619	82,764	1	19	1,257	1,431	17,153	18,620
Exchange differences	(933)	(3,688)	—	—	—	—	—	—
Current service cost	409	509	—	—	—	—	—	—
Actuarial losses (gains)	8,412	666	—	(9)	(2)	(182)	245	(406)
Interest cost	1,118	1,265	—	—	45	41	678	613
Benefit paid	(3,870)	(3,897)	(1)	(9)	(31)	(33)	(9,198)	(1,674)
At December 31	82,755	77,619	—	1	1,269	1,257	8,878	17,153

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	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	15,024	5,272
Exchange differences	N/A	N/A	N/A	N/A	N/A	N/A	—	—
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	590	151
Actuarial losses	N/A	N/A	N/A	N/A	N/A	N/A	(421)	40
Contribution from employer	N/A	N/A	N/A	N/A	N/A	N/A	—	11,235
Benefit paid	N/A	N/A	N/A	N/A	N/A	N/A	(9,199)	(1,674)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	5,994	15,024

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 4.14% (2018: 3.46%).

The actual return on plan assets was US\$168,000 (2018: US\$191,000).

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 a contribution of US\$4,700,000 (2018: US\$Nil) 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, 2018	(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)
Credit 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
Adjustment for adoption of HKFRS 16	—	—	—	—	—	3,386	3,386
At January 1, 2019	(28,795)	14,759	23,535	30,608	9,290	23,312	72,709
Currency realignment	27	(31)	(2,074)	2,200	(28)	(301)	(207)
Charge to hedging reserve	—	—	—	—	—	1,250	1,250
(Charge) credit to profit or loss	(9,347)	1,547	9,779	(4,125)	5,992	(16,296)	(12,450)
Change in tax rates	211	(5)	29	(518)	(24)	(217)	(524)
Charge to equity	—	—	715	—	—	—	715
At December 31, 2019	(37,904)	16,270	31,984	28,165	15,230	7,748	61,493

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 US\$'000	2018 US\$'000
Deferred tax assets	74,947	83,945
Deferred tax liabilities	(13,454)	(14,622)
	61,493	69,323

At the end of the reporting period, the Group has unused tax losses of US\$1,737 million (2018: US\$1,611 million) available for offset against future taxable profits. Of the US\$1,737 million of unused losses approximately US\$447 million expire over the next 9 to 18 years with the remaining loss carryforwards having no useful life limitation. No deferred tax asset has been recognized in respect of tax losses of US\$1,615 million (2018: US\$1,475 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 (2018: US\$13 million) as these unrepatriated foreign earnings are not considered permanently reinvested.

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43. 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.

44. Lease Commitments

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

	2018 US\$'000
Within one year	63,159
In the second to fifth year inclusive	153,247
After five years	99,967
	<u>316,373</u>

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

45. Contingent Liabilities

	2019 US\$'000	2018 US\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	8,877	8,877

In addition, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at December 31, 2019 amounted to US\$123,959,000 (2018: US\$514,367,000).

46. 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 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.

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46. Share Options (continued)

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

2019

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
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029
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
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 - 19.5.2029
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
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 - 19.5.2029
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	(400,000)	—	600,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	—	500,000	—	—	500,000	51.080	20.5.2020 - 19.5.2029
Prof Roy Chi Ping Chung SBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029
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
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029
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
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029

46. Share Options (continued)

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

2019

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 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	—	(50,000)	—	50,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 - 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029
Mr Manfred Kuhlmann (retired after the conclusion of the annual general meeting of the Company held on May 17, 2019)	17.3.2017	D	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
Total for directors			11,263,500	2,179,000	(3,555,000)	—	9,887,500		
Employees									
	16.11.2009	D	300,000	—	(250,000)	(50,000)	—	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			900,000	—	(280,000)	(50,000)	570,000		
Total for all categories			12,163,500	2,179,000	(3,835,000)	(50,000)	10,457,500		
Exercisable at the end of the year							7,553,500		

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46. 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
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
	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 SBS 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
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
Total for directors			9,913,500	1,450,000	(100,000)	—	11,263,500		

46. 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
Total for employees			1,425,000	—	(500,000)	(25,000)	900,000		
Total for all categories			11,338,500	1,450,000	(600,000)	(25,000)	12,163,500		
Exercisable at the end of the year							9,043,250		

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
For the year ended December 31, 2019					
20.5.2019	51.080	3 years	38%	1.678%	1.5%
For the year ended December 31, 2018					
14.3.2018	47.900	3 years	38%	1.507%	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 date on which the share options were granted during 2019 was HK\$50.15 (2018: HK\$48.50).

The closing price of the Company's shares immediately before the date on which the share options were granted was HK\$50.15 in 2019 (2018: HK\$48.50).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

46. Share Options (continued)

The weighted average closing prices of the Company's shares immediately before various dates during 2019 and 2018 on which the share options were exercised were HK\$55.67 and HK\$46.63 respectively.

The Group recognized a total expense of US\$2,636,000 for the year ended December 31, 2019 (2018: US\$2,634,000) in relation to share options granted by the Company.

The fair value of the share options granted in 2019 measured at the date on which the share options were granted was HK\$12.69 (2018: HK\$11.82). The weighted average fair value of the share options granted in 2019 was HK\$12.69 (2018: HK\$11.82) per option.

The Company had 10,457,500 share options outstanding (2018: 12,163,500), which represented approximately 0.57% (2018: 0.67%) of the issued share capital of the Company as at December 31, 2019. No option (2018: Nil) was cancelled and 50,000 (2018: 25,000) share options were lapsed during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.22% of the issued shares of the Company as at December 31, 2019. 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, 2019.

47. 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\$4,156,000 (2018: US\$2,344,000). During 2019, 451,000 shares (2018: 160,500 shares) were transferred to the awardees upon vesting.

47. Share Award Scheme (continued)

(i) Movements in the number of awarded shares and their related average fair value were as follows:

	Number	
	2019	2018
At January 1	1,314,000	300,000
Awarded (Note (a))	1,560,000	1,174,500
Vested	(451,000)	(160,500)
At December 31 (Note (b))	2,423,000	1,314,000

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\$41.22 (2018: HK\$30.30). 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	
	2019	2018
Less than 1 year	691,000	441,000
More than 1 year	1,732,000	873,000
	2,423,000	1,314,000

48. Capital Commitments

	2019 US\$'000	2018 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	58,380	119,350

49. 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:

	2019 US\$'000	2018 US\$'000
Interest income	150	—
Sales income	50,014	5,141
Purchases	3,067	5,142

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

49. Related Party Transactions (continued)

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

	2019 US\$'000	2018 US\$'000
Short-term benefits	76,619	61,249
Post-employment benefits	1,918	856
Share-based payments	6,514	4,762
	85,051	66,867

Details of the balances and transactions with related parties are set out in the consolidated statements of financial position and Notes 22, 27 and 45.

50. Reconciliation of Liabilities Arising from Financing Activities

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

	Dividend payable	Unsecured borrowings	Discounted bills with recourse	Obligations under finance leases	Lease liabilities	Total
	US\$'000	Note 38 US\$'000	Note 35 US\$'000	Note 34 US\$'000	Note 33 US\$'000	US\$'000
At January 1, 2018	—	825,020	87,837	11,617	—	924,474
Financing cash flows	(183,422)	(29,578)	155,523	(10,751)	—	(68,228)
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
At December 31, 2018	—	795,442	243,360	1,013	—	1,039,815
Adjustments upon application of HKFRS 16	—	—	—	(1,013)	278,710	277,697
At January 1, 2019 (restated)	—	795,442	243,360	—	278,710	1,317,512
Financing cash flows	(223,594)	691,566	(234,271)	—	(64,230)	169,471
New leases entered	—	—	—	—	86,116	86,116
Early termination of leases	—	—	—	—	(62,228)	(62,228)
Interest expenses	—	45,620	—	—	6,703	52,323
Interest paid	—	(45,620)	—	—	(6,703)	(52,323)
Dividend declared	223,594	—	—	—	—	223,594
At December 31, 2019	—	1,487,008	9,089	—	238,368	1,734,465

51. Statement of Financial Position of the Company

As at December 31, 2019

Note	2019 US\$'000	2018 US\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	4,523	5,380
Right of use assets	687	—
Intangible assets	12	19
Investments in subsidiaries	25,290,888	2,692,850
Loans to subsidiaries	131,180	829,857
Interests in associates	1,831	2,371
Financial assets at FVTPL	4,485	4,148
	25,433,606	3,534,625
Current assets		
Other receivables	—	9
Deposits and prepayments	12,641	12,397
Financial assets at FVTPL	24,597	32,828
Tax recoverable	4,368	1,794
Derivative financial instruments	25,665	—
Amounts due from subsidiaries	814,001	1,225,045
Bank balances, deposits and cash	555,486	225,764
	1,436,758	1,497,837
Current liabilities		
Trade and other payables	94,562	58,402
Derivative financial instruments	9,142	—
Lease liabilities	371	—
Amounts due to subsidiaries	791,840	3,049,630
Unsecured borrowings – due within one year	663,680	25,600
	1,559,595	3,133,632
Net current liabilities	(122,837)	(1,635,795)
Total assets less current liabilities	25,310,769	1,898,830
Capital and Reserves		
Share capital	662,379	654,991
Reserves	23,893,438	704,366
	24,555,817	1,359,357
Non-current Liabilities		
Lease liabilities	324	—
Unsecured borrowings – due after one year	754,628	539,473
Total equity and non-current liabilities	25,310,769	1,898,830

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 4, 2020 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, 2019

52. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2019 and December 31, 2018 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 Cordless GP	US	US\$200	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Floor Care Technology Limited	British Virgin Islands ("BVI")	US\$1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd.†	PRC	US\$47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT\$5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP4,000,000	—	100	Trading of power equipment products
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	Germany	EUR20,452,500	100	—	Trading and manufacture of power equipment products
Techtronic Industries Korea LLC	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\$3,244	100	—	Investment and intellectual properties holding

52. 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 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
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.

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	
		2019	2018
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US and others	7	7
Trading of power equipment, floor care and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	38	34
Investment holding	Australia, BVI, Europe, Hong Kong, US	25	24
Dormant	BVI, Europe, Hong Kong, US	16	13

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

53. 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
			2019	2018	
			%	%	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	40.8	40.8	Investment holding
Wuerth Master Power Tools Limited	Hong Kong	US\$3,000,000	49.0	49.0	Manufacture and sale of power equipment

54. Subsequent Event

The outbreak of the 2019 Novel Coronavirus ("COVID-19") in PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group's operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since early February 2020 and is already at approximately 70% capacity as at the date hereof.

The directors of the Company are monitoring the financial impact that the COVID-19 will have on the Group's consolidated financial statements as at the date that these financial statements are authorized for issue.

Financial Summary

Results

	Year ended December 31				
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000	2019 US\$'000
Revenue	5,038,004	5,480,413	6,063,633	7,021,182	7,666,721
Profit before taxation	386,957	440,029	505,496	594,610	661,286
Taxation charge	(32,814)	(31,242)	(34,972)	(42,070)	(46,290)
Profit for the year	354,143	408,787	470,524	552,540	614,996
Attributable to:					
Owners of the Company	354,427	408,982	470,425	552,463	614,900
Non-controlling interests	(284)	(195)	99	77	96
Profit for the year	354,143	408,787	470,524	552,540	614,996
Basic earnings per share (US cents)	19.37	22.32	25.66	30.16	33.67

Assets and Liabilities

	As at December 31				
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000	2019 US\$'000
Total assets	4,802,718	5,120,407	5,598,477	6,348,862	7,698,051
Total liabilities	2,647,146	2,721,475	2,857,759	3,291,521	4,303,740
	2,155,572	2,398,932	2,740,718	3,057,341	3,394,311
Equity attributable to Owners of the Company	2,155,983	2,399,538	2,741,225	3,057,771	3,394,645
Non-controlling interests	(411)	(606)	(507)	(430)	(334)
	2,155,572	2,398,932	2,740,718	3,057,341	3,394,311

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 Peter David Sullivan
Mr Vincent Ting Kau Cheung
Mr Johannes-Gerhard Hesse
Mr Robert Hinman Getz

Financial Calendar 2020

March 4 : Announcement of 2019 annual results
May 12 : Last day to register for the entitlement to attend and vote at Annual General Meeting
May 13-15 : Book closure period for the entitlement to attend and vote at Annual General Meeting
May 15 : Annual General Meeting
May 21 : Last day to register for 2019 final dividend
May 22 : Book closure period for 2019 final dividend
June 19 : Final dividend payment
June 30 : Six months interim period end
December 31: Financial year end

Investor Relations Contact

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Website

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Earnings results, annual/interim reports are available online.

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 54, 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

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