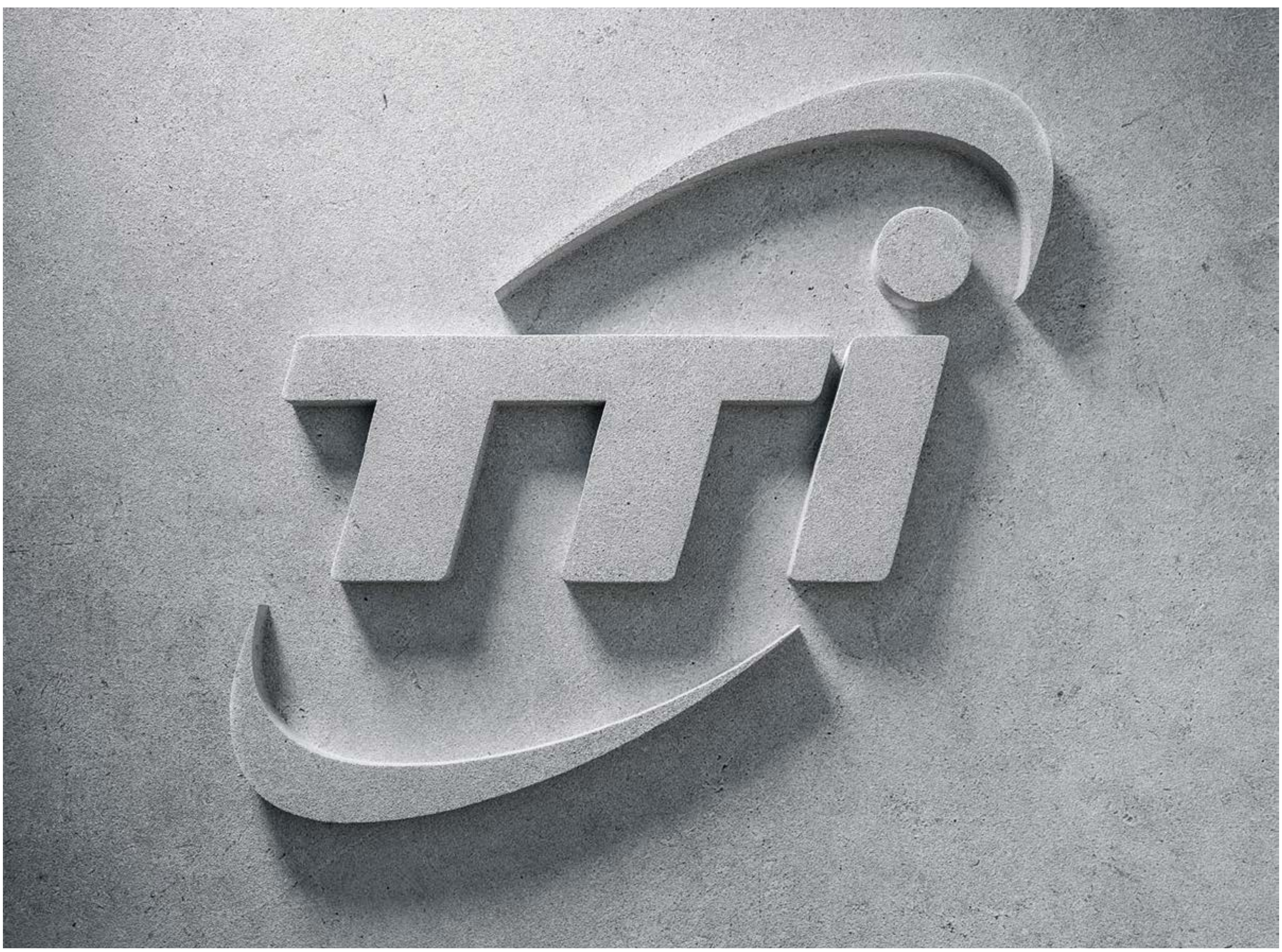
Techtronic Industries

Annual Report **2016**



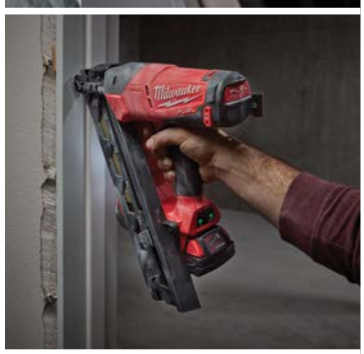

20in BRUSHLESS
40VLITHIUM
BRUSHLESS


Milwaukee


VAX


Milwaukee
FUEL
M18


RYOBI



Corporate Profile

Techtronic Industries Company Limited (the "Company", the "Group" or "TTI") is a world leader in Power Tools, Accessories, Hand Tools, Outdoor Power Equipment, and Floor Care and Appliances for consumer, do-it-yourselfer (DIY), professional and industrial users in the home improvement, repair, maintenance, construction and infrastructure industries. TTI is transforming these industries through cordless technology.

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

Founded in 1985 in Hong Kong, TTI has a portfolio of industry leading brands, a worldwide customer reach, and over 20,000 staff. TTI is listed on the Stock Exchange of Hong Kong and in 2016 had worldwide annual sales of US$5.5 billion.

Contents

Financial Highlights

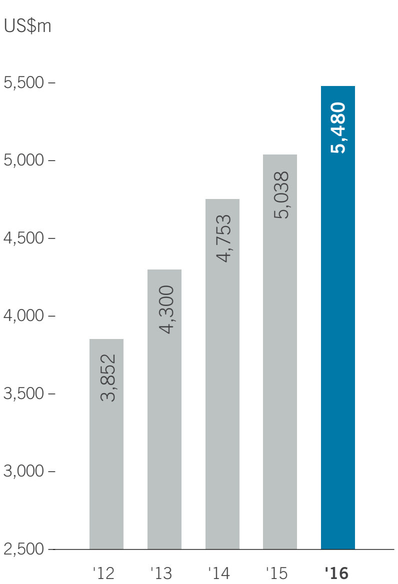
	2016 US$' million	2015 US$' million	Changes
Revenue	**5,480**	5,038	**+8.8%**
Gross profit margin	**36.2%**	35.7%	**+50 bps**
EBIT	**450**	400	**+12.6%**
Profit attributable to Owners of the Company	**409**	354	**+15.4%**
Basic earnings per share (US cents)	**22.32**	19.37	**+15.2%**
Dividend per share (approx. US cents)	**6.44**	5.05	**+27.4%**

- Revenue increased 8.8% to a record US$5.5 billion
- Revenue adjusted for foreign currency grew 9.8%
- MILWAUKEE business continues to grow with strong momentum
- RYOBI business delivered double-digit revenue growth

Revenue

US$5,480 million

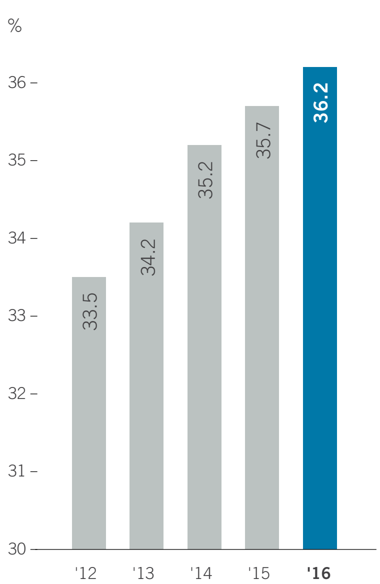
+8.8%



Gross Profit Margin

36.2%

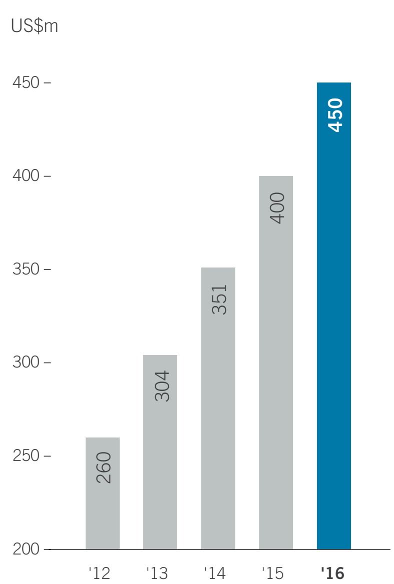
+50 bps



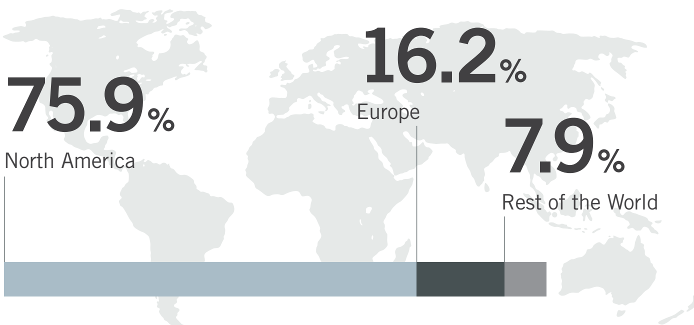
EBIT

US$450 million

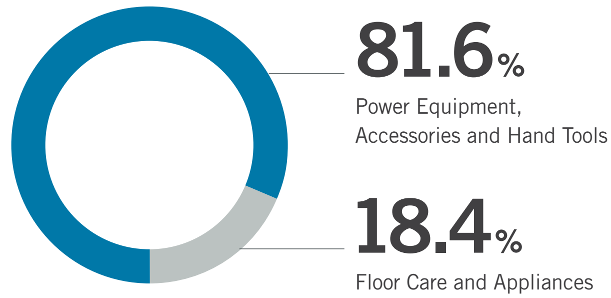
+12.6%



Sales by Location



Sales by Business

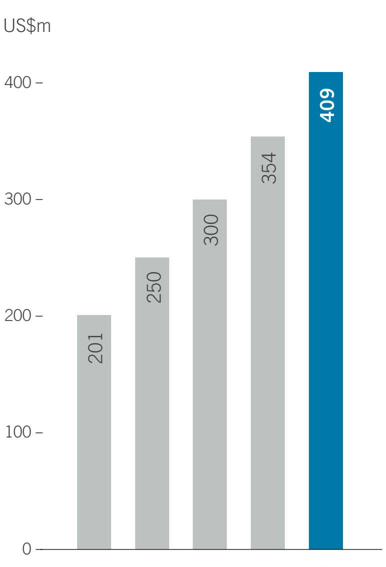


- Gross margin expanded from 35.7% to 36.2%, an increase of 50 basis points
- Net profit increased 15.4% for the year, delivering double-digit growth for nine consecutive years
- Efficient working capital management at 16.4% of revenue

Profit Attributable to Owners of Company

US$409 million

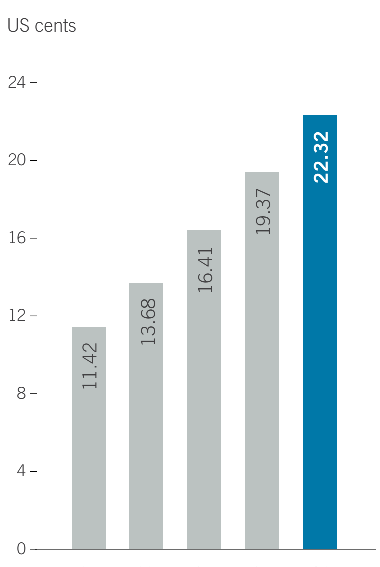
+15.4%



Basic Earnings per Share

US22.32 cents

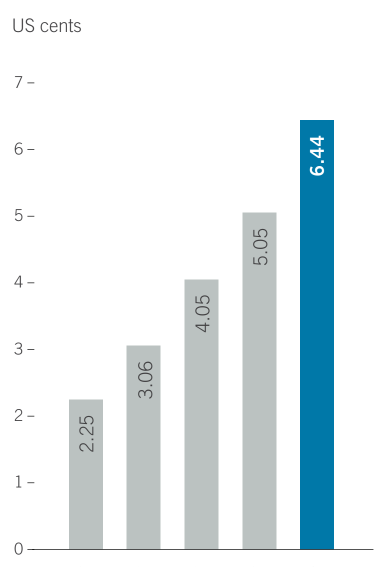
+15.2%



Dividend per Share

US6.44 cents

+27.4%



Chairman's Statement

"We will continue exploring new strategic initiatives while at the same time expanding our core business into new categories and geographies."

I am delighted to announce that 2016 was our seventh consecutive year of record revenue and ninth consecutive year of record profit. TTI achieved this with a disciplined focus on our four key strategic drivers of powerful brands, innovative products, exceptional people, and operational excellence which enables us to further drive our financial performance and deliver on our corporate milestones.

Record Financial Performance

Revenue for the year ended December 31, 2016 increased 8.8% over 2015 to US$5.5 billion, through continued investment in new product development, R&D and marketing. Revenue before currency adjustment rose 9.8% with all geographic regions delivering solid growth. Our largest business, Power Equipment, had another exceptional year with sales growth of 12.6% to US$4.5 billion, accounting for 81.6% of total sales, and an increase in operating profit of 13.4% to US$430 million from US$379 million in 2015. Sales in our Floor Care and Appliance business were slightly below last year by 5.3% with a negative impact upon foreign currency translation, but delivered encouraging growth in the second half in North America. We are confident our strategy in driving innovation through product development with technology-driven solutions and a focus on cordless and professional cleaning will drive the turnaround in the coming years.

Our core strengths of innovation, execution, and speed to market are the prime competitive advantages driving TTI's success. Gross profit margin improved from 35.7% to 36.2% driven by new product introductions, mix, operating leverage and productivity gains. Earnings before interest and taxes, increased by 12.6% to US$450 million, with the margin improving by 30 basis points to 8.2%. Shareholders' profits rose 15.4% to US$409 million, with earnings per share increasing by 15.2% over 2015 to US22.32 cents. Working capital as a percent of sales remained low at 16.4% and our gearing at 5.2%.

The Board is recommending a final dividend of HK30.00 cents (approximately US3.86 cents) per share. Together, with the interim dividend of HK20.00 cents (approximately US2.57 cents) per share, this will result in a full-year dividend of HK50.00 cents (approximately US6.44 cents) per share, against HK39.25 cents (approximately US5.05 cents) per share in 2015, an increase of 27.4%.

Strategic Initiatives

TTI continues investing in R&D to deliver innovative new products with our portfolio of global brands. 2016 was another year of significant advancements in our market leading lithium technology with the introduction of the MILWAUKEE M18 REDLITHIUM

HIGH DEMAND 9.0 battery pack, the most powerful in the industry. Unlike other industry solutions, the HIGH DEMAND 9.0 Battery Pack enables users to remain invested in one battery platform and is compatible with 125+ M18 tool solutions. Leveraging the new battery pack, the M18 FUEL 10" Dual Bevel Sliding Compound Miter Saw was designed to meet the demanding needs of professional users by delivering corded cutting performance. RYOBI ONE+ system is the global leader in cordless do-it-yourself (DIY) tools, continuing to innovate and bring more tools onto the platform. The AEG brand, with its strategic importance in Europe and Rest of World markets, delivered growth as we continued to expand the cordless range product offering.

The investment in cordless technology is also a catalyst for growing our outdoor equipment business. We are expanding the outdoor product equipment business with RYOBI ONE+, RYOBI 40V and AEG 58V systems. We have entered the lawn and garden market using the MILWAUKEE M18 FUEL technology in developing an innovative string trimmer, blower, and hedge trimmer that meet the demands of landscape professionals and are fully compatible with the MILWAUKEE M18 system.

Our new Floor Care leadership team has established a clear strategy and is focused on revitalizing our brands HOOVER, DIRT DEVIL, ORECK and VAX. Future growth will be generated through execution of the TTI model of excellence in product design, advanced technology development and brand marketing. We will be launching significant first to market innovations like the HOOVER REACT vacuums featuring FLOORSENSE Technology using micro-sensors to identify floor surfaces, HOOVER App controls, and the ONEPWR lithium battery system. Further cordless developments are featured in the recently introduced VAX BLADE powered by DIRECT HELIX TECHNOLOGY for optimum runtime and cleaning performance in any orientation. We have a new headquarter in Charlotte, North Carolina, with state-of-the-art facilities for product development and consumer research. We are excited with the new innovative products planned in 2017 and beyond.

We have a deep commitment to operational excellence and continuous improvement. Our disciplined processes in lean manufacturing, automation, global purchasing, and value engineering continue to deliver efficiencies, reduced lead-times, and improved quality and service levels. We continue to build production and supply chain capacity to support our growth. In 2016 we expanded US production capacity, built a state-of-the-art logistics and manufacturing operation in South Carolina, and are expanding the Milwaukee global headquarter and R&D center. We have five manufacturing locations and four R&D centers in the US employing approximately five thousand people which globally supply our brands with innovative products.

We have expanded in scale and global reach since the early days of TTI, yet we have kept the importance of our entrepreneurial organizational culture. We have an exceptional DNA focused on the relentless drive for excellence, skills, creativity, and urgency necessary to produce the team of exceptional people required to lead TTI today and in the future. We believe that TTI owes its success to our employees who embrace the TTI culture and our focus. Their enthusiasm, energy, and dedication helps us deliver the goals we set every year.

Exciting Future

Over the years, we have set the stage for a very exciting future. We have built an amazing brand portfolio, invested in world class talent, and driven innovation that is state of the art with speed to market that is second to none. We are approaching a decade of delivering year over year record performance and our dedication and commitment that got us to where we are has more momentum than ever. Our new product flow will continue and I am extremely excited about the innovation that we have coming which will feed into our product pipeline well into the future. We understand the importance of not becoming complacent and our relentless focus on our strategic drivers is what continues to keep our foundation strong. We will continue exploring new strategic initiatives while at the same time expanding our core business into new categories and geographies.

I am delighted with TTI's success in 2016 and even more excited about 2017. On behalf of the Board, I would like to express my gratitude to our customers and everyone at TTI for their commitment, support and creativity to make TTI what it is today. TTI is an outstanding, industry leading company with vast opportunity. I look forward to our continued success in achieving our goals and delivering strong performance.

Horst Julius Pudwill
Chairman
March 14, 2017

Chief Executive Officer's Message

"We have a bold, disciplined strategic plan for the next five years that focuses on the global leadership we will achieve in our served markets."

TTI is generating extraordinary results. We are flourishing by rigorously executing our bold strategy, launched ten years ago, that created the platform for our industry-leading growth. And we will aggressively continue to follow this strategy as we expand into new categories, new businesses and across the globe. A core part of our strategy is to invest in R&D to drive innovative product development. To be successful we have built a world class R&D capability and new product development process with speed-to-market competitive advantage. We have been introducing one break-through new product after another, delivering a high level of product vitality year after year. Our disciplined focus on creating new innovative products has yielded growth that is well ahead of our competitors and produced profit improvements faster than our sales growth. Executing the strategy is unlocking the vast potential of TTI by driving our businesses to continuously and systematically create new growth opportunities. Although we are extremely proud of our accomplishments, we maintain a relentless focus toward the future and dedication to our core strategy. TTI is just getting started.

Power Equipment Growth Vision

Over the next five years our plan is to pursue a much broader vision than conventional wisdom suggests. We see there is an opportunity to dramatically expand the market for cordless labor saving devices. The TTI cordless product innovations are growing our served industry by driving disruptive changes and generating user demand for the convenience and performance of cordless products. As we continue to deliver new cordless product innovations across categories, we expect to be the stimulus over the next five years that significantly expands our served market beyond what we see today.

We have identified nine targets for technology and new product development which are the catalysts for our cordless growth. By focusing on these catalysts we are developing product innovations that are driving both our growth and the expansion of the cordless served market. Our goal is to create and harvest these opportunities. Through our strategy we will be at the vanguard of the cordless evolution of our served markets.

Corded to Cordless: this transition is moving at a fast pace as cordless technology continues advancing, driving the opportunity to replace traditional corded tools.

Pneumatic to Cordless: the convenience of cordless on the jobsite will displace the need for compressors and hoses.

Petrol to Cordless: the environmental benefits and convenience of cordless have already been replacing the traditional petrol powered portable products and as cordless technology continues evolving the opportunity to replace outdoor products expands.

Corded Lighting to Cordless: by combining LED technology and cordless we are providing complete lighting solutions for the vast portable and jobsite applications.

Hand Tools to Cordless: by delivering better productivity solutions with small, lightweight and power of cordless – like the MILWAUKEE subcompact M12 range.

Hydraulic to Cordless: the improved productivity of cordless on the jobsite will replace the traditional hydraulic tools.

Replacement Cycle: product lifecycles are becoming shorter with rapid progress in technology and product development.

Batteries Aftermarket: expanding at a fast pace with the cordless industry expansion.

Network Effect – Bare Tools: users are expanding their demand for tools by leveraging a battery platform.

We are creating market demand through great products and convincing users to switch to cordless. The overarching network effect of cordless, because of the interconnectivity of tools and products through the battery and electronics systems, will continue adding users to the leading battery platforms of the TTI brands like RYOBI ONE+, and MILWAUKEE M12and M18. Our strategic battery platform approach to new product development opens the door to limitless product line expansion and new category entrance opportunities.

Revitalized Floor Care Growth

We have an exciting strategy and vast potential for the floor care business. The future of our floor care is in cordless, which as a category grew 53% in 2016, validating our strategic direction. We have an exciting new product development plan that will generate a new growth trajectory and improve profitability. We have reframed the business, assembled a strong management team, completed the exit of non-core products and channels of distribution, established a world class innovation center and headquarter in Charlotte and energized the new product development to focus on our formable cordless technology and break-through innovation process, both core competencies of TTI. The revitalized business will bring innovation to cordless cleaning for consumers and commercial users. The first product wave of new products, stick vacs and robots, were introduced in 2016 and contributed to the second half sales growth in North America. A comprehensive range of new innovative cordless products is being launched in 2017 like the technology HOOVER REACT and VAX BLADE ranges. We are confidently moving aggressively forward with our product development and marketing plans.

Recent Acquisition Successes

We are not desperate acquirers. We look for strategic fits with technology, brands or product. Our recent three year acquisition activity of EMPIRE level, INDEX tape measures, KOTTMANN chisels, and ORECK floor care has contributed to the Company's sales and profit growth. All four are strategic fits with our existing businesses. We conducted a rigorous TTI business model integration of these businesses to drive innovations, extract operational efficiencies, and improve profitability. EMPIRE level for example with an aging product range and very few new products has been re-invented, delivering innovation across a complete industry range of products. The introduction of EMPIRE ULTRAVIEW LED box levels with high definition viewing in all conditions and the industry's first auto-calibrated digital levels with inspector grade measurement is just the beginning for EMPIRE. Looking forward, we have a lot of potential in the businesses we are in and are focused is on organic growth, but we carefully examine every opportunity for acquisitions that make strategic sense and have proper valuations.

Strategic Manufacturing Diversity

TTI has a global manufacturing footprint providing strategic geographic diversity. 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. In addition to our world class Asian and European manufacturing operations, TTI in the US has five manufacturing locations covering over one million square feet and four R&D centers which are thriving. We made further investments during the year in our US operations to support both our US and Rest of World businesses. As all our manufacturing facilities execute cellular and lean manufacturing practices and are vertically integrated on key components and linked to our global purchasing network, we are able to ramp-up production rapidly. In support of our flourishing business the US based headcount has grown 41% over the past four years.

TTI Leadership

Our TTI team is the most important piece of our business model. Everything begins and ends with people – the planning, the creativity throughout our business required to generate innovation, and the execution of our processes to deliver results time and time again. We believe in developing our future leaders internally to feed our TTI management ecosystem. We cultivate extraordinary leaders by providing the mentorship, business tools, and opportunities for our teams of entrepreneurs to have the resources and freedom to drive hard, be creative, and deliver results.

Our culture breeds success and these developing leaders are finding career success at TTI. The new leaders that flourish and rise through our development programs deliver excellent results in every area of the company. To feed our growth and need for management talent, we plan this year to hire 522 top performing university graduates in a highly selective process into our competitive Leadership Development Program (LDP) across the US and twelve other countries. Since 2007 we have employed over 2,000 high-potential LDPs, many of these LDPs have progressed quickly in the TTI management ranks in functions like sales, product management, marketing, purchasing, manufacturing, engineering and finance. We are fully preparing the next generation of TTI leaders around the world.

I am very extremely proud of what we have accomplished in 2016. TTI has built an enviable track record of outstanding performance. It is the leadership of our Chairman, Horst Pudwill, with his vast energy, unique vision and relentless pursuit of higher standards that best defines our remarkable culture. He is a powerful role model for current and future generations of TTI leaders. It is an honor and a privilege to have Horst as a mentor. Today, we are both even more optimistic about the future of this company.

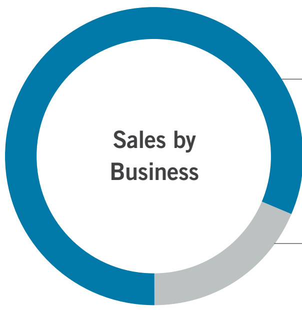
Joseph Galli Jr
Chief Executive Officer
March 14, 2017

Power Equipment, Accessories and Hand Tools

The Power Equipment business increased by 12.6% growing to US$4.5 billion accounting for 81.6% of Group turnover. The growth was 13.3% before foreign currency adjustments. Industry leading brands MILWAUKEE and RYOBI delivered double digit growth over the previous year. We are at the forefront of the fast growing cordless segment by delivering break-through technologies and expanding the broadest range of tools powered by our market leading battery platforms. The business generated earnings growth of US$430 million, a 13.4% increase year over year. Through strategic product development, technology advancement and brand portfolio management we feel highly confident that the Power Equipment business will continue to capture market share and expand margins.

Sales in Power Equipment, Accessories and Hand Tools

US$**4.5** billion



81.6%
Power Equipment, Accessories and Hand Tools

18.4%
Floor Care and Appliances

MILWAUKEE · AEG POWERTOOLS · RYOBI · Homelite

Empire · STILETTO · HART

Power Equipment, Accessories and Hand Tools

Industrial Power Tools

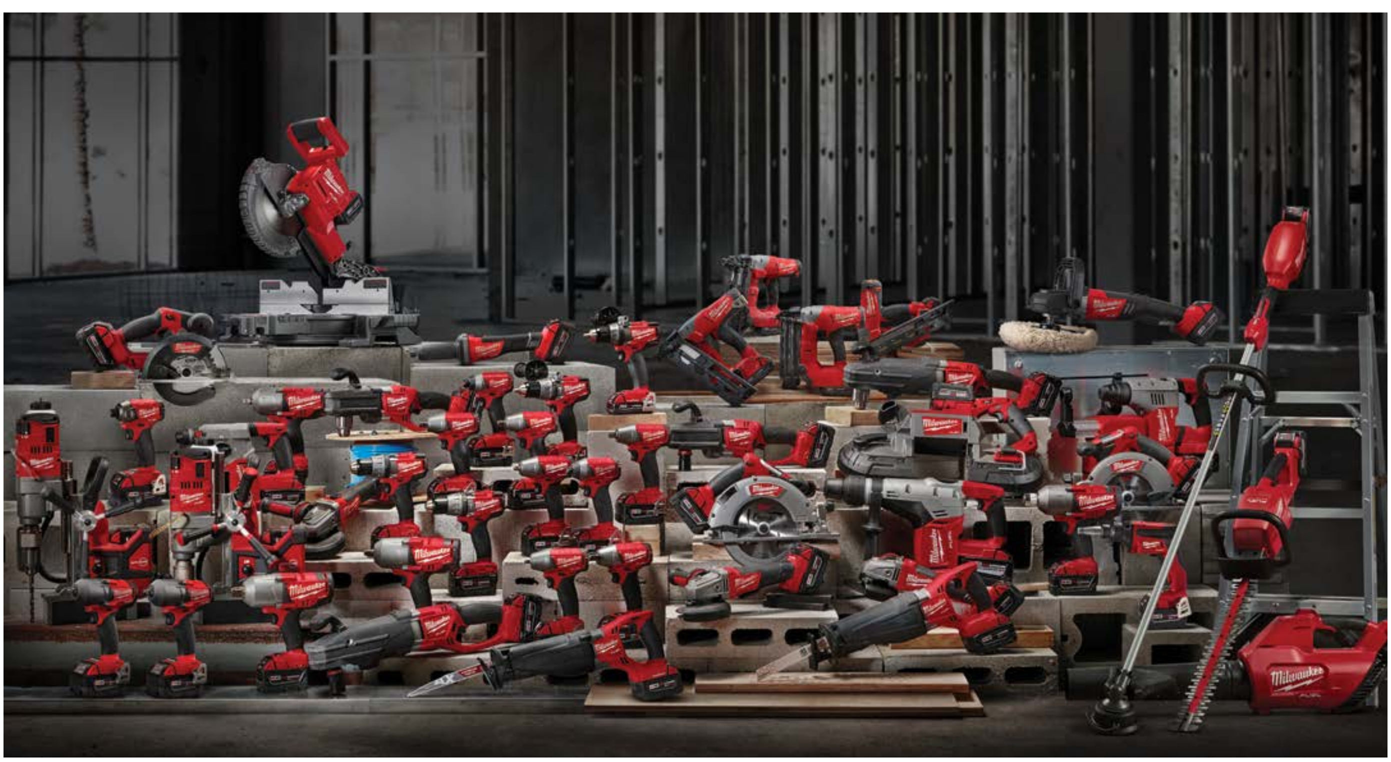
The MILWAUKEE M18 cordless system represents the ultimate synergy of professional grade power, extreme performance and superior ergonomics. The flagship of the family, M18 FUEL, delivers solutions that are the highest performing tools in their class. With the introduction of the revolutionary M18 REDLITHIUM HIGH DEMAND 9.0 battery pack, the MILWAUKEE brand shattered cordless expectations by providing long-lasting power in the most demanding of applications.

M18 REDLITHIUM
HIGH DEMAND 9.0 Battery Pack

M18 FUEL SAWZALL Recip Saw
w/ ONE-KEY

M18 FUEL 7-1/4" Circular Saw

M18 FUEL 1-9/16" SDS Max
Rotary Hammer



M18 FUEL

M18 FUEL SURGE
1/4" Hex Hydraulic Driver

M18 FUEL 1/2" Mid-Torque
Impact Wrench Kit w/ Pin
Detent

M18 FUEL
Drywall Screw Gun

M18 FUEL Metal Cutting Circular Saw

M18 FUEL 1" SDS Plus D-Handle Rotary Hammer

M18 FUEL 7" Variable Speed Polisher

M18 FUEL 10" Dual Bevel Sliding Compound Miter Saw

M18 FUEL 16 Gauge Straight Finish Nailer

M18 FUEL 15 Gauge Finish Nailer

Industrial Power Tools

In 2016, the MILWAUKEE brand burst onto the scene with head-turning innovations in High Output Lighting. From work lights to site lights and flood lights to tower lights, these cordless LED solutions adapt, perform, and survive the harsh jobsite conditions that tradesman encounter daily.

M12 ROVER LED Flood Light

M18 LED Search Light

M12 M18

HIGH OUTPUT LIGHTING

ADAPTS. PERFORMS. SURVIVES.

M12 LED Metal Flashlight

M18 RADIUS LED Compact Site Light w/ ONE-KEY

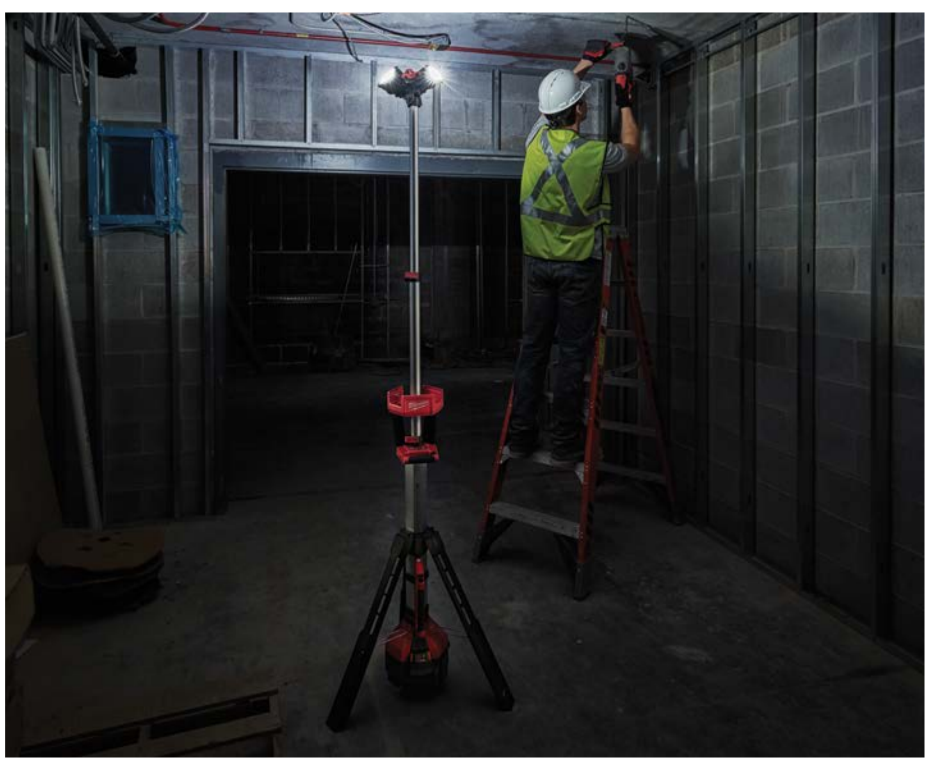
M12 M18

HIGH OUTPUT LIGHTING

ADAPTS. PERFORMS. SURVIVES.

M18 LED Utility Bucket Light

M18 ROCKET LED Tower Light/Charger



Industrial Power Tools

High-force applications have been made easier thanks to MILWAUKEE's FORCE LOGIC solutions. Designed to optimize ergonomics, speed and reliability, these powerful cordless tools reduce user fatigue and optimize workflow even in the most challenging environments.

M18 FORCE LOGIC 6T Crimper with D3 Grooves and Fixed BG Die

M18 FORCE LOGIC 600 MCM Cu/350 MCM Al Crimper

M18 FORCE LOGIC 6 Ton Knockout Tool

M18 FORCE LOGIC Press Tool

FORCELOGIC™

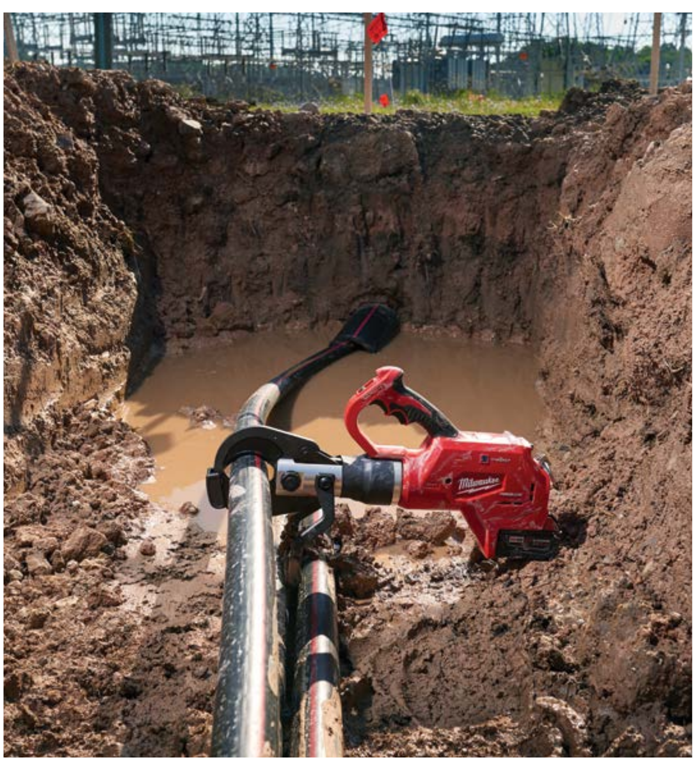
M12 PLUMBING SOLUTIONS

M18 FORCE LOGIC Cable Cutter Kit
with 477 ACSR Jaws

M12 TRAPSNAKE 6' Toilet Auger

M18 FORCE LOGIC 3" Underground Cable
Cutter w/ Wireless Remote

M12 Drain Snake



Accessories

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

AX™ CARBIDE TEETH

6" 5 TPI Wood THE AX with Carbide Teeth SAWZALL Blade

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

12" 5 TPI Wood THE AX with Carbide Teeth SAWZALL Blade

SHOCKWAVE IMPACT DUTY™

SHOCKWAVE Impact Double-Ended Power Bits

SHOCKWAVE Impact Locking Bit Holders

SHOCKWAVE Conduit Reaming Bit Holders

SHOCKWAVE RED HELIX Titanium Drill Bits

STEELHEAD™ DIAMOND CUT-OFF

STEELHEAD Diamond Cut-Off Blades

Hand Tools

In 2016, the MILWAUKEE brand continued to expand its Hand Tool offering by providing innovative, trade-specific solutions that deliver increased durability and productivity to users. As demonstrated with the new-to-the-world CHEATER Pipe Wrench, Milwaukee Electric Tool Corporation develops its products from the ground up, often disrupting otherwise stagnant categories in the market.

CHEATER

CHEATER Adaptable Pipe Wrench

REDSTICK Box Levels

REDSTICK Compact Box Levels

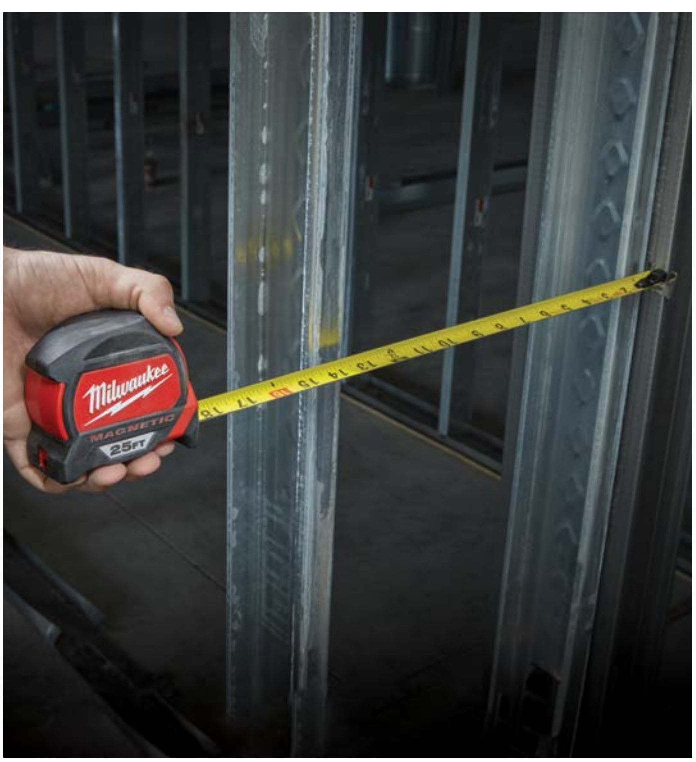
Steel Pipe Wrenches

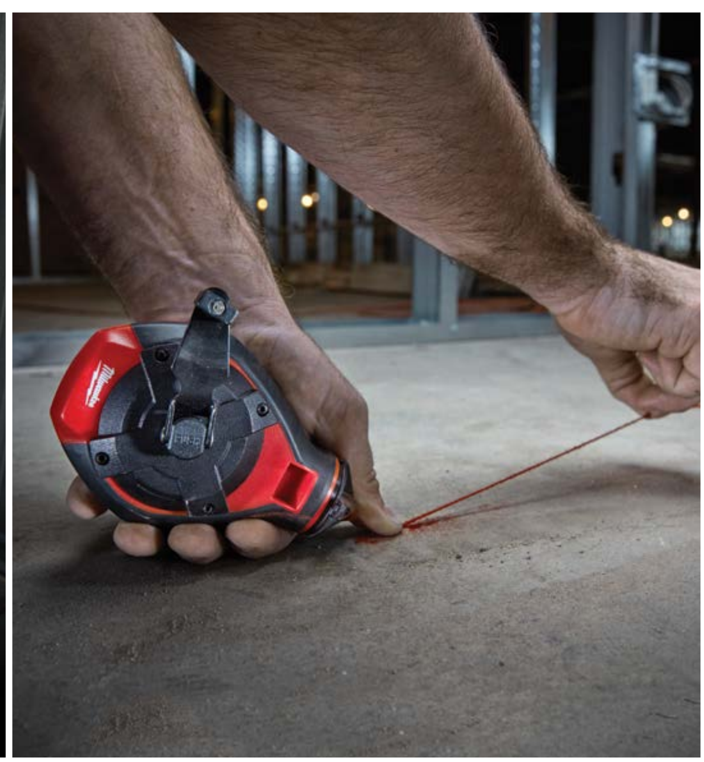
Aluminum Pipe Wrenches

Work Gloves

Magnetic Tape Measures

Chalk Reels

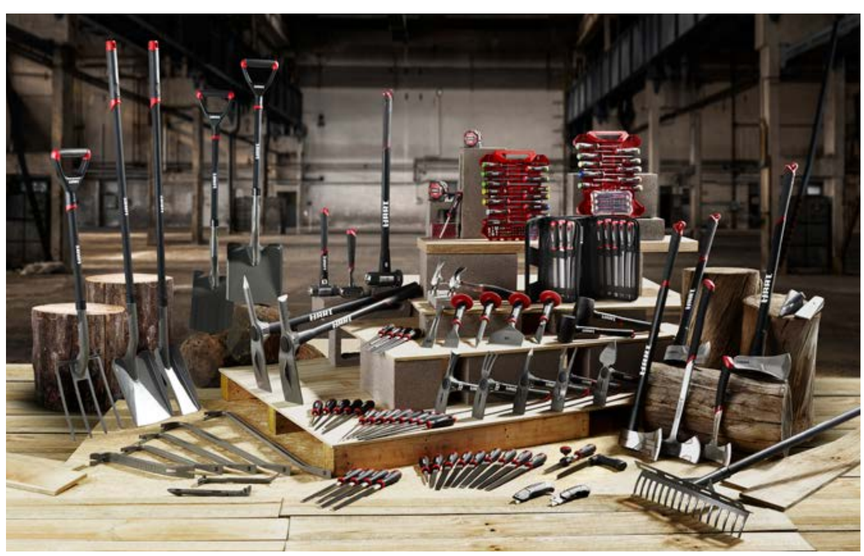




Hand Tools

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

HART Family of products focus on delivering innovative signature features that provide contractors with top quality materials to enhance productivity. Products ranges in Hammers, Sledges, Tiling Tools, Pry Bars, Clamps, Mattocks and Utility Tools insure you have the right products to complete every job.



Layout and Measuring Tools

As a leading brand name in the layout market, EMPIRE has earned true respect within the industry by delivering a broad range of innovative solutions year in and year out. EMPIRE levels are extremely readable, accurate and durable, exemplified in the new ULTRAVIEW LED and Digital Box Levels in 2016. Each level undergoes a rigorous quality inspection to ensure it delivers the precision and toughness required for unquestioned results.

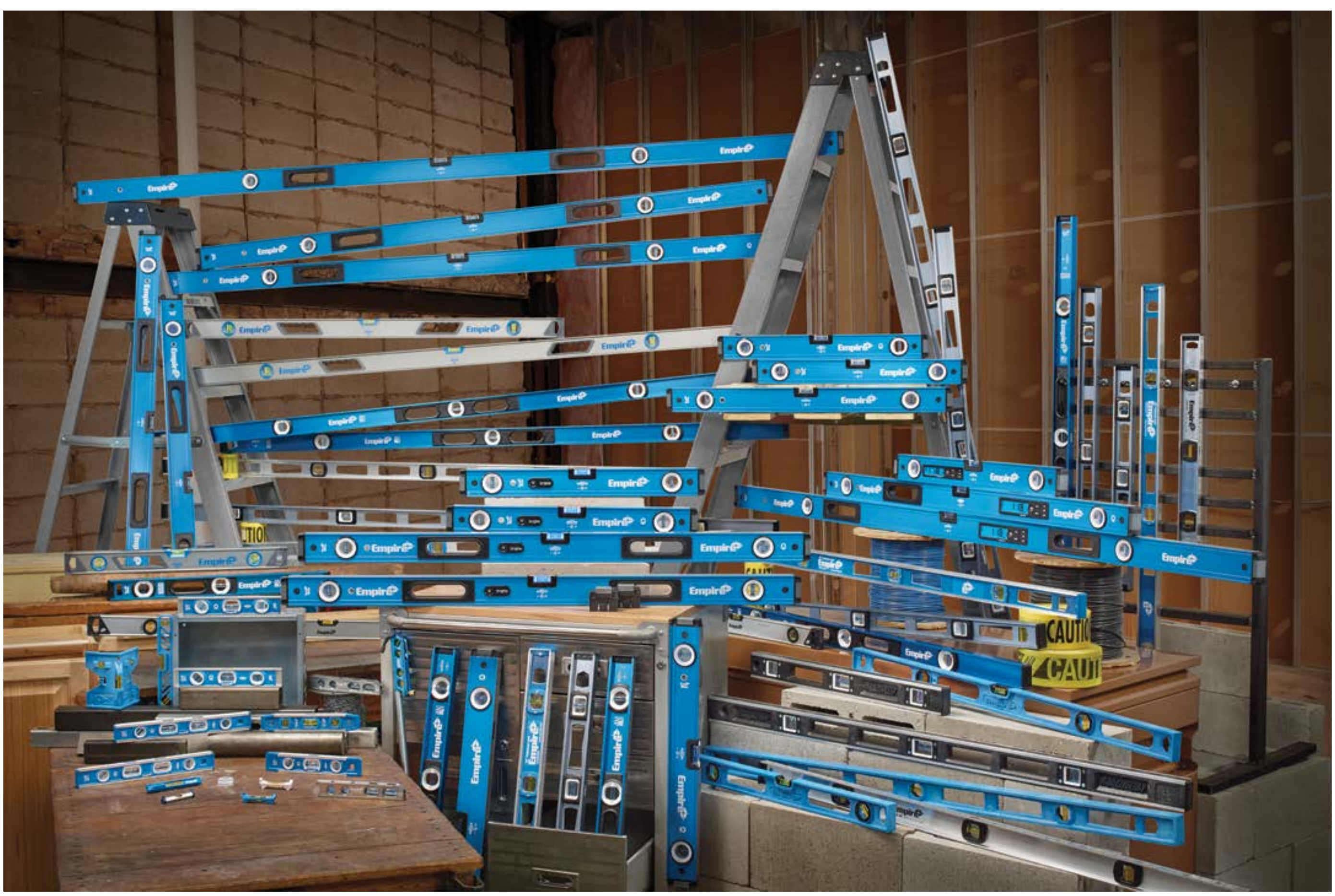
TRUE BLUE Box Levels

Magnetic Digital Box Levels

10" Magnetic Torpedo Level

ULTRAVIEW LED Box Levels

10" ULTRAVIEW LED Torpedo Level



Professional Tools

The AEG Power Tools brand has been delivering high performance tools since 1898. Over a 100 years later and nothing has changed, AEG Power Tools continue to push boundaries and innovate with a current focus on the cordless sector, harnessing leading lithium ion power.

18-volt Brushless 7-1/4" Circular Saw

18-volt Brushless 10" Slide Mitre Saw

18-volt Brushless 5" Grinder

18-volt Brushless 16Ga C Brad Nailer

18-volt Brushless 3-Speed Auto Tight Impact Wrench

18-volt Compact Brushless Hammer Drill

18-volt Brushless Impact Driver

18-volt Brushless Oil Pulse Driver

The AEG Power Tools brand introduces a new cordless professional grade option for end-users of traditional petrol outdoor products. The range of 58-volt lithium ion powered cordless products provide consistent peak-performance delivering petrol like power. The single 58-volt lithium ion battery platform adapts across the product line offering unbeatable end-user convenience, ease-of-use benefits for each product and enhanced productivity for professional landscaping projects or home gardens jobs.

58-volt 4.0Ah Battery

58-volt Brushless Hedge Trimmer

58-volt Brushless Blower

58-volt Brushless Line Trimmer

58-volt Brushless Chainsaw

58-volt Brushless Lawn Mower

Consumer and Professional Tools

The RYOBI brand offers the most extensive award winning and innovative line of consumer focused products and accessories for worldwide use. The RYOBI power tool range is anchored by the 18-volt ONE+ System of over 70 products, ranging from drills, drivers, saws, trimmers, sanders and outdoor products.

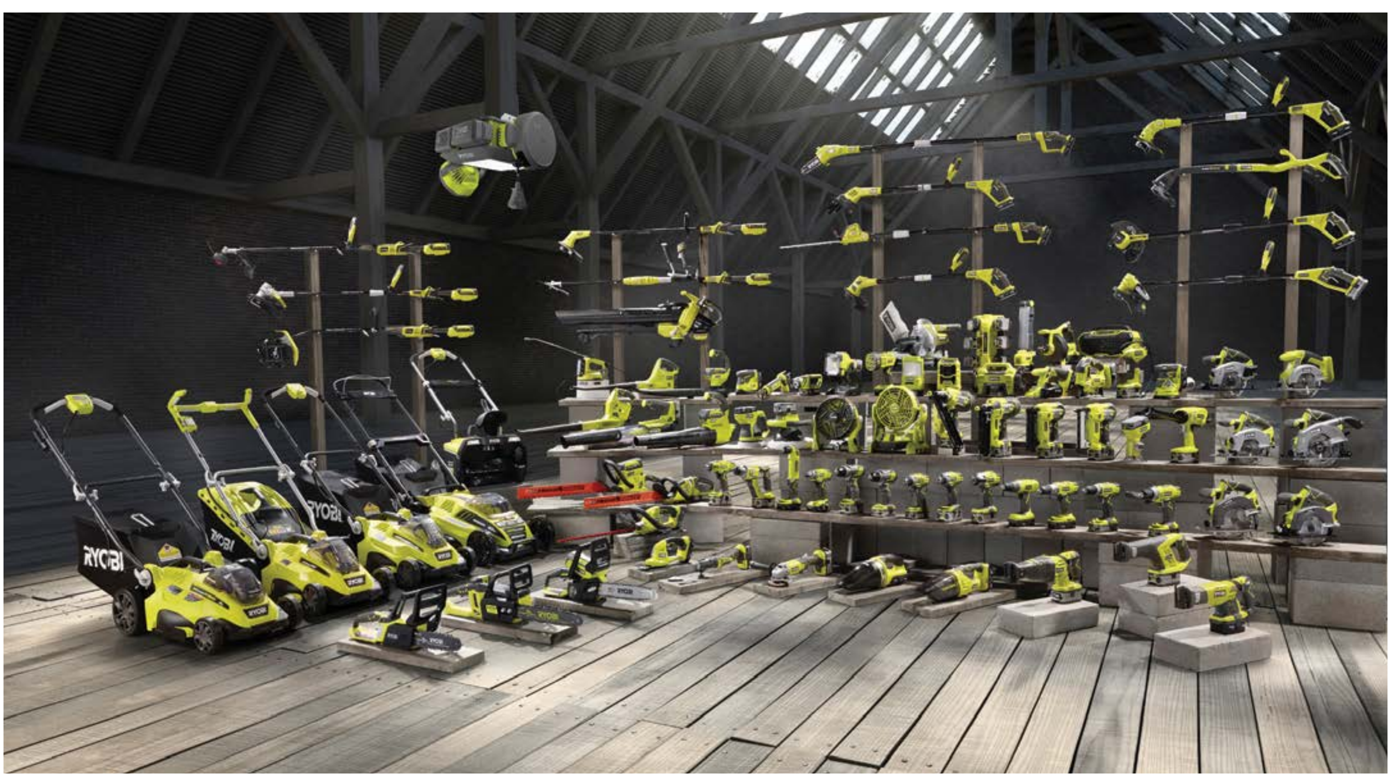
18-volt ONE+ QuietStrike Pulse Driver

18-volt ONE+ HVLP Inflator

18-volt ONE+ 1/4 Sheet Finish Sander

18-volt ONE+ Hybrid Transfer Pump

18-volt ONE+ Palm Router



18V LITHIUM HYBRID

ONE+ Cordless OR Electric

BRUSHLESS

18-volt ONE+ Hybrid Fan

18-volt ONE+ Hybrid Stereo

18-volt ONE+ Hybrid LED Cable Lights

18-volt ONE+ Brushless Belt Sander

18-volt ONE+ Brushless Hammer Drill

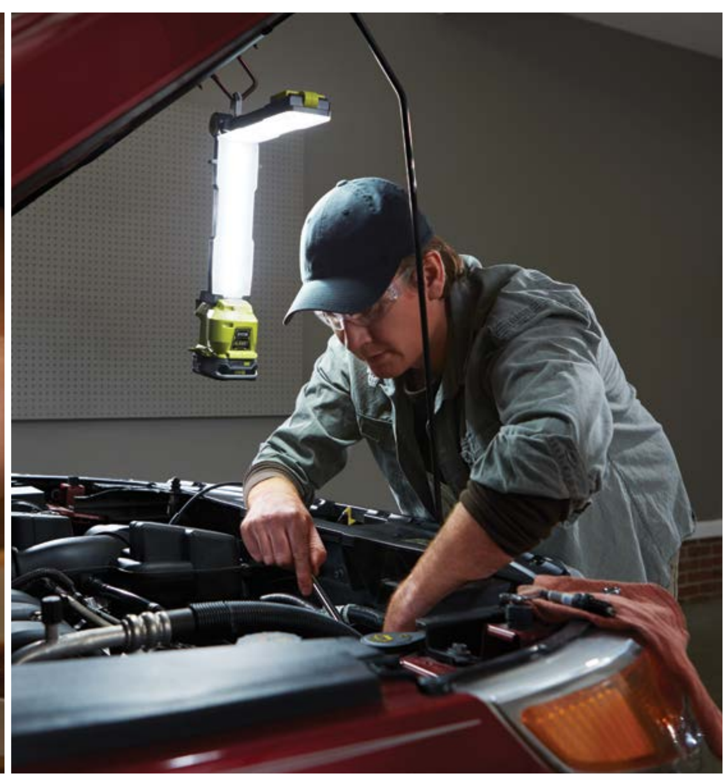
18-volt ONE+ Hot Glue Gun

18-volt ONE+ LED Workbench Light

18-volt ONE+ Dual Power LED Spotlight

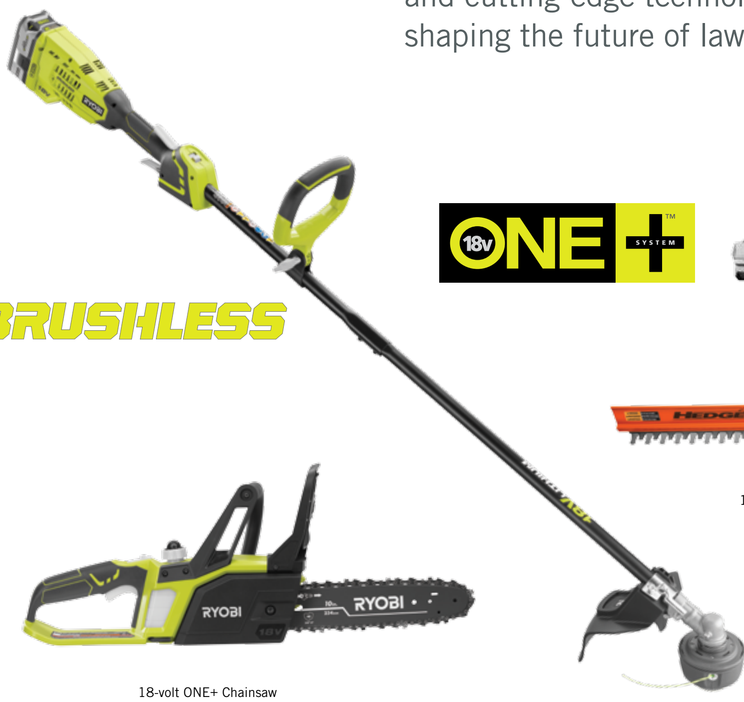
18-volt ONE+ LED Area Light

18-volt ONE+ LED Flashlight



Outdoor Products

New innovation is within reach. RYOBI Cordless Outdoor Tools put power and performance into the hands of every homeowner with our line of 18-volt and 40-volt string trimmers, hedge trimmers, blowers, chainsaws and lawn mowers. With high quality products and cutting-edge technology, RYOBI Cordless Outdoor Tools are shaping the future of lawn care.



18-volt ONE+ Hedge Trimmer

18-volt ONE+ Chainsaw

18-volt ONE+ Jet Fan Blower

40VLITHIUM

More than 15 outdoor products make up the RYOBI 40-volt family. Each tool is powered by a 40-volt Lithium-Ion battery for fade-free, long-lasting performance, making RYOBI 40-volt the greenest way to go petrol-less.

40-volt Jet Fan Blower

BRUSHLESS

40-volt Brushless Chainsaw

40-volt Brushless String Trimmer

40-volt Hedge Trimmer

40-volt Brushless 20" Lawn Mower

Outdoor Products

RYOBI Outdoor Products is proud to produce petrol powered products that withstand the test of time. Premium engines and pro-style features are built into each petrol powered pressure washer, string trimmer, hedge trimmer, blower, chain saw, and generator. This commitment to quality allows RYOBI brand to put top-notch lawn equipment into the hands of every homeowner and lawn care enthusiast.

160 mph Jet Fan Blower

2 Cycle Full Crank String Trimmer

1600 psi Electric Pressure Washer

2300 Watt Inverter Generator

3000 psi Pressure Washer

HOMELITE Outdoor Tools combine value and reliability in every piece of electric and petrol powered lawn care equipment. HOMELITE products offer quality engine/motor components along with best-in-class features to make quick work of weekend lawn care.

Garage Door Openers and Accessories

The next generation in garage door openers has arrived. The RYOBI Ultra-Quiet Garage Door Opener boasts a 2HPs motor, giving you faster openings and prolonging motor life. You can also access your opener by downloading the Application and even open the door during power outages with the ONE+ battery back-up. Also add any of the great plug and play accessories to maximize your garage experience.

Garage Retractable Inflator Accessory

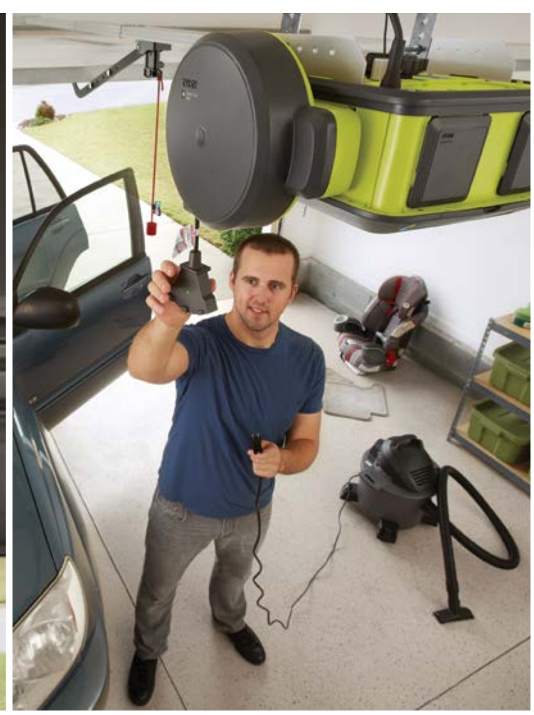
Garage Retractable Cord Accessory

Garage Security Camera Accessory

Garage BLUETOOTH Accessory

Garage Laser Park Assist Accessory

Garage Fan Accessory

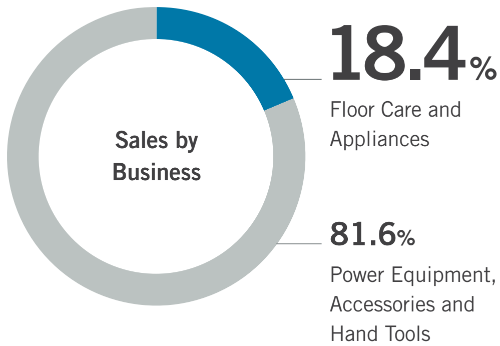


Floor Care and Appliances

We are positioning the Floor Care and Appliances business for growth. Sales declined slightly for the full year, down 5.3% largely due to negative foreign exchange impact, particularly in our UK business, and a slight slowdown in the household appliance market. The largest segment, North America, returned to growth in the second half of 2016 with HOOVER, DIRT DEVIL, and ORECK brands all delivering sales increases. At US$1.0 billion in sales, the segment accounted for 18.4% of total Company revenue. The business improved profit margins by 10 basis points, offsetting the slight decline in sales. This was achieved though effective mix, the introduction of new products and the discontinuation of the lower margin products. Operational efficiencies were gained from global sourcing programs and the North America logistic center consolidation. The new North America headquarters in Charlotte, North Carolina is providing a world class environment for recruiting talent, new product innovation, cordless and technology development, and a creative marketing center.

Sales in Floor Care and Appliances

US$ 1.0 billion



Floor Care and Appliances

Floor Care and Appliances

For over 100 years, the HOOVER brand has reimagined the way we clean. From the introduction of the very first electric sweeper in 1908 to the revolutionary WINDTUNNEL design, the HOOVER brand has relentlessly pursued innovation so today's active families can more easily achieve the best possible clean.

LINX Signature

Cruise Cordless Stick

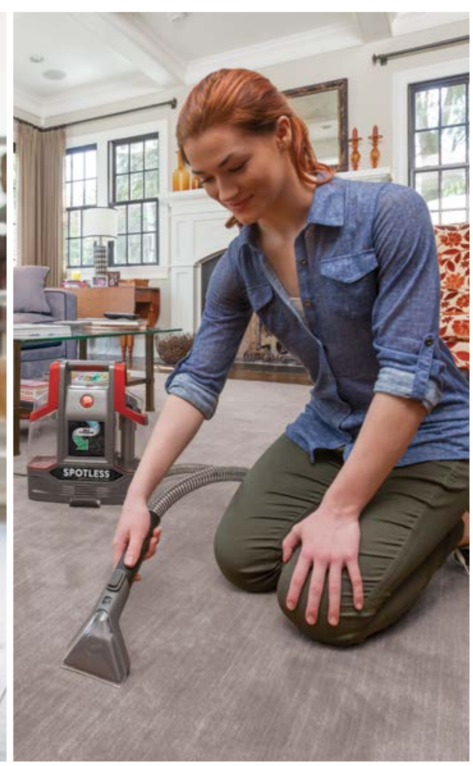
QUEST 700

QUEST 800

QUEST 1000

Power Scrub Elite Carpet Washer

Spotless



The new HOOVER REACT vacuums were designed with the needs of today's active families in mind. Featuring new FLOORSENSE technology, the HOOVER REACT instinctively senses a change in floor type, automatically adjusting brush roll speed to optimize performance from carpet to hard surfaces. By providing the right speed on the right surface — along with powerful WINDTUNNEL SURGE suction — REACT products deliver a new generation of clean.

Compatible with HOOVER App

REACT Professional

REACT Powered Reach

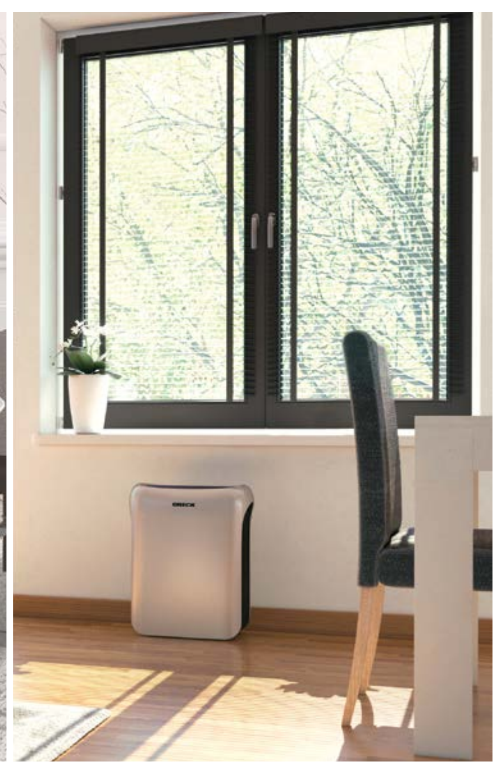
REACT

REACT Quick Lift

Floor Care and Appliances

The ORECK brand delivers on a whole new level of clean. Our powerful yet lightweight vacuums, Microfiber cleaning tools and HEPA Air Purification systems provide whole home cleaning solutions. Our focus on service has created loyal consumers who come back to the ORECK brand or products for all of their cleaning needs.

ELEVATE Control ELEVATE Command ELEVATE Conquer Air Response Medium Air Response Large Air Response Small Air Refresh



The DIRT DEVIL brand quickly addresses any mess with a portfolio of powerful and easy-to-use uprights, sticks and hand vacuums. With products designed to be lightweight, versatile with quality performance, the DIRT DEVIL brand has just what you need to be "Ready, Set, Done" in no time.

RAZOR VAC Plus | Power Duo | Power FLEX Pet | Power MAX Pet | Power Stick | REACH MAX | SIMPLISTIK Plus | Power Swerve

Floor Care and Appliances

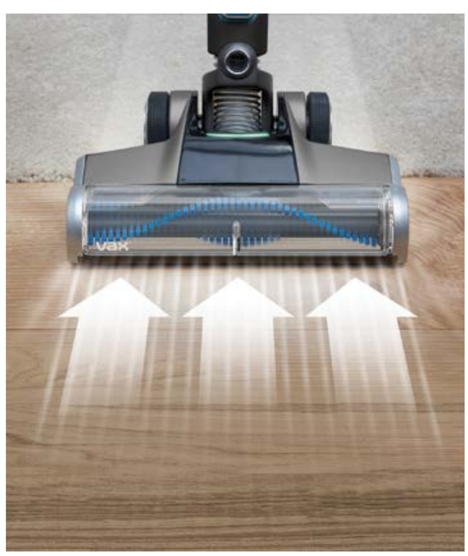
VAX is the UK's No.1 floor care brand offering cleaning products across all the floor care categories and in 2016, the VAX brand has added significant cordless value share in the UK. The Cordless SlimVac has been the jewel in the crown achieving fantastic levels of retail distribution and sales. The VAX brand is continuing to invest in new technologies, which are both innovative and market leading such as the VAX BLADE cordless vacuum to drive the next generation of cordless products that truly meet the changing consumer needs.

Arrow, Cordless SlimVac, VAX BLADE and Verso

VAX BLADE CORDLESS

Leading the next generation of cordless vacuums, the VAX BLADE cordless vacuum delivers supreme cleaning performance and is set to revolutionise the way we clean our homes. Offering all the power of a corded vacuum with the convenience of a cordless, it's quick, easy, and effortless. The stylish, slim line finish seamlessly fits within your home and the steerable technology with low profile design allows you to navigate around furniture with ease. VAX BLADE Cordless delivers maximum cleaning efficiency and is truly an ideal companion for smart, powerful, cordless cleaning.

VAX BLADE



Floor Care and Appliances

HOOVER
COMMERCIAL

We empower the cleaning professional with the tools to efficently keep the commercial environments they maintain – clean, safe, and productive for the patrons and employees that depend on them. HOOVER commercial floor cleaning products are idealy suited for the property management and hospitality markets.


M-PWR 40V Battery


Dual-Bay Charger


HUSHTONE 6Q Backpack


HUSHTONE 6Q Cordless Backpack


HUSHTONE Canister


HUSHTONE Cordless


HUSHTONE 15

ORECK COMMERCIAL

ORECK is for the professional who cleans and is looking for Lightweight, Easy to Deploy, Quick Cleaning Tools. ORECK commercial products are ideal for use in food service and hospitality markets.

M-PWR 20V Lithium Battery and Charger

SLINGVAC

TASKVAC

HYDROVAC

Financial Review

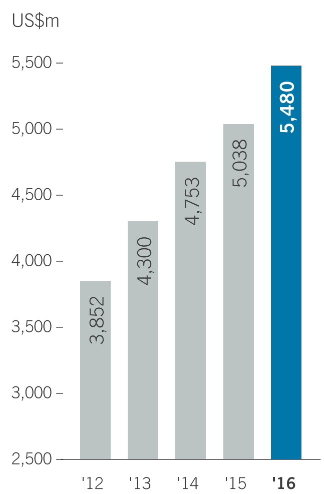
Financial Results

Result Analysis

Revenue

US$5,480 million

+8.8%



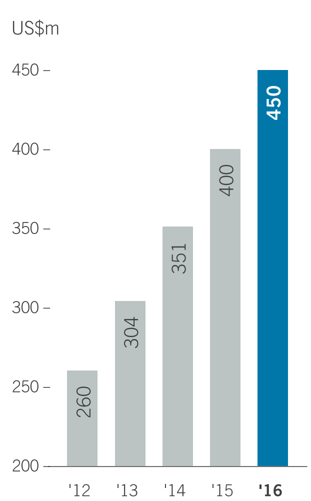
The Group's revenue for the year amounted to US$5.5 billion, an increase of 8.8% as compared to US$5.0 billion in 2015. Profit attributable to Owners of the Company amounted to US$409 million as compared to US$354 million in 2015, an increase of 15.4%. Basic earnings per share for the year improved to US22.32 cents as compared to US19.37 cents in 2015.

EBITDA amounted to US$641 million, an increase of 12.5% as compared to US$570 million in 2015.

EBIT

US$450 million

+12.6%



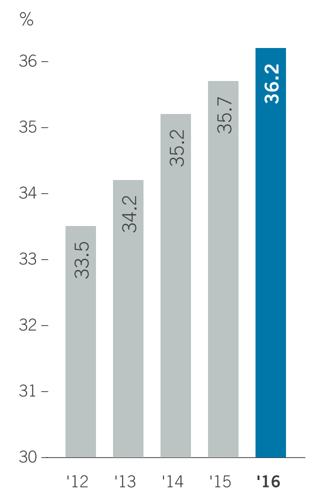
EBIT amounted to US$450 million, an increase of 12.6% as compared to US$400 million in 2015.

Gross Margin

Gross Profit Margin

36.2%

+50 bps



Gross margin improved to 36.2% as compared to 35.7% last year. The margin improvement was the result of new product introduction, category expansion, improvements in operational efficiency and supply chain productivity.

Operating Expenses

Total operating expenses for the year amounted to US$1,540 million as compared to US$1,403 million in 2015, representing 28.1% of turnover (2015: 27.9%). The increase was mainly due to the strategic spent on advertising and promotion on new products.

Investments in product design and development amounted to US$147 million, representing 2.7% of turnover (2015: 2.5%) reflecting our continuous strive for innovation. We will continue to invest to create 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$10 million as compared to US$13 million in 2015, a reduction of US$3 million or 21.1%. Interest coverage, expressed as a multiple of EBITDA to total interest was 30.0 times (2015: 24.8 times).

The effective tax rate, being tax charged for the year to before tax profits was at 7.1% (2015: 8.5%). The Group will continue to leverage its global operations and fine-tune its tax plans to meet with tax rules changes in various jurisdictions to ensure the low effective tax rate is sustainable going forward.

Liquidity and Financial Resources

Shareholders' Funds

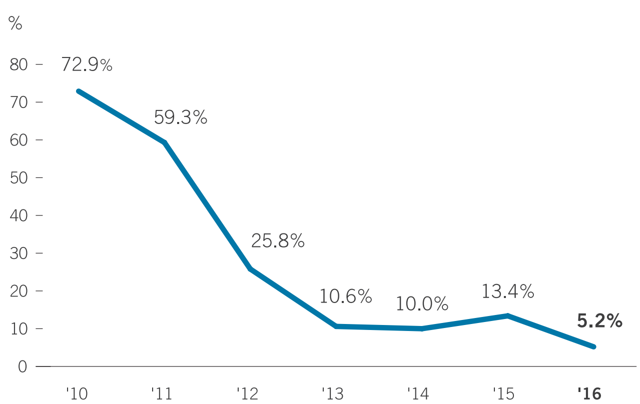
Total shareholders' funds amounted to US$2.4 billion as compared to US$2.2 billion in 2015. Book value per share was at US$1.31 as compared to US$1.18 last year, an increase of 11.0%.

Financial Position

The Group continued to maintain a strong financial position. As at December 31, 2016, the Group's cash and cash equivalents amounted to US$805 million (2015: US$775 million), of which 53.9%, 21.9%, 10.1% and 14.1% were denominated in US$, RMB, EUR and other currencies respectively.

Gearing Ratio

5.2%



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 5.2% as compared to 13.4% last year. The gearing improvement is the result of very disciplined and focused management over working capital. The Group remains confident that gearing will remain low going forward.

Bank Borrowings

Long term borrowings accounted for 52.8% of total debts (2015: 42.9%).

The Group's major borrowings continued to be in US Dollars and in HK Dollars. Borrowings are predominantly LIBOR or Hong Kong best lending rates 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.

Working Capital

Total inventory was at US$1,296 million as compared to US$1,190 million in 2015. Days inventory maintained at 86 days. The higher inventory days as compared to past years was mainly due to the strategic decision to carry a higher level of inventory to support our service level, considering our high growth momentum. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivable turnover days were at 62 days as compared to 60 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 57 days as compared to 55 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 89 days as compared to 84 days in 2015.

Working capital as a percentage of sales was at 16.4% as compared to 17.0% in 2015.

Capital Expenditure

Total capital expenditures for the year amounted to US$190 million (2015: US$232 million).

Capital Commitments and Contingent Liabilities

As at December 31, 2016, total capital commitments for the acquisition of property, plant and equipment contracted for but not provided amounted to US$33 million (2015: US$21 million), and there were no material contingent liabilities or off balance sheet obligations.

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

Major Customers and Suppliers
For the year ended December 31, 2016

(i) the Group's largest customer and five largest customers accounted for approximately 44.8% and 55.1% respectively of the Group's total revenue; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 5.3% and 18.0% 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 20,642 employees as at December 31, 2016 (2015: 20,517) in Hong Kong and overseas. Total staff cost for the year under review amounted to US$807 million (2015: US$727 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 organisation. 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.

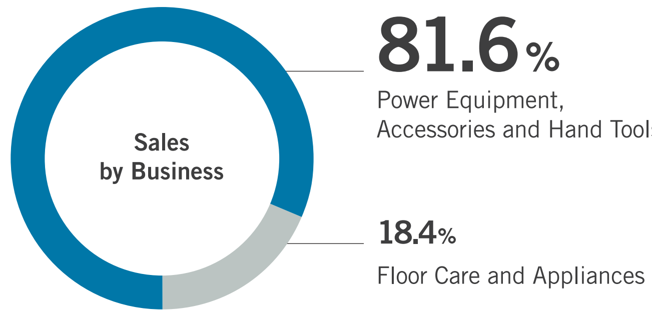
We continue to deploy our Leadership Development Program (LDP) to develop our pool of talent for the future. The LDP initiative is successfully feeding talent into key positions throughout the company.

Review of Operations

TTI delivered another year of record results in 2016. Total company revenue rose 8.8% and 9.8% before foreign currency adjustments. Sales in all geographic regions increased with North America contributing 10.3% growth, Europe growing 3.3%, and a 6.2% increase from the Rest of the World regions. The Power Equipment business had a strong year with 12.6% sales growth and the Floor Care and Appliance business, working through a revitalization, produced positive growth during the second half in North America, but saw full year sales decline slightly by 5.3%.

Driving the sales growth is the increasing flow of innovative new products backed by superior technologies, like those found in the largest DIY brand of RYOBI ONE+ range of power tools and outdoor products, the leading high performance MILWAUKEE FUEL cordless power tools, and advanced technology QUEST robot vacuums by the iconic HOOVER brand. The new product vitality is a result of a company-wide drive to provide first to market product innovations that make a real difference in end-user productivity and satisfaction. This strategic focus on developing innovative new products, entering new categories, and delivering market disruptive technologies combined with the relentless execution of our speed-to-market product development process is yielding consistent, market leading organic growth.

The Company's gross profit margin rose for the eighth consecutive year from 35.7% to 36.2% from strong gains generated by new products and business mix, plus cost efficiencies and quality improvements obtained through global purchasing programs, supply chain productivity, lean manufacturing and manufacturing automation activities. Profits in all geographic regions improved over last year driven by sales growth, strong operational performance, and closely managed SG&A. Strategic spending on R&D has been consistently increased to drive innovation through technology and new product development. These core strengths of innovation, speed-to-market execution and operational productivity firmly provide TTI the competitive advantage for success. Strong management leadership, technology advancements, and worldwide market expansion are driving increased share by our global brands.



Power Equipment

The Power Equipment business increased by 12.6% growing to US$4.5 billion accounting for 81.6% of Group turnover. The growth was 13.3% before foreign currency adjustments. Industry leading brands MILWAUKEE and RYOBI delivered double digit growth over the previous year. We are at the forefront of the fast growing cordless segment by delivering break-through technologies and expanding the broadest range of tools powered by our market leading battery platforms. The business generated earnings growth of US$430 million, a 13.4% increase year over year. Through strategic product development, technology advancement and brand portfolio management we feel highly confident that the Power Equipment business will continue to capture market share and expand margins.

Industrial Tools

MILWAUKEE delivered another year of strong results with 19.7% sales growth in the global industrial tool market. The introduction of innovative new products, execution of effective end user and distribution conversion initiatives, entry into large adjacent categories, and a focus on commercial and operations excellence resulted in growth which has consistently outpaced the market. The business is capturing growth opportunities through the execution of the MILWAUKEE strategy dedicated to delivering high performance products targeted at professional with a system-wide product range. The state of the art product development process is creating performance-driven solutions designed with the most advanced technology delivering unrivalled productivity to end users. A focused strategy in targeting trade users, such as electrical, mechanical and plumbing, is increasing the commercial opportunities as the MILWAUKEE cordless platform continues to expand.

Power Tools

The power tool business captured market share gains across the core cordless power tool business by converting corded end-users to cordless innovation and yielding further growth through adjacent category expansion into cordless hydraulic tools and high output lighting as examples. The subcompact M12 and M18 Cordless Systems continued to penetrate global markets at a rapid pace with disruptive cordless technology, putting these battery platforms at the forefront of the industry. The M18 is the fastest growing system for professionals, with over 125 fully compatible tool solutions on a single battery platform.

MILWAUKEE brand introduced the first generation FUEL cordless technology in 2012. M18 FUEL leverages a breakthrough high performance brushless motor technology, system electronics and REDLITHIUM battery technology with performance capable of replacing the need for cords, hoses, and petrol cans from job sites. MILWAUKEE continues developing new innovative products integrating the next generation M18 FUEL technology and now offers over 45 M18 cordless power tools leveraging M18 FUEL technology. The new M18 REDLITHIUM HIGH DEMAND 9.0 Battery Pack is the most capable 18V battery in the industry. It is engineered for high power requirement applications and has full system compatibility, which means the HIGH DEMAND 9.0 Battery Pack will power the entire range of M18 tools. Leveraging the new HIGH DEMAND 9.0 Battery Pack are a number of break-through M18 FUEL tools. The M18 FUEL 10" Dual Bevel Sliding Compound Miter saw was designed to meet the demanding needs of professionals by delivering corded cutting performance. The M18 FUEL 1-9/16" SDS Max Rotary Hammer is the first-to-market 18V SDS Max cordless solution which drills as fast as a corded equivalent. The M18 FUEL SURGE 1/4" Hex Hydraulic Driver is the quietest cordless fastening solution on the market. Incorporating the new FLUID-DRIVE Hydraulic Powertrain, the tool delivers up to 50% quieter operation, 3X less vibration and faster driving speeds compared to standard impacts. MILWAUKEE brand will continue to leverage M18 FUEL technology with new introductions in 2017 including a new line of M18 FUEL Outdoor Power Equipment, M18 FUEL Fastening Tools and the M18 FUEL Metal Cutting Circular Saw.

The FORCELOGIC platform continues to exceed end user expectations with the recent introduction of the M18 FORCELOGIC Press Tool, the industry's first brushless press tool. FORCELOGIC's state-of-the-art technology enables the M18 Press Tool to be the smallest and lightest full-sized press tool on the market, delivering 20% more run time and 10% faster cycle time which maximizes user productivity. MILWAUKEE will expand the FORCELOGIC platform with the introduction of the M18 FORCELOGIC Overhead Cable Cutter, M18 FORCELOGIC 12T Crimper, and the innovative M18 FORCELOGIC Underground Cable Cutter.

The 2017 introduction of the MILWAUKEE TICK Tool and Equipment Tracker could become the most versatile BLUETOOTH tracker on the market. With multiple attachment options and a low-profile design, users can glue, screw, rivet or strap the MILWAUKEE TICK Tool to anything. Weather, water, and dust proof ratings ensure that the MILWAUKEE TICK Tool and Equipment Tracker will survive every environment. The MILWAUKEE TICK Tool will reliably provide tracking beacons anytime, anywhere. End users can now receive notifications on low battery, service reminders, missing tools, and location services, all powered by the ONE-KEY application.

The cordless High Output light-emitting diode ("LED") Lighting range, powered by the M12 and M18 Cordless Systems, continues to rapidly replace antiquated lighting solutions at job sites. The M18 ROCKET LED Tower Light/Charger, M18 RADIUS LED Compact Site Light with ONE-KEY technology, and the M18 Utility Bucket Light add to our stable of innovative lighting solutions for the trades. These new lights utilize the most advanced LED technology, versatile product designs, and REDLITHIUM Battery Packs to bring a new level of productivity to the jobsite.

Accessories

The introduction of the AX with Carbide Teeth helped our accessories business deliver double-digit growth in 2016. This market disruption was driven by combining proven SAWZALL blade attributes with tungsten carbide-tipping technology. These new SAWZALL blades last 30 times longer than traditional bi-metal blades, cut faster than any blade in the industry, and can cut through a large range of materials found in the most demanding demolition projects. As the range continues to expand with the continued new product introductions in the accessories category such as HOLE DOZER, SHOCKWAVE, RED HELIX, and now AX, we have significantly grown our distribution in our targeted geographies.

Hand Tools

The MILWAUKEE Hand Tool business delivered excellent growth across key categories. Tape Measures had significant growth driven by user-focused innovation and a continuous emphasis on quality. Investments in the operations have set the foundation for strategic growth in this large, global category. Advancements in FASTBACK knives and 6-in-1 Pliers, in addition to new category investment contributed to strong growth across the business. The MILWAUKEE brand Work Gloves, leveraging innovative SMARTSWIPE Technology, allow users to operate smart devices without removing their gloves. Successful Steel Storage expansion included an innovative 60” workbench and 30” combination unit, resulting in double-digit growth. The CHEATER Pipe Wrench delivered disruptive innovation into the large pipe wrench category leading to strong user adoption delivering significant growth in this segment. Leveraging the Empire Level technology, the new MILWAUKEE REDSTICK Box Levels provide industry-leading performance with best-in-class vial readability, frame durability, and magnet strength. The ALL-METAL BACKBONE feature provides the strongest, most durable frame ensuring long-life accuracy. SHARPSITE Vial Technology provides best-in-class readability with a magnified bubble and high-visibility vial spirit. A complete line of Compact Levels and Torpedo levels and new manufacturing operations set the stage for growth in the critical layout category. The EMPIRE brand continues to grow at double-digits with strong results across all channels of distribution and incremental growth globally. New product introductions included an innovative new line of compact levels and torpedo levels in addition to market-specific introductions to support global growth.

Consumer and Professional Tools

RYOBI Tools

The RYOBI brand continued its dominant global consumer DIY market share position with innovative new product introductions. The leading 18V RYOBI ONE+ cordless system of tools and batteries grew by well over one million new customers in 2016. The RYOBI brand, once again, provided the user with a wide array of new products applying cutting-edge technology that makes every DIY project easier. The vitality rate of new products continues at a fast pace. Important new additions to the expanding ONE+ platform include the new ONE+ QUIETSTRIKE Pulse Driver which produces more power and speed than a drill but with 50% less noise than an impact driver. The new ONE+ LED Workbench Light features a rotating 270º arm concentrating light in a given area and runs up to 9 hours on a single charge. The ONE+ Dual Power LED Spot Light delivers 2,500+ Lumens and runs on either RYOBI ONE+ batteries or a 12V automotive cord. In addition to creating ONE+ cordless tools with corded like performance, the RYOBI brand also introduced the new Brushless Hammer Drill and Brushless Belt Sander. The new ONE+ Belt Sander is first-to-market innovation providing extended runtime and performance while the new ONE+ Hammer Drill delivers up to 750 in. lbs. of torque and 50% more run time so you can power through the toughest drilling and driving applications.

AEG Professional Tools

Sales of AEG brand professional power tools in EMEA and ANZ regions continue to expand through cordless new product introductions utilizing the AEG 18V battery system. The recent additions to our AEG 18V Brushless range include the 5 Amp hour battery pack which gives up to 6 times more runtime compared to the previous generation, the AEG 18V Compact Brushless Hammer Drill Kit, and revolutionary Brushless Oil Pulse driver, all best-in-class tools for the professional user. We have an exciting pipeline of new AEG 18V kits and promotions to enhance the success of the AEG 18V range and introduced more high performance tools used in construction such as lighting, compressors, pneumatics, circular saws, miter saws, and tile saws. These innovative products aimed at the professional user are driving the expansion of the AEG brand in our targeted markets.

Outdoor Products

The Outdoor Product business produced strong sales results and delivered market gains in 2016. The performance was generated by the ongoing introduction of innovative new products into the growing cordless RYOBI ONE+ 18V and RYOBI 40V systems plus a new AEG 58V range of products. The continued expansion of our cordless outdoor product range is both taking share from traditional petrol products and growing the market demand with the improving benefits of cordless.

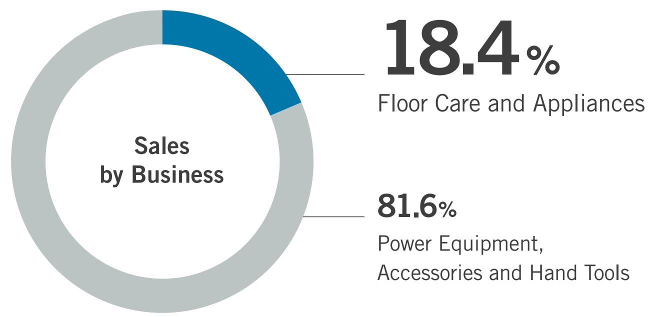
RYOBI Outdoor

The introduction of four new high performance RYOBI ONE+ 18V LITHIUM+ tools aimed at the more demanding lawn and garden users is successfully converting petrol users to cordless and solidifying the RYOBI brand as the leader in the cordless DIY segment. The RYOBI brand now has a full range of walk behind cordless lawnmowers powered by RYOBI ONE+ 18V and RYOBI 40V platforms that are quickly generating new demand and penetrating the category. These RYOBI brand new cordless outdoor products are fully compatible with either the RYOBI ONE+ 18V or RYOBI 40V battery systems. There is more opportunity to grow the cordless outdoor category with new products like the break-through RYOBI 40V pressure washer.

Sales of petrol powered products and accessories are growing. The range of RYOBI brand gas trimmers with a powerful full crankshaft engine and a new family of RYOBI branded petrol chain saws delivering professional features and improved performance at consumer price points drove sales growth. The EXPAND IT line of RYOBI trimmer attachments have been a tremendous success and have been delivering double digit growth driven by great merchandising and marketing.

AEG Professional

AEG introduced a new cordless range of outdoor products targeted at professional grade end-users. The powerful AEG 58V lithium battery platform adapts across the product line offering unbeatable end-user convenience, ease-of-use benefits for each product and enhanced productivity for the professional landscaping projects or home gardening jobs. The AEG 58V lawn mower, blower, chain saw, hedge trimmer and line trimmer deliver exceptional performance and are examples of the strong product roadmap to expand the range going forward.



Floor Care and Appliances

We are positioning the Floor Care and Appliances business for growth. Sales declined slightly for the full year, down 5.3% largely due to negative foreign exchange impact, particularly in our UK business, and a slight slowdown in the household appliance market. The largest segment, North America, returned to growth in the second half of 2016 with HOOVER, DIRT DEVIL, and ORECK brands all delivering sales increases. At US$1.0 billion in sales, the segment accounted for 18.4% of total Company revenue. The business improved profit margins by 10 basis points, offsetting the slight decline in sales. This was achieved though effective mix, the introduction of new products and the discontinuation of the lower margin products. Operational efficiencies were gained from global sourcing programs and the North America logistic center consolidation. The new North America headquarters in Charlotte, North Carolina is providing a world class environment for recruiting talent, new product innovation, cordless and technology development, and a creative marketing center.

North America

The HOOVER brand is undergoing a significant revitalization of its product portfolio. In 2016 the first phase of new vacuums targeting the fast growing cordless categories were launched, laying the foundation for future product innovations. The high performance cordless stick vacs, CRUISE and LINX SIGNATURE, first generation of QUEST series cordless robots and SPOTLESS, an innovative wet vac with self-cleaning function, all contributed to the positive sales growth in the second half. The next generation of new products like the HOOVER REACT vacuums series featuring FLOORSENSE Technology using micro-sensors to identify floor surfaces, HOOVER Application controls, and the ONEPWR lithium battery system are set for 2017 introductions.

The DIRT DEVIL brand product development and merchandising focuses on the younger consumer demographic. We successfully introduced a new line of high performance upright Power Max vacuums and Power Stick which helped drive sales in the second half. The next generation product launch in 2017 will be significant with easy-to-maneuver lightweight cordless and corded stick vacs and upright vacuums. ORECK consumer brand launched ELEVATE, a premium range of high performance vacuums across its established ORECK independent store base in North America.

The HOOVER Commercial brand launched the cordless M-PWR backpack products with very positive market response with trials in large hospitality facilities and high volume end user applications. This launch success combined with the ORECK Commercial brand sales progress and an expanded commercial distribution contributed to double digit sales growth in this strategic segment. The new ORECK Commercial cordless M-PWR 20V line targeted at the hospitality and food service segments were launched at the end of 2016 and are breaking new ground for quick response, commercial cleaning demands with cordless technology solutions. We have expanded our investment in manufacturing technology at our Cookeville, Tennessee facility. We have already started assembly of our 40V and 20V commercial battery platforms and we will continue expanding our manufacturing output with the development of exciting new product under the ORECK brand.

Europe

The VAX brand had success with the early stages of launching a completely new cordless product range, but faced slow market demand in the UK and negative impact from foreign currency adjustments. The first product introduction was the new lightweight cordless SlimVac, weighing only 2.1kgs and boasting effortless cleaning performance for a variety of cleaning needs. This product delivered strong sales throughout the second half of the year. The new VAX BLADE cordless pole vac using our DIRECT HELIX TECHNOLOGY that optimizes runtime, a market leading 45 minutes, and cleaning performance in any orientation was successfully introduced in late 2016.

The new cordless DIRT DEVIL FUSION robot cleaner, offering four different cleaning modes, a 60-minute runtime, and an automatic return to docking station was recently introduced. The ranges of cordless stick vacs and existing robots continued strong sales momentum in France and key markets. The business in Central Europe exited low margin wholesaler markets and moved distribution focus to support the expansion into higher priced cordless categories. The DIRT DEVIL brand continues to grow its European distribution presence with recent launches in completely under-represented markets.

Purchase, Sale or Redemption of Securities

Other than 2,403,500 ordinary shares of the Company purchased on-market for satisfying the awarded shares granted under the Company's share award scheme (details of which will be set out in the Corporate Governance Report to be included in this Annual Report), a total of 3,000,000 ordinary shares were bought back by the Company during the year at prices ranging from HK$27.50 to HK$28.60 per share. Among these bought back shares, 1,500,000 shares were settled and cancelled during 2016 and 1,500,000 shares were settled and cancelled in January 2017. The aggregate amount paid by the Company for such buy-backs cancelled during 2016 amounting to US$5,425,000 was charged to the retained earnings.

The shares bought back were cancelled and accordingly the issued share capital of the Company was reduced.

The buy-backs of the Company's shares during the year were effected by the Directors pursuant to the mandate granted by shareholders at the previous annual general meeting, 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, 2016. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Dividend

The Directors have recommended a final dividend of HK30.00 cents (approximately US3.86 cents) per share with a total of approximately US$70,807,000 for the year ended December 31, 2016 (2015: HK23.25 cents (approximately US2.99 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 26, 2017. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about June 23, 2017. This payment, together with the interim dividend of HK20.00 cents (approximately US2.57 cents) per share (2015: HK16.00 cents (approximately US2.06 cents)) paid on September 23, 2016, makes a total payment of HK50.00 cents (approximately US6.44 cents) per share for 2016 (2015: HK39.25 cents (approximately US5.05 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 2017 Annual General Meeting, the register of members of the Company will be closed from May 17, 2017 to May 19, 2017, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2017 Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 16, 2017.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 26, 2017 when no transfers of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 25, 2017.

Board of Directors

Group Executive Directors

Horst Julius Pudwill MSc
Chairman

Mr Horst Julius Pudwill, aged 72, 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 40, 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.

Joseph Galli Jr BSBA, MBA
Chief Executive Officer

Mr Joseph Galli Jr, aged 58, 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.

Group Executive Directors (continued)

Patrick Kin Wah Chan FCCA, FCPA
Operations Director

Mr Patrick Kin Wah Chan, aged 57, joined the Group in 1988 and was appointed as Executive Director in 1990. He is now in charge of the manufacturing operations of the Group.

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

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

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

Mr Frank Chi Chung Chan, aged 63, 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 member of The Institute of Chartered Accountants in England & Wales, an associate of the Taxation Institute of Hong Kong 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 BBS, JP

Prof Roy Chi Ping Chung BBS JP, aged 64, is a Co-founder of TTI. Prof Chung, previously the Group Managing Director since 1985, was appointed as the Group Vice Chairman and Executive Director of the Company on April 18, 2007. He has been re-designated to Non-executive Director of the Company with effect from July 1, 2011.

Prof Chung holds a Doctor of Engineering Degree from the University of Warwick, United Kingdom and Doctor of Business Administration Degree from City University of Macau. He was appointed as an Industrial Professor by the University of Warwick, United Kingdom in December 2010. He was awarded an Honorary Doctor of Business Administration by the Lingnan University in 2015, an Honorary Doctor of Business Administration by the Hong Kong Polytechnic University in 2007 and an Honorary Doctorate Degree by the University of Newcastle, New South Wales, Australia in 2006. He was awarded the Bronze Bauhinia Star (BBS) Medal by the Hong Kong SAR Government on July 1, 2011. 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.

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

Camille Jojo

Mr Camille Jojo, aged 60, 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 committee member of the Law Society Insolvency Law Committee since 1996 and, recently, has been granted Higher Rights of Audience as a solicitor advocate in respect of civil proceedings in the Hong Kong Courts. 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 72, was appointed as an Independent Non-executive Director in May 2001. He was formerly an Executive Director of The Hongkong and Shanghai Banking Corporation Ltd. Mr Langley maintains close ties with the business community in Hong Kong. He is currently a Non-executive Director of Lei Shing Hong Limited which has been delisted from the Stock Exchange of Hong Kong Limited on March 17, 2008. Mr Langley resigned as an Independent Non-executive Director of Winsor Properties Holdings Limited (now renamed as Vanke Property (Overseas) Limited) with effective from September 1, 2012 and retired as an Independent Non-executive Director of Dickson Concepts (International) Limited with effective from July 24, 2014, both of which companies are listed on the stock exchange of Hong Kong.

Manfred Kuhlmann

Mr Manfred Kuhlmann, aged 72, was appointed as an Independent Non-executive Director in 2004. He was General Manager of Dresdner Bank AG Hong Kong Branch between 1994 and 1998 and General Manager of Dresdner Bank AG Dubai before he retired in August 2004. Mr Kuhlmann is a graduate of the Banking Academy, Hamburg and has extensive experience in the finance and banking industry. Since 2005 he served as “Hamburg Ambassador” in the UAE to support the economic ties between Hamburg, Germany and the UAE. He retired from that position in May 2013 as he had moved his residence to Cyprus.

Peter David Sullivan BS

Mr Peter David Sullivan, aged 68, 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 the Chairman and Non-executive Director of Healthcare Locums plc, and a Non-executive Director of Winton Capital plc, 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).

Vincent Ting Kau Cheung

Mr Vincent Ting Kau Cheung, aged 75, was appointed as a Director in 1991 and was re-designated as an Independent Non-executive Director on March 30, 2012.

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

Independent Non-executive Directors (continued)

Johannes-Gerhard Hesse

Mr Johannes-Gerhard Hesse (commonly known as Hans-Gerd Hesse), aged 58, was appointed as an Independent Non-executive Director of the Company with effect from October 1, 2016. Mr Hesse holds a graduate degree in Business Administration from the University of Cologne and has acquired extensive business management, strategy, leadership and corporate governance experience in Europe and Asia.

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

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance to enhance shareholders' interests and promote sustainable development. The Company emphasizes a quality board of directors (the "Board") for leadership and effective internal controls, transparency and accountability to all shareholders. The Board reviews 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 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, 2016, save that none of the Directors are appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under Article 107(A) of the Articles of Association of the Company, one-third of the Board must retire by rotation at each general meeting of the Company, and if eligible, offer themselves for re-election.

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

Corporate Governance Policy

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

- monitor and review compliance of the Model Code for Securities Transactions by Directors, the Code for Securities Transactions by Relevant Employees and other codes of conduct of the Company.
- review the disclosure set out in this Corporate Governance Report and the compliance of the Corporate Governance Code.
- review and monitor the training and continuous professional development of Directors and senior management.

Board of Directors

Roles and Responsibilities

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

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

Formal written procedures have been adopted by the Company, which are reviewed regularly, in order to govern the delegation of daily management responsibilities to the senior management of the Group, as well as to monitor the delegation and the reservation to the Board of specifically identified matters.

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

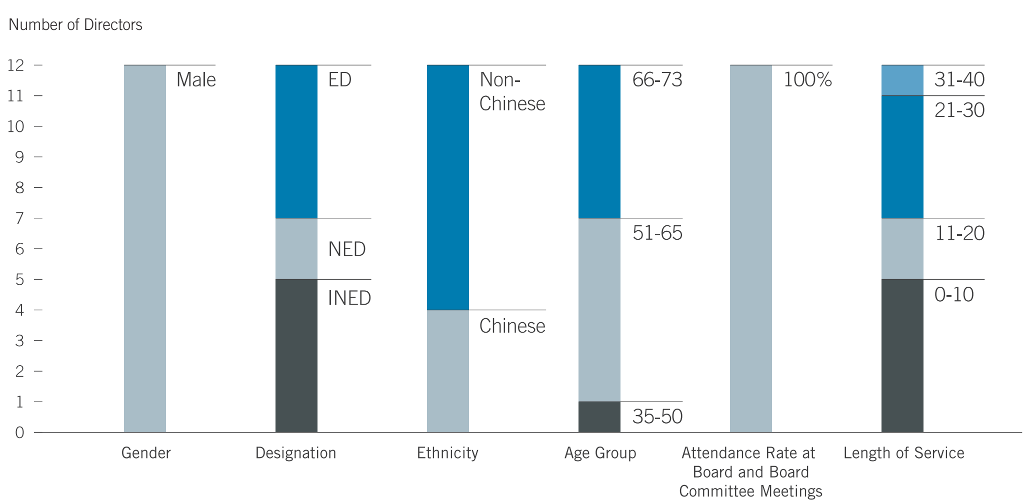
Mr Horst Julius Pudwill (Chairman)
Mr Stephan Horst Pudwill (Vice Chairman)
Mr Joseph Galli Jr (Chief Executive Officer)
Mr Kin Wah Chan (Operations Director)
Mr Chi Chung Chan (Group Chief Financial Officer)

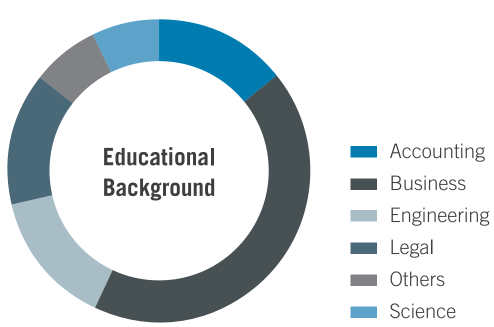
Non-executive Directors

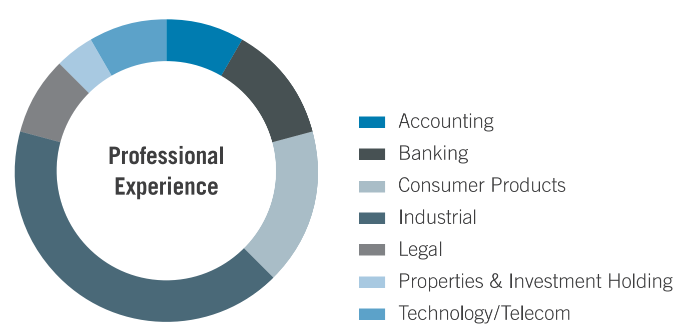
Prof Roy Chi Ping Chung BBS JP
Mr Camille Jojo

Independent Non-executive Directors

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







The biographical details and relevant relationships of the members of the Board are set out on pages 53 to 58 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).

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

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

- encourage all Directors to make full and active contributions to the Board's affairs and take the lead to ensure the Board acts in the best interests of the Company.
- lead the Board to ensure it performs effectively and discharges its responsibilities.
- monitor corporate governance practices and procedures and ensure good practices and procedures are established.
- ensure appropriate steps are taken to provide effective communication with shareholders and that the views of shareholders are communicated to the Board as a whole.
- make sure all Directors receive timely, accurate and reliable information and are properly briefed on issues arising at Board meetings.

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

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

Directors are aware that they must be able to contribute sufficient time and attention to the affairs of the Company before accepting his appointment as Director. A formal orientation, 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, is provided for each newly appointed Director. 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. As at the date of this report, 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. 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. The Company has received annual confirmation of independence from each of the Independent Non-executive Directors and still considers them to be independent.

Appropriate Directors' and Officers' liability insurance cover has been arranged 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 Directors are aware of the latest changes 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 the latest updates on relevant rules, regulations and compliance requirements to develop and refresh their knowledge and skills 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 all Directors in 2016 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 BBS JP	√	√	√
Mr Camille Jojo	√	√	√
Independent Non-executive Directors			
Mr Christopher Patrick Langley OBE	√	√	
Mr Manfred Kuhlmann	√	√	
Mr Peter David Sullivan	√	√	
Mr Vincent Ting Kau Cheung	√	√	√
Mr Johannes-Gerhard Hesse	√	√	

Compliance with the Codes for Securities Transactions

The Board has adopted 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"). Specific enquiries have been made with all Directors who have confirmed that they have fully complied with the required standards as set out in the Model Code during the year ended December 31, 2016.

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") has also been adopted. No incident of non-compliance was noted by the Company during the year.

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

At least four Board meetings are scheduled in a year, with more frequent meetings as and when required to facilitate the effectiveness of the Board. In 2016, 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 2016" at the end of this report.

In order to facilitate maximum attendance of Directors, Board meeting, Board Committee meeting and Annual General Meeting dates for 2017 were agreed upon at the Board meeting held in August 2016. 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 kept in safe custody by the Company Secretary of the Company (the "Company Secretary"), are sent to the Directors for comment and records, and are open for inspection by the Directors.

All Directors are provided with briefings and professional development training as necessary to ensure a proper understanding of the business of the Group and Directors' responsibilities under statute and at common law. To facilitate informed decisions with sufficient details, all Directors are provided with timely, reliable and complete information on the affairs of the Group and have access to all related materials in relation to the Board's issues. All Directors receive support from and access to the Company Secretary 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 at their request, as well as to independent professional advice on performing their duties at the Company's expense.

Board Committees

The Board has set up 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).

All Board Committees are formed by a majority of Independent Non-executive Directors with regular attendance and active participation to ensure independent views and opinions contributed and expressed at the Board Committee meetings. The Board monitors and oversees the delegated authority and responsibilities through regular reporting by the Board Committees in relation to their activities involved and recommendations and decisions made. The attendance records of each Board Committee are set out in the section headed "Board, Board Committee and General Meetings in 2016" at the end of this report.

Audit Committee

The Audit Committee is formed by three Independent Non-executive Directors and chaired by Mr Peter David Sullivan with other members being Mr Manfred Kuhlmann and Mr Vincent Ting Kau Cheung. Each member of the Audit Committee has 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 the 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 five meetings in 2016 and performed duties summarized below:

- review the interim and annual financial statements of the Group before submission to the Board.
- review the Group's accounting principles and practices, significant financial matters and financial reporting matters.
- review the Group's risk management and internal controls.
- perform regular update and review on internal audit of the Group.
- recommend the re-appointment of the external auditors and review the audit and non-audit services provided by the external auditors.

Nomination Committee

The Nomination Committee is chaired by Mr Horst Julius Pudwill (Chairman of the Board) with the other members being Mr Vincent Ting Kau Cheung, Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann. All members except Mr Horst Julius Pudwill are Independent Non-executive Directors.

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

The Nomination Committee held two meetings in 2016. The work performed by the Nomination Committee in 2016, with sufficient resources provided by the Company and/or independent professional advice when necessary, included:

- review of the structure, size and composition of the Board on a regular basis.
- assess the independence of Independent Non-executive Directors.
- review the Board Diversity Policy and the Nomination Policy.
- make recommendations to the Board on relevant matters relating to the retirement and re-election of the Directors at the 2016 Annual General Meeting.
- make recommendations to the Board on the appointment of Vice Chairman and Independent Non-executive Director.

The Board Diversity Policy was adopted 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, cultural and educational background, professional experience and length of service while reviewing the composition of the Board. An analysis of the current Board composition based on these objective criteria is set out on page 60 of this report.

Remuneration Committee

The Remuneration Committee is formed by majority of Independent Non-executive Directors and is chaired by Mr Vincent Ting Kau Cheung with the other members being Mr Christopher Patrick Langley OBE, Mr Manfred Kuhlmann, Mr Peter David Sullivan and Mr Camille Jojo (being a Non-executive Director who was appointed as member of the Remuneration Committee on January 17, 2017).

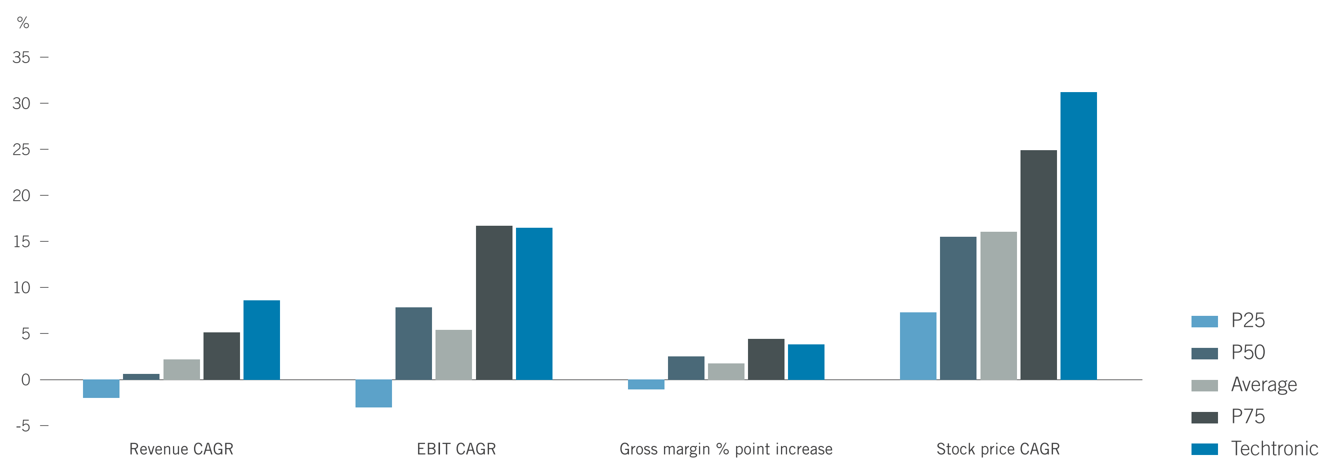
The Remuneration Committee aims to develop and administer a fair and transparent procedure for setting policy on the overall human resources strategy of the Group and the remuneration of Directors and senior management of the Group, and determine their remuneration packages, on the basis of their competence, merit and qualifications, and having regard to individual performance, comparable market statistics and the Company's operating results. The Remuneration Committee makes recommendations to the Board on the remuneration packages of Executive Directors and senior management, including, without limitation, base salaries, benefits in kind, compensation payments and bonuses, and consults the Chairman and/or Chief Executive Officer for the proposals of other Executive Directors' remuneration packages. The Remuneration Committee also makes recommendations to the Board on the remuneration of Non-executive Directors and Independent Non-executive Directors. The Remuneration Committee reports directly to the Board on its decisions or recommendations and with access to sufficient resources and professional advice if necessary.

The Remuneration Committee held two meetings in 2016 and performed, among other work, the following:

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

The Group engages a global executive compensation consulting firm as an independent third party to review the compensation of the Chairman and the CEO. The compensation of the Group's Chairman and CEO was 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. As shown in the chart below, over the past five years (2012 to 2016) the Group has outperformed the peer companies in terms of revenue, EBIT, gross margin and stock price performance. The Remuneration Committee reviewed and recommended to the Board for approval the 2016 incentive payouts for the Chairman and the CEO in the context of this strong performance delivered by the Group.

5-year performance metrics growth



The Company's Share Award Scheme (the "Scheme") was adopted on January 9, 2008 (the "Adoption Date"), pursuant to which 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. Unless terminated earlier by the Board in accordance with the rules relating to the Scheme, the Scheme is valid and effective for a term of 10 years commencing on the Adoption Date provided that no contribution to the trust will be made by the Company on or after the 10th anniversary date of the Adoption Date. Details of the Scheme were announced by the Company on the Adoption Date.

The Board may, from time to time, at their absolute discretion select any Eligible Person for participation in the 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 Scheme 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 of the Scheme 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 the Scheme is 10% of the issued share capital of the Company as at the Adoption Date, and the maximum number of shares which can be awarded 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. The total issued share capital of the Company as at the Adoption Date is 1,501,252,152 shares.

Since the Adoption Date and up to December 31, 2016, a total of 3,624,000 shares had been awarded under the Scheme, representing 0.24% of the issued share capital of the Company as at the Adoption Date.

Recognition of share-based payment expenses under the Scheme during the year was US$8,379,000. During the year ended December 31, 2016, a total of 1,000,000 shares had been awarded under the Scheme, representing 0.07% of the issued share capital of the Company as at the Adoption Date, to one Director of the Company. The total payout, including related expenses, amounted to US$3,761,000. During the year ended December 31, 2016, 2,324,500 shares were transferred to the Selected Grantees upon vesting.

As at December 31, 2016, details of the awarded shares under the Scheme were as follows:

			Number of shares						
Name of Directors	**Date of Award**	**Number of awarded shares**	**As at January 1, 2016**	**Awarded during the year**	**Vested during the year**	**Lapsed during the year**	**As at December 31, 2016**	**Vesting Period**	**Closing price at the Date of Award**
Horst Julius Pudwill	18.9.2014	350,000	233,500	—	(116,500)	—	117,000	18.9.2015 - 18.9.2017	HK$22.50
Horst Julius Pudwill	26.9.2014	174,000	116,000	—	(58,000)	—	58,000	26.9.2015 - 26.9.2017	HK$22.10
Joseph Galli Jr	17.12.2014	300,000	200,000	—	(100,000)	—	100,000	17.12.2015 - 17.12.2017	HK$25.85
Horst Julius Pudwill	15.10.2015	500,000	500,000	—	(250,000)	—	250,000	15.10.2016 - 15.10.2017	HK$27.10
Joseph Galli Jr	15.10.2015	1,000,000	1,000,000	—	(500,000)	—	500,000	15.10.2016 - 15.10.2017	HK$27.10
Kin Wah Chan	15.10.2015	100,000	100,000	—	(100,000)	—	—	15.10.2016	HK$27.10
Chi Chung Chan	15.10.2015	100,000	100,000	—	(100,000)	—	—	15.10.2016	HK$27.10
Stephan Horst Pudwill	15.10.2015	100,000	100,000	—	(100,000)	—	—	15.10.2016	HK$27.10
Joseph Galli Jr	19.8.2016	1,000,000	—	1,000,000	(1,000,000)	—	—	31.8.2016	HK$30.50
Total			**2,349,500**	**1,000,000**	**(2,324,500)**	**—**	**1,025,000**		

Notes:

(1) All the awarded shares are purchased from the market.

(2) At the end of the year, the average fair value per share is HK$29.22. The average fair value of the awarded shares is based on the average purchase cost.

(3) During the reporting year, a total of 2,403,500 shares were purchased at an aggregate consideration of US$9,309,000 for satisfying the awards granted pursuant to the Scheme.

Change in Director's Emoluments

Mr Stephan Horst Pudwill, an Executive Director, was appointed as the Vice Chairman of the Company with effect from October 1, 2016. Mr Stephan Horst Pudwill will be entitled to the related director fee which has been fixed by the Board.

Mr Camille Jojo, a Non-executive Director, was appointed as member of the Remuneration Committee with effect from January 17, 2017. Mr Camille Jojo will be entitled to the Remuneration Committee fee and the related attendance fee which has been fixed by the Board.

Company Secretary

The Company Secretary is responsible for facilitating information flow and communication among Directors as well as with Shareholders and management of the Company. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is also responsible for ensuring that Board procedures are followed. The Company Secretary is an employee of the Company and is appointed by the Board. During 2016, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

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

The Board is responsible for approving and reviewing 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 2016 included:

- 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 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 performance and adequacy of accounting and financial reporting functions.
- the regular internal audit updates.

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 2016:

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

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

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

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 2016 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 Shareholders' Communication Policy, which primarily covers the current practices for communicating with shareholders and is published on the Company's website (www.ttigroup.com), was adopted by the Board on March 22, 2012. 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 2016. 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 2016

A summary of attendance of Board, Board Committee and general meetings in 2016 are detailed in the following table:

	Meetings attended/Held in 2016				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	General Meeting
Number of meeting(s) held during the year	5	5	2	2	1
Group Executive Directors					
Mr Horst Julius Pudwill	5/5		2/2		1/1
Mr Stephan Horst Pudwill[(1)]	5/5				1/1
Mr Joseph Galli Jr	5/5				1/1
Mr Kin Wah Chan	5/5				1/1
Mr Chi Chung Chan	5/5				1/1
Non-executive Directors					
Prof Roy Chi Ping Chung BBS JP	5/5				1/1
Mr Camille Jojo[(2)]	5/5				1/1
Independent Non-executive Directors					
Mr Christopher Patrick Langley OBE	5/5		2/2	2/2	1/1
Mr Manfred Kuhlmann	5/5	5/5	2/2	2/2	1/1
Mr Peter David Sullivan	5/5	5/5		2/2	1/1
Mr Vincent Ting Kau Cheung	5/5	5/5	2/2	2/2	1/1
Mr Johannes-Gerhard Hesse[(3)]	1/1 [(3)]				0/0 [(3)]
Date(s) of meeting(s)	15.1.2016 15.3.2016 19.5.2016 17.8.2016 17.11.2016	15.1.2016 14.3.2016 19.5.2016 16.8.2016 16.11.2016	14.3.2016 16.8.2016	14.3.2016 16.8.2016	20.5.2016

Notes:

(1) Mr Stephan Horst Pudwill was appointed as the Vice Chairman with effect from October 1, 2016.

(2) Mr Camille Jojo was appointed as member of the Remuneration Committee with effect from January 17, 2017.

(3) Mr Johannes-Gerhard Hesse was appointed as Independent Non-executive Director with effect from October 1, 2016.

Environmental, Social & Governance Report

The Board acknowledges the overall responsibility to review and monitor TTI's Environmental, Social and Governance ("ESG") policies and practices to ensure compliance with the relevant legal and regulatory requirements and to improve TTI's ESG performance.

This report will discuss the ESG performance of TTI's global business units, including its Asia Industrial Park in Dongguan ("AIP"); its U.S. subsidiaries, Techtronic Industries North America headquartered in Maryland and the site of the US headquarters ("TTINA"), Milwaukee Electric Tool Corporation headquartered in Wisconsin ("Milwaukee Tool"), TTI Floorcare North America headquartered in North Carolina ("TTIFC"), and Techtronic Industries Power Equipment headquartered in South Carolina ("TTIPE"); Vax Ltd. located in the UK; as well as the corporate headquarters in Hong Kong ("TTI").

Conducting business in a global economy, TTI always considers the environmental, social and governance ("ESG") impact of our business. We view the commitment to environmental, social and governance performance as part of our broader responsibility to our employees, our customers, our stakeholders, and the communities in which TTI operates. We are mindful about how our operations and products impact environmental and social aspects. Through our sustainability objectives and initiatives, we are vigilant of our responsibility to address environmental and social challenges and work to design, manufacture and market our products in sustainable ways. As part of our efforts, we continue to adopt policies, principles and procedures that foster these values, such as the Code of Ethics and Business Conduct.

Our success and our growth as a company both depend on being seen as an innovative employer and continuing to attract, develop and retain exceptionally talented people. We are taking steps to not only ensure that our employees have the necessary resources for improving their knowledge and skills, but also grow leaders from within by offering leadership training and other opportunities for growth. We also continue to engage our employees through a variety of social, philanthropic and wellness activities.

TTI's ESG approach is outlined around priorities considered to be material to our business and how these efforts create a lasting impact.

Continued emissions reductions

TTI continues to reduce its emissions from energy use in our largest facility, located in AIP. A number of measures were taken to limit the impact of our operations on the environment, preventing over 21,000 tons of carbon from being released into the atmosphere during 2016. Carbon emissions from electricity were reduced by 2 percent from 2014, which is our third consecutive year of reductions in carbon emissions from electricity.[1] Similarly, the annual carbon emissions from water decreased by 34 percent in 2015.[2] For its efforts, AIP received the Dongguan Energy Saving Demonstration Site & Social Responsibility Honor Unit in 2016. AIP also received a Greenhouse Gas Verification for meeting the requirements of ISO 14064-1:2006.

TTI complies with all applicable reporting regulations. For instance, the use and storage of nitrogen and coil stock metal at our Milwaukee Tool's Greenwood Accessory & Tool Recondition Site ("Greenwood") requires the submittal of two annual reports, Tier II and Form R to maintain compliance with the federally regulated Emergency Planning and Community Right To Know Act ("EPCRA"). The EPCRA helps to increase the public's knowledge and access to information on chemicals and hazardous materials at individual facilities, their uses, and releases into the environment in and around communities.

TTI endeavors to integrate resource efficiency and sustainability into its day-to-day operations, mindful of the direct environmental impacts from its global industry

TTI is consistently improving and taking steps to efficiently manage and monitor the use of resources.

AIP continues to take steps for the efficient use of resources. In 2016, AIP made the following energy efficient changes: replacing the ECO water dispensers with electric water heaters in the factory and replacing T5 lamps with LED lights in the dormitory; replacing six sets of magnetic suspension air conditioners and nine sets of energy-saving air compressors and managing the use of water sources by recycling living waste water for showers and flushing toilets.

1 2016 Greenhouse Gas data will be collected and verified in June 2017.

2 2016 Greenhouse Gas data will be collected and verified in June 2017.

TTIFC took steps to efficiently manage and monitor the use of resources. Its' Cookeville, Tennessee and Glenwillow, Ohio facilities instituted motion sensor lighting in the warehouses and bathrooms. Similarly, its offices in Charlotte, North Carolina placed motion sensor lighting in its conference rooms, restrooms, storage closets, and offices. TTIFC's Charlotte offices are also utilizing efficient water energy resources through the use of motion sensors for all sinks and toilets in restrooms.

Notably, as part of a multi-year project beginning in 2014, Milwaukee Tool installed a new HVAC control system to help improve efficiency of heating and cooling, which includes frequency drives on air handlers. LED fixtures were installed not only in all remodeling projects but also on damaged lamps and light fixtures. Additionally, faucets and soap dispensers were replaced throughout the facility with hands-free sensors.

Milwaukee Tool's Greenwood Accessory & Tool Recondition Site converted its lighting to lower energy light systems. The factory high bay HID lights were converted to lower energy florescent T-5 lights. The work station and office lighting continue to be converted to T-8 systems or LED systems. Greenwood's HVAC system was converted from R-22 Freon to 407C or 410A Freon. Additionally, the low solvent hole saw paint was converted to a water-based paint. Similarly, the solvent based blade and hold saw printing inks were converted to UV inks.

Milwaukee Tool's Empire division converted traditional shop lighting throughout the entire plant and converted the shop air system to an energy efficient oscillating system. Both initiatives allowed Empire to receive a Focus on Energy Credits for these efforts.

In early 2016, our Hong Kong office moved to a new location. Instituted in the move was a switch from conventional fluorescent tubes to LED tubes along with energy-efficient air-conditioning and smart multi-functional devices. This has reduced electricity consumption by 71% and paper consumption by 8%.

Minimizing our impact on the environment and natural resources

TTI continually improves initiatives to minimize our effect on the environment and natural resources. Known for being a leader in battery-powered power tools and power equipment, TTI designs and manufactures lithium-ion batteries. The RYOBI ONE PLUS+ batteries are interchangeable across a broad spectrum of RYOBI tools and outdoor products. Similarly, MILWAUKEE batteries are compatible with a broad range of products. This technology drastically reduces battery waste. For those batteries that are no longer useful, TTI partners with global organizations to help ensure that batteries are being recycled.

In addition to battery recycling, TTI implements various recycling efforts for its facilities worldwide. TTIFC currently has in place a robust recycling policy in Cookeville, Tennessee which minimizes the impact on the environment by recycling aluminum cans, paper, plastic bottles, electronics, motors/cords, and cardboard. Our Cookeville offices not only sell scrap metal, but also have a policy on return unit scrap recovery whenever possible. It also regrinds a large percentage of plastic scrap in molding and reintroduces it back into the molding process. Known as Refurb Operation, Cookeville is an active factory reconditioning facility.

Milwaukee Tool has taken steps in 2016 to recycle all old lamps, ballasts and electronics. Milwaukee Tool has a process in place to separate all metal for recycling. Employees at Milwaukee Tool are provided with separate recycle bins at their desks to allow for the recycling of paper, aluminum and plastic. Also in 2016, Milwaukee Tool installed a cardboard compactor and hand dryers in all of its bathroom remodeling projects to reduce the amount of water utilized.

All forms of scrap metal, all corrugated cardboard, scrap shipping materials, and all copy paper and forms are recycled throughout Greenwood. Greenwood also recycles certain plastics from reconditioned tools (HDPE, cases, and nylon handle halves). Waste aerosol cans are punctured and the gas or chemical removed. Aluminum cans are collected and donated to the local rehabilitation agency.

Milwaukee Tool's Jackson, Mississippi location uses a blue bin system for recycling paper in the office areas. Corrugated materials are separated in corrugated bins and bundled. Aluminum chips, steel chips and bar stock are sent for recycling, but before sending, the Jackson facility "cleans" chips and metals of coolants and oil. Jackson now utilizes T5 lighting as part of an energy conservation plan that was started in 2011. Jackson also contracted with an outside contractor to perform a compressed air analysis, which provides significant savings in energy usage in relation to compressed air.

At Empire, aluminum clippings and machining chips from the manufacturing process are recycled or reclaimed. Also reclaimed are poly ethylene byproducts from the blown film process, plastic gates and runners from the plastic injection molding processes and plastic scrap parts from the plastic injection molding processes to reduce waste in the landfills. Empire utilizes hot runner manifolds in the plastic injection molding processes to eliminate plastic waste where possible. Additionally, Empire reclaims heat from several manufacturing processes to heat the building in the winter months. In addition to the manufacturing processes, office paper, plastic and aluminum are recycled, as well as all corrugated material that is not used or scrapped is recycled.

On September 1, 2014, Europe introduced EU regulations 666/2013 ("Ecodesign") and 665/2013 ("Energy Labelling"), supplementing EU directives 2009/125/EC and 2010/30/EU. The regulations require vacuum cleaner suppliers to ensure their products meet minimum levels of energy efficiency and other environmental criteria, and are labelled to inform consumers of the actual efficiency and performance levels.

Vax Ltd invested significantly in research and development prior to the introduction of this legislation, to ensure that all new product designs not only met the Ecodesign criteria, but reached the highest levels of efficiency as displayed on the Energy Label. The result was a new generation of products that consume less than 1/3 of the energy of pre-2014 versions (~25 kWh per annum, compared with ~75 - ~150 kWh per annum pre-2014), while simultaneously achieving a far greater level of cleaning ability.

The efficiency and performance of new products are confirmed by testing at independent, third-party laboratories, and all products are supplied to consumers and retailers with fully corroborated documentation and energy labels. Key Performance Indicators ("KPIs") are identified that allow the efficiency and performance of an individual product to be assessed, and these KPIs are used to check products on the production line (often on a 100% basis), to ensure the ongoing compliance of all VAX vacuum cleaners.

AIP minimizes harm to the environment by reusing packing material and recycling industrial waste materials. Hong Kong has in place recycling bins in the cafeterias to encourage employee recycling.

Achieving Excellence in Human Resource Practices

TTI recognizes that its success is derived from its thousands of invaluable employees spanning the globe. TTI recruits new and experienced talent and encourages those individuals to realize their potential in an environment that values quality, innovation and creativity. TTI provides a wide range of programs promoting employee rights and benefits and also supporting the development, diversity and well-being of our employees.

As a global company, TTI understands the importance of establishing employment guidelines to ensure that those guidelines work within each country's relevant laws and regulations. TTI employs experienced human resource personnel to manage and comply with laws and regulations affecting our employees.

TTI is an equal opportunity employer, providing equal employment opportunity for all qualified persons, without regard to race, gender, color, national origin, sexual orientation, gender identity, pregnancy, age, religion, military service, status as an individual with a disability or status as a veteran or any other status protected by applicable law.[3] TTI's commitment to equal employment opportunity is memorialized in the Employee Handbook or similar policy for each business unit.

This commitment also extends to our policies and procedures on recruiting, interviewing, hiring, assignment of responsibilities, transfer, promotion, training, pay, benefits, termination, working hours, and any other privileges, terms and conditions of employment.

3 The expansiveness of the EEO Policy varies from country to country.

TTI also has a long standing commitment to promoting and maintaining an environment that respects the personal rights and dignity of each of its employees. A Harassment Prevention, Anti-Discrimination, and Anti-Retaliation Policy is in place for providing the overall philosophy and specific approaches for addressing discrimination, harassment and related retaliation issues.

In Hong Kong, TTI was invited to and accepted and nominated TTI's Senior Director of Human Resources in the Gender Focal Point Network ("GFPN") launched by the Labour & Welfare Bureau ("LWB") and the Women's Commission ("WoC") of the Hong Kong Special Administrative Region Government ("HKSAR"). The GFPN promotes gender mainstreaming, taking into consideration women's and men's perspectives and experiences into the design, implementation, monitoring and evaluation of policies and programs so that gender-specific needs and concerns of women and men can be properly addressed. GFPN seeks to achieve gender equality by ensuring that women and men have equitable access to, a benefit from the resources and opportunities available in society.

Providing a safe working condition and protection for all TTI employees

TTI strives to provide a workplace free from injury and illness and is fully committed to achieving the highest standards of health and safety, not only in respect to its employees, but also in relation to visitors, contractors, and any other person who may be affected by its activities. TTI employs comprehensive safe work practices in all of its facilities that are reviewed on an ongoing basis to ensure that safety standards are maintained across its diverse workforce.

A safe work environment is promoted through the best practices of safe and healthy working conditions through health and safety programs. These safety programs are designed to support compliance with all safety regulatory laws and agencies pertaining to our business. This program is reflected in TTI's Health and Safety Policies covering implementation of relevant safety standards, routine safety surveys of facilities, equipment training, eyesight testing for DSE users, and employee training through classroom settings, Learn TTI and on-the-job.

As part of its duties, and to facilitate good communication and consultation with its employees on health and safety matters, TTI holds regular Health and Safety Meetings. Employees are consulted and encouraged to raise any issues regarding health and safety at work. This can be done through a manager or human resources representative or at a Health and Safety meeting. Policies are subject to yearly review and employees are notified of any changes.

Commitment to the development and training of employees

At TTI, we think it is important for our leadership and employees to learn new and continue to develop additional skills. We encourage the development of our leadership and employees, offering mandatory and optional training courses.

TTI has in place an internal online course program to assist with improving employees' knowledge and skills for duties at work. Learn TTI is utilized for mandatory training and other optional training courses.

TTIFC hosts a monthly event called Floor Care University. It is an introduction to TTI's floor care products and an overview of each business function. TTIPE conducts employee-related training on a variety of topics ranging from anti-harassment to product safety.

Due to continued growth, Milwaukee Tool identified the need to grow leaders and prepare early career candidates to take on expanded roles with a focus on leadership. Milwaukee Tool has consistently offered sales and product training courses and engineering technical programs, but in addition, Milwaukee Tool is placing an increased emphasis on leadership development and building foundational people management skills. Building upon the New Hire Orientation, Milwaukee Tool created three Lifecycles of a Leader and developed training classes specifically targeting emerging leaders and new managers. From those three classes, Milwaukee Tool designed eight additional classes, offering 122 sessions with participation for 2016 at 1,543.

Protecting workers' rights

As a corporate citizen, TTI is fundamentally committed to treating workers of all types with dignity and respect. TTI is specifically doing its part to ensure a work environment free from forced labor or slavery, unlawful child labor, and human trafficking. This commitment not only encompasses TTI employees, but also all suppliers must avoid participation in or consent to any practice that constitutes slavery or human trafficking.

As part of our effort to avoid, detect and eradicate slavery and human trafficking, TTI launched its Policy against Slavery and Human Trafficking. The policy requires TTI employees and suppliers to comply and certify compliance with TTI's Ethics and Business Conduct, TTI's Business Partner Code of Conduct, and applicable human resources policies. In addition, the Policy against Slavery and Human Trafficking meets international legal obligations, including, The California Transparency in Supply Chains Act, United Kingdom Modern Slavery Act and United Nations Guiding Principles on Business and Human Trafficking, commitments to customers and best practices related to the prevention of slavery and human trafficking.

Aware that child labor still exists in China, TTI strictly adheres to China labor laws and does not hire children under the age of 16 or those forced into labor. TTI has made concerted efforts to monitor juvenile workers between the ages of 16 to 18 years old with the initiation of a Special Protection for Juvenile Workers in 2010. The Special Protection for Juvenile Workers requires:

- Group HR to file juvenile workers' records to local Labor Bureau according to the regulations under "Provisions on Special Protection for Juvenile Workers."
- Group HR to notify relevant departments of juvenile worker information.
- Group Administrator to conduct periodical physical checks.
- Distinguishing juvenile workers with an identification mark on their factory badge.
- Prevent juvenile workers from working on dangerous operations as defined in the "Provisions on Special Protection for Juvenile Workers."
- Prevent juvenile workers from working the night shift and overtime not exceeding 22 hours.
- Group HR to explain relevant protection requirements to juvenile worker and require them to sign *TTI Provisions on Special Protection for Juvenile Workers.*

During the labor shortage seasons in China, TTI hires college students over the age of 18. College students are not subject to the "Provisions on Special Protection for Juvenile Workers."

TTI has established accountability standards and monitoring procedures to ensure that the requirements identified in the policies are followed by TTI management, TTI employees and TTI Suppliers. The policy designates the TTI Legal and Compliance Department as a point of contact for any violations. TTI operates under a No Retaliation policy.

Managing social risks of the supply chain

TTI expects its suppliers to abide by the same moral and ethical values it does in the management of the suppliers' companies. Any supplier who accepts a purchase order from TTI or enters into the TTI Standard Master Supply Agreement must comply with the TTI Supplier Code of Conduct and abide by the principles stipulated in the Conventions of the International Labor Organization, the Universal Declaration on Human Rights, the guiding principles of the Organisation of Economic Co-Operation and Development ("OECD") and other relevant and applicable principles. TTI reserves the right to audit the supplier's adherence to the TTI Business Partner Code of Conduct. Additionally, TTI Supplier Quality Departments often conduct supplier training.

Along with the TTI Business Partner Code of Conduct designed to ensure an ethical supply chain, TTI has in place a comprehensive Conflict Minerals Policy, which applies not only to TTI and its related entities, but also throughout the supply chain. The policy establishes a mandatory framework for TTI and its suppliers for conducting due diligence and a Reasonable Country of Origin Inquiry (RCOI), requiring TTI's suppliers to agree to the terms of the policy and assist TTI with identifying the source of any gold, tungsten, tin, or tantalum (together "3TG") that has been used.

TTI's policy first identifies high risk suppliers and makes them the focal point of initial data-gathering efforts in order to swiftly develop a substantial database containing information on key suppliers, as determined by reference to a supplier's volume of business. Similarly, the Policy allows TTI's suppliers conducting their own RCOI to prioritize by volume of business or volume of 3TG that its suppliers handle. TTI's continued commitment is to produce products that are free from conflict minerals.

Commitment to product responsibility, fair competition, and privacy policies

TTI is committed to product safety and to adhering to best practices around the world in this area. To help drive that commitment throughout the organization, the position of Global Product Safety Director was created and filled in 2016. In addition, TTI maintains product safety policies and procedures that are continuously reviewed to ensure adherence to best practices.

Established procedures and policies are in place governing advertising claims, Prop 65 (California) and reviews for FTC claims. Our legal and regulatory departments assist in compliance with voluntary standards.

TTI is also astutely aware of cybersecurity threats and addressing them through its Cybersecurity committees and policies to protect employee and TTI confidential information.

Preventing corrupt practices in doing business throughout the world

TTI is committed to conducting its business in accordance with all applicable laws and regulations. TTI supports a risk management program designed to minimize the risk of its products and systems to ensure TTI maintains a high level of integrity in the marketplace and in all business transactions. Relevant policies, including Antitrust Compliance and the Code of Ethics and Business Conduct, and training that all TTI employees are required to undertake upon hire or once a year, are in place in order to understand their obligations under relevant policies and procedures governing antitrust, anti-corruption, anti-bribery, and fraud.

TTI continues its commitment to volunteer service and community investment

Throughout the year, TTI continues to engage our employees through social, philanthropic and wellness activities. While participation is voluntary, we are building upon the strong support in both time and financial contributions from our leadership and employees.

TTIFC has developed a company engagement platform that includes the creation of several committee missions to achieve employee investment in social, philanthropy, connectivity, and wellness. In 2016, TTIFC completed its renovations to its new office space in Charlotte, North Carolina and celebrated with a Grand Opening for employees and families, spotlighting the new Center for Marketing and Innovation. Many TTIFC employees relocated to Charlotte and to show appreciation for those employees and families who relocated, TTIFC put on a “Cheers We’re All Here” event.

TTIFC also partnered with Pinky Swears and The Relatives. Pinky Swears’ mission is to help children with cancer and their families with financial and emotional support. TTIFC participated in a summer food drive and collected over six months’ worth of deliveries for Levine’s Children’s Hospital in Dilworth, North Carolina. TTIFC also sponsored a toy drive and had a holiday card signing activity for the children.

The Relatives is a system of resources that helps children and youth find shelter and support. The Relatives serves as the Safe Place agency for Mecklenburg County and the surrounding area, partnering with local businesses to ensure young people in need have access to immediate help and supportive resources. This year, TTIFC collected over six months’ worth of food and donated vacuums.

Milwaukee Tool has an established Community Impact Committee (“CIC”). This year, CIC donated a large amount of tools to Veteran’s Outreach of Wisconsin to help complete the building of 15 Tiny Homes, as well as to various local communities to assist in building a handicap accessible playground. The CIC also participated in two Veterans workshops by supplying all major tools for each event. The CIC team not only donated tools, but 70 employees spent 576 volunteer hours working on demolition, new construction and repairs with Habitat for Humanity in Waukesha County.

To aid in the fight against hunger, 149 Milwaukee Tool employees spent a total of 572 hours processing 45,000 pounds of food and raising US$4,000 to support Hunger Task Force. Hunger Task Force and the CIC joined forces at the Wisconsin State Fair where 48 Milwaukee Tool employees volunteered to help collect over 75,000 pounds of food and over US$8,000 in monetary donations.

TTINA is also a corporate sponsor for Pathfinders; Maryland's largest autism organization dedicated to helping individuals, parents, and professionals find various resources while working to increase the awareness of autism spectrum disorders. Pathfinders also advocates for the needs of individuals with autism and their families. Employees participated and supported Pathfinders through various annual events, including a 5 km race and silent auction to promote autism awareness in the Baltimore area.

TTI employees and families participated in a Green Tour by Produce Green Foundation ("PGF"). PGF set up the first organic farm in Hong Kong to promote green lifestyles to the public through organic farming with the hope of providing safer and healthier food, while protecting the environment. TTI also partnered with the Hong Kong Cancer Fund in Dance to Support the Less Fortunate.

At AIP, TTI employees also supported the less fortunate through a donation of clothes. Employees engaged in a number of volunteer activities, including visiting senior citizens' homes, collecting donations to buy school bags and clothes for children in the remote villages, and organizing groups to clean local public parks.

TTI encourages a healthy lifestyle

TTI maintains a core principle of providing employees with a balanced lifestyle. Many of TTI's locations are equipped with a state of the art gym, allowing for employees to exercise before work, during the day or after business hours. For those facilities without an available on-campus gym, TTI provides those employees a yearly stipend for exercise classes or gym memberships.

In Milwaukee, we partner with Salus for corporate wellness, which includes gym orientation, fitness classes, fitness assessments, quarterly fitness programs, weekly email blasts, monthly "Lunch and Learns" that often include cooking classes, and an annual wellness program called Healthy Rewards. The Healthy Rewards program encourages employees to take care of their overall health and wellbeing, with a focus on preventative care. Employees earn points for completing various wellness activities. These points can be used for gift cards or other wellness-related prizes.

In addition to on-campus gyms, TTI is working to create alternative healthier lifestyle activities and events, which include a Step Challenge, a "Fun Run" participation in the American Lung Association's "Fight for Air" Climb, Outward Bound Corporate Challenge, and Oxfam Trailwalker. TTI also sponsors sports teams that participate in ultimate Frisbee, basketball and soccer.

Because many of our employees have relocated to Dongguan to work at our AIP location, TTI promotes and encourages many activities, which are aimed at building a healthy lifestyle and teambuilding, which include the Houjie Town Half Marathon, special performances by the Wan Zhong Cinema, Lantern Festival activities, TTI Tug-of-War competition, Happy Singing Night, a TTI Talent Show, yoga classes, a Mother's Day parent-child activity, Mid-Autumn Festival activities, model competitions, Taiji boxing classes, Opusculum & Cross Talk Contest, Halloween Party, badminton and chess competitions, and sponsorship of a dance club and a singles club.

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, 2016.

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 50 and 51 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, 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 92.

An interim dividend of HK20.00 cents (approximately US2.57 cents) per share amounting to approximately US$47,240,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK30.00 cents (approximately US3.86 cents) per share to the shareholders on the register of members on May 26, 2017, amounting to approximately US$70,807,000.

Property, Plant and Equipment

The Group continued to expand its business and during the year spent approximately US$2,507,000 on leasehold land and buildings, acquired moulds and tooling for approximately US$14,670,000, office equipment, furniture and fixtures for approximately US$15,091,000 and plant and machinery for approximately US$17,513,000. 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 38 to the consolidated financial statements.

A total 3,000,000 ordinary shares were bought back by the Company during the year at prices ranging from HK$27.50 to HK$28.60 per share. Among these bought back shares, 1,500,000 shares were settled and cancelled during 2016 and 1,500,000 shares were settled and cancelled in January 2017. The aggregate amount paid by the Company for such buy-backs cancelled during 2016 amounting to US$5,425,000 was charged to the retained earnings.

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, with a view to benefiting shareholders as a whole by enhancing the net as 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*
(appointed as Vice Chairman on October 1, 2016)
Mr Joseph Galli Jr, *Chief Executive Officer*
Mr Kin Wah Chan
Mr Chi Chung Chan

Non-executive Directors:

Prof Roy Chi Ping Chung BBS JP
Mr Camille Jojo

Independent Non-executive Directors:

Mr Christopher Patrick Langley OBE
Mr Manfred Kuhlmann
Mr Peter David Sullivan
Mr Vincent Ting Kau Cheung
Mr Johannes-Gerhard Hesse (appointed on October 1, 2016)

In accordance with Article 107(A) of the Company's Articles of Association, Messrs. Horst Julius Pudwill, Joseph Galli Jr, Peter David Sullivan and Vincent Ting Kau Cheung will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election. In accordance with Article 98 of the Company's Articles of Association, Mr Johannes-Gerhard Hesse, who was appointed during 2016, 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, 2016 and during the period from January 1, 2017 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, 2016, 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	149,543,500[2]	398,000	366,861,294	20.00%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	216,159,794[3]	—		
Mr Stephan Horst Pudwill	Beneficial owner	4,959,500	2,250,000	41,217,000	2.25%
	Beneficiary of a trust	34,007,500[4]	—		
Mr Joseph Galli Jr	Beneficial owner	3,183,000[5]	1,000,000	4,183,000	0.23%
Mr Kin Wah Chan	Beneficial owner	100,000	1,250,000	1,350,000	0.07%
Mr Chi Chung Chan	Beneficial owner	400,000	1,250,000	1,650,000	0.09%
Prof Roy Chi Ping Chung BBS JP	Beneficial owner	49,005,948	150,000	86,230,978	4.70%
	Interests of controlled corporation	37,075,030[6]	—		
Mr Christopher Patrick Langley OBE	Beneficial owner	200,000	150,000	350,000	0.02%
Mr Manfred Kuhlmann	Beneficial owner	100,000	400,000	500,000	0.03%
Mr Peter David Sullivan	Beneficial owner	—	800,000	800,000	0.04%
Mr Vincent Ting Kau Cheung	Beneficial owner	3,770,000	150,000	3,920,000	0.21%

Notes:

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

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

(2) These included Mr Horst Julius Pudwill's interests in 1,024,000 awarded shares, of which 425,000 awarded shares remained unvested under the Share Award Scheme as of December 31, 2016. Details of Mr Horst Julius Pudwill's awarded shares are set out in the Corporate Governance Report.

(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 shares were held by a trust of which Mr Stephan Horst Pudwill is one of the beneficiaries.

(5) These included Mr Joseph Galli Jr's interests in 2,300,000 awarded shares, of which 600,000 awarded shares remained unvested under the Share Award Scheme as of December 31, 2016. Details of Mr Joseph Galli Jr's awarded shares are set out in the Corporate Governance Report.

(6) These shares were held by Cordless Industries Company Limited* in which Prof Roy Chi Ping Chung 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 BBS JP.

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at December 31, 2016.

Share Options

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

Scheme D was adopted pursuant to a resolution passed on May 29, 2007 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on May 28, 2017. Under Scheme D, the Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

(i) employees; or

(ii) non-executive Directors (including Independent Non-executive Directors or Officers); or

(iii) secondees; or

(iv) business partners, agents, consultants; or

(v) suppliers or customers; or

(vi) any person or entity that provides research, development or other technological support; or

(vii) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1.00 in cash by way of consideration for the grant thereof. Share options may be exercised at any time, subject to vesting conditions from the date of grant to the tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

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

Share Options (continued)

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

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
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 - 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Prof Roy Chi Ping Chung BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Christopher Patrick Langley OBE	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Manfred Kuhlmann	23.5.2011	D	100,000	—	(100,000)	—	—	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	(400,000)	—	—	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Total for directors			**8,748,000**	**—**	**(950,000)**	**—**	**7,798,000**		

Share Options (continued)

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

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Employees	24.8.2007	D	730,000	—	(60,000)	—	670,000	8.390	24.8.2008 - 23.8.2017
	16.10.2007	D	50,000	—	(35,000)	—	15,000	8.810	16.10.2008 - 15.10.2017
	7.11.2007	D	40,000	—	(40,000)	—	—	8.088	7.11.2008 - 6.11.2017
	14.1.2008	D	505,000	—	(75,000)	—	430,000	7.566	14.1.2009 - 13.1.2018
	17.4.2008	D	350,000	—	(100,000)	—	250,000	7.780	17.4.2009 - 16.4.2018
	14.5.2008	D	40,000	—	—	—	40,000	7.500	14.5.2009 - 13.5.2018
	30.5.2008	D	250,000	—	(250,000)	—	—	7.546	30.5.2009 - 29.5.2018
	16.11.2009	D	1,570,000	—	(150,000)	—	1,420,000	6.770	16.11.2010 - 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 - 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 - 16.1.2021
Total for employees			**3,585,000**	**—**	**(710,000)**	**—**	**2,875,000**		
Total for all categories			**12,333,000**	**—**	**(1,660,000)**	**—**	**10,673,000**		

The weighted average closing price of shares immediately before the options grant date during 2015 was HK$29.80.

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

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

The fair value of the share options granted in 2015 measured at the date of grant was HK$7.39 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 scheme (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.

Director's 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, 2016, 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
FIL Limited [(1)]	128,352,500	(L)	7.00%
FMR LLC [(2)]	164,772,826	(L)	8.98%
JPMorgan Chase & Co. [(3)]	103,893,079	(L)	5.67%
	543,500	(S)	0.03%
	86,344,074	(LP)	4.71%
Schroders Plc [(4)]	128,565,410	(L)	7.01%

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

Notes:

(1) The capacity of FIL Limited in holding the 128,352,500 shares was as investment manager.

(2) The following is a breakdown of the interest in shares in the Company held by FMR LLC:

		Total interests in shares				
Name	Remarks	Direct interests	(L/S/LP)	Deemed interests	(L/S/LP)	Approximate percentage of interests
FMR LLC	(2a)	—	—	164,772,826	(L)	8.98%
FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED	(2b)	—	—	5,670,000	(L)	0.31%
FMR CO., INC	(2b)	—	—	61,433,701	(L)	3.35%
Fidelity Institutional Asset Management Trust Company (Previously known as PYRAMIS GLOBAL ADVISORS TRUST COMPANY)	(2b)	—	—	31,449,881	(L)	1.71%
FIAM LLC (Previously known as PYRAMIS GLOBAL ADVISORS, LLC)	(2b)	—	—	28,816,744	(L)	1.57%
FMR INVESTMENT MANAGEMENT (UK) LIMITED	(2b)	—	—	35,222,500	(L)	1.92%
FIDELITY MANAGEMENT & RESEARCH (JAPAN) LIMITED	(2b)	—	—	2,180,000	(L)	0.12%

Remarks:

(2a) The capacity of FMR LLC in holding the 164,772,826 shares of long position was as investment manager.

(2b) FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED, FMR CO., INC, Fidelity Institutional Asset Management Trust Company (Previously known as PYRAMIS GLOBAL ADVISORS TRUST COMPANY), FIAM LLC (Previously known as PYRAMIS GLOBAL ADVISORS, LLC), FMR INVESTMENT MANAGEMENT (UK) LIMITED and FIDELITY MANAGEMENT & RESEARCH (JAPAN) LIMITED were all directly or indirectly owned by FMR LLC and by virtue of the SFO, FMR LLC was deemed to be interested in the shares held by these subsidiaries.

Substantial Shareholders' Interests (continued)

Notes: (continued)

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

		Total interests in shares				
Name	**Remarks**	**Direct interests**	**(L/S/LP)**	**Deemed interests**	**(L/S/LP)**	**Approximate percentage of interests**
JPMorgan Chase & Co.	(3a)	—	—	103,893,079	(L)	5.67%
		—	—	543,500	(S)	0.03%
		—	—	86,344,074	(LP)	4.71%
J.P. Morgan Clearing Corp	(3b)	399,160	(L)	—	—	0.02%
JF Asset Management Limited	(3b)	12,051,500	(L)	—	—	0.66%
JPMorgan Asset Management (Japan) Limited	(3b)	1,238,000	(L)	—	—	0.07%
JPMorgan Asset Management (Taiwan) Limited	(3b)	623,500	(L)	—	—	0.03%
J.P. Morgan Investment Management Inc.	(3b)	363,000	(L)	—	—	0.02%
J.P. Morgan Trust Company of Delaware	(3b)	7,905	(L)	—	—	0.00%
J.P. Morgan Whitefriars Inc.	(3b)	1,710,167	(L)	—	—	0.09%
		183,500	(S)	—	—	0.01%
J.P. Morgan Securities plc	(3b)	366,368	(L)	—	—	0.02%
		360,000	(S)	—	—	0.02%
Bank One International Holdings Corporation	(3b)	—	—	2,442,903	(L)	0.13%
		—	—	903,500	(S)	0.05%
J.P. Morgan International Inc.	(3b)	—	—	2,442,903	(L)	0.13%
		—	—	903,500	(S)	0.05%
J.P. Morgan Chase International Holdings	(3b)	—	—	366,368	(L)	0.02%
		—	—	360,000	(S)	0.02%
JPMorgan Chase Bank, N.A.	(3b)	87,125,779	(L)	—	—	4.75%
JPMorgan Asset Management (UK) Limited	(3b)	67,700	(L)	—	—	0.00%
J.P. Morgan Capital Financing Limited	(3b)	—	—	366,368	(L)	0.02%
		—	—	360,000	(S)	0.02%
J.P. Morgan Securities LLC	(3b)	—	—	339,160	(L)	0.02%
J.P. Morgan Broker-Dealer Holdings Inc	(3b)	—	—	339,160	(L)	0.02%
J.P. Morgan Capital Holdings Limited	(3b)	—	—	366,368	(L)	0.02%
		—	—	360,000	(S)	0.02%
JPMorgan Asset Management Holdings Inc	(3b)	—	—	14,343,700	(L)	0.78%
JPMorgan Asset Management (Asia) Inc.	(3b)	—	—	13,913,000	(L)	0.76%
J.P. Morgan Chase (UK) Holdings Limited	(3b)	—	—	366,368	(L)	0.02%
		—	—	360,000	(S)	0.02%
JPMorgan Asset Management Holdings (UK) Limited	(3b)	—	—	67,700	(L)	0.00%
J.P. Morgan Overseas Capital Corporation	(3b)	—	—	2,076,535	(L)	0.11%
		—	—	543,500	(S)	0.03%
JPMorgan Asset Management International Limited	(3b)	—	—	67,700	(L)	0.00%
JPMorgan Chase Bank, N.A.	(3b)	—	—	2,442,903	(L)	0.13%
		—	—	903,500	(S)	0.05%
J.P. Morgan Equity Holdings, Inc.	(3b)	—	—	7,905	(L)	0.00%
J.P. Morgan International Finance Limited	(3b)	—	—	2,442,903	(L)	0.13%
		—	—	903,500	(S)	0.05%

Substantial Shareholders' Interests (continued)

Notes: (continued)

Remarks:

(3a) JPMorgan Chase & Co. is listed on New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 103,893,079 shares of long position, 543,500 shares of short position and 86,344,074 shares of lending pool respectively was as controlled corporation.

(3b) J.P. Morgan Clearing Corp, JF Asset Management Limited, JPMorgan Asset Management (Japan) Limited, JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan Investment Management Inc., J.P. Morgan Trust Company of Delaware, J.P. Morgan Whitefriars Inc., J.P. Morgan Securities plc, Bank One International Holdings Corporation, J.P. Morgan International Inc., J.P. Morgan Chase International Holdings, JPMorgan Chase Bank, N.A., JPMorgan Asset Management (UK) Limited, J.P. Morgan Capital Financing Limited, J.P. Morgan Securities LLC, J.P. Morgan Broker-Dealer Holdings Inc, J.P. Morgan Capital Holdings Limited, JPMorgan Asset Management Holdings Inc, JPMorgan Asset Management (Asia) Inc., J.P. Morgan Chase (UK) Holdings Limited, JPMorgan Asset Management Holdings (UK) Limited, J.P. Morgan Overseas Capital Corporation, JPMorgan Asset Management International Limited, JPMorgan Chase Bank, N.A., J.P. Morgan Equity Holdings, Inc. and J.P. Morgan International Finance 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.

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

		Total interests in shares				
Name	**Remarks**	**Direct interests**	**(L/S/LP)**	**Deemed interests**	**(L/S/LP)**	**Approximate percentage of interests**
Schroders Plc	(4a)	—	—	128,565,410	(L)	7.01%
Schroder Administration Limited	(4b)	—	—	128,565,410	(L)	7.01%
Schroder International Holdings Limited	(4b)	—	—	112,376,500	(L)	6.13%
Schroder Investment Management (Singapore) Limited	(4b)	65,964,500	(L)	—	—	3.60%
Schroder Investment Management (Hong Kong) Limited	(4b)	46,412,000	(L)	—	—	2.53%
Schroder Investment Management North America Limited	(4b)	7,620,378	(L)	—	—	0.42%
Schroder Investment Management Limited	(4b)	—	—	7,620,378	(L)	0.42%
	(4b)	7,547,500	(L)	—	—	0.41%
Schroder & Co Bank AG	(4b)	132,500	(L)	—	—	0.01%
Schroder Wealth Holdings Limited	(4b)	—	—	1,021,032	(L)	0.06%
Schroder & Co. Limited	(4b)	—	—	888,532	(L)	0.05%
Schroder & Co. (Asia) Limited	(4b)	888,532	(L)	—	—	0.05%

Remarks:

(4a) Schroders Plc is listed on London Stock Exchange. The capacity of Schroders Plc in holding the 128,565,410 shares of long position was as investment manager.

(4b) Schroder Administration Limited, Schroder International Holdings Limited, Schroder Investment Management (Singapore) Limited, Schroder Investment Management (Hong Kong) Limited, Schroder Investment Management North America Limited, Schroder Investment Management Limited, Schroder & Co Bank AG, Schroder Wealth Holdings Limited, Schroder & Co. Limited and Schroder & Co. (Asia) Limited were all directly or indirectly owned by Schroders Plc and by virtue of the SFO, Schroders Plc was deemed to be interested in the shares held by these subsidiaries.

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, 2016.

Environmental, Social and Governance ("ESG")

The Company has a commitment to ESG matters. A report on TTI's environmental, social and governance commitment can be found on pages 71 to 77.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended December 31, 2016.

Donations

During the year, the Group made charitable and other donations totalling US$2,178,000.

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 14, 2017

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Techtronic Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 92 to 170, which comprise the consolidated statement of financial position as at December 31, 2016, 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, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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	How our Audit Addressed the Key Audit Matter
Impairment Assessment of Goodwill and Intangible Assets with Indefinite Useful Lives – Floor Care and Appliances Segment We identified the impairment assessment of goodwill and other intangible assets for the Floor Care and Appliances segment as defined in Note 5 to the consolidated financial statements as a key audit matter due to significant judgement and assumptions about the future performance of the segment. As disclosed in Note 20 to the consolidated financial statements, as at December 31, 2016 the carrying value of goodwill and trademarks attributable to the Floor Care and Appliances' cash generating unit was US$143 million. This cash generating unit is profitable but has underperformed in comparison to other cash generating units and management has made a number of key assumptions and assertions to support their assessment of the carrying value of goodwill and other intangible assets attributable to this cash generating unit. The key assumptions include growth rates, discount rates applied and the forecast performance based on management's view of future business prospects. There is no impairment on goodwill and intangible assets with indefinite useful lives for the Floor Care and Appliances segment for the year ended December 31, 2016.	Our procedures in relation to management's assessment of the carrying value of goodwill and other intangible assets for the Floor Care and Appliances segment included: • Assessing the valuation methodology adopted by management which is disclosed in Note 20 to the consolidated financial statements; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Reconciling input data used in the cash flow forecasts to supporting evidence, such as approved budgets and considering the reasonableness of those budgets; • Considering the potential impact of reasonably possible downside changes in these key assumptions; and • We met with the independent valuation specialist engaged by management to understand the assumptions they used in building up the discounted cash flow model. In performing our audit procedures, we engaged our internal valuation specialists to assess the discount rate applied by benchmarking against independent data.
Capitalisation of Deferred Development Costs We identified the capitalisation of deferred development costs as a key audit matter due to significant management judgement about the future performance and viability of the products. The Group conducts a significant level of development activities and has to apply judgement in identifying projects meeting the criteria for capitalisation under the requirements of accounting standards and to capture accurate time and cost information for those projects. As disclosed in Note 19 to the consolidated financial statements, as at December 31, 2016 the carrying value of deferred development costs was US$297 million and the additions during the year were US$112 million.	Our procedures in relation to capitalisation of deferred development costs included: • Testing management's controls over capitalisation of deferred development costs; • Evaluating the nature of the type of the research and development expenses incurred that are capitalised into intangible assets; • Assessing the reasonableness of the capitalisation based on our knowledge of the business and industry; and • Evaluating the appropriateness of expenses capitalised, on a sample basis, by agreeing the material costs, overheads and engineers' hours incurred to external invoices and internal timesheets and payroll records.

Key Audit Matters (continued)

Key Audit Matter

Recoverability of Deferred Tax Assets

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

As disclosed in Note 41 to the consolidated financial statements, as at December 31, 2016 the Group has recognised US$178 million of deferred tax assets in the consolidated statement of financial position.

How our Audit Addressed the Key Audit Matter

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

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

Other Information

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Martin Stuart Hills.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 14, 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2016

	Notes	**2016 US$'000**	2015 US$'000
Revenue	6	**5,480,413**	5,038,004
Cost of sales		**(3,495,234)**	(3,240,365)
Gross profit		**1,985,179**	1,797,639
Other income	7	**5,039**	5,297
Interest income	8	**11,653**	10,577
Selling, distribution and advertising expenses		**(794,280)**	(697,598)
Administrative expenses		**(598,492)**	(577,735)
Research and development costs		**(147,277)**	(127,788)
Finance costs	9	**(21,793)**	(23,435)
Profit before taxation		**440,029**	386,957
Taxation charge	10	**(31,242)**	(32,814)
Profit for the year	11	**408,787**	354,143
Other comprehensive loss:			
Items that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		**(7,063)**	(2,804)
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on foreign currency forward contracts in hedge accounting		**29,339**	(30,262)
Exchange differences on translation of foreign operations		**(82,000)**	(48,484)
Other comprehensive loss for the year		**(59,724)**	(81,550)
Total comprehensive income for the year		**349,063**	272,593
Profit for the year attributable to:			
Owners of the Company		**408,982**	354,427
Non-controlling interests		**(195)**	(284)
		408,787	354,143
Total comprehensive income attributable to:			
Owners of the Company		**349,258**	272,877
Non-controlling interests		**(195)**	(284)
		349,063	272,593
Earnings per share (US cents)	15		
Basic		**22.32**	19.37
Diluted		**22.24**	19.28

Consolidated Statement of Financial Position

As at December 31, 2016

	Notes	2016 US$'000	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**601,230**	538,466
Lease prepayments	17	**29,581**	32,441
Goodwill	18	**553,194**	553,789
Intangible assets	19	**546,636**	520,935
Interests in associates	21	**3,667**	6,588
Available-for-sale investments	22	**613**	495
Derivative financial instruments	27	**9,986**	10,544
Deferred tax assets	41	**178,191**	146,064
		1,923,098	1,809,322
Current assets			
Inventories	23	**1,296,425**	1,190,331
Trade and other receivables	24	**950,882**	849,488
Deposits and prepayments		**98,638**	117,400
Bills receivable	25	**11,190**	27,277
Tax recoverable		**11,694**	8,080
Trade receivables from an associate	26	**3,540**	2,681
Derivative financial instruments	27	**20,199**	22,415
Held-for-trading investments	28	—	1,116
Bank balances, deposits and cash	29	**804,741**	774,608
		3,197,309	2,993,396
Current liabilities			
Trade and other payables	30	**1,330,807**	1,160,494
Bills payable	31	**54,137**	37,440
Warranty provision	32	**80,088**	75,193
Tax payable		**100,164**	110,353
Derivative financial instruments	27	**2,175**	14,028
Obligations under finance leases - due within one year	33	**2,982**	2,153
Discounted bills with recourse	34	**93,897**	77,629
Unsecured borrowings - due within one year	37	**403,825**	588,341
Bank overdrafts	29	**1,656**	3,837
		2,069,731	2,069,468
Net current assets		**1,127,578**	923,928
Total assets less current liabilities		**3,050,676**	2,733,250

Consolidated Statement of Financial Position

As at December 31, 2016

	Notes	2016 US$'000	2015 US$'000
Capital and Reserves			
Share capital	38	**649,214**	647,109
Reserves		**1,750,324**	1,508,874
Equity attributable to Owners of the Company		**2,399,538**	2,155,983
Non-controlling interests		**(606)**	(411)
Total equity		**2,398,932**	2,155,572
Non-current Liabilities			
Obligations under finance leases - due after one year	33	**10,760**	10,402
Unsecured borrowings - due after one year	37	**490,452**	456,680
Retirement benefit obligations	40	**108,167**	99,896
Deferred tax liabilities	41	**42,365**	10,700
		651,744	577,678
Total equity and non-current liabilities		**3,050,676**	2,733,250

The consolidated financial statements on pages 92 to 170 were approved and authorised for issue by the Board of Directors on March 14, 2017 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

	Attributable to Owners of the Company								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$'000	Total US$'000	Share of net assets of subsidiaries US$'000	Total US$'000
At January 1, 2015	643,914	(2,441)	(26,245)	3,954	(3,229)	19,075	1,332,125	1,967,153	(127)	1,967,026
Profit (loss) for the year	—	—	—	—	—	—	354,427	354,427	(284)	354,143
Remeasurement of defined benefit obligations	—	—	—	—	(4,627)	—	—	(4,627)	—	(4,627)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	(30,744)	—	(30,744)	—	(30,744)
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	1,823	—	—	1,823	—	1,823
Deferred tax liability on hedging reserve	—	—	—	—	—	482	—	482	—	482
Exchange differences on translation of foreign operations	—	—	(48,484)	—	—	—	—	(48,484)	—	(48,484)
Other comprehensive loss for the year	—	—	(48,484)	—	(2,804)	(30,262)	—	(81,550)	—	(81,550)
Total comprehensive income (loss) for the year	—	—	(48,484)	—	(2,804)	(30,262)	354,427	272,877	(284)	272,593
Shares issued at premium on exercise of options	3,195	—	—	(637)	—	—	—	2,558	—	2,558
Vesting of awarded shares	—	813	—	(813)	—	—	—	—	—	—
Shares for share award scheme	—	(7,626)	—	—	—	—	—	(7,626)	—	(7,626)
Recognition of equity-settled share-based payments	—	—	—	3,546	—	—	—	3,546	—	3,546
Final dividend – 2014	—	—	—	—	—	—	(44,799)	(44,799)	—	(44,799)
Interim dividend - 2015	—	—	—	—	—	—	(37,726)	(37,726)	—	(37,726)
At December 31, 2015	647,109	(9,254)	(74,729)	6,050	(6,033)	(11,187)	1,604,027	2,155,983	(411)	2,155,572
Profit (loss) for the year	**—**	**—**	**—**	**—**	**—**	**—**	**408,982**	**408,982**	**(195)**	**408,787**
Remeasurement of defined benefit obligations	**—**	**—**	**—**	**—**	**(9,968)**	**—**	**—**	**(9,968)**	**—**	**(9,968)**
Fair value gain on foreign currency forward contracts in hedge accounting	**—**	**—**	**—**	**—**	**—**	**29,339**	**—**	**29,339**	**—**	**29,339**
Deferred tax liability on remeasurement of defined benefit obligations	**—**	**—**	**—**	**—**	**2,905**	**—**	**—**	**2,905**	**—**	**2,905**
Exchange differences on translation of foreign operations	**—**	**—**	**(82,000)**	**—**	**—**	**—**	**—**	**(82,000)**	**—**	**(82,000)**
Other comprehensive income (loss) for the year	**—**	**—**	**(82,000)**	**—**	**(7,063)**	**29,339**	**—**	**(59,724)**	**—**	**(59,724)**
Total comprehensive income (loss) for the year	**—**	**—**	**(82,000)**	**—**	**(7,063)**	**29,339**	**408,982**	**349,258**	**(195)**	**349,063**
Shares issued at premium on exercise of options	**2,105**	**—**	**—**	**(401)**	**—**	**—**	**—**	**1,704**	**—**	**1,704**
Buy-back of shares	**—**	**—**	**—**	**—**	**—**	**—**	**(5,425)**	**(5,425)**	**—**	**(5,425)**
Vesting of awarded shares	**—**	**8,087**	**—**	**(8,087)**	**—**	**—**	**—**	**—**	**—**	**—**
Shares for share award scheme	**—**	**(9,309)**	**—**	**—**	**—**	**—**	**—**	**(9,309)**	**—**	**(9,309)**
Recognition of equity-settled share-based payments	**—**	**—**	**—**	**9,448**	**—**	**—**	**—**	**9,448**	**—**	**9,448**
Final dividend – 2015	**—**	**—**	**—**	**—**	**—**	**—**	**(54,881)**	**(54,881)**	**—**	**(54,881)**
Interim dividend - 2016	**—**	**—**	**—**	**—**	**—**	**—**	**(47,240)**	**(47,240)**	**—**	**(47,240)**
At December 31, 2016	**649,214**	**(10,476)**	**(156,729)**	**7,010**	**(13,096)**	**18,152**	**1,905,463**	**2,399,538**	**(606)**	**2,398,932**

Consolidated Statement of Cash Flows

For the year ended December 31, 2016

	2016 US$'000	2015 US$'000
Operating Activities		
Profit before taxation	**440,029**	386,957
Adjustments for:		
Amortisation/write-off of intangible assets	**90,544**	81,898
Amortisation of lease prepayments	**744**	739
Depreciation on property, plant and equipment	**101,342**	90,785
Employee share-based expense	**9,448**	3,546
Fair value gain on interest rate swap	**(660)**	(1,287)
Fair value loss (gain) on foreign currency forward contracts	**21,115**	(7,858)
Fair value loss on held-for-trading investments	**139**	38
Fair value loss on derivative financial instruments	**558**	1,091
Finance costs	**21,793**	23,435
Impairment loss on trade receivables	**11,712**	11,311
Interest income	**(11,653)**	(10,577)
Loss on disposal of property, plant and equipment	**12,902**	8,778
Loss on disposal of held-for-trading investments	**49**	—
Reversal of impairment loss on trade receivables	**(4,544)**	(2,697)
Write down of inventories	**13,836**	20,112
Operating cash flows before movements in working capital	**707,354**	606,271
Increase in inventories	**(144,774)**	(181,617)
Increase in trade and other receivables, deposits and prepayments	**(105,610)**	(89,633)
Decrease in bills receivable	**16,087**	4,323
(Increase) decrease in trade receivables from an associate	**(859)**	1,330
Increase in trade and other payables	**164,456**	60,729
Increase (decrease) in bills payable	**16,697**	(9,405)
Increase in warranty provision	**6,517**	11,497
Decrease in retirement benefit obligations	**(1,718)**	(4,138)
Net payment for purchase of shares for share award scheme	**(9,309)**	(7,626)
Cash generated from operations	**648,841**	391,731
Interest paid	**(21,793)**	(23,435)
Hong Kong Profits Tax paid	**(4,174)**	(2,802)
Overseas tax paid	**(53,994)**	(42,625)
Hong Kong Profits Tax refunded	**—**	111
Overseas tax refunded	**14,694**	12,249
Net Cash from Operating Activities	**583,574**	335,229

	2016 US$'000	2015 US$'000
Investing Activities		
Acquisition of subsidiaries / a business	**—**	(71,002)
Additions to intangible assets	**(116,277)**	(106,790)
Interest received	**11,653**	10,577
Proceeds from disposal of held-for-trading investment	**928**	—
Proceeds from disposal of property, plant and equipment	**975**	6,161
Purchase of property, plant and equipment	**(186,604)**	(159,774)
Repayment (advance to) from associates	**2,921**	(73)
Net Cash used in Investing Activities	**(286,404)**	(320,901)
Financing Activities		
Increase in discounted bills with recourse	**16,268**	5,569
Dividends paid	**(102,121)**	(82,525)
New bank loans obtained	**1,668,892**	2,404,699
Proceeds from issue of shares	**1,704**	2,558
Repayment of bank loans	**(1,819,587)**	(2,234,726)
Repayment of obligations under finance leases	**(2,653)**	(2,735)
Buy-back of shares	**(5,425)**	—
Net Cash (used in) from Financing Activities	**(242,922)**	92,840
Net Increase in Cash and Cash Equivalents	**54,248**	107,168
Cash and Cash Equivalents at Beginning of the Year	**770,771**	687,776
Effect of Foreign Exchange Rate Changes	**(21,934)**	(24,173)
Cash and Cash Equivalents at End of the Year	**803,085**	770,771
Analysis of the Balances of Cash and Cash Equivalents		
Represented by:		
Bank balances, deposits and cash	**804,741**	774,608
Bank overdrafts	**(1,656)**	(3,837)
	803,085	770,771

1. General

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

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

The functional currency of the Company is United States dollars.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year.

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

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

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

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective as at January 1, 2016:

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

1 Effective for annual periods beginning on or after January 1, 2018.
2 Effective for annual periods beginning on or after January 1, 2019.
3 Effective for annual periods beginning on or after January 1, 2017.
4 Effective for annual periods beginning on or a date to be determined.

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

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

HKFRS 9 Financial Instruments

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

The key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

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

HKFRS 16 Leases

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

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

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

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

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

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

Amendment to HKAS 7 Disclosure Initiative

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

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

3. Significant Accounting Policies

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

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

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

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

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

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

The principal accounting policies are set out below.

Basis of Consolidation

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

Allocation of Total Comprehensive Income to Non-Controlling Interests

Total comprehensive income and expense of subsidiaries is attributed to the Owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from January 1, 2010 onwards).

Changes in the Group's Ownership Interests in Existing Subsidiaries

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

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

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former Owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

3. Significant Accounting Policies (continued)

Business Combinations (continued)

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

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

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

Acquisition of a Subsidiary not Constituting a Business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

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

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

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

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

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

3. Significant Accounting Policies (continued)

Interests in Associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of loss of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. Significant Accounting Policies (continued)

Intangible Assets

Intangible Assets Acquired Separately

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Intangible Assets Acquired in a Business Combination

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

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

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

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

Leasing

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

3. Significant Accounting Policies (continued)

The Group as Lessee

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

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

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

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

Leasehold Land and Building

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

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

Property, Plant and Equipment

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

Freehold land is not depreciated.

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

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

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

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

3. Significant Accounting Policies (continued)

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

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

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

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

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

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

Financial Instruments

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

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

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets

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

Effective Interest Method

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

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

Financial Assets at Fair Value through Profit or Loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

Loans and Receivables

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

Available-for-sale Financial Assets

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

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

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Liabilities and Equity

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

Equity Instrument

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

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

Effective Interest Method

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

Interest expense is recognised on an effective interest basis.

Other Financial Liabilities

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

Derivative Financial Instruments and Hedging

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge Accounting

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

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

Cash Flow Hedges

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

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Guarantee Contracts

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

Derecognition

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

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

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

Provisions

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

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

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

Inventories

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

3. Significant Accounting Policies (continued)

Revenue Recognition

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

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

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

Commission income is recognised when services are provided.

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

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

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

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

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

3. Significant Accounting Policies (continued)

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that form part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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

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

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

Borrowing Costs

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

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

3. Significant Accounting Policies (continued)

Equity-Settled Share-Based Payment Transactions

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

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

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

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

When the trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

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

Government Grants

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

Retirement Benefit Schemes

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

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

3. Significant Accounting Policies (continued)

Retirement Benefit Schemes (continued)

Defined benefit costs are categorised as follows:

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

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

The retirement benefit obligations recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Short-term and other Long-term Employee Benefits

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

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

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

4. Key Sources of Accounting Estimates

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

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

Key Sources of Estimation Uncertainty

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

4. Key Sources of Accounting Estimates (continued)

Estimated Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Capitalisation, Useful Lives and Estimated Impairment of Deferred Development Costs

Determining the development costs, including time and costs for individual projects, to be capitalised requires estimations and assumptions based on the expected future economic benefits to be generated by the products resulted from these development costs. Other important estimations and assumptions in this assessment process are the feasibility of mass production, the distinction between research and development and the estimated useful life. As at December 31, 2016, the carrying amounts of deferred development costs of the Group are US$297,261,000 (2015: US$268,109,000). The estimation of their useful lives impacts the level of annual amortisation recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material loss may arise. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored, and adjustments will be made in future periods, if future market activity indicates that adjustments are required.

Useful Lives and Impairment Assessment of Property, Plant and Equipment

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

Income Taxes

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

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

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

5. Segment Information

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

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

1. Power Equipment – sales of power tools, power tool accessories, outdoor products, and outdoor product accessories for consumer, trade, professional and industrial users. The products are available under the MILWAUKEE, EMPIRE, AEG, RYOBI and HOMELITE brands plus original equipment manufacturer ("OEM") customers.

2. Floor Care and Appliances – sales of floor care products and floor care accessories under the HOOVER, DIRT DEVIL, VAX and ORECK brands plus OEM customers.

Information regarding the above segments is reported below.

Segment Revenue and Results

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

For the year ended December 31, 2016

	Power Equipment US$'000	Floor Care and Appliances US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue				
External sales	**4,470,590**	**1,009,823**	**—**	**5,480,413**
Inter-segment sales	**—**	**1,038**	**(1,038)**	**—**
Total segment revenue	**4,470,590**	**1,010,861**	**(1,038)**	**5,480,413**

Inter-segment sales are charged at prevailing market rates.

Result				
Segment results	**430,307**	**19,862**	**—**	**450,169**
Interest income				**11,653**
Finance costs				**(21,793)**
Profit before taxation				**440,029**
Taxation charge				**(31,242)**
Profit for the year				**408,787**

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment without the allocation of interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resources allocation and performance assessment.

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the chief operating decision makers for review.

5. Segment Information (continued)

Other Segment Information

For the year ended December 31, 2016

Amounts included in the measure of segment results:

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

Segment Revenue and Results

For the year ended December 31, 2015

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

Inter-segment sales are charged at prevailing market rates.

	Power Equipment US$'000	Floor Care and Appliances US$'000	Eliminations US$'000	Consolidated US$'000
Result				
Segment results	379,302	20,513	—	399,815
Interest income				10,577
Finance costs				(23,435)
Profit before taxation				386,957
Taxation charge				(32,814)
Profit for the year				354,143

5. Segment Information (continued)

Other Segment Information

For the year ended December 31, 2015

Amounts included in the measure of segment results:

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

Revenue from Major Products

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

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

Geographical Information

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

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

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

Information about Major Customer

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

6. Revenue

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

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

7. Other Income

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

8. Interest Income

Interest income represents interest earned on bank deposits.

9. Finance Costs

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

10. Taxation Charge

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

The tax charge for the year is reconciled as follows:

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

Details of deferred tax are set out in Note 41.

11. Profit for the Year

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

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

12. Director's Emoluments

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

For the year ended December 31, 2016

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

For the year ended December 31, 2015

		Other emoluments				
	Fees US$'000	Basic salaries and allowances US$'000	Contributions to retirement benefits schemes US$'000	Bonus US$'000	Share-based payments US$'000	Total US$'000
Mr Horst Julius Pudwill (Note i)	—	1,671	2	4,575	1,147	7,395
Mr Stephan Horst Pudwill (Note i)	—	340	2	2,080	381	2,803
Mr Joseph Galli Jr (Note i)	—	1,583	180	13,500	1,091	16,354
Mr Kin Wah Chan (Note i)	—	722	2	1,439	381	2,544
Mr Chi Chung Chan (Note i)	—	719	2	2,547	381	3,649
Prof Roy Chi Ping Chung BBS JP (Note ii)	39	5	—	—	33	77
Mr Camille Jojo (appointed on October 30, 2015)	7	—	—	—	—	7
Mr Christopher Patrick Langley OBE (Note iii)	39	18	—	269	33	359
Mr Manfred Kuhlmann (Note iii)	39	43	—	106	33	221
Mr Peter David Sullivan (Note iii)	39	46	—	—	33	118
Mr Vincent Ting Kau Cheung (Note iii)	39	35	—	—	33	107
Mr Joel Arthur Schleicher (retired on May 22, 2015)	15	18	—	—	—	33
Total	217	5,200	188	24,516	3,546	33,667

12. Director's Emoluments (continued)

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

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

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

The bonuses were based on past performance of the Group.

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

13. Employees' Emoluments

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

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

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

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

During each of the two years ended December 31, 2016 and 2015, no emoluments have been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during those years.

14. Dividends

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

The final dividend of HK30.00 cents (approximately US3.86 cents) per share with a total of approximately US$70,807,000 in respect of the year ended December 31, 2016 (2015: final dividend of HK23.25 cents (approximately US2.99 cents) per share in respect of the year ended December 31, 2015) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

15. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to Owners of the Company is based on the following data:

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

16. Property, Plant and Equipment

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

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

16. Property, Plant and Equipment (continued)

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

Freehold land	Nil
Leasehold land	Shorter of lease term or useful life
Buildings	$2\frac{1}{5}\%$ - $6\frac{2}{3}\%$
Leasehold improvements	$2\frac{1}{2}\%$ - $33\frac{1}{3}\%$
Office equipment, furniture and fixtures	10% - $33\frac{1}{3}\%$
Plant and machinery	9% - $33\frac{1}{3}\%$
Motor vehicles	10% - $33\frac{1}{3}\%$
Moulds and tooling	18% - $33\frac{1}{3}\%$
Vessels	20%

The carrying amounts of properties shown above comprise:

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

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

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

17. Lease Prepayments

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

All lease prepayments are related to leases outside Hong Kong.

18. Goodwill

	US$'000
At January 1, 2015	554,137
Currency realignment	(1,772)
Arising on acquisition of subsidiaries / a business	1,424
At December 31, 2015	553,789
Currency realignment	(595)
At December 31, 2016	**553,194**

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

19. Intangible Assets

	Deferred development costs US$'000	Patents US$'000	Trademarks US$'000	Manufacturing know-how US$'000	Retailer and service relationships US$'000	Non compete agreement US$'000	Total US$'000
Cost							
At January 1, 2015	535,452	59,442	234,784	453	10,500	10,634	851,265
Currency realignment	(183)	—	—	—	—	—	(183)
Additions	102,767	4,023	—	—	—	—	106,790
Written off in the year	(7,392)	(60)	(500)	—	—	—	(7,952)
At December 31, 2015	630,644	63,405	234,284	453	10,500	10,634	949,920
Currency realignment	(60)	(22)	—	—	—	—	(82)
Additions	111,950	4,321	6	—	—	—	116,277
Written off in the year	(12,752)	(94)	—	—	—	—	(12,846)
At December 31, 2016	**729,782**	**67,610**	**234,290**	**453**	**10,500**	**10,634**	**1,053,269**
Amortisation							
At January 1, 2015	297,166	38,290	11,349	453	2,430	5,495	355,183
Currency realignment	(144)	—	—	—	—	—	(144)
Provided for the year	69,967	4,823	913	—	592	2,127	78,422
Eliminated on write off	(4,454)	(22)	—	—	—	—	(4,476)
At December 31, 2015	362,535	43,091	12,262	453	3,022	7,622	428,985
Currency realignment	(48)	(2)	—	—	—	—	(50)
Provided for the year	80,910	4,559	461	—	592	2,127	88,649
Eliminated on write off	(10,876)	(75)	—	—	—	—	(10,951)
At December 31, 2016	**432,521**	**47,573**	**12,723**	**453**	**3,614**	**9,749**	**506,633**
Carrying amounts							
At December 31, 2016	**297,261**	**20,037**	**221,567**	**—**	**6,886**	**885**	**546,636**
At December 31, 2015	268,109	20,314	222,022	—	7,478	3,012	520,935

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

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

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

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

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

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

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

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

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

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

Power Equipment – MET ("MET")

The recoverable amount of MET's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 10.0% (2015: 11.5%) per annum.

Cash flow projections during the budget period for MET are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on MET's past performance, management's expectations of the market development, the success in new products launched, the success in reducing the working capital requirements and the success of the cost cutting strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2015: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of MET's goodwill and intangibles to exceed the recoverable amounts.

Power Equipment – HCP ("HCP")

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

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

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

Power Equipment – Drebo ("Drebo")

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

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

Power Equipment – Baja ("Baja")

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

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

Floor Care and Appliances – RAM/Hoover/VAX ("RAM/Hoover/VAX")

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

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

21. Interests in Associates

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

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

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

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

22. Available-for-sale Investments

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

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

23. Inventories

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

24. Trade and other Receivables

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

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

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

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

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

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

Ageing of Trade Receivables which are past due but not Impaired

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

24. Trade and other Receivables (continued)

Movement in the Allowance for Doubtful Debts

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

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

Ageing of Impaired Trade Receivables (by Invoice Date)

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

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

25. Bills Receivable

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

26. Trade Receivables from an Associate

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

27. Derivative Financial Instruments

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

Acquisition Right of Certain Property, Plant and Equipment

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

Foreign Currency Forward Contracts

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

Foreign Currency Forward Contracts under Hedge Accounting

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

27. Derivative Financial Instruments (continued)

Foreign Currency Forward Contracts under Hedge Accounting (continued)

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

2016

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

2015

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

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

Foreign Currency Forward Contracts not under Hedge Accounting

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

2016

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

2015

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

27. Derivative Financial Instruments (continued)

Interest Rate Swap (not under hedge accounting)

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

Major terms of the interest rate swap were as follows:

2015

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

28. Held-for-Trading Investments

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

Held-for-trading investments include:

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

29. Bank Balances, Deposits and Cash/Bank Overdrafts

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

30. Trade and other Payables

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

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

The credit period on the purchase of goods ranges from 30 days to 120 days (2015: 30 days to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

31. Bills Payable

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

32. Warranty Provision

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

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

33. Obligations under Finance Leases

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

The maturity of obligations under finance leases is as follows:

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

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

34. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 1.80% per annum (2015: 1.43% per annum) have maturity profiles of less than 120 days.

35. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

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

Gearing Ratio

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

The gearing ratio at the year end was as follows:

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

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

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

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

36. Financial Instruments

36.1 Categories of Financial Instruments

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

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies

The Group's corporate treasury function provides risk management advice to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These financial risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

36.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 21.1% (2015: 21.3%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 52.5% (2015: 55.3%) of purchases are denominated in the group entity's respective functional currency.

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

	Liabilities		**Assets**	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Foreign Currency				
EURO	**98,830**	75,545	**159,456**	137,851

Note: For group entities with their functional currency as the United States dollar, monetary assets and monetary liabilities denominated in Hong Kong dollars have no material foreign currency risk exposure as the Hong Kong dollar is pegged with the United States dollar.

The Group requires its group entities to use foreign exchange forward contracts to reduce the currency exposure. The foreign exchange forward contracts must be in the same currency as the hedged item. On this basis, the Group has entered into forward contracts in relation to the foreign currency amounting to US$157,799,000 (2015: US$184,717,000). It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness (see Note 27 for details).

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.1 Foreign Currency Risk Management (continued)

Sensitivity Analysis

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

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

	2016 US$'000	2015 US$'000
Impact of EURO		
Profit for the year (i)	**2,816**	2,966

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

36.2.2 Interest Rate Risk Management

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

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

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

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.2 Interest Rate Risk Management (continued)

Sensitivity analysis

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

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

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

36.2.3 Other Price Risk

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

Sensitivity analysis

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

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

36.2.4 Credit Risk Management

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

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

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

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

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

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

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 Liquidity Risk Management

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

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

Liquidity Tables

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

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

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

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 Liquidity Risk Management (continued)

***Liquidity Tables** (continued)*

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

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 Liquidity Risk Management (continued)

Liquidity Tables *(continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand US$'000	1-3 months US$'000	4 months- 1 year US$'000	1-2 years US$'000	2+ years US$'000	Total undiscounted cash flows US$'000	Total carrying amount at December 31, 2015 US$'000
2015								
Non-derivative financial assets								
Held-for-trading investments (Note)	—	1,116	—	—	—	—	1,116	1,116
Available-for-sale investments (Note)	—	492	3	—	—	—	495	495
Trade and other receivables	—	619,098	168,996	61,394	—	—	849,488	849,488
Bills receivable	—	14,967	7,349	4,961	—	—	27,277	27,277
Trade receivables from an associate	—	4	1,362	1,315	—	—	2,681	2,681
Bank balances, deposits and cash	0.03% - 0.05%	749,966	24,657	—	—	—	774,623	774,608
		1,385,643	202,367	67,670	—	—	1,655,680	1,655,665
Non-derivative financial liabilities								
Trade and other payables	—	(627,965)	(370,181)	(162,348)	—	—	(1,160,494)	(1,160,494)
Bills payable	—	(12,648)	(24,792)	—	—	—	(37,440)	(37,440)
Discounted bills with recourse	1.43%	(30,618)	(35,657)	(11,561)	—	—	(77,836)	(77,629)
Variable rate borrowings	0.51% – 2.58%	(8,347)	(462,181)	(120,379)	(85,989)	(383,495)	(1,060,391)	(1,045,021)
Bank overdrafts	3.25% – 5.00%	(3,837)	—	—	—	—	(3,837)	(3,837)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(692,292)	(892,811)	(294,288)	(85,989)	(383,495)	(2,348,875)	(2,324,421)

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 Liquidity Risk Management (continued)

***Liquidity Tables** (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand US$'000	1-3 months US$'000	4 months- 1 year US$'000	1-2 years US$'000	2+ years US$'000	Total undiscounted cash flows US$'000	Total carrying amount at December 31, 2015 US$'000
2015								
Derivatives - net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	10,544	10,544	10,544
Interest rate swap	0.00% - 0.62%	—	(388)	(310)	—	—	(698)	(660)
Foreign currency forward contracts								
– AU$	—	108	42	(150)	—	—	—	—
– NZ$	—	90	(50)	(921)	—	—	(881)	(881)
		198	(396)	(1,381)	—	10,544	8,965	9,003
Derivatives - gross settlement								
Foreign currency forward contracts								
– inflow								
– DKK	—	—	—	460	—	—	460	460
– EUR	—	8,333	13,405	33,795	—	—	55,533	55,533
– RMB	—	61,394	71,468	317,586	—	—	450,448	450,448
– GBP	—	6,000	18,002	25,997	—	—	49,999	49,999
– US$	—	46,007	70,362	407,284	—	—	523,653	523,653
		121,734	173,237	785,122	—	—	1,080,093	1,080,093
– outflow								
– DKK	—	—	—	(450)	—	—	(450)	(450)
– EUR	—	(8,178)	(13,094)	(32,936)	—	—	(54,208)	(54,208)
– RMB	—	(62,198)	(72,734)	(325,776)	—	—	(460,708)	(460,708)
– GBP	—	(5,664)	(17,024)	(24,545)	—	—	(47,233)	(47,233)
– US$	—	(43,912)	(68,500)	(395,154)	—	—	(507,566)	(507,566)
		(119,952)	(171,352)	(778,861)	—	—	(1,070,165)	(1,070,165)
		1,782	1,885	6,261	—	—	9,928	9,928

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

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

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

36. Financial Instruments (continued)

36.3 Fair Value

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

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

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

Fair Value Measurements Recognised in the Statement of Financial Position

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

36. Financial Instruments (continued)

36.3 Fair Value (continued)

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

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

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

36. Financial Instruments (continued)

36.3 Fair Value (continued)

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

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

36.4 Transfer of Financial Assets

The following were the Group's financial assets as at December 31, 2016 that were transferred to banks by discounting or factoring those trade and bills receivables on a full recourse basis. As the Group has not transferred all of the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as discounted bills with recourse (see Note 34) and unsecured borrowings - due within one year (see Note 37). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

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

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

37. Unsecured Borrowings

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

The borrowings of the Group are repayable as follows:

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

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

	2016	2015
Effective interest rate:		
Variable-rate borrowings	**0.72% to 2.60%**	0.51% to 2.58%

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

	US$'000
As at December 31, 2016	**265,387**
As at December 31, 2015	390,904

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

38. Share Capital

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

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

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

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

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

39. Reserves

	Shares held for share award scheme US$'000	Employee share-based compensation reserve US$'000	Hedging reserve US$'000	Retained profits US$'000	Total US$'000
The Company					
At January 1, 2015	(2,441)	3,954	21,087	1,566,566	1,589,166
Loss for the year	—	—	—	(47,502)	(47,502)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	(21,087)	—	(21,087)
Other comprehensive loss for the year	—	—	(21,087)	—	(21,087)
Total comprehensive loss for the year	—	—	(21,087)	(47,502)	(68,589)
Shares issued at premium on exercise of options	—	(637)	—	—	(637)
Vesting of awarded shares	813	(813)	—	—	—
Shares for share award scheme	(7,626)	—	—	—	(7,626)
Recognition of equity settled share-based payments	—	3,546	—	—	3,546
Final dividend – 2014	—	—	—	(44,799)	(44,799)
Interim dividend – 2015	—	—	—	(37,726)	(37,726)
At December 31, 2015	(9,254)	6,050	—	1,436,539	1,433,335
Loss for the year	**—**	**—**	**—**	**(92,062)**	**(92,062)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**—**
Total comprehensive loss for the year	**—**	**—**	**—**	**(92,062)**	**(92,062)**
Shares issued at premium on exercise of options	**—**	**(401)**	**—**	**—**	**(401)**
Buy-back of shares	**—**	**—**	**—**	**(5,425)**	**(5,425)**
Vesting of awarded shares	**8,087**	**(8,087)**	**—**	**—**	**—**
Shares for share award scheme	**(9,309)**	**—**	**—**	**—**	**(9,309)**
Recognition of equity settled share-based payments	**—**	**9,448**	**—**	**—**	**9,448**
Final dividend – 2015	**—**	**—**	**—**	**(54,881)**	**(54,881)**
Interim dividend – 2016	**—**	**—**	**—**	**(47,240)**	**(47,240)**
At December 31, 2016	**(10,476)**	**7,010**	**—**	**1,236,931**	**1,233,465**

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

40. Retirement Benefit Obligations

Defined Contribution Plans:

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

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

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

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

Defined Benefits Plans:

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

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

Note i: Pension plan obligations

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

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

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

Note iii: Post-employment benefit plan obligations

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

40. Retirement Benefit Obligations (continued)

Defined Benefits Plans:(continued)

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

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

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

The main actuarial assumptions used were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Discount rate	**2.00%**	2.70%	**0.75%**	1.00%	**2.75%**	3.25%	**4.11%**	3.71%
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	**4.11%**	3.71%
Future pension increases	**2.00%**	2.00%	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
Medical cost trend rates	**N/A**	N/A	**5.00%**	5.00%	**5.00%**	5.00%	**N/A**	N/A

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

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

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

40. Retirement Benefit Obligations (continued)

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

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

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

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the major plans is as follows:

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

40. Retirement Benefit Obligations (continued)

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

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

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

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

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

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

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

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

41. Deferred Tax Assets (Liabilities)

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

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

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

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

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

42. Major Non-Cash Transactions

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

43. Lease Commitments

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

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

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

44. Contingent Liabilities

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

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

45. Share Options

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

Scheme D was adopted pursuant to a resolution passed on May 29, 2007 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on May 28, 2017. Under Scheme D, the Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

(i) employees; or

(ii) non-executive Directors (including Independent Non-executive Directors or Officers); or

(iii) secondees; or

(iv) business partners, agents, consultants; or

(v) suppliers or customers; or

(vi) any person or entity that provides research, development or other technological support; or

(vii) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1.00 in cash by way of consideration for the grant thereof. Share options may be exercised at any time, subject to vesting conditions from the date of grant to the tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

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

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

45. Share Options (continued)

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

2016

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

45. Share Options (continued)

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

2015

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors									
Mr Horst Julius Pudwill	26.11.2010	D	600,000	—	(600,000)	—	—	8.310	26.11.2011 - 25.11.2020
	21.5.2012	D	570,000	—	(570,000)	—	—	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	168,000	—	—	168,000	29.650	11.9.2016 - 10.9.2025
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	250,000	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 - 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	250,000	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	—	250,000	—	—	250,000	29.650	11.9.2016 - 10.9.2025
Prof Roy Chi Ping Chung BBS JP	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Christopher Patrick Langley OBE	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Manfred Kuhlmann	23.5.2011	D	100,000	—	—	—	100,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	—	150,000	—	—	150,000	29.650	11.9.2016 - 10.9.2025
Mr Joel Arthur Schleicher	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 - 20.5.2022
Total for directors			8,700,000	1,668,000	(1,620,000)	—	8,748,000		

45. Share Options (continued)

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

2015

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

45. Share Options (continued)

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

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

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The weighted average closing price of shares immediately before the options grant date during 2015 was HK$29.80.

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

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

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

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

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

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

46. Share Award Scheme

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

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

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

Recognition of share-based payment expenses under the share award scheme during the year was US$8,379,000 (2015: US$2,357,000). During 2016, 2,324,500 shares (2015: 274,500) were transferred to the awardees upon vesting.

(i) Movements in the number of awarded shares and their related average fair value were as follows:

	Number	
	2016	2015
At January 1	**2,349,500**	824,000
Awarded (Note (a))	**1,000,000**	1,800,000
Vested	**(2,324,500)**	(274,500)
At December 31 (Note (b))	**1,025,000**	2,349,500

Notes:

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

(b) At the end of the year, the average fair value per share is HK$29.22 (2015: HK$26.00). The average fair value of the awarded shares is based on the average purchase cost.

(ii) The remaining vesting periods of the awarded shares outstanding are as follows:

	Number of awarded shares	
	2016	2015
Less than 1 year	**1,025,000**	1,324,500
More than 1 year	**—**	1,025,000
	1,025,000	2,349,500

47. Capital Commitments

	2016 US$'000	2015 US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**32,828**	20,942

48. Related Party Transactions

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

	2016 US$'000	2015 US$'000
Sales income	**7,281**	9,305
Purchases	**7,204**	7,003

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

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

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

49. Statement of Financial Position of the Company

As at December 31, 2016

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

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

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

50. Particulars of Principal Subsidiaries

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

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

50. Particulars of Principal Subsidiaries (continued)

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

50. Particulars of Principal Subsidiaries (continued)

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

* Exempt from the obligation to publish local financial statements.

A wholly foreign owned enterprise.

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

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

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

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

51. Particulars of Principal Associate

Particulars of the principal associate are as follows:

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

Financial Summary

Results

	Year ended December 31				
	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000	**2016** **US$'000**
Revenue	3,852,418	4,299,755	4,752,960	5,038,004	**5,480,413**
Profit before taxation	222,246	276,398	325,159	386,957	**440,029**
Taxation charge	(22,139)	(29,036)	(25,680)	(32,814)	**(31,242)**
Profit for the year	200,107	247,362	299,479	354,143	**408,787**
Attributable to:					
Owners of the Company	200,991	250,284	300,330	354,427	**408,982**
Non-controlling interests	(884)	(2,922)	(851)	(284)	**(195)**
Profit for the year	200,107	247,362	299,479	354,143	**408,787**
Basic earnings per share (US cents)	11.42	13.68	16.41	19.37	**22.32**

Assets and Liabilities

	As at December 31				
	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000	**2016** **US$'000**
Total assets	3,581,078	4,012,559	4,351,383	4,802,718	**5,120,407**
Total liabilities	2,024,556	2,267,123	2,384,357	2,647,146	**2,721,475**
	1,556,522	1,745,436	1,967,026	2,155,572	**2,398,932**
Equity attributable to Owners of the Company	1,548,877	1,740,713	1,967,153	2,155,983	**2,399,538**
Non-controlling interests	7,645	4,723	(127)	(411)	**(606)**
	1,556,522	1,745,436	1,967,026	2,155,572	**2,398,932**

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 BBS JP
Mr Camille Jojo

Independent Non-executive Directors

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

Financial Calendar 2017

March 14	: Announcement of 2016 annual results
May 16	: Last day to register for the entitlement to attend and vote at Annual General Meeting
May 17-19	: Book closure period for the entitlement to attend and vote at Annual General Meeting
May 19	: Annual General Meeting
May 25	: Last day to register for 2016 final dividend
May 26	: Book closure for 2016 final dividend
June 23	: Final dividend payment
June 30	: Six months interim period end
December 31	: Financial year end

Investor Relations Contact

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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

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Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Tel: (852) 2980 1888

ADR Depositary

The Bank of New York

Principal Bankers

Bank of America, N.A.
Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
Citibank N.A.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Mizuho Bank, Ltd., Hong Kong Branch

Solicitors

Vincent T.K. Cheung, Yap & Co.

Auditor

Deloitte Touche Tohmatsu

Company Secretary

Ms Veronica Ka Po Ng

Trademarks

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