Techtronic Industries

Annual Report **2017**

Strategic Drivers

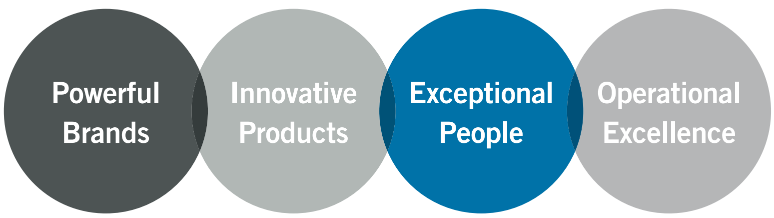
Powerful Brands, Innovative Products, Exceptional People and Operational Excellence are the core strengths of TTI. They enable us in achieving our strategic goals, accelerating our cordless leadership position and fueling growth.

Powerful Brands: TTI strategically invests in its leading brands in order to build trusted customer loyalty, raise profitability and expand distribution. TTI is totally committed to strengthening its portfolio of brands, which are our core equities. Brand loyalty is a cornerstone for perpetuating growth and increased profitability. We highly regard and respect our brands and all of the end-users who invest their confidence in them. Our powerful brands are the foundation for future growth and serve as the stage for all of our activities.

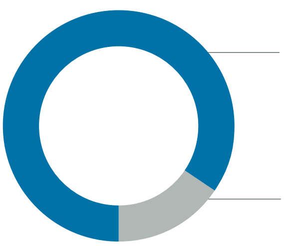
Innovative Products: We have a global network of "Innovation Centers" teeming with talented engineers, product designers, software programmers, researchers and product managers who are focused on new product and technology development. Cordless innovation is the key to expanding market size, entering new markets and accelerating growth. We fuel our brands with a continuous stream of innovative, value-added, demonstrably better new products. We believe in continually challenging accepted standards, exploiting, adapting and improving new technologies to create better products for higher-value brands.

Exceptional People: The foundation of an organization is its people. At TTI, we invest heavily in developing current and future leaders. Filling the growing TTI management needs is the Leadership Development Program through aggressive university recruitment, training and promotion ladder for high-potential talent. A deeply embedded entrepreneurial culture flows through-out the organization and the world-class management team. Strong, effective leadership keeps our company strategically focused on facing the often unpredictable market forces.

Operational Excellence: Execution is the other side of the innovation coin. Without it, ideas remain ideas. At TTI, we are passionate about being the very best in every aspect of our operation. We have linked our new product development with operations. We closely examine every detail from design engineering to supply chain logistics in order to eliminate waste and improve productivity. Our operational teams have driven scalability utilizing our resources at a global level and are prepared for the future.



Sales by Business



84.7 %
Power Equipment, Accessories and Hand Tools

15.3 %
Floor Care and Appliances

Sales by Location

76.3 %
North America

15.2 %
Europe

8.5 %
Rest of the World

41 Operations locations around the world

Manufacturing, research and development, sales and marketing, and administrative duties are all conducted in our Asia, Europe and United States locations.

Innovation Center and Global New Product Development Center completed

Our recently completed Innovation Center in South Carolina and Global New Product Development Center at the Milwaukee headquarters enhance our R&D capabilities coupled with world-class project execution that bring a remarkable range of breakthrough products to market.

Power Equipment, Accessories and Hand Tools

Milwaukee	AEG	RYOBI	Homelite	Empire	Stiletto	HART
Industrial Power Tools Accessories Hand Tools & Storage	Professional Tools	DIY Power Tools Outdoor Products	Outdoor Products	Layout and Measuring Tools	Hand Tools	Hand Tools

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Floor Care and Appliances

Hoover	Oreck	Vax	Dirt Devil
Premium Cleaning Commercial	Professional Cleaning Commercial	High Performance	Consumer

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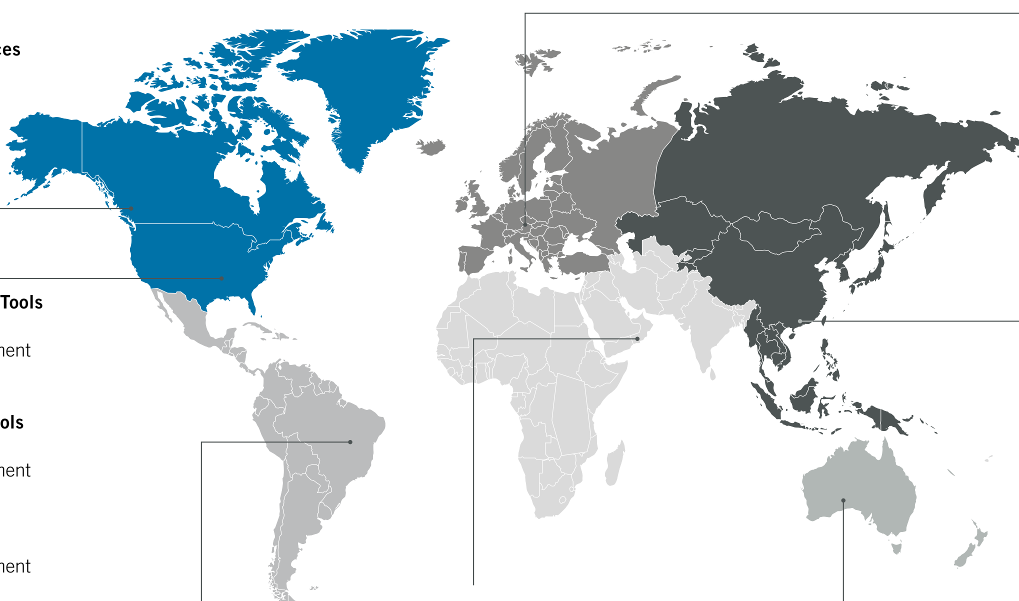
Global Operations



Canada
Power Equipment, Floor Care & Appliances
- Sales & Marketing

United States
Milwaukee Industrial Tools
- Sales & Marketing
- Research & Development
- Manufacturing

DIY & Professional Tools
- Sales & Marketing
- Research & Development

Outdoor Products
- Sales & Marketing
- Research & Development
- Manufacturing

Floor Care & Appliances
- Sales & Marketing
- Research & Development
- Manufacturing

Latin America
Power Equipment, Floor Care & Appliances
- Sales & Marketing

Middle East, Africa, Indian Subcontinent
Power Equipment, Floor Care & Appliances
- Sales & Marketing

Australasia
Power Equipment, Floor Care & Appliances
- Sales & Marketing

Europe
Power Equipment
- Sales & Marketing
- Research & Development
- Manufacturing

Floor Care & Appliances
- Sales & Marketing

Asia TTI Worldwide Headquarters
- Sales & Marketing
- Research & Development
- Manufacturing
- Global Sourcing

Human Resources

Over 22,000 staff worldwide

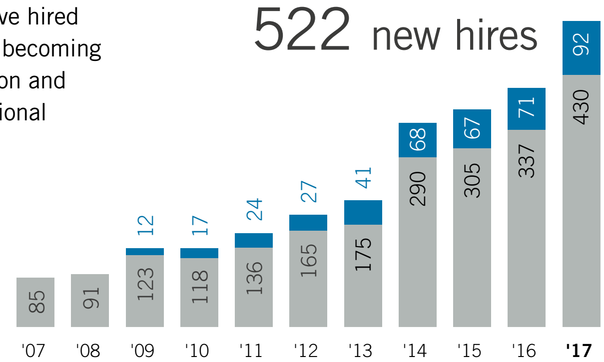
67% Male

33% Female

Leadership Development Program (LDP) Campus Hire

Over the past decade, we have hired over 2,300 LDPs with many becoming leaders within the organization and a number serving in international positions.

522 new hires



Power Equipment, Accessories and Hand Tools

see page 10

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Company Profile

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

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

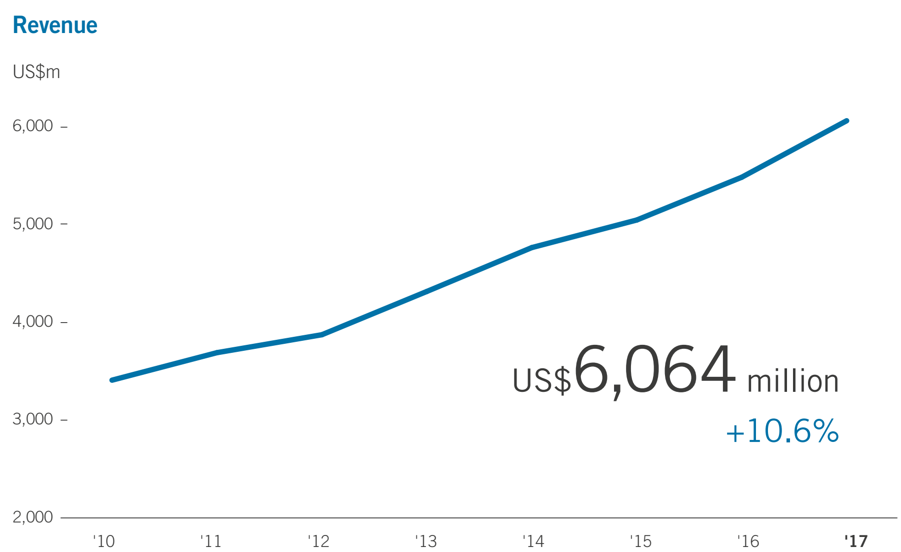
Founded in 1985 in Hong Kong, TTI has a portfolio of industry leading brands, a worldwide customer reach, and over 22,000 staff. TTI maintains a healthy financial position and is listed on the Stock Exchange of Hong Kong and in 2017 had worldwide annual sales of over US$6 billion.

Contents

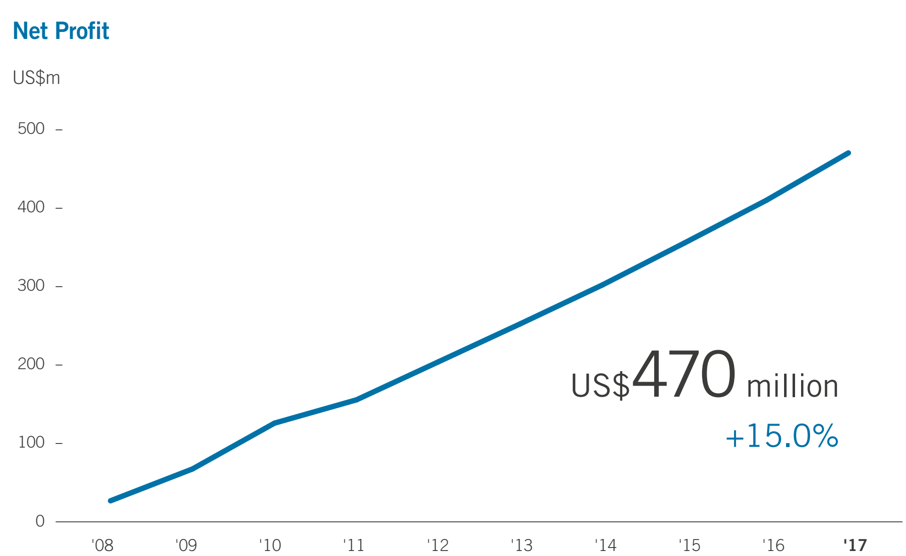
Financial Highlights

- Revenue increased 10.6% to a record US$6.1 billion
- MILWAUKEE continues to grow with strong global momentum and double-digit growth
- RYOBI delivered double-digit revenue growth
- Gross margin expanded from 36.2% to 36.7%, an increase of 50 basis points
- Net profit increased 15.0% for the year, delivering double-digit growth for ten consecutive years
- Efficient working capital management at 16.5% of revenue

8th
consecutive year
of record revenue



10th
consecutive year
of record profit

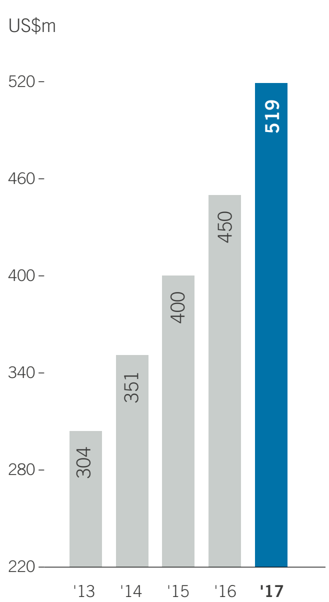


	2017 US$' million	2016 US$' million	Changes
Revenue	**6,064**	5,480	**+10.6%**
Gross profit margin	**36.7%**	36.2%	**+50 bps**
EBIT	**519**	450	**+15.3%**
Profit attributable to Owners of the Company	**470**	409	**+15.0%**
Basic earnings per share (US cents)	**25.66**	22.32	**+15.0%**
Dividend per share (approx. US cents)	**8.69**	6.44	**+35.0%**

EBIT

US$519 million

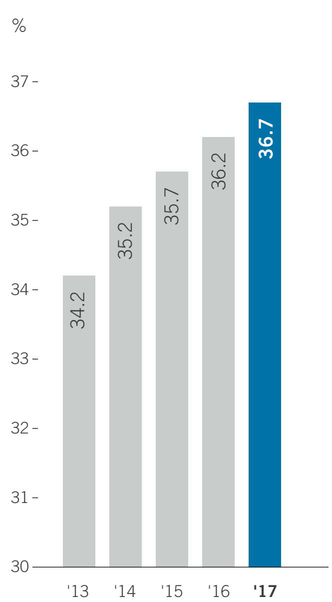
+15.3%



Gross Profit Margin

36.7%

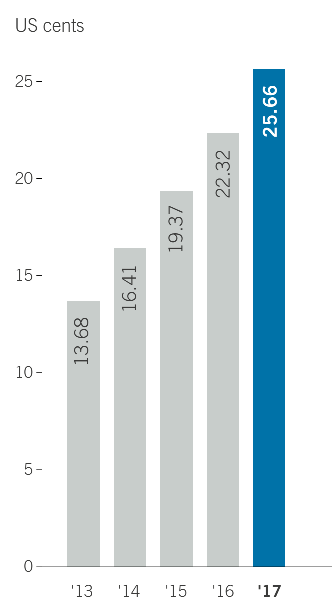
+50 bps



Basic Earnings per Share

US25.66 cents

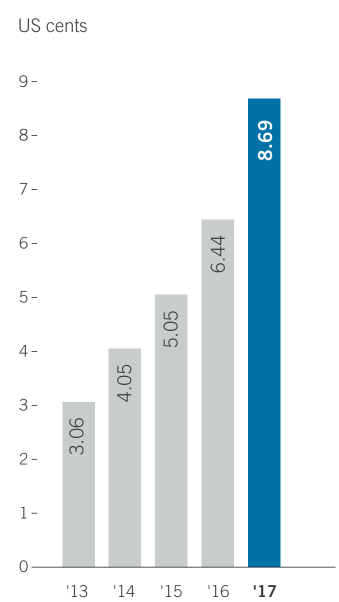
+15.0%



Dividend per Share

US8.69 cents

+35.0%



Chairman's Statement

"We have a bold, disciplined strategic plan for the next five years that focuses on the global leadership in our existing and future markets."

Horst Julius Pudwill
Chairman

I am pleased to announce that in 2017 we delivered another year of record profit and our eighth consecutive year of record revenue. We have delivered impressive growth through the years while continuing to drive gross margin expansion. Our momentum couldn't be stronger and we are highly confident in our disciplined focus on the key strategic drivers of powerful brands, innovative products, exceptional people, and operational excellence.

Record Performance

Revenue for the year ended December 31, 2017 increased 10.6% over 2016 to US$6.1 billion. We generated solid growth in all core geographic regions fueled by exciting new product launches across the divisions. Our largest business, Power Equipment, had another impressive year with sales growth of 14.9% to US$5.1 billion, accounting for 84.7% of total sales, and an increase in operating profit of 18.9% to US$512 million from US$430 million in 2016. The Floor Care and Appliance business made progress in enhancing its cordless product range while exiting certain non-strategic corded vacuums. With the cordless Floor Care business up double-digit, it is a testament to the effectiveness of our strategy to meet the consumer's preference as the industry transitions from corded to cordless. We remain confident our direction will deliver improved returns in the coming years.

Continuous Operational Improvement

Gross profit margin improved for the ninth consecutive year from 36.2% in 2016 to 36.7% on positive impacts from the flow of new product introductions, volume leverage and productivity gains. Our continued investment in automation, value engineering programs and relentless focus on global supply chain are also contributing to helping us achieve our exceptional results. Earnings before interest and taxes, increased by 15.3% to US$519 million, with the margin improving by 40 basis points to 8.6%. Shareholders' profits rose 15.0% to US$470 million, with earnings per share increasing by 15.0% over 2016 to US25.66 cents. Working capital as a percent of sales continues to be very well managed and remained low at 16.5% and in a net cash position.

Given the rapid growth of our Power Equipment division, TTI has made significant investments in the expansion of our distribution, manufacturing and R&D capabilities in North America with our head count increasing 16.0% in this region while global headcount for the entire Group increased only 6.7%, with revenue increasing 10.6%, demonstrating our ability to drive overall productivity.

The Board is recommending a final dividend of HK39.75 cents (approximately US5.12 cents) per share. Together, with the interim dividend of HK27.75 cents (approximately US3.57 cents) per share, this will result in a full-year dividend of HK67.50 cents (approximately US8.69 cents) per share, against HK50.00 cents (approximately US6.44 cents) per share in 2016, an increase of 35.0%.

Strategic Commitment

TTI has a clear focus on meeting our customers' expectations with a relentless drive to create innovative products. Our commitment and investment in R&D combined with our cordless manufacturing capabilities have resulted in a flow of inventive product solutions that are advancing our cordless leadership position. We are leveraging our cordless technology as we drive further and more broadly across the battery platforms of RYOBI ONE+, the world's largest cordless DIY power tool brand, and the industry leading MILWAUKEE M18 and M12 professional and industrial power tool families. In addition to power tools, we utilize our technological expertise in batteries, power management electronics, and brushless motor systems in our Outdoor Power Equipment and Floor Care businesses.

We are committed to a culture of excellence at TTI. It is our high standards, willingness to take the necessary steps, and disciplined commitment to continuous improvement that are propelling TTI to continue delivering outstanding results. We are streamlining our manufacturing operations while at the same time reducing lead-times through the implementation of lean practices, automation, and supply chain reengineering. This dedication to operational excellence also drives the expansion of manufacturing capabilities necessary to launch a growing complex range of new products. Our technology and product development centers are energetic, dynamic places of creative ideas coupled with world-class project execution that bring remarkable ranges of breakthrough products to market. Enhancing our R&D capabilities is the new DIY power tools and outdoor power equipment Innovation Center in South Carolina and the recently completed Global New Product Development Center at the MILWAUKEE headquarters. These facilities are cutting-edge work environments for product creation, technical and software development.

Exciting Future

Our ambition is to fundamentally change the way the world works at home and on the jobsite. We continue to invest in the future through technology and product development teams that are driving the flow of innovative new products and creating opportunities for previously unimagined category expansion. We have a portfolio of powerful brands and leading cordless platforms which are being deployed across the globe.

2018 has started strong as we continue to execute our cordless vision and drive geographic and category expansion. Investment in cordless technology and our new product development process will generate an expanding flow of new products for 2018. New products and ground-breaking technologies like the MILWAUKEE FUEL and RYOBI brushless technology are being launched across our strategic cordless platforms of MILWAUKEE M12 and M18 and RYOBI ONE+ and 40V. New categories leveraging these cordless platforms are being entered and successfully expanded with industry changing innovations like MILWAUKEE High Output Lighting and Ryobi range of cordless Lawn Mowers. Our obsession on focusing on the customer is generating opportunities in complimentary Accessories, Storage and Hand Tool products. We are realizing substantial progress in expanding our global reach through the deployment of TTI's brands and cordless leadership into strategically targeted geographies, many of these only now opening up to the benefits of cordless technology.

TTI is committed to operating as a responsible corporate citizen of the world with environmental, social and governance best practices as we grow the business.

On behalf of the Board, I would like to express my appreciation to our shareholders, loyal customers and everyone at TTI for their dedication, commitment and hard work. With our well-defined strategy, business momentum, and customer focus, I feel very confident that 2018 will be another outstanding year.

Horst Julius Pudwill
Chairman
March 13, 2018

Chief Executive Officer's Message

"We have an ambitious vision for a cordless future, a clear strategy going forward, strong business momentum and an inspired organization."

Joseph Galli Jr
Chief Executive Officer

TTI delivered another year of outstanding performance in 2017. We are thriving as we ambitiously continue executing our laser focused strategy that created the platform for our industry-leading growth. TTI is leading the world's rapid transition to cordless, displacing old technologies, entering new categories and expanding our served industries. Our vision for a cordless future is vast.

Global Cordless Leadership

Early on TTI identified the once in a generation shift from traditional power sources to cordless labor saving devices. We are driving the revolutionary change to cordless products away from traditional corded, pneumatic, hydraulic and gas power. We set a course to be the industry leader by bringing the disruptive cordless revolution with breakthrough innovative products into our product categories.

Our strategic bedrock is the disciplined R&D investment necessary to deliver innovative product development which has been the key to our sustained performance. The advancements we have made in battery and motor technology coupled with new sophisticated electronic and charging systems have accelerated the corded to cordless transition into a true system wide expansion of cordless possibilities. This in turn has fueled cordless growth across all product categories. Whether it is RYOBI as the largest cordless DIY brand in the world, MILWAUKEE with its dominant industrial and professional tools leadership position, or HOOVER, VAX, and DIRT DEVIL brands commanding presence in global floor care, TTI is redefining how the world works at home and on the jobsite.

Powerful Brand Platforms

RYOBI is the number one DIY power tool brand in the world. The overarching reach of the RYOBI ONE+ system is a powerful platform for users, with over 120 power tools and outdoor products for use around the home and worksite. RYOBI ONE+ system has not changed in compatibility since introduction, generating a powerful network effect allowing existing users to upgrade, expand, and join the system with confidence. Innovative new products continue to attract new users to the system with breakout products like the high performance brushless drywall gun and AIRSTRIKE range's 23 gauge pin nailer as well as category expanding products such as the worksite EVERCHARGE area light and cordless cleaning debris sweeper, 6 gallon wet/dry vac and pool vacuum.

RYOBI in outdoor products is driving the evolution from gas powered products to the environmentally friendly cordless technology which is quieter, easy to use, and with the accelerating technology development, is equaling and surpassing performance of gas powered alternatives. Gas-powered lawn and garden equipment are important sources of non-road air pollutants and our cordless outdoor products are making a positive impact for the environment. The success of our RYOBI cordless mower family of eighteen models utilizing the ONE+ and 40V cordless systems demonstrates the impact of cordless on previously entrenched technologies and competitors. Mowers are a major growth area and is one category of many outdoor products that have our dedicated focus.

TTI has developed a long term strategy for floor care with our iconic HOOVER, DIRT DEVIL, ORECK and VAX brands. We are focusing on cordless and carpet washing products while acknowledging that the traditional corded vacuum market is evaporating. The new VAX BLADE and HOOVER REACT, IMPULSE and FUSION cordless stick vacs are from our new product roadmap. The reframed business will require disciplined strategic implementation, but early results are encouraging and we believe we have a winning plan for the future.

MILWAUKEE, with the vast M12, M18 and FUEL product ranges, is the fastest growing, most innovative and leading brand of cordless tools for the industrial and professional user. MILWAUKEE is expanding growth opportunities through the systematic introduction of disruptive new products with specific solutions aimed at electrical, mechanical, plumbing and remodeling. Our technologically advanced new cordless high-output lighting, FORCELOGIC hydraulics, and drain cleaning products represent significant improvement in productivity, safety, and product performance. We are truly excited that our revolutionary range of next generation products are reshaping the industrial landscape across a growing number of categories.

Driving Innovative Products

We are pioneering innovation in product categories through cordless technology. TTI remains committed to bringing cordless into new targeted product categories and growing existing product categories. Our success in these arenas has been unprecedented. To sustain and nurture this success we have built a world-class R&D capability and new product development process delivering speed-to-market competitive advantage. Leveraging our manufacturing expertise and product innovation process on our advancements in cordless technology, we are creating significant changes in the markets we serve, making gains across all product categories. Our R&D capabilities and extensive research reach deep into technology, engineering, software development and design, envisioning and producing the next generation of cordless products.

The rapid transition to cordless tools is still in its early stages and we are confident that the opportunities arising from this shift are virtually unlimited. We expect significant growth from TTI's new product pipeline which is unmatched in technology, scale and speed-to-market.

Geographic Expansion Success

TTI has been successfully building upon our strong foundation in the US market while making important gains in targeted, underrepresented geographies around the world. We have worked hard to significantly improve our market positions in Canada, Australia, New Zealand, Western Europe and now Eastern Europe. We have a selective and focused process for geographic expansion which includes bold investment in the target markets of South Korea, Taiwan, China, Thailand, Hong Kong, Singapore, Malaysia and other strategic geographies.

Highly Talented Management Team

The TTI leadership team is a core strength. Our business leaders are strategic, goal oriented and incredibly passionate industry experts with a relentless drive to succeed. TTI has grown and expanded across the globe filling the organization with talented international professionals. TTI invests in selecting and developing future leaders internally to nourish our growing management needs. We foster great people through a culture of meaningful mentorship, business tools, challenging positions and opportunities for our teams of entrepreneurs to have the resources and freedom to drive hard, be creative, and deliver results. We are committed to delivering a world-class work environment to attract, retain, and recruit the best talent in the world.

Leadership Development Program

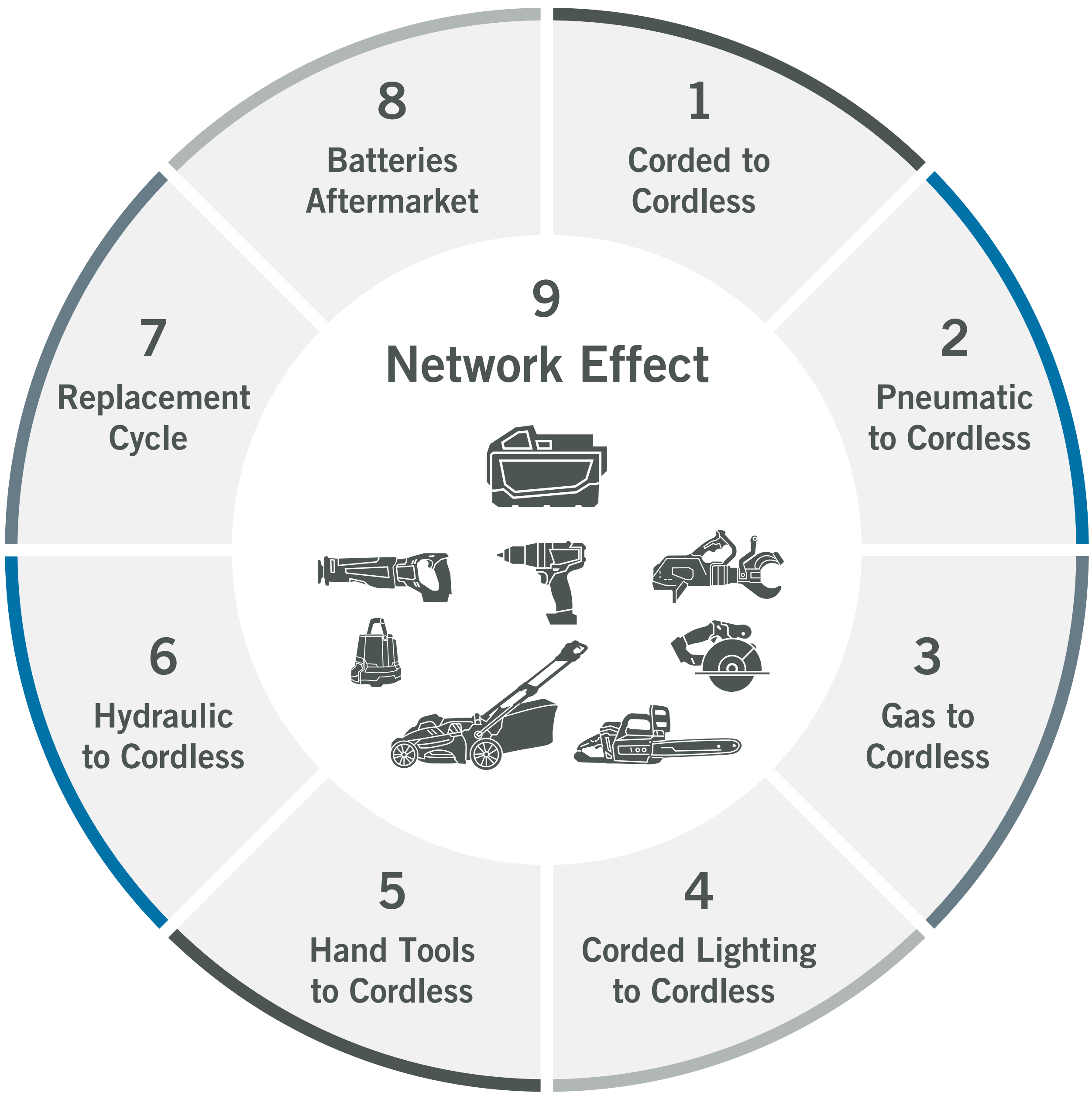
Our Leadership Development Program (LDP) is flourishing and impacting every discipline in the company. This program is a cornerstone in creating the future leaders of TTI. Through a highly selective process we recruit high-potential graduates from top universities for sales, marketing, engineering, purchasing, supply chain, manufacturing and finance, followed by dedicated systems focusing on training, mentoring, and promoting them. Over the past decade, we have hired over 2,300 LDPs with many becoming leaders within the organization and a number serving in international positions. This extremely effective program has been expanded from North America to Europe, Asia, Latin America, and Australia. Our steadfast commitment to the LDP enables TTI to develop a deep bench of exceptional leaders to support our business goals.

I am extremely proud of our industry-leading growth, profit advancement and track record of outstanding performance. The unprecedented momentum we have generated at TTI mirrors the powerful future that lies ahead. We have built an enviable platform with massive long term potential. We are just getting started.

It is the bold vision and leadership of our Chairman, Horst Pudwill, with his relentless drive that best defines our extraordinary culture. He is a mentor and remarkable role model to the entire TTI team. We share the cordless vision and incredible future outlook for TTI.

Joseph Galli Jr
Chief Executive Officer
March 13, 2018

Our goal is to create and harvest these opportunities.

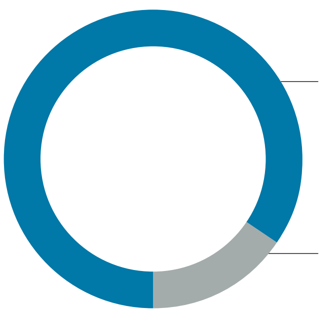


Power Equipment, Accessories and Hand Tools

US$ 5.1 billion

Sales in Power Equipment, Accessories and Hand Tools

Sales by Business



84.7%
Power Equipment, Accessories and Hand Tools

15.3%
Floor Care and Appliances

The Power Equipment business grew to US$5.1 billion and 84.7% of total Group sales. The business also delivered operating profit of US$512 million, a 18.9% increase over the previous year. The MILWAUKEE and RYOBI brands both delivered double-digit sales growth and outpaced the market.

Milwaukee: Industrial Power Tools, Accessories, Hand Tools & Storage

AEG Powertools: Professional Tools

RYOBI: DIY Power Tools, Outdoor Products

Homelite: Outdoor Products

Empire: Layout and Measuring Tools

Stiletto: Hand Tools

HART: Hand Tools

Power Equipment, Accessories and Hand Tools

Industrial Power Tools

The MILWAUKEE M18 cordless system represents the ultimate synergy of game-changing performance, professional grade power and extreme durability. Powered by REDLITHIUM battery technology for unmatched run-time, the system couples patented technologies with innovative motors and advanced electronics for an experience like none other. The fastest-growing cordless tool platform in the industry, M18 is a testament to MILWAUKEE's commitment to improve jobsite productivity by providing performance-driven and trade-focused solutions so users can perform an entire day's work on one battery system. MILWAUKEE offers more than 150 performance-driven solutions that are fully compatible with the M18 system.

M18 Compact Heat Gun

M18 FORCELOGIC 10 Ton Knockout Tool

M18 FUEL

As the flagship of the M18 system, M18 FUEL products deliver solutions that are the highest performing tools in their class. Engineered for the most demanding tradesmen, all M18 FUEL products feature three MILWAUKEE-exclusive innovations — The POWERSTATE brushless motor, REDLITHIUM battery pack and REDLINK PLUS intelligence hardware and software — that deliver unmatched power, run-time and durability on the jobsite.

M18 FUEL HACKZALL
One-Handed Recip Saw

M18 FUEL 7-1/4” Dual Bevel
Sliding Compound Miter Saw

M18 FUEL 1/2” High Torque
Impact Wrench w/ Friction Ring

M18 FUEL w/ ONE-KEY
1/2” High Torque Impact Wrench
w/ Friction Ring

M18 FUEL Mud Mixer
w/ 180° Handle

Industrial Power Tools

The MILWAUKEE M12 cordless system delivers industry-leading durability and power in a size that outperforms the competition in the tightest places. M12 defines cordless tool innovation, providing portable, trade-focused solutions aimed at transforming inefficient manual tools — such as cable and copper tubing cutters, hand staplers and ratchets — into advanced workhorses powered by MILWAUKEE's REDLITHIUM battery technology. All fully compatible, more than 90 unique solutions make the M12 family the largest sub-compact cordless system on the market.


M12 Soldering Iron


M12 3/8" Crown Stapler


M12 Rivet Tool

M12 FUEL

As the flagship of the M12 system, M12 FUEL tools are designed, engineered and built to deliver extreme performance and productivity. All M12 FUEL products feature three MILWAUKEE-exclusive innovations — the POWERSTATE brushless motor, REDLITHIUM battery pack and REDLINK PLUS intelligence hardware and software — that deliver unmatched power, run-time and durability on the jobsite.

M12 FUEL 1/2” Drill/Driver

M12 FUEL 1/2” Hammer Drill/Driver

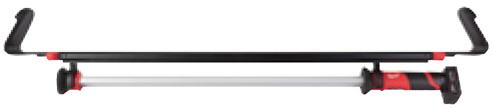
M12 FUEL 1/4” Hex Impact Driver

M12 FUEL Ratchets

Industrial Power Tools

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

ROVER™ ROCKET™ RADIUS™



M12 LED
Underhood Light

M18 ROVER LED
Mounting Flood Light

RADIUS LED
70W Temporary Site Light

PERSONAL LIGHTING

MILWAUKEE delivers the industry's first line of trade-focused, high performance personal lights designed to adapt, perform and survive. Built to withstand the toughest conditions on and off the jobsite, MILWAUKEE lights combine the best cordless battery and LED technology delivering convenient, portable solutions that increase productivity and safety.

USB Rechargeable Hard Hat Headlamp

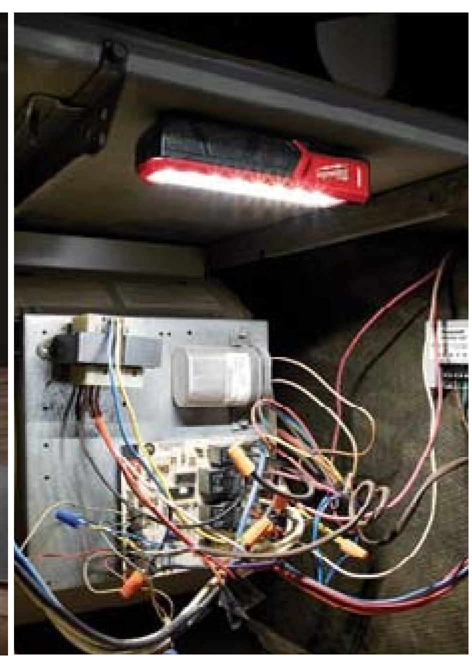
USB Rechargeable 700L Flashlight

USB Rechargeable ROVER Pocket Flood Light

REDLITHIUM USB Battery & Charger Kit

Penlight

Headlamp



DRAIN CLEANING EQUIPMENT

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

M12 AIRSNAKE
Drain Cleaning Air Gun

M18 FUEL Drain Snake
w/ CABLE DRIVE Locking Feed System

M18 FUEL SWITCH PACK
Sectional Drum System Kit

M18 FUEL

From landscaping professionals to trade professionals, MILWAUKEE is committed to improving productivity by providing performance-driven and trade-focused solutions. These tools have the power to outperform competitive 18V and higher voltage solutions, and are fully compatible with more than 150 solutions on the M18 system.

OUTDOOR POWER EQUIPMENT

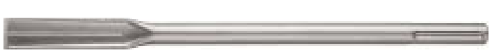
M18 FUEL String Trimmer

M18 FUEL Blower

M18 FUEL Hedge Trimmer

MASONRY AND CONCRETE

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



SDS Max Self-Sharpening Flat Chisel

SDS Plus Self-Sharpening Bull Point

SDS Plus Vacuum Bit

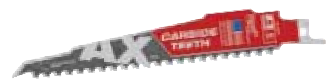
SDS Max 4-Cutter Carbide Tipped Bit

SHOCKWAVE IMPACT DUTY™

LINEMANS

AX™ CARBIDE TEETH

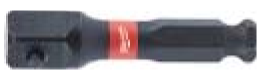
SHOCKWAVE Lineman’s Impact 18” Auger Bit



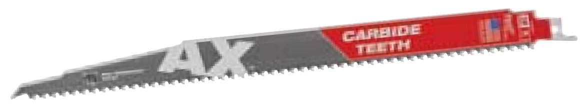
6” 5 TPI Wood THE AX with Carbide Teeth
SAWZALL Blade

SHOCKWAVE Lineman’s 3-in-1 Distribution
Utility Socket

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



SHOCKWAVE Lineman’s Impact Socket Adapter



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

Hand Tools & Storage

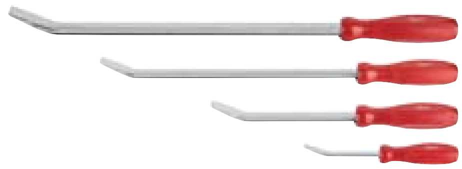
ULTIMATE PRODUCTIVITY. SUPERIOR PERFORMANCE.

In 2017, MILWAUKEE continued to expand its hand tool and storage offering by providing innovative, trade-specific solutions that deliver increased durability and productivity to users. As demonstrated with the new PACKOUT modular storage system delivering the most versatile and durable storage, MILWAUKEE develops its products from the ground up, disrupting stagnant categories in the market.

PACKOUT™ MODULAR STORAGE SYSTEM

MILWAUKEE revolutionizes tool transportation, organization, and storage for the trades with the new PACKOUT modular storage system. Designed to provide users with the ability to interchange and interlock a wide assortment of heavy duty tool boxes, organizers, and storage totes in multiple different configurations, PACKOUT is the most versatile and durable modular storage system in the industry.

Hook & Pick Set



Pry Bars

Dipped Gloves

Fixed Knives

Framing Hammers

Bolt Cutters

Aviation Snips

Combination Wrenches

MEP Ratchets

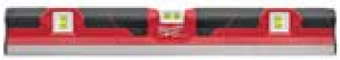
Data Comm Tools

Layout and Measuring Tools

MILWAUKEE REDSTICK Levels set the bar with industry-leading performance, delivering best-in-class vial readability, reinforced frames and a lifetime accuracy guarantee. SHARPSITE Vial Technology has a magnified bubble and high-visibility vial spirit designed to deliver visual accuracy on the jobsite. REDSTICK Levels are backed by a Lifetime Accuracy Guarantee within 0.029 degrees and a Limited Lifetime Warranty.

REDSTICK Box Levels

REDSTICK Magnetic Box Levels



REDSTICK Concrete Levels

Pocket Level

EMPIRE Level continues to own users within the construction trades with innovative products and user-focused technology. The expansion of ULTRAVIEW LED technology into the torpedo level category gives users a lightweight pocketable solution for everyday work in poorly lit conditions. The new line of digital levels exceeded user expectations with industry-first features like auto-calibration and inspect mode making them the easiest and most functional levels on the market. As the dominant industry leader, EMPIRE Level continued to upgrade core categories with the expansion of compact box levels, and long reel tapes driving high double digit sales growth in 2017 and taking significant market share.

25ft Chrome Auto Lock Tape Measure

Closed Reel Steel Tapes

ULTRAVIEW LED Torpedo Level

Compact Box Levels

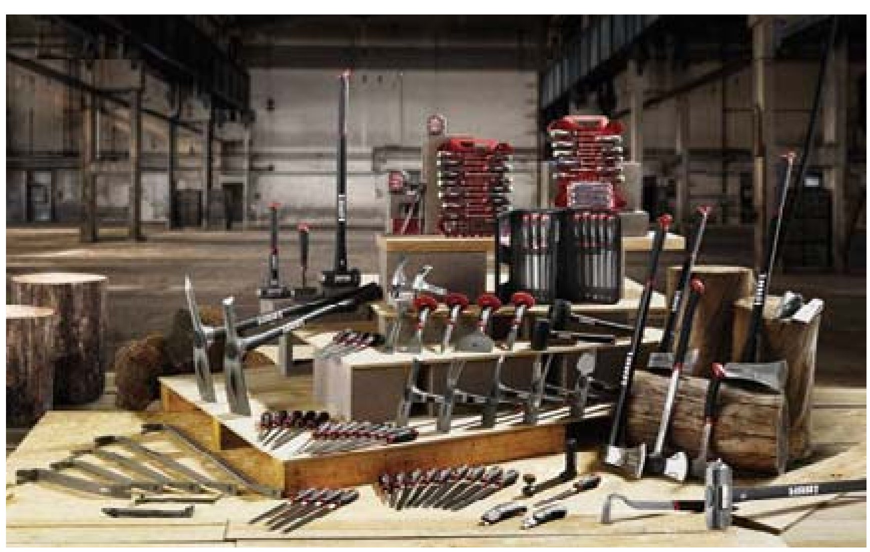
Digital Box Levels

Magnetic Digital Box Levels

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 tools to enhance productivity. Products range from hammers, sledges, tiling tools, pry bars, clamps, mattocks and utility tools ensure you have the right products to complete every job.



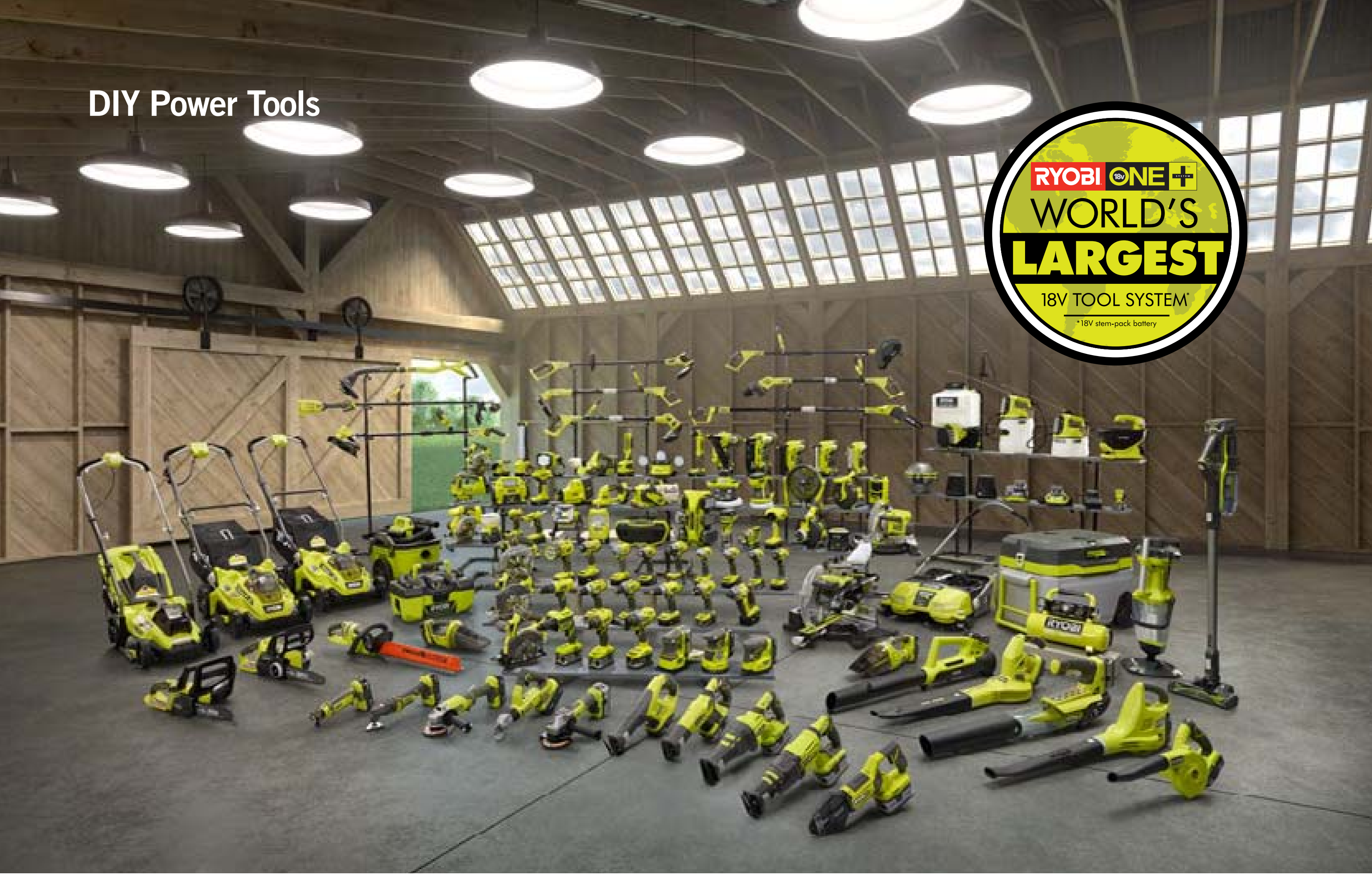
Professional Tools

AEG POWERTOOLS

Since being founded, AEG POWERTOOLS has been leading the way in new product development. By introducing the first transportable drilling machines in 1898, portable powertools were born. Over 100 years later AEG are still offering the professional user innovative, powerful solutions.

At the heart of PRO 18-volt brushless tools lies 3 core technologies. These core electronics are built to offer tradesmen relentless power, instinctive technology and unstoppable runtime and sets AEG's PRO 18-volt brushless tools apart from all competition.

DIY Power Tools



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

RYOBI's 18-volt ONE+ system of tools is the world's largest, featuring over 100 unique products on one platform that has remained loyal to its customers since 1996. RYOBI ONE+ tools can power you through all types of projects from drilling, driving, cutting, and fastening, to lighting, plumbing, cooling, trimming, edging, mowing, and clearing — and so much more.

18-volt ONE+ High Performance Batteries
RYOBI 18-volt batteries include industry leading lithium ion chemistry and electronics technology

18-volt ONE+
Brushless Drywall Screw Gun

18-volt ONE+
Color Range Worklight

18-volt ONE+
EVERCHARGE LED Area Light

18-volt ONE+
LED Project Light

18-volt ONE+
Bolt Cutter

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

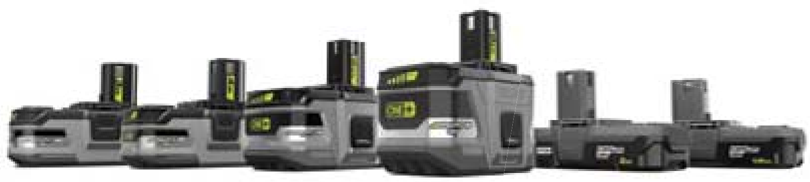
18-volt ONE+
Palm Router

DIY Power Tools

When it comes to keeping your home or shop clean RYOBI has you covered with several innovative first to market products. Innovative products such as the EVERCHARGE Stick Vacuum, 6-Gallon Wet/Dry Vacuum and Devour Floor Sweeper give you corded-like performance without the hassle of the cord. All 18-volt cleaning products are part of the ONE+ System of Tools.

Outdoor Products

The RYOBI brand puts the latest technology, innovation and features into the hands of every homeowner with its 18-volt ONE+ outdoor products. With the expanding line of string trimmers, hedge trimmers, blowers, chainsaws, lawn mowers, chemical sprayers and lifestyle products, there is something perfectly suited for any user. All RYOBI 18-volt outdoor tools are compatible with all RYOBI ONE+ batteries produced since 1996. Today, there are over 100 tools in the 18-volt ONE+ platform.



18-volt ONE+ High Performance Batteries
RYOBI 18-volt batteries include industry leading lithium ion chemistry and electronics technology

18-volt ONE+ Hedge Trimmer

18-volt ONE+ Blower

18-volt ONE+ String Trimmer

BRUSHLESS

18-volt ONE+ Brushless Chainsaw

Outdoor Products

Take back your lawn with the RYOBI 18V ONE+ lawn mowers. The RYOBI LITHIUM+ mowers redefine the 18-volt category by delivering the power, run time and performance you would expect from higher voltage lines, while still offering the versatility of the ONE+ system. Equipped with a push-button start, this mower offers convenience that gas mowers just can't.

18V ONE+ LITHIUM+ Hybrid Mower

18V ONE+ LITHIUM+ Mower

RYOBI

40VLITHIUM

BRUSHLESS

The cordless revolution has arrived with a full range of RYOBI 40-volt lithium lawn mowers. With a variety of deck sizes and features that empower users of all skill levels, there is a 40-volt mower that is perfect for any homeowner and yard. Featuring “Gas-Like Power,” exceptional run time and the convenience of battery power all at an affordable price, the RYOBI 40-volt lithium mowers make the decision of switching to cordless an obvious choice.

40-volt Brushless Self-Propelled 20” Lawn Mower

40-volt 20” Brushless Mower

Outdoor Products

When it launched in 2012, the RYOBI 40-volt lithium battery was one of the industry's first high-voltage outdoor power equipment platform. This innovative new range delivered superior run time while providing the mobility of gas powered equipment. In 2014, the RYOBI brand launched "Gas-Like Power" tools that not only provided the power of gas outdoor power equipment, but also delivered cordless convenience. There are now over 25 products in the 40-volt lithium family, including lawn mowers, string trimmers, chain saws, hedge trimmers and more. Each tool is powered by a 40-volt lithium ion battery for fade-free, long-lasting performance.

40-volt Jet Fan Blower

40-volt Attachment Capable 10 inch Pole Saw

40-volt X Attachment Capable String Trimmer

40-volt Attachment Capable Cultivator

40-volt Hedge Trimmer

BRUSHLESS

40-volt 20" Brushless Mower

40-volt Brushless Self-Propelled 20" Lawn Mower

40-volt 20" Brushless Snow Blower

40-volt Brushless String Trimmer

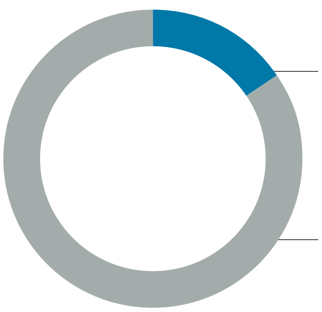
40-volt Brushless Chainsaw

Floor Care and Appliances

US$ 926 million

Sales in Floor Care and Appliances

Sales by Business

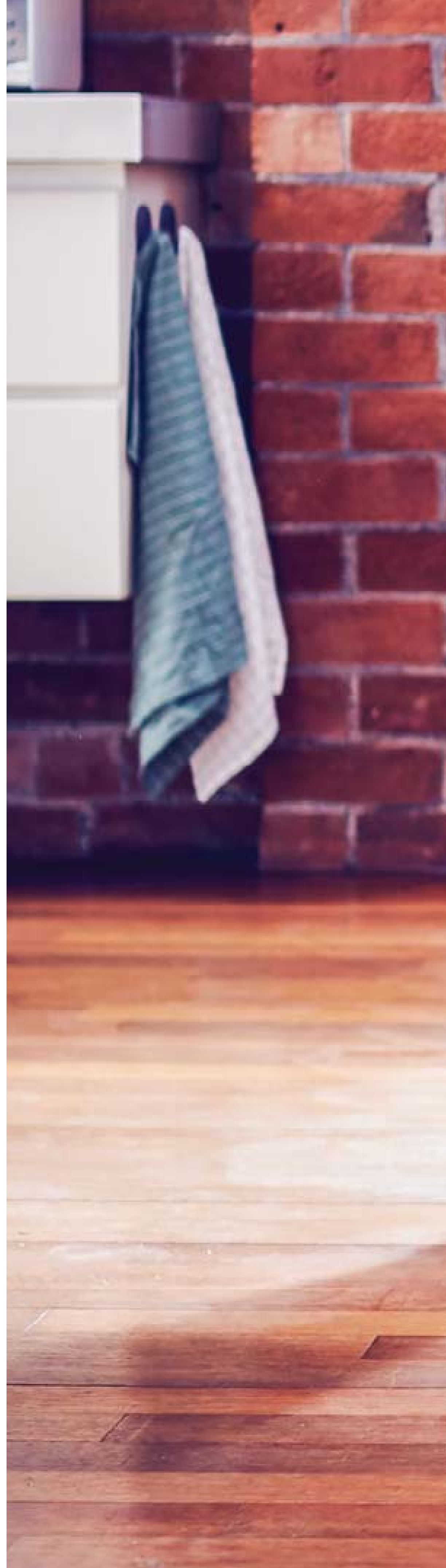


15.3%

Floor Care and Appliances

84.7%

Power Equipment, Accessories and Hand Tools



The Floor Care and Appliance business declined 8.3% and accounted for 15.3% of TTI sales. With our outstanding brand portfolio including HOOVER, DIRT DEVIL, ORECK and VAX, the business is focusing on high growth cordless products and leveraging the TTI cordless technology. Sales of cordless vacuums grew double-digit across all geographies, validating our strategic plan aimed at increased profitability and a return to top line growth in the long term. The business is making progress executing the strategic changes by investing in R&D for cordless technology and new product development, discontinuation of non-strategic products and streamlining operations.

Hoover	Oreck	Vax	Dirt Devil
Premium Cleaning Commercial	Professional Cleaning Commercial	High Performance	Consumer

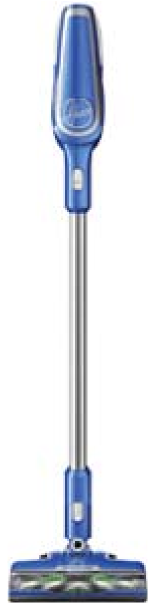
Floor Care and Appliances

Floor Care and Appliances

The power of HOOVER brand meets the convenience of cordless with our growing line up of versatile, easy-to-use cord-free vacuums. Packed with the latest lithium ion battery technology, our cordless stick vacuums are fade-free, boast an extra long runtime and faster charging. HOOVER cordless products provide innovative technology, a sleek design and the tools you need to clean anywhere in your home quickly and efficiently.

ONE PWR React Stick Vacuum

ONE PWR FUSION Stick Vacuum



IMPLUSE Stick Vacuum

SmartWash Carpet Cleaner

PowerDash Carpet Cleaner

Our Best Cleaning

Full Size Carpet Cleaner

Eliminate the guesswork with automatic cleaning technology that makes carpet cleaning as easy as vacuuming.

ORECK

ORECK brand's first cordless vacuum with POD technology is the solution to the mess caused by traditional bagless vacuums. The self-sealing POD technology refill contains dust and dirt for an easy, mess-free disposal so you and your home stay clean.

ORECK POD Cordless Vacuum

ORECK pod TECHNOLOGY

ORECK POD

Floor Care and Appliances

The VAX BLADE cordless delivers the powerful cleaning performance of a corded vacuum without the cord. Its new floor cleaning head and DIRECT HELIX Technology optimize air flow at all angles, to maximize performance and efficiency. It also features a 'boost mode' for picking up even the most stubborn dirt and pet hair in high traffic areas around the home.

BLADE CORDLESS

DIRT DEVIL brand takes cordless to a whole new level with easy-to-use products packed with on-trend features. Cord-free benefits like fade free battery power, longer runtime and faster charging are paired with advanced brushrolls and easy-release dirt cups guaranteed to get the job done in no time.

Plus, a powerful line of new uprights come with the EUDURA advanced performance filter extending the life of your product by providing less maintenance and no loss of suction.

All the power you need at a price you can afford!

DIRT DEVIL Power Max Pet

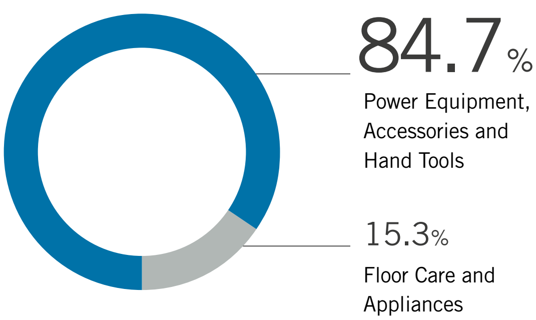
Powerful Cleaning

DIRT DEVIL uprights are packed with power and the ENDURA filtration system.

Management's Discussion and Analysis

Review of Operations

Sales by Business



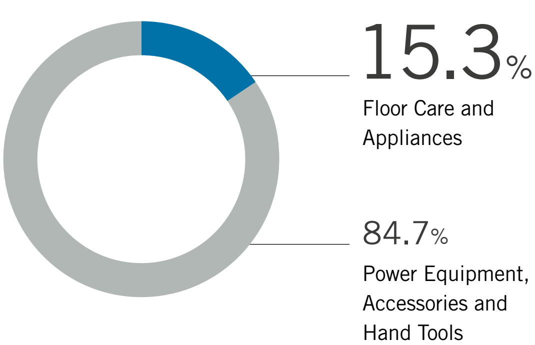
Focus on cordless innovation

Revenue growth of Power Equipment business was 14.9%

The business delivered operating profit of US$512 million, a 18.9% increase over the previous year

The MILWAUKEE and RYOBI brands both delivered double-digit sales growth and outpaced the market

Sales by Business



Sales of cordless vacuums grew double-digit across all geographies

Outstanding brand portfolio includes HOOVER, DIRT DEVIL, ORECK and VAX

Invested in new production lines for our cordless products

Making progress executing the strategic changes

Review of Operations

TTI once again delivered record results in 2017. Total company revenue increased 10.6% from the prior year with growth in all regions. North America delivered strong 11.2% growth along with 3.3% growth in Europe and 20.8% from the rest of the world. Our focus on cordless innovation helped drive our Power Equipment business with revenue growth of 14.9%. Floor Care and Appliance business generated double-digit growth in cordless sales but with the strategic phase-out of the corded products the business declined 8.3%.

2017 was the ninth consecutive year of gross profit margin improvement from 36.2% in 2016 to 36.7% in 2017. This is a result of the organization's total commitment to our four strategic drivers which positively impact our goals. Innovative new products and services, cost efficiencies through continuous improvement initiatives, talent investment on a global basis, and world recognized and trusted brands all contribute to growing profitability.

Power Equipment

The Power Equipment business grew to US$5.1 billion and 84.7% of total Group sales. The business also delivered operating profit of US$512 million, a 18.9% increase over the previous year. The MILWAUKEE and RYOBI brands both delivered double-digit sales growth and outpaced the market.

Industrial Tools

The strategic focus on disruptive product innovation, direct end-user engagement, and operational performance drove Milwaukee to exceptional 2017 results. Sales grew 21.7% in the period outperforming the growth in the industrial and professional market. The strategy for continued market penetration is multi-leveled with the critically important end user and distribution interactions and the targeting of untapped adjacent categories all through the introduction of innovative products.

The business continues to successfully deliver on the strategy of providing a system-wide product range for professionals with special attention to trade users in the electrical, mechanical and plumbing industries. These trade-specific segments are experiencing a tremendous shift to the MILWAUKEE cordless revolution with the development of new categories.

Power Tools

The Milwaukee Power Tool business generated another year of double-digit sales growth exhibiting significant market share gains and new category expansion across the professional cordless power tool business segment. Examples of market changing innovative product introductions that are changing the way jobsites work occurred in lighting, drain cleaning, hydraulic and pneumatic where the need for electrical cords, hoses or gas storage is being eliminated. This is a direct result of the M12 and M18 cordless systems simplifying the decision process with a single battery platform. The M18 cordless system continues to be the fastest growing system for the professional end-user providing over 145 compatible tool solutions and the M12 cordless system surpassing over 80 compatible tools is maintaining our clear cordless leadership position in the sub-compact space.

Milwaukee continued investing and expanding the FUEL range by increasing the number of tools to more than 55. The new M18 FUEL mid-torque impact wrenches and the M18 high-torque impact wrenches are moving end-users from pneumatic to cordless enabling better maneuverability in tight spaces. Additional strategic product initiatives included the M18 FUEL HACKZALL utilizing a POWERSTATE brushless motor, a best in class 7/8" stroke length, and providing fast cutting and power in a one-handed reciprocating saw. The M18 FUEL 7-1/4" dual bevel sliding compound miter saw was designed for the demanding needs of the professional carpenter and remodeler. The M12 FUEL ½" ratchet combines both the torque and the compact size to replace pneumatic ratchets, becoming the ideal fastening solution for automotive mechanics and maintenance and repair professionals who demand maximum performance and convenient portability.

Leading the industry with disruptive cordless solutions for the mechanical, electrical and plumbing trades, the FORCELOGIC platform expanded its product range with the successful introductions of the M18 FORCELOGIC 1590 ACSR cable cutter, the M18 FORCELOGIC 12 ton crimper, and the innovative M18 FORCELOGIC 3" underground cable cutter which delivers improved reliability and productivity for the linemen in the electric power transmission and distribution trade.

The professional service plumber and maintenance repair professional have witnessed Milwaukee's expanded presence in the professional drain cleaning space with innovative cordless products. The handheld M18 FUEL drain snake with CABLE-DRIVE locking feed system was the first to deliver brushless motor technology to the drain cleaning industry. The M12 AIRSNAKE drain cleaning air gun is the industry's first drain cleaning machine designed to clear through drain covers and traps with powered air while leaving fixtures and drain covers intact. The M18 FUEL SWITCH PACK sectional drum system is the first drain cleaning solution that combines the benefits of sectional and drum machines.

A new category launched in 2016, M18 outdoor power equipment, reported strong results. Designed to meet landscape maintenance professional needs with increased productivity, the products eliminate cords and gas issues all with a single battery platform. The M18 FUEL string trimmer clears thick brush, reaches full throttle in under 1 second, and provides 1 hour of run time per charge. The M18 FUEL blower generates 30% less noise than gas-powered blowers and clears a distance of 15 feet. The M18 FUEL hedge trimmer delivers 2 hours runtime with the power to cut ¾" branches.

High Output Lighting

Milwaukee is dominating the cordless high output and personal lighting categories. Our strategic initiative of capturing this market with innovative product solutions designed to deliver unmatched durability, performance, and increased productivity is witnessing acceptance in all the markets we serve. The M12 LED underhood light delivers TRUEVIEW high definition output adapting to any work situation with 2X more gripping surface for maximum hold while the FINISHGUARD hooks provide lasting protection against scratches to a vehicle's finish. The M18 RADIUS site light, capable of running on one or two battery packs, creates full 360° coverage with 14 hours from one charge. In addition, with plug-in and daisy-chaining capability, professionals can connect up to 12 lights off of a single circuit. The M18 ROVER mounting flood light brings extreme versatility to any jobsite with multiple mounting options in magnets and spring loaded clamps.

We entered the personal lighting category with a system of USB rechargeable lighting solutions which deliver over 2,000 recharges and 3X faster charging via USB. Products include the USB rechargeable ROVER pocket flood light designed to carry and attach anywhere, the USB rechargeable hard hat headlamp delivering 475 lumens, a slip resistant strap and a water, dust, and drop resistant body and lens for the toughest workplace conditions, and the USB rechargeable 700L flashlight with a sliding head for adjusting beam pattern.

Accessories

The Milwaukee Power Tool Accessory business finished 2017 with strong double-digit growth as a result of end-user conversions, new product introductions, and aggressive distribution efforts. Leading the growth was the SDS concrete drill bit and chisel segment which targets end-user demands of time saving engineered speed and extended chisel life. The SHOCKWAVE product range continues to be the brand of choice for impact rated drilling and driving accessories as Milwaukee extended the SHOCKWAVE range of products to include trade-specific accessory solutions for the power utility market including the linemen's impact augers and sockets.

Hand Tools and Storage

There were a number of exciting developments in the Milwaukee Hand Tool and Storage business driving double-digit growth across all product lines. The launch of the PACKOUT modular storage system has delivered on its promise of being the most versatile and durable modular storage system. Sales exceeded expectations with a positive growth outlook and dozens of new PACKOUT products on the horizon.

Additionally, screwdrivers, with patent-pending features such as tactile identification on the handle, tape measures, with new size reductions and increased durability, and Empire Levels, a leading company in the layout category, all delivered outstanding performance.

Advancements in new technology is behind Empire Level's growth. The expansion of the ULTRAVIEW LED technology into the torpedo level category provides a lightweight, pocketable solution in poorly lit work conditions. In addition, the launch of a new line of digital levels with industry first features like auto-calibration, making them the easiest to use in the industry, and the innovative advancements in compact box levels and torpedo levels proved to capture the imagination and acceptance of the professional users.

DIY and Professional Tools

RYOBI DIY Power Tools

RYOBI ONE+ brand is the largest cordless DIY power tool system in the world with over 120 tools on the same battery platform. RYOBI ONE+ brand delivered double-digit sales growth and dominates the DIY markets in North America and ANZ and is expanding rapidly across EMEA. We continue to increase the RYOBI brand user base with an ongoing flow of innovative new products featuring cutting-edge cordless technology that makes DIY projects faster, easier and more exciting.

Our stream of RYOBI new products includes the successful brushless range of professional performance tools that fit the ONE+ SYSTEM. An important recent new introduction is the RYOBI ONE+ 6 gallon wet/dry vac breaking new ground as the industry's first high capacity cordless job site vacuum delivering corded like performance. A 23 gauge pin nailer was added to the ONE+ AIRSTRIKE line of nailers with the ability to drive up to 3,500 nails on a single charged battery. Further broadening the RYOBI power tool range is the new ONE+ 10" dual bevel sliding compound miter saw which is driven by two ONE+ batteries and delivers over 800 cross cuts per charge.

AEG Professional Tools

The AEG brand of Professional Power Tools aimed at the tradesman produced solid growth in 2017 in the targeted EMEA and ANZ regions with excellent performance from the continued expansion of the 18V and 12V cordless ranges. The 18V cordless platform now offers over 40 power tools. A number of significant new 18V products were launched during the period including the revolutionary heavy duty hammer drill and the brushless 18V heavy duty reciprocating saw which set new standards in performance. The AEG brand of power tools has strong distribution partner momentum and a robust pipeline of new AEG 18V and 12V power tools to continue the growth in 2018.

Outdoor Products

The Outdoor Products business delivered a robust year delivering double-digit growth in sales with a focus on the targeted North America, ANZ and EMEA regions. The key drivers behind the growth were innovative product introductions, aggressive in-store merchandising, digital communication, and strategic promotional activity.

RYOBI Outdoor

The RYOBI Outdoor Product business produced strong sales results again in 2017 driven by excellent sales to both new and repeat users of the ONE+ and 40V cordless systems, plus significant new product launches that continued to showcase the advanced technology and innovations on both these cordless platforms. The growing awareness of the benefits from cordless technology is converting users from traditional gas powered equipment while also expanding the outdoor category.

RYOBI Outdoor Products experienced accelerating demand for the ONE+ high performance string trimmer, hedge trimmer, jet fan blower and chain saws. We gained market share with our innovative range of ONE+ and 40V mowers. Several notable new product innovations included the brushless ONE+ LITHIUM+ cordless trimmer, a RYOBI 40V brushless 20” mower, a redesigned 40V jet fan blower, and a RYOBI 38” riding mower, all surpassing sales expectations. The cordless mowers are delivering first to market performance with broad user acceptance. The 20” 40V mower expands an already successful range and brings excellent performance with industry best performance. More and more DIY end users are moving to the convenience of cordless products when working outdoors.

Floor Care and Appliances

The Floor Care and Appliance business declined 8.3% and accounted for 15.3% of TTI sales. With our outstanding brand portfolio including HOOVER, DIRT DEVIL, ORECK and VAX, the business is focusing on high growth cordless products and leveraging the TTI cordless technology. Sales of cordless vacuums grew double-digit across all geographies, validating our strategic plan aimed at increased profitability and a return to top line growth in the long term. The business is making progress executing the strategic changes by investing in R&D for cordless technology and new product development, discontinuation of non-strategic products and streamlining operations. During the year we invested in new production lines for our cordless products at our world class manufacturing facility. This is a critical step as we leverage our larger cordless power tool core competencies in floor care manufacturing.

North America

The North America business delivered growth in the cordless segment highlighted by the successful launch of the HOOVER REACT cordless pole vacuum and HOOVER FUSION cordless vacuum, both with market leading run time and performance of the ONE PWR cordless battery system with rapid charge. The new HOOVER power scrub range of carpet extractors gained momentum in the second half of 2017 and represents the start of a new portfolio of carpet extractors and accompanying cleaning solutions.

The DIRT DEVIL brand had an outstanding year outpacing the industry by growing at a double-digit rate. This was a result of successful product launches with the POWER MAX series of uprights and a range of cordless REACH MAX pole vacuums targeted toward the on-the-go millennial consumer. Our digital marketing and social media campaigns are proving highly effective in growing this segment of the market.

Our ORECK brand introduced a range of cordless pole vacuums, incorporating new-to-world POD technology, providing an unsurpassed “clean air” management system. This powerful technology offers significant user benefits for the ORECK platform going forward. ORECK products are supported with a direct to consumer model and highly impactful digital marketing campaign. Additionally, the Hoover Commercial Cleaning business had a solid year with the expansion of its customer base in cordless cleaning with back packs and HUSHTONE cordless uprights. The HUSHTONE upright is the leading commercial cordless upright and expands our battery network.

Europe

Floor Care business in Europe delivered strong growth in the strategic cordless stick vacuum category. In 2017 the innovative BLADE cordless stick vac was introduced in the UK market. Launching with two variants, both the BLADE 24V and BLADE 32V cordless stick vacs proved to be an immediate success with consumers adopting the efficient cleaning performance and long runtime of 35 minutes and 45 minutes respectively. The new floor cleaning head and DIRECT HELIX technology optimize airflow at all angles to maximize performance and efficiency. Following the successful UK launch, the BLADE cordless stick vac was launched across Europe and is achieving strong sales. We have a next generation BLADE in the pipeline which will further drive growth in the cordless floor care category in 2018. Another new product success is the VAX rapid power pro carpet washer offering our fastest ever carpet drying time and achieved our highest ever consumer rating.

Our Commitment to ESG

As a responsible corporate citizen, TTI is committed to operating its business in line with environmental, social and governance (ESG) best practices, and to considering the views of stakeholders as it enhances and grows the business sustainably. The Directors oversee the company’s management of ESG performance and compliance with all applicable legal and other requirements. TTI is vigilant to ensure compliance with applicable laws and regulations in the areas in which it does business and certifies compliance across all of its business units on a bi-annual basis. It is not believed that any particular law or regulation would have a material effect on the business. TTI has many measures at its disposal and checks and balances to ensure that were it found to be noncompliant in any given area, it could quickly bring its operations into compliance and mitigate the risks. TTI implements systems to manage risk and audits performance to ensure compliance with all local laws, regulations and standards related to corporate governance, business operations, employment, health and safety and the environment.

The company recognizes the importance of relationships with key stakeholders to the success of the business, to the retention and recruitment of leading talent, to the continued innovation of TTI’s products, and to enhancing the sustainability of its operations and supply chain. Regular communication with regulatory authorities, shareholders and investors, business partners, customers, suppliers and employees is essential for being aware of and meeting evolving requirements and expectations.

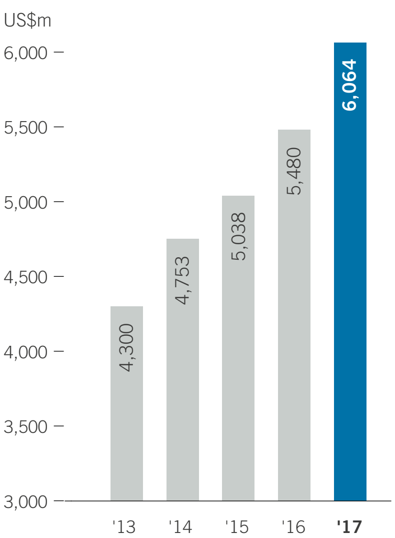
Detail on how TTI integrates sustainability into the business, meets its ESG commitments and legal and other requirements, and engages with stakeholders is provided throughout this report and specifically on pages 70 to 91.

Financial Review

Revenue

US$6,064 million

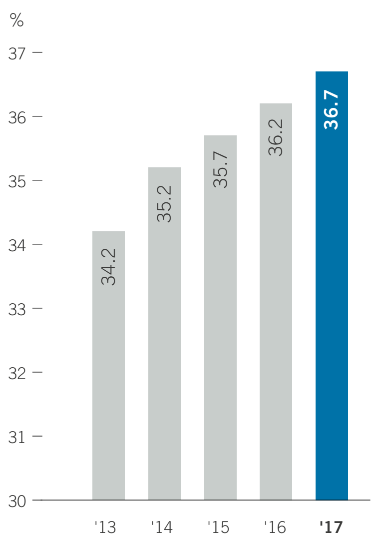
+10.6%



Gross Profit Margin

36.7 %

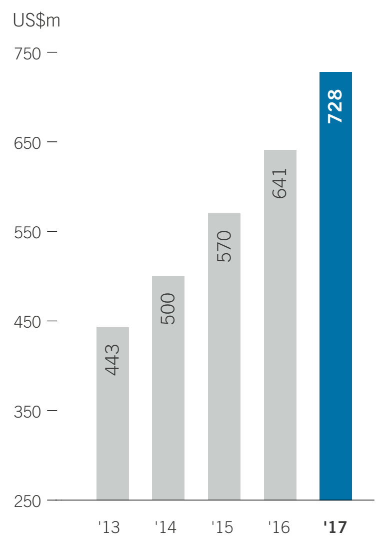
+50 bps



EBITDA

US$728 million

+13.6%



Book Value per Share

US$ 1.49

+13.7%

Capex

US$205 million

(2016: 190 million)

Effective Tax Rate

6.9 %

(2016: 7.1%)

Cash and Cash Equivalent

US$864 million

(2016: US$803 million)

Investments in Product Design and Development

US$ 164 million

2.7% of turnover

Net Cash Position

Gearing is improved from 5.2% in 2016 to net cash

Financial Review

Financial Results

Result Analysis

The Group's revenue for the year amounted to US$6.1 billion, an increase of 10.6% as compared to US$5.5 billion in 2016. Profit attributable to Owners of the Company amounted to US$470 million as compared to US$409 million in 2016, an increase of 15.0%. Basic earnings per share for the year improved to US25.66 cents as compared to US22.32 cents in 2016.

EBITDA amounted to US$728 million, an increase of 13.6% as compared to US$641 million in 2016.

EBIT amounted to US$519 million, an increase of 15.3% as compared to US$450 million in 2016.

Gross Margin

Gross margin improved to 36.7% as compared to 36.2% last year. The margin improvement was the result of new product introduction, product mix, category expansion, improvements in operational efficiency and supply chain productivity.

Operating Expenses

Total operating expenses for the year amounted to US$1,712 million as compared to US$1,540 million in 2016, representing 28.2% of turnover (2016: 28.1%). The increase was mainly due to the strategic investments in new products.

Investments in product design and development amounted to US$164 million, representing 2.7% of turnover (2016: 2.7%) reflecting our continuous strive for innovation. We will continue to invest in breakthrough technology and deliver broad base end-user products and categories as these are most critical not only to maintain sales growth momentum but also margin expansions.

Net interest expenses for the year amounted to US$14 million as compared to US$10 million in 2016, an increase of 35.0%. The increase mainly due to the increase in the volume of business and interest rate increased during the year. In view of the potential further rate increase, the Company will focus in managing its financial resources to be more efficient going forward. Interest coverage, expressed as a multiple of EBITDA to total interest was 30.2 times (2016: 30.0 times).

The effective tax rate, being tax charged for the year to before tax profits was at 6.9% (2016: 7.1%). The Group will continue to leverage its global operations and align its strategy to cope with various tax policies change globally to further improve overall tax efficiencies.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to US$2.7 billion as compared to US$2.4 billion in 2016. Book value per share was at US$1.49 as compared to US$1.31 last year, an increase of 13.7%.

Financial Position

The Group continued to maintain a strong financial position. As at December 31, 2017, the Group's cash and cash equivalents amounted to US$864 million (2016: US$803 million), of which 50.2%, 21.6%, 7.6% and 20.6% were denominated in US$, RMB, EUR and other currencies respectively.

The Group's net gearing, expressed as a percentage of total net borrowing (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, improved from 5.2% in 2016 to net cash. The gearing improvement is the result of very disciplined and focused management over working capital. The Group remains confident that gearing, if any, will remain low going forward.

Bank Borrowings

Long term borrowings accounted for 66.5% of total debts (2016: 52.8%).

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

Amongst the bank borrowings, fixed rate debts account for 12.3% of the total debt, the balance being floating rate debts.

Working Capital

Total inventory was at US$1,467 million as compared to US$1,296 million in 2016. Days inventory increased by 2 days from 86 days to 88 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 67 days as compared to 62 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 62 days as compared to 57 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 95 days as compared to 89 days in 2016.

Working capital as a percentage of sales was at 16.5% as compared to 16.4% in 2016.

Capital Expenditure

Total capital expenditures for the year amounted to US$205 million (2016: US$190 million).

Capital Commitments and Contingent Liabilities

As at December 31, 2017, total capital commitments for the acquisition of property, plant and equipment contracted for but not provided amounted to US$22 million (2016: US$33 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, 2017

(i) the Group's largest customer and five largest customers accounted for approximately 45.5% and 55.8% respectively of the Group's total revenue; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 4.7% and 16.7% 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 22,033 employees as at December 31, 2017 (2016: 20,642) in Hong Kong and overseas. Total staff cost for the year under review amounted to US$963 million (2016: US$807 million).

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

Corporate Strategy and Business Model

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

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

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

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

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

Purchase, Sale or Redemption of Securities

A total of 1,500,000 ordinary shares (those bought back by the Company during 2016 at prices ranging from HK$27.50 to HK$28.15 per share) were settled and cancelled by the Company during 2017. The aggregate amount paid by the Company for such buy-backs cancelled during 2017 amounting to US$5,388,000 was charged to the retained earnings.

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

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

Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters, including the review of Group's consolidated financial statements for the year ended December 31, 2017. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Dividend

The Directors have recommended a final dividend of HK39.75 cents (approximately US5.12 cents) per share with a total of approximately US$93,877,000 for the year ended December 31, 2017 (2016: HK30.00 cents (approximately US3.86 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 28, 2018. 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 22, 2018. This payment, together with the interim dividend of HK27.75 cents (approximately US3.57 cents) per share (2016: HK20.00 cents (approximately US2.57 cents)) paid on September 22, 2017, makes a total payment of HK67.50 cents (approximately US8.69 cents) per share for 2017 (2016: HK50.00 cents (approximately US6.44 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 2018 Annual General Meeting, the register of members of the Company will be closed from May 16, 2018 to May 18, 2018, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2018 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 15, 2018.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 28, 2018 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, 2018.

Board of Directors

Group Executive Directors

Horst Julius Pudwill MSc
Chairman

Mr Horst Julius Pudwill, aged 73, 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 41, 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 59, 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 58, 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 64, joined the Group in 1991 and was appointed as Executive Director in 1992. He is now responsible for corporate affairs and financial management of the Group.

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

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

Non-executive Directors

Roy Chi Ping Chung GBS, BBS, JP

Prof Roy Chi Ping Chung GBS BBS JP, aged 65, is a Co-founder of TTI. Prof Chung, previously the Group Managing Director since 1985, was appointed as the Group Vice Chairman and Executive Director of the Company on April 18, 2007. He has been re-designated to Non-executive Director of the Company with effect from July 1, 2011.

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

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

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

Camille Jojo

Mr Camille Jojo, aged 61, 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 73, 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 retired as an Independent Non-executive Director of Dickson Concepts (International) Limited with effective from July 24, 2014, which is listed on the stock exchange of Hong Kong.

Manfred Kuhlmann

Mr Manfred Kuhlmann, aged 73, was appointed as an Independent Non-executive Director in 2004. He was General Manager of Dresdner Bank AG Hong Kong Branch between 1994 and 1998 and General Manager of Dresdner Bank AG Dubai before he retired in August 2004. Mr Kuhlmann is a graduate of the Banking Academy, Hamburg and has extensive experience in the finance and banking industry. Since 2005 he served as “Hamburg Ambassador” in the UAE to support the economic ties between Hamburg, Germany and the UAE. He retired from that position in May 2013 as he had moved his residence to Cyprus.

Independent Non-executive Directors (continued)

Peter David Sullivan BS

Mr Peter David Sullivan, aged 69, 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 Circle Health LTD, AXA ASIA, AXA China Region Insurance Company Limited and AXA General Insurance Hong Kong. Mr Sullivan was an Independent Non-executive Director of Standard Bank plc London and SmarTone Telecommunications Holdings Limited, a Non-executive Director of AXA Asia Pacific Holdings Limited that was listed on the Australian and New Zealand stock exchanges.

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

Vincent Ting Kau Cheung

Mr Vincent Ting Kau Cheung, aged 76, was appointed as a Director in 1991 and was re-designated as an Independent Non-executive Director on March 30, 2012.

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

Johannes-Gerhard Hesse

Mr Johannes-Gerhard Hesse (commonly known as Hans-Gerd Hesse), aged 59, was appointed as an Independent Non-executive Director of the Company with effect from October 1, 2016. Mr Hesse holds a graduate degree in Business Administration from the University of Cologne and has acquired extensive business management, strategy, leadership and corporate governance experience in Europe and Asia.

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

Corporate Governance Report

High standard of corporate governance is essential to the Company for enhancing shareholders' interests and promoting 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 codes and practices of corporate governance and the disclosure of this Corporate Governance Report are reviewed by the Board, from time to time, to improve the Company's corporate governance practices with regards to the latest developments on all applicable laws, rules and regulations.

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Corporate Governance Code") throughout the year ended December 31, 2017, 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

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

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

Board of Directors

Roles and Responsibilities

The Board is collectively responsible for leading, supervising and setting directions and strategies for the affairs of the Group, 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:

- review and formulate overall mid-term and long-term strategy and direction of the Company.
- consider matters covering appointment of Directors, senior management and external auditors, major acquisitions and disposals and other significant operational matters.
- monitor risks and changes in local and international business communities in order to enhance shareholders' value.
- 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.

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

Board Composition

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

Group Executive Directors

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

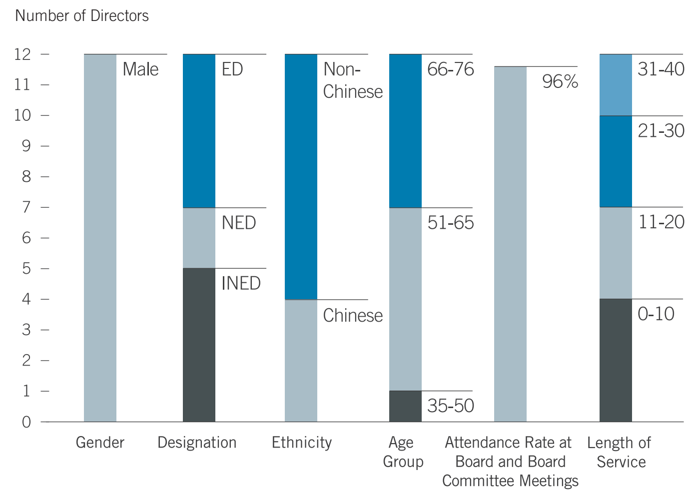
Non-executive Directors

Prof Roy Chi Ping Chung GBS BBS JP
Mr Camille Jojo

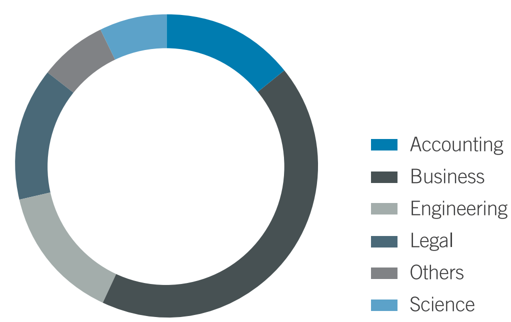
Independent Non-executive Directors

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

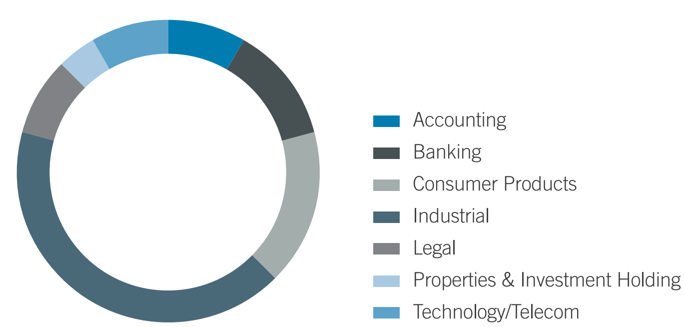
The biographical details and relevant relationships of the members of the Board are set out on pages 52 to 57 of this annual report. A list of Directors and their roles and functions are published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk).



Educational Background



Professional Experience



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

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

- lead the Board to ensure it performs effectively and discharges its responsibilities.
- 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.
- enhance effective communication with shareholders and ensure the views of shareholders are communicated to the Board as a whole.
- monitor and ensure sound practices and procedures.
- 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:

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

The appointment of director are recommended by the Nomination Committee and approved by the Board. Before accepting their appointment, Directors are aware that they must be able to contribute sufficient time and attention to the affairs of the Company. A formal orientation, 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. Independent Non-executive Directors and Non-executive Directors form a majority of the Board, and the Independent Non-executive Directors represent over one-third of the Board as at the date of this report. Furthermore, majority of the Independent Non-executive Directors possesses professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All Independent Non-executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. Annual confirmation of independence from each of the Independent Non-executive Directors has been received by the Company and they are still considered to be independent.

Appropriate Directors' and Officers' liability insurance 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

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

All Directors participate in continuous professional development as set out in code provision A.6.5 of the Corporate Governance Code. According to the records of training provided by each Director to the Company, the training received by all Directors in 2017 is summarized in the following table:

	Type of Continuous Professional Development Programme		
	Updates on business operations, laws, rules and regulations or corporate governance matters	Updates on directors' roles, functions and duties	Updates on accounting, financial or other professional skills
Group Executive Directors			
Mr Horst Julius Pudwill	√	√	
Mr Stephan Horst Pudwill	√	√	
Mr Joseph Galli Jr	√	√	
Mr Kin Wah Chan	√	√	√
Mr Chi Chung Chan	√	√	√
Non-executive Directors			
Prof Roy Chi Ping Chung GBS BBS JP	√	√	√
Mr Camille Jojo	√	√	√
Independent Non-executive Directors			
Mr Christopher Patrick Langley OBE	√	√	
Mr 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, 2017.

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

In order to facilitate the effectiveness of the Board, at least four Board meetings are scheduled in a year with more frequent meetings as and when required. In 2017, 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 2017" at the end of this report.

Board meeting, Board Committee meeting and Annual General Meeting dates for 2018 were agreed upon at the Board meeting held in August 2017 to ensure maximum attendance of Directors. The meeting agenda is set by the Chairman in consultation with members of the Board to include any other matters raised by Directors in advance. Minutes of the Board and Board Committee meetings with sufficient details of matters and concerns discussed are 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.

To enhance understanding of the business of the Group and Directors' responsibilities under statute and at common law, all Directors are provided with briefings and professional development training as necessary. 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 to facilitate informed decisions with sufficient details. 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 established three Board Committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee, to delegate various responsibilities. Each of these Board Committees has specific written terms of reference which deal clearly with their authority and duties and have been published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk).

Independent Non-executive Directors form majority of all Board Committees. With regular attendance and active participation of Independent Non-executive Directors, independent views and opinions are encouraged to be contributed and expressed at the Board Committee meetings. The Board monitors and oversees the delegated authority and responsibilities through regular reporting by the Board Committees in relation to their activities involved and recommendations and decisions made. The attendance records of each Board Committee are set out in the section headed "Board, Board Committee and General Meetings in 2017" at the end of this report.

Audit Committee

The Audit Committee is formed by four Independent Non-executive Directors and chaired by Mr Peter David Sullivan with other members being Mr Manfred Kuhlmann, Mr Vincent Ting Kau Cheung and Mr Johannes-Gerhard Hesse (being an Independent Non-executive Director who was appointed as member of the Audit Committee on November 8, 2017). Most of the members of the Audit Committee have professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

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

The Audit Committee held four meetings in 2017 and performed duties summarized below:

- review the Group's accounting principles and practices, financial reporting matters and significant financial matters.
- review the interim and annual financial statements of the Group before submission to the Board.
- regularly 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.
- review the Group's risk management and internal controls.

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 2017. The work performed by the Nomination Committee in 2017, with sufficient resources provided by the Company and/or independent professional advice when necessary, included:

- assess the independence of Independent Non-executive Directors.
- review of the structure, size and composition of the Board on a regular basis.
- 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 2017 Annual General Meeting.

The Board has adopted the Board Diversity Policy in August 2013, which is published on the Company's website (www.ttigroup.com). Widening diversity at the Board level is essential for sustainable development of the Group. The Nomination Committee would consider various perspectives, including, but not limited to, age, gender, 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 59 of this report.

Remuneration Committee

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

The responsibilities of the Remuneration Committee include, but not limited to, developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the Group and the remuneration of Directors and senior management of the Group, and determining their remuneration packages, on the basis of their competence, merit and qualifications, and having regard to individual performance, comparable market statistics and the Company's 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.

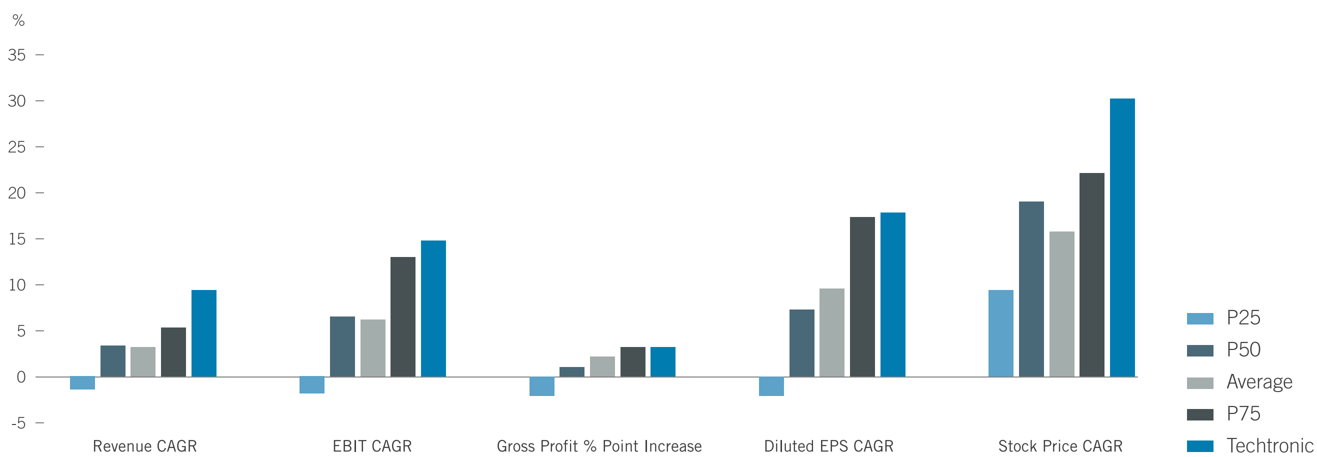
The Remuneration Committee held two meetings in 2017 and performed, among other work, the following:

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

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

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

5-year performance metrics growth



The Remuneration Committee reviewed and recommended to the Board for approval the 2017 incentive payouts for the CEO in the context of this strong performance delivered by the Group.

The 2008 Share Award 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 2008 Share Award Scheme, the 2008 Share Award Scheme was 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 2008 Share Award 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 2008 Share Award 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 2008 Share Award 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 2008 Share Award 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 2008 Share Award 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, 2017, a total of 3,935,500 shares had been awarded under the 2008 Share Award Scheme, representing 0.26% of the issued share capital of the Company as at the Adoption Date.

Recognition of share-based payment expenses under the 2008 Share Award Scheme during the year was US$1,947,000. During the year ended December 31, 2017, a total of 311,500 shares had been awarded under the 2008 Share Award Scheme, representing 0.02% of the issued share capital of the Company as at the Adoption Date, to two Directors of the Company. The total payout, including related expenses, amounted to US$1,236,000. During the year ended December 31, 2017, 1,036,500 shares were transferred to the Selected Grantees upon vesting.

Following the expiry of the 2008 Share Award Scheme from January 9, 2018, the Board has adopted a new share award scheme which took effect from January 17, 2018 (the "2018 Share Award Scheme"). The total issued share capital of the Company as at the adoption date of 2018 Share Award Scheme is 1,835,021,941. Since the adoption date of the 2018 Share Award Scheme and up to the date of this report, no shares had been awarded under the 2018 Share Award Scheme.

As at December 31, 2017, details of the awarded shares under the 2008 Share Award Scheme were as follows:

			Number of shares						
Name of Directors	**Date of Award**	**Number of awarded shares**	**As at January 1, 2017**	**Awarded during the year**	**Vested during the year**	**Lapsed during the year**	**As at December 31, 2017**	**Vesting Period**	**Closing price at the Date of Award**
Mr Horst Julius Pudwill	18.9.2014	350,000	117,000	—	(117,000)	—	—	18.9.2015 - 18.9.2017	HK$22.50
	26.9.2014	174,000	58,000	—	(58,000)	—	—	26.9.2015 - 26.9.2017	HK$22.10
	15.10.2015	500,000	250,000	—	(250,000)	—	—	15.10.2016 - 15.10.2017	HK$27.10
	23.3.2017	300,000	—	300,000	—	—	300,000	23.3.2018 - 23.3.2019	HK$32.15
Mr Stephan Horst Pudwill	15.10.2015	100,000	—	—	—	—	—	15.10.2016	HK$27.10
Mr Joseph Galli Jr	17.12.2014	300,000	100,000	—	(100,000)	—	—	17.12.2015 - 17.12.2017	HK$25.85
	15.10.2015	1,000,000	500,000	—	(500,000)	—	—	15.10.2016 - 15.10.2017	HK$27.10
	19.8.2016	1,000,000	—	—	—	—	—	31.8.2016	HK$30.50
Mr Kin Wah Chan	15.10.2015	100,000	—	—	—	—	—	15.10.2016	HK$27.10
Mr Chi Chung Chan	15.10.2015	100,000	—	—	—	—	—	15.10.2016	HK$27.10
Mr Camille Jojo(4)	4.1.2017	11,500	—	11,500	(11,500)	—	—	4.1.2017	HK$28.00
Total		**3,935,500**	**1,025,000**	**311,500**	**(1,036,500)**	**—**	**300,000**		

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$30.82. The average fair value of the awarded shares is based on the average purchase cost.

(3) During the reporting year, a total of 600,000 shares were purchased at an aggregate consideration of US$3,455,000 for satisfying the awards granted pursuant to the 2008 Share Award Scheme.

(4) 10,500 shares were awarded and vested to Mr Camille Jojo on January 8, 2018.

Change in Director's Emoluments

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.

Mr Johannes-Gerhard Hesse, an Independent Non-executive Director, was appointed as member of the Audit Committee with effect from November 8, 2017. Mr Johannes-Gerhard Hesse will be entitled to the Audit Committee fee and the related attendance fee which has been fixed by the Board.

Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are followed. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is also responsible for facilitating information flow and communication among Directors as well as with Shareholders and management of the Company. The Company Secretary is an employee of the Company and is appointed by the Board. During 2017, 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

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

The Board, and in particular the Audit Committee, conducts a continuous review of the effectiveness of the Group's risk management and internal control systems that have been put in place. The reviews covering financial, operational, and compliance controls and risk management performed in 2017 included:

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

The internal audit function is essential to provide an independent and objective assurance to the Audit Committee and the Board in controlling the internal business environment. The Internal Auditor reports periodically to the Audit Committee and meets the Chairman of the Audit Committee regularly. The internal audit function 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 2017:

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 2017 Annual General Meeting to answer questions about the accounting policies, the auditor independence, the conduct of the audit and the preparation and content of the auditors' report.

Investor Relations and Shareholder Communications

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

Shareholders' Communication Policy

The Board has adopted the Shareholders' Communication Policy on March 22, 2012, which primarily covers the current practices for communicating with shareholders and is published on the Company's website (www.ttigroup.com). All the Company's circulars, announcements, notices and results of general meetings, annual and interim reports, and webcasts of results presentations conducted at press conferences, which are published on the Company's website (www.ttigroup.com), provide timely, efficient and accurate information to shareholders and investors. Essential information is communicated to the shareholders mainly through the Company's financial reports, general meetings and the information published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk). In addition, the Company holds regular meetings with institutional shareholders and analysts and encourages shareholders to attend annual general meetings to communicate with Directors and management of the Company directly.

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

Shareholders' Rights

Convening of extraordinary general meeting on requisition by shareholders

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

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

Procedure for nominating a person for election as a Director

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

Procedure for directing shareholders' enquiries to the Board

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

Procedure for putting forward proposals at general meetings

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

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

Constitutional Document

No change has been made to the Company's constitutional document during 2017. 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 2017

A summary of attendance of Board, Board Committee and general meetings in 2017 are detailed in the following table:

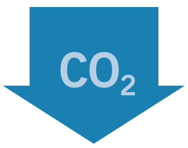
	Meetings attended/Held in 2017				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	General Meeting
Number of meeting(s) held during the year	5	4	2	2	1
Group Executive Directors					
Mr Horst Julius Pudwill	5/5		2/2		1/1
Mr Stephan Horst Pudwill	5/5				1/1
Mr Joseph Galli Jr	5/5				1/1
Mr Kin Wah Chan	5/5				1/1
Mr Chi Chung Chan	5/5				1/1
Non-executive Directors					
Prof Roy Chi Ping Chung GBS BBS JP	5/5				1/1
Mr Camille Jojo[(1)]	5/5			2/2	1/1
Independent Non-executive Directors					
Mr Christopher Patrick Langley OBE	4/5		1/2	1/2	1/1
Mr Manfred Kuhlmann	5/5	4/4	2/2	2/2	1/1
Mr Peter David Sullivan	5/5	4/4		1/2	1/1
Mr Vincent Ting Kau Cheung	5/5	4/4	2/2	2/2	1/1
Mr Johannes-Gerhard Hesse[(2)]	5/5	0/0[(2)]			1/1
Date(s) of meeting(s)	17.1.2017	13.3.2017	13.3.2017	13.3.2017	19.5.2017
	14.3.2017	18.5.2017	15.8.2017	15.8.2017	
	18.5.2017	15.8.2017			
	16.8.2017	8.11.2017			
	8.11.2017				

Notes:

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

(2) Mr Johannes-Gerhard Hesse was appointed as member of the Audit Committee with effect from November 8, 2017.

Environmental



TTI AIP has reduced carbon dioxide emissions by **781** tonnes over 2016

Continuous Improvement Program (CIP) at TTI AIP has saved electric power consumption **846,313** kWh

TTI Canada has saved **81,000** litres of fuel by switching to more efficient engines for its workforce vehicles

TTI HK has reduced GHG emissions by **5** %

Social

39% **32**%

In Hong Kong, 39% of men and 32% of women took additional non-mandatory training

New supply chain compliance platform launched in December 2017

TTI partners with **50+** volunteer programs and charities worldwide

Thousands of volunteer hours and hundreds of thousands of US dollars invested in local communities around the world

Overview

Our mission statement of "Powerful Brands – Innovative Products – Exceptional People – Operational Excellence" is truly what drives the sustainable evolution of our business. TTI's commitment to sustainability is affirmed by focused efforts to ingrain environmental, social and governance (ESG) factors within our business culture, through our employees and with our outside partners. We believe in a sustainable business that emphasizes our exceptional people and products, while responsibly managing our environmental footprint and improving social conditions in our supply chain and in the communities where we do business.

This report highlights the ESG initiatives of TTI's global business units. We have operations in 41 locations around the world, which vary in size from having thousands of employees to only a few. Manufacturing, research and development, sales and marketing, and administrative duties are all conducted in our Asia, Europe and United States locations. Our locations in Canada and Australia/New Zealand operate as sales and marketing and administrative offices. Information has been collectively gathered from our facilities in North America, Europe, Asia and Australia/New Zealand to present our policies and performance. Through this report, we strive to help investors and other stakeholders understand how we approach ESG issues, what we are doing in these areas and what we can do better to further sustainability in our own operations and the supply chain through internal and external change.

ESG Management

This year, TTI established an ESG Working Committee to advance a long-term cohesive sustainability strategy. The ESG Working Committee will assist TTI and its Board of Directors to identify ESG risks and assess whether these ESG risks are principal risks for the business and the Company. By recognizing environmental and social issues, risks and opportunities associated with business operations, the ESG Working Committee is developing a sustainability strategy to unify our processes, not only at the business unit level, but at a corporate level. Our ESG Working Committee is chaired by the Chief Compliance Officer and consists of members representatives of varying company functions from each business unit across the globe.

How our Businesses View their Contribution to ESG

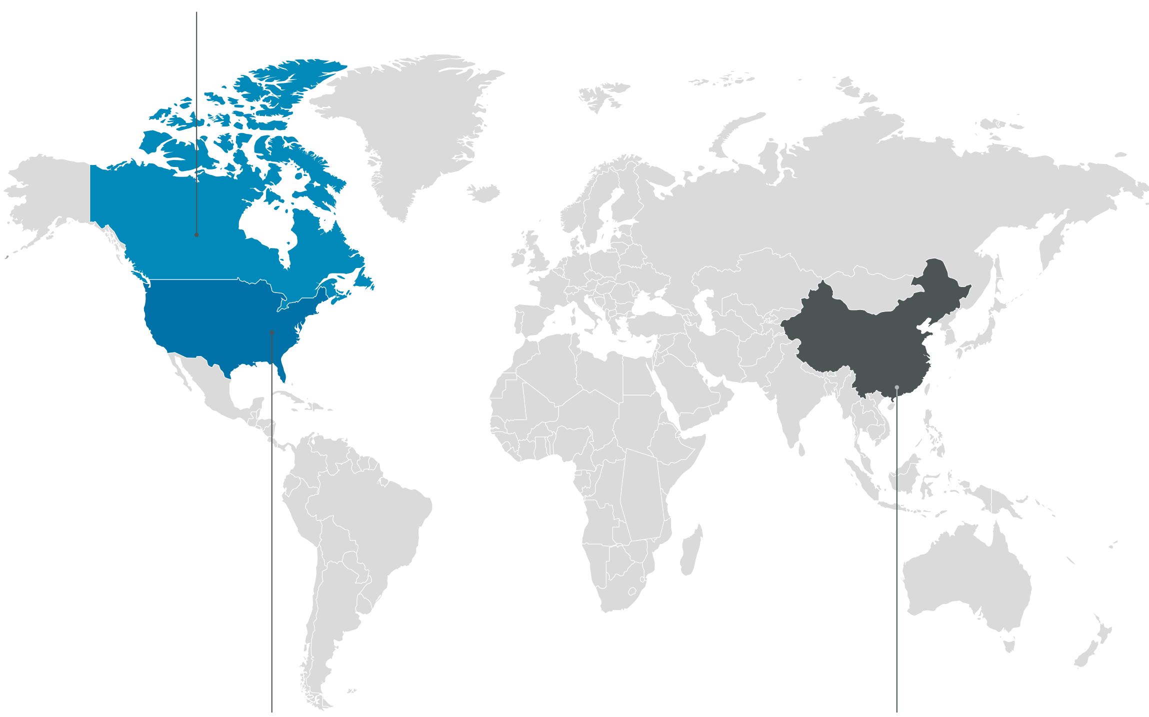
TTI is developing global key performance indicators ("KPIs") and targets as part of its sustainability strategy. To understand local strategies and targets, the ESG Working Committee asked TTI's businesses to identify their ESG risks, concerns, strategies, achievements, areas for improvement, and challenges to better gauge how TTI can improve its sustainability initiatives to positively impact each of our regions and collectively, TTI. The main risks and priorities identified are the environmental impact of our manufacturing operations, our products and managing our footprint, as well as the environmental and social impact and risk within our supply chain. By proactively and responsibly managing these risks, we seek to create opportunities through engaging our stakeholders to improve performance in our operations and supply chain.

Regional ESG Achievements

TTI Canada: At TTI Canada, we are most proud of our Exceptional People, Operational Excellence and Commitment to the Communities in which we do business. The foundation of our organization is its people. At TTI Canada, we invest heavily in developing current and future leaders through recruitment, training and recognition programs. That investment in development, combined with a strong promote-from-within culture leads to strong, effective leadership, which keeps our company strategically focused on facing often unpredictable market forces.

Execution is the other side of the innovation coin. Without it, ideas remain ideas. At TTI Canada, we are passionate about being the very best in every aspect of our operation. We closely examine every detail from design engineering to supply chain logistics to eliminate waste and improve productivity. Our operational teams have driven scalability utilizing our resources at a global level. In Canada, our business has grown by an astounding 55% since 2008. This tremendous growth has been fueled by hiring and retaining the best people.

At TTI Canada, we believe that "exceptional people drive exceptional results". We also believe that to be an "exceptional company" we must support and give back to the communities in which we work. We survey employees to identify charities for engagement, with a focus on ones that have a team building component. To that end, TTI Canada employees have been walking, riding, stuffing stockings, climbing stairs, playing volleyball, working on construction sites, donating and participating in events to support a number of national and local charities.



TTI FC NA: We contracted with an electronics recycler to recycle all electronic components of returned/scrapped units. This includes all batteries, power cords, power adapters, etc., in addition to computer monitors and televisions. In Cookeville, TN we developed a Behavior-based Safety Program to observe and communicate with employees one-on-one concerning safe and unsafe behaviors.

TTI AIP: We have been awarded "Certificate of Green Supply Chain with 4 Stars" and "Manufacturing and Industrial Services (Certificate of Merit) under the Sectoral Awards of Hong Kong Awards of Environmental Excellence.

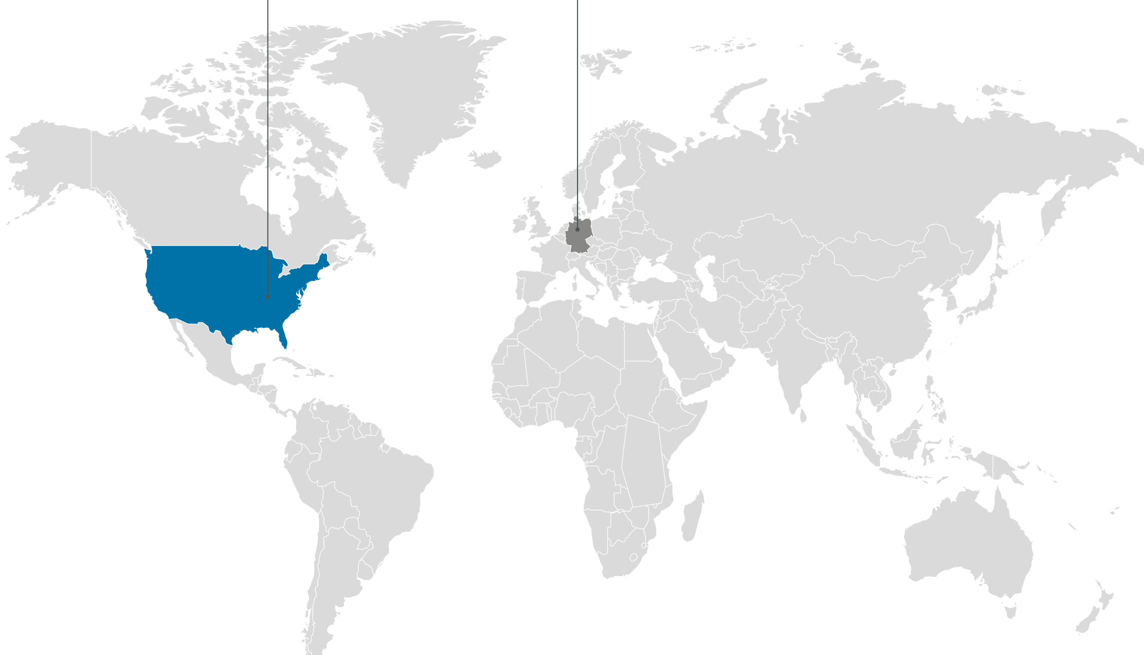
Regional ESG Achievements

TTI PE: We are contributing to the Anderson and Pickens Community by aggressively addressing legacy environmental issues created by previous owners of properties. All issues are currently contained and cleanup is well underway, including the 1,360 tons of soil removed and 338 gallons of groundwater treated in 2017. Also, TTI PE holds annual dinners for first responders in the community and provides other support. Our local charity budget is $42,000 (tools and monetary). TTI PE recently led the industry in developing and introducing low-CO_2 emission generators and has received praise and recognition from the United States Environmental Protection Agency for this initiative.

Royal Appliance International GmbH: For the third year in a row, we have kept our heating costs low in the warehouse as a result of an agreement with the landlord to install an environmentally-responsible and highly-efficient heating system.

TTI GmbH: Performed a third-party energy audit and completed an economical assessment of improvement opportunities.

DreBo: Implementing continuous improvements and control mechanisms to our active employee health and safety process, has drastically reduced the amount of work place accidents over the last several years. We are also proud of our employee training statistics.



Improving ESG Performance

TTI Canada: We strive for continuous improvement in all areas of our business. We do this by engaging both our employees and suppliers in surveys to ensure we are meeting the demands of our people and community.

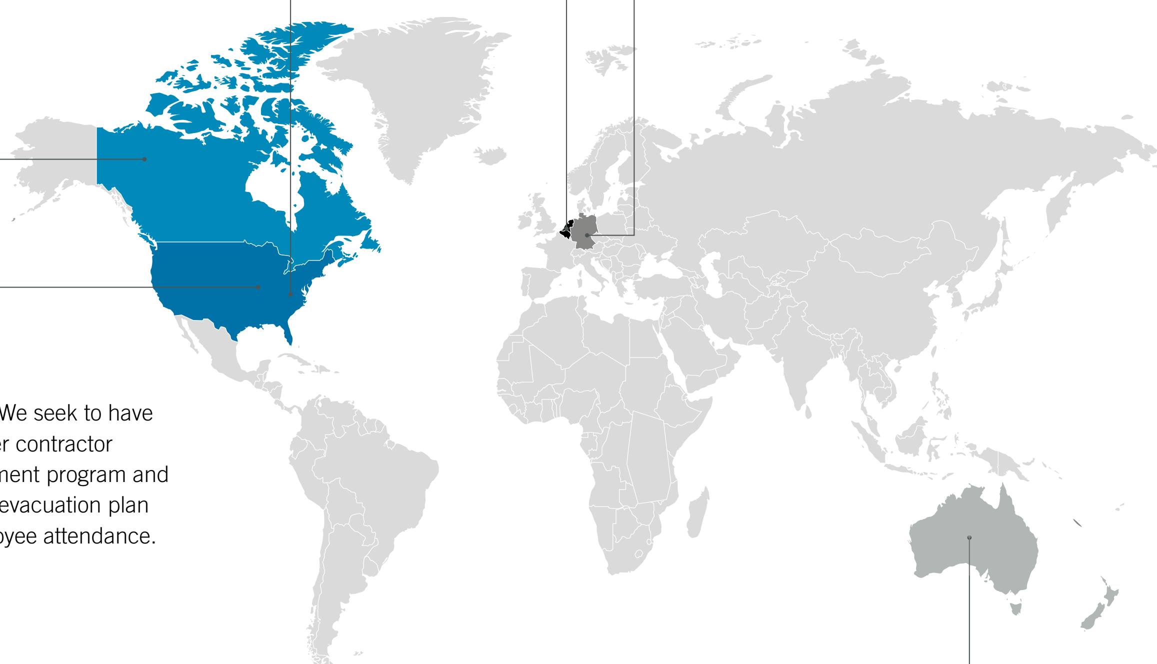
TTI FC NA: We conduct a formal greenhouse gas ("GHG") emissions study of our manufacturing facility in Cookeville, TN and are developing an appropriate plan to reduce or eliminate where possible GHG emissions.

TTI Benelux: We look to motivate employees to choose E-company or hybrid company cars to reduce CO_2 emissions.

Royal Appliance International GmbH: Improve the lighting system within the building and warehouse.

TTI GmbH: Renovation and energetic remediation of the Quality/ Reliability testing area and installation of solar panels.

DreBo: Analyze our energy consumption and savings potential through energy efficient lighting, insulation, and other means.



Empire: We seek to have a stronger contractor management program and stronger evacuation plan for employee attendance.

TTI ANZ: Opportunities exist to capture existing data from initiatives, as well as develop some low-cost/high impact involvement across community involvement and environmental impact.

Environmental

Managing our Environmental Footprint

As an industry leader and a globally-recognized business, TTI is committed to managing our operations responsibly, conserving resources and minimizing our environmental footprint. We owe it to the communities we serve and the planet we inhabit to do the right thing. We are therefore committed to upholding environmental laws and regulations and reducing environmental impact through our established resource management, reuse and recycling policies and through the design of our products and facilities. TTI promotes sustainable practices in all our operations and our environmental priorities include:

- Preventing pollution
- Conserving energy and natural resources
- Reducing emissions and discharges
- Minimizing waste and increasing reuse and recycling
- Safely using and disposing of hazardous materials and waste
- Development of environmentally-sound alternatives
- Preventing accidents
- Being an industry leader in encouraging the migration from older technologies to newer, more environmentally-efficient technologies, including:
    - Leading the industry on the development and introduction of low CO_2 generators which have been praised by the US Environmental Protection Agency
    - Leading the industry in the adoption and expansion of cordless lithium battery technology, which reduces the use of NiCd and NiMH batteries and gas-powered products.

The environmental aspects of TTI's manufacturing operations predominantly involve exhaust gas, noise, hazardous material and waste management, and resource and energy consumption. All of TTI's operations implement environmental policies and procedures to meet laws and regulations and we identify our environmental risks and take precautions against environmental accidents. In 2017, TTI was in compliance with the applicable laws and regulations with the exception of our operations in Zhuhai, which received administrative penalties (including fines totaling US$62,756.56) due to non-compliance with local environmental laws. The nature and extent of the incident is not significant, nor material to TTI's business and operation in the PRC. TTI has worked closely with the local environmental bureau to implement measures to rectify the situation to ensure full compliance. To deliver sustainable value to our employees, customers and business partners, we are mindful of our role in protecting the environment, and do so by implementing policies and onsite systems, and conducting periodic audits and regulatory inspections at our production and distribution facilities.

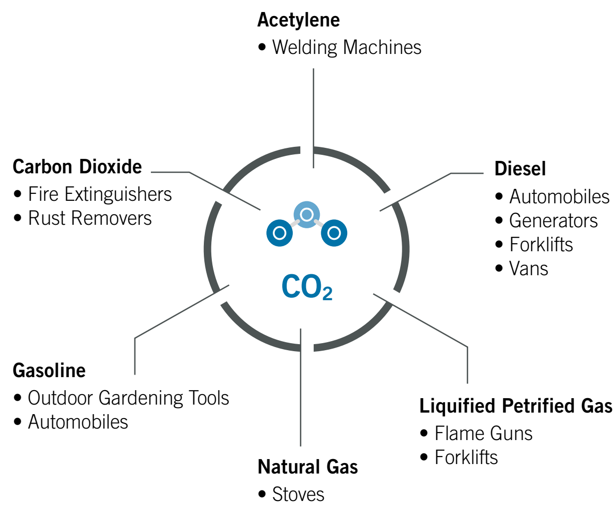
We adopt best practice standards with a relentless focus on improvement through our quality and hazardous substance management systems (i.e. ISO9001 and QC080000), striving to produce defect-free products. Annual investments are made to improve the environmental performance of our facilities, which ensures that our operations not only meet the requirements of laws and regulations, but also the expectations of our customers. We are also sharpening our focus on environmental management, setting objectives and targets, and raising the awareness and skills of our people, with further overall improvement planned in the future.

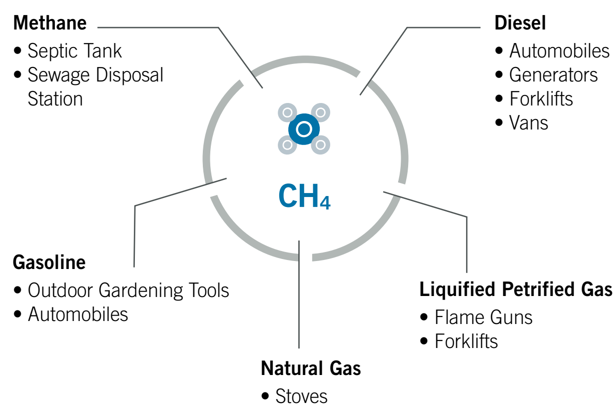
Management of Air Emissions

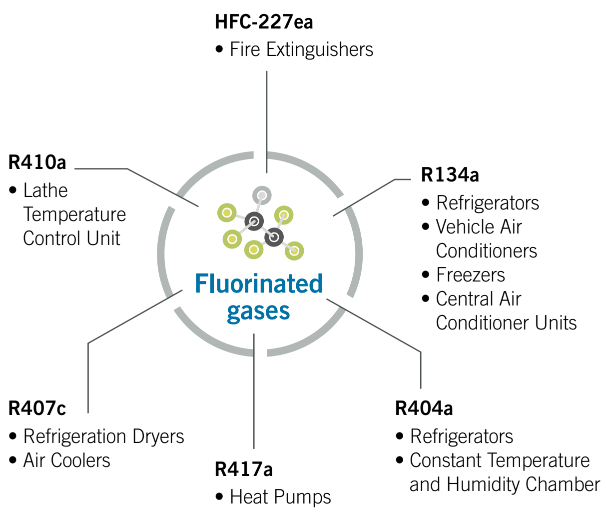
TTI determines which aspects have and can have a significant impact on the environment, thus providing the basis for establishing emission objectives and targets. Where possible and measurable, TTI monitors, measures and retains proper documented emission information to analyze and evaluate the results. Throughout TTI's business, GHG emissions arise from energy consumption for our electricity and heating, our transportation and our manufacturing processes. Carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (NO_2) are emitted from cars, trucks and other small machinery and from combustion processes to generate electricity for manufacturing, lighting and building management systems and heating and cooling. Fluorinated gases, such as HCFC-22, R-410a and R-404a are also consumed as refrigerants.

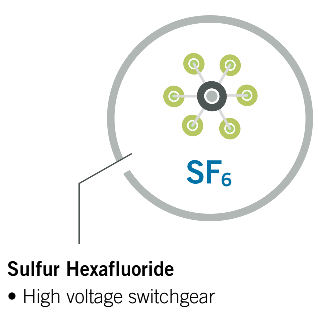
TTI AIP in Dongguan, PRC is TTI's largest facility and largest manufacturing operation. To assess and manage GHG emissions including data collection, manual establishment, reporting and auditing, the departments of Quality System Assurance ("QSA") and Environmental Health Safety ("EHS") work together. Together, QSA and EHS quantify and analyze GHG emissions annually and against previous years to identify opportunities to further energy conservation and emission reduction in the future.

Scope 1 direct GHG emissions, include:









Scope 2 indirect GHG emissions arise from purchased electricity.

Scope 1 and Scope 2 GHG Emission, Production Value and Intensity Data for TTI AIP[1]:

Annual Total GHG Emissions (tonnes of CO_2 equivalent)	**58,706.59**
Annual Scope 1 GHG Emissions (tonnes of CO_2 equivalent)	6,778.93
Annual Scope 2 of Indirect GHG emissions (tonnes of CO_2 equivalent)	51,927.66
Production Value (million USD)	US$1,759.44
Intensity (tonnes of CO_2 equivalent per million USD)	33.37

We are working to globally collect the GHG emissions from all our business units to provide a more comprehensive reporting of our emissions in total and in intensity. While TTI currently is not consistently tracking GHG emissions at every location, we have made significant strides in implementing measures to mitigate emissions. For example, our business units have taken the following measures:

- TTI Canada has moved away from V8 engines in pickup trucks to more efficient V6 engines. This has conserved 81,000 litres of fuel on an annual basis and reduced sulphur oxide (SO_X), CO_2, CH_4 and N_2O by 7%.
- TTI PE installed new energy-efficient heating systems in the recent construction of its distribution center and is installing energy-efficient heating systems to its new office, which is currently under construction.
- In 2017, TTI AIP reduced carbon dioxide emissions by 781 tonnes over 2016 through energy-efficient measures throughout the facility[2].

1 The GHG emissions data is verified by Intertek and reflects 2016. The GHG emissions for 2017 will be verified in June 2018.

2 This data is not yet verified.

- To reduce the GHG emissions from electricity consumption, TTI HK administrative personnel monitor the operation of air-conditioning systems. This has resulted in a 5% reduction in CO_2 emissions from 0.555 tonnes of CO_2 per employee in 2016 to 0.525 tonnes per employee in 2017.
- TTI Benelux has replaced some conventional fuel cars with electric ones. With the planned investment of at least five more electric cars, GHG emissions will be reduced by over 17%.
- Energy-saving lighting has been installed throughout DreBo's facility.
- TTI MEA minimizes the use of air-conditioning in the office at night and over weekends.

Energy Consumption

As TTI continues to grow, total energy demand continues to rise. TTI is investigating how to balance a global policy with the PRC being one of the largest primary energy consumers in the world and other regions like North America and Europe, where energy consumption has decreased. TTI monitors renewable energy sources that are becoming more cost-effective.

At TTI AIP Electricity and Natural Gas Consumption, Production Value and Intensity Data is as follows[3]:

TTI AIP Electricity (kWh)	57,961,443
TTI AIP Natural gas (m^3)	527,692
TTI AIP Production Value (million USD)	US$1,759.44
Intensity of Electricity (kWh per million USD)	32943.15
Intensity of Natural gas (m^3 per million USD)	299.92

As TTI constructs new facilities, remodels existing facilities or remains at current facilities, we are implementing programs to become more energy efficient. While some business units are tracking results, others are establishing monitoring programs for reporting on all energy sources and consumption. The following actions have been taken in our facilities around the world:

- Construction of new facilities with instant hot water and water-saving fixtures has resulted in efficiencies at TTI PE.
- A Continuous Improvement Program (CIP) at TTI AIP has saved electric power consumption by 846,313 kWh from 2016 to 2017.
- TTI AIP has established targets to control natural gas consumption, which is monitored to ensure targets are met.
- TTI ANZ's corporate office in Rowville is a 6 Star Energy Rated building. Mechanical services such as air conditioners and lighting are set to timers.
- Power controls are applied for lighting and fan-coil units to be turned off after office hours at TTI HK.
- Through central administrative control, electricity consumption has remained flat between 2016 and 2017 at TTI HK.
- At Empire, LED lighting has been installed throughout the plant and the HVAC control system has been upgraded. Additionally, Empire has been able to reclaim heat generated from air compressors and extrusion operations.
- TTI FC NA facility converted from a compressed air-drying system in the refurbishing department to a simple fan system, thereby decreasing electricity usage.
- TTI Zhuhai has changed fluorescent lights to LED and regularly checks air compressors and air pipes to avoid leakage.

TTI is working toward an initiative to better manage and record our direct and indirect energy consumptions by type, in total and intensity.

3 The electricity and natural gas consumption data is verified by Intertek and reflects 2016. The electricity and natural gas consumption for 2017 will be verified in June 2018.

Water Management

It is important for TTI to manage its water use efficiently and maximize its beneficial use. Water for all TTI locations is sourced locally, and we have not experienced any issues with water sourcing. In fact, all facilities in North America are in compliance with regulatory requirements and TTI's facilities in the US comply with the Clean Water Act. Currently, TTI does not have a policy in place to manage water use, but we continue to investigate options to best collect water consumption and intensity data per facility.

In 2017, water consumption at TTI HK increased from 571 m^3 in 2016 to 678 m^3. However, the increase was due to a workforce expansion. Yet, recognizing the need for water management, many of our office facilities have replaced traditional faucets and toilets with motion sensors or included motion sensors with new building designs, thus helping to eliminate water wastage and reduce energy consumption. At TTI AIP, our largest facility, we recycle wastewater and reusable wastewater is used for watering the flowers.

In addition to office use, our TTI FC NA facility uses water in its process to cool injection molding machines and to wash parts in the refurbishing operation. Injection molding coolant water is in a closed-loop system so there is virtually no discharge into the local sewer system. The refurbishing operation uses water mixed with a biodegradable cleanser that can be disposed of into the city sewer system for treatment.

Packaging

TTI makes a concerted effort to use packaging material that is recyclable. Notably, Milwaukee Tool uses biodegradable packaging and paper. Similarly, TTI FC NA uses corrugated cardboard or chip board as packaging in all its products, both of which are recyclable by the end user. At TTI PE, recyclable corrugated cardboard, honeycomb board, chipboard, paperboard and molded pulp are all used. Additionally, TTI PE uses expanded polystyrene, plastic and steel crates for its lawn mowers.

At TTI AIP, our largest facility, we have implemented a recycling program for waste packaging materials and wastewater. Reusable waste water is used for watering the flowers. TTI AIP has also improved its production process to enhance production efficiency and reduce raw material waste.

TTI ANZ belongs to the Australian Packaging Covenant Organisation, Ltd. ("APCO"), which is a sustainable packaging initiative, of which the goal is to change the culture of business to design more sustainable packaging, increase recycling rates and reduce packaging litter. TTI ANZ aims to reduce the amount of unnecessary packing and/or packaging for our products by reusing packing whenever possible to prevent it from going into the landfill. The TTI ANZ warehouse also recycles its pallets.

Similarly, TTI Zhuhai recycles and reuses suppliers' packaging to avoid creating additional waste.

TTI is working on a process that will allow us to better track the type and quantity of packaging generated throughout our business units.

Management of Waste

TTI is a leader in the market of innovative power tools, floor care products, outdoor gardening products, and electronic products, with renowned brands, characterized by state-of-the-art design, advanced technology, innovative promotion and our market-leading position. Top brands for the TTI Group's products include the power tools of MILWAUKEE, AEG, RYOBI and HOMELITE power tools; RYOBI, DIRT DEVIL, ORECK, and VAX floor care products; and RYOBI and HOMELITE outdoor products.

As a leader in the design and manufacturing of lithium ion batteries, our batteries are designed to be interchangeable within the brand of products. This technology drastically reduces battery waste. TTI has partnered with Call2Recycle Inc., where customers can recycle unusable batteries instead of throwing them away. Customers in the US and Canada can also go to www.call2recycle.org to find the nearest battery recycling drop box so those batteries can be properly transferred to recycling facilities.

Depending on the operations at each of our locations, the mechanisms for handling hazardous and non-hazardous waste varies. However, TTI remains vigilant to comply with local laws and regulations and building management procedures regarding the disposal of materials. Operations that generate hazardous waste have scheduled pick-ups by licensed haulers for safe disposal and TTI ANZ is currently developing a hazardous waste recycling program.

For non-hazardous waste, all offices properly dispose of their waste and where local facilities are available, have recyclables collected for recycling. The majority of our facilities' office and building management services provide separate bins for recyclables and properly dispose of solid and hazardous waste through local providers. TTI AIP has improved its production process to enhance production efficiency and reduce raw material waste.

While TTI FC NA has the ability to remove electronic parts and ferrous metals from returned products, currently the non-ferrous metals and plastic parts are ground up and disposed of as non-hazardous waste in a local landfill. In 2017, this amounted to approximately 750,000 pounds of material. TTI FC NA is seeking ways in which the non-ferrous metals can be recycled or reused.

TTI is working toward a method to track the types of waste disposed of by business units. In fact, TTI FC NA is researching how to reduce the potential for returned products being disposed of to landfills.

For comparison, the amount of waste generated by TTI AIP and North America are provided below:

Hazardous Waste	
North America[4]	8.83 tonnes
AIP	119.57 tonnes

Non-Hazardous Waste	
North America[5]	6,966.71 tonnes
AIP	4,392.80 tonnes

Minimizing the Impact on the Environment and Natural Resources

TTI's goal is to minimize our environmental footprint and conserve our natural resources. We continue to implement practices for reducing resource consumption and the impact on the environment and natural resources through our established resource management, reuse and recycling policies and through the design of our products and facilities.

For our administrative offices, TTI promotes environmentally-responsible behavior and raises awareness on important environmental issues. Regular communications and reminders such as "Housekeeping Guidelines", "Red Packet Recycling" and "Keep the Office Green During Your Holidays" are sent to employees at TTI HK. Employees at other administrative facilities are provided with high volume printers set for double-sided and black and white printing. Reusable dishware is provided in all kitchen areas to minimize waste.

We support all of our people to being environmentally-conscious and encourage our employees to recycle paper and other recyclable products within the office. Regular maintenance of air-conditioning, heating, ventilation and building management systems is conducted to maintain facilities' energy efficiency and healthy indoor air quality. At TTI HK, routine announcements with the caption – "Going Green in the Office" have been shared to encourage employees to reduce their GHG footprints by conserving energy and adopting energy-efficiency measures.

4 Does not include Milwaukee Tools' Greenwood, MS, Olive Branch, MS or Jackson, MS facilities.

5 Does not include TTI FC NA's Charlotte, NC facility or TTI NA's location in MD.

Social

Our Commitment to Employees

TTI has a long-standing commitment to promoting and maintaining an environment that respects the personal rights and dignity of our employees. It has been and shall continue to be both the official policy and the commitment of TTI to provide 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 local, state or national law. It is our belief that all individuals should be treated with dignity and respect, regardless of any differences that arise in the workplace.

Each TTI business unit has an Employee Handbook written specifically for their location that incorporates all employment policies, procedures and best practices. The Handbook incorporates national and local regulations to ensure compliance in every region. Handbooks are updated as required to reflect any new changes to national and/or local laws or policies.

TTI's policies and procedures align with our mission of being a company of exceptional people, and extend to recruiting, interviewing, hiring, assignment of responsibilities, transfer, promotion, training, hours of work, rest periods, pay benefits, disciplinary actions, termination, and any other terms and conditions of employment. Employees are required to read and sign off on the Employee Handbook upon their hiring, as well as when changes are made.

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

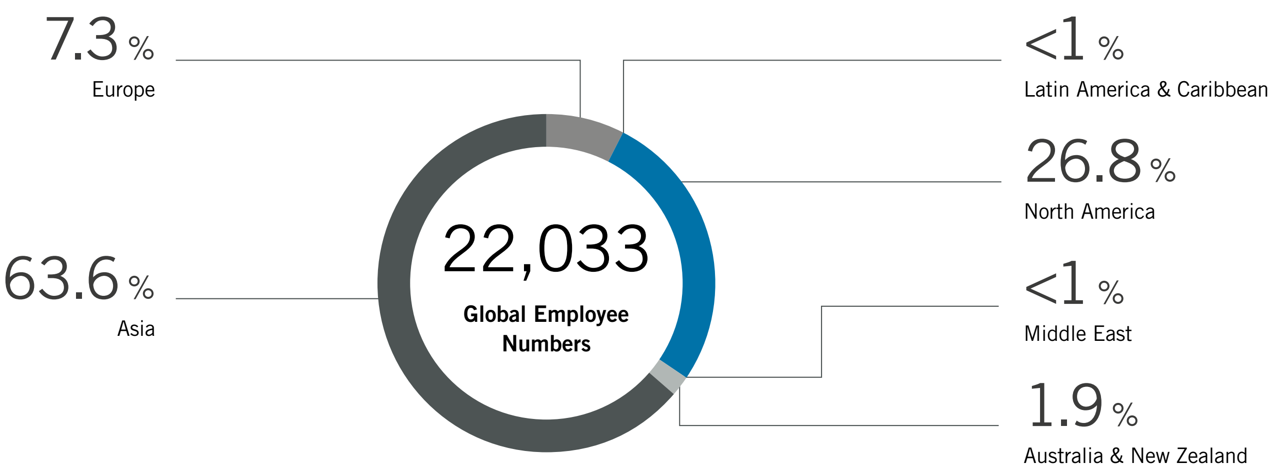
Additionally, we expect all employees to adhere to the laws applicable in the jurisdictions in which we operate and to refrain from mistreating others through threats, violent behavior, intimidation, bullying, discrimination, physical or verbal abuse, unwelcome sexual advances, unwelcome touching or invasion of personal space, or ignoring the rights of others. Our Harassment Prevention, Anti-Discrimination and Anti-Retaliation Policy provides the overall philosophy and specific approaches for addressing discrimination, harassment and related retaliation issues. All employees are required to take an eLearning course on Preventing Harassment and Violence in the Workforce.

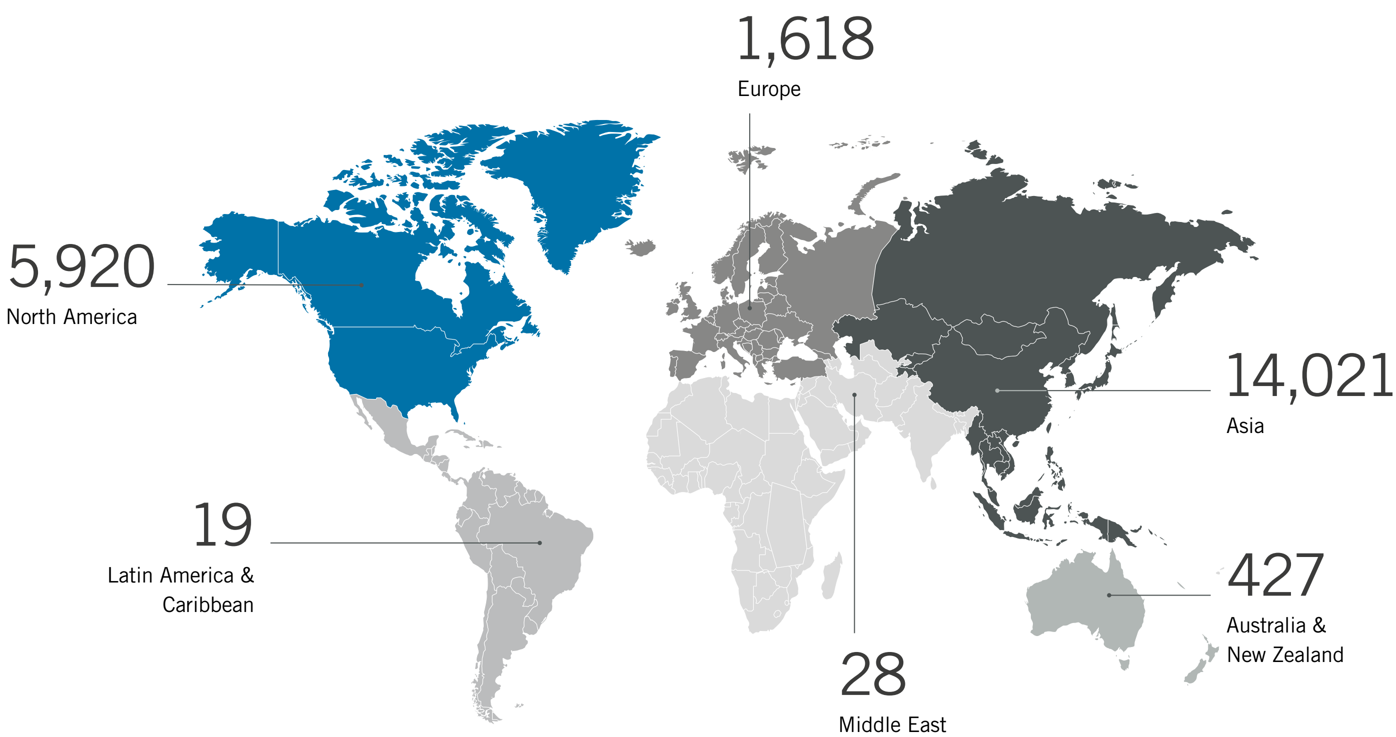
Our commitment to employees also includes providing fair and equitable benefits to all qualified persons. At TTI Canada, we look outside to other Top 100 Companies to stay competitive and attract the best talent so we can identify best practices and adopt those for our employees. TTI Canada also pays 100% of its offered benefits for its full-time employees. The benefit offering is reviewed by the human resources and finance departments on an annual basis to ensure we offer competitive and relevant benefits to our employees.

In the United States, TTI offers a comprehensive employee benefit program that covers the full range of health, life, disability and retirement benefits for our employees and their dependents. Programs are benchmarked annually against other major U.S. employers and TTI's offerings consistently compare favorably. In addition to traditional employee benefit offerings, TTI has programs and policies to address family leave, annual leave/vacation, and educational assistance. All benefits, programs and policies are provided on a uniform basis to all full-time and part-time permanent employees.

Similarly, TTI ANZ benchmarks all employee benefits against competitors and industry local practices to ensure we are recognized as an employer of choice. TTI ANZ provides educational, financial, social and health benefits that are above and beyond traditional employee benefits.

Global Employee Headcount





Employees by Gender in Major Locations

North America

65% Male | 35% Female

Asia

67% Male | 33% Female

Europe

69% Male | 31% Female

Australia & New Zealand

78% Male | 22% Female

Safeguarding the Health and Safety of our Exceptional People

TTI is committed to providing employees with safe working conditions. We are proud to report that we have not had any work-related fatalities in 2017 at any of our 41 locations around the world. Our employees should not only feel respected and valued while at work, but should also feel secure in their surroundings. Measures have been taken to eliminate and reduce hazards where possible through Environmental Health & Safety ("EHS") and Occupational Hazard Management Policies, as well as other internal policies and local regulations. Any safety issues or violations of regulatory requirements are addressed promptly to prevent risk of injury.

We also take proactive initiatives to make safety a top priority throughout TTI's business. The following are a few examples of specifics.

At TTI FC NA, we have a well-organized safety committee comprised of both management and hourly workers. TTI FC NA conducts regular safety audits throughout the TTI FC NA facilities, performs job safety analyses followed by education to workers on the safe way to perform their jobs, and trains both hourly and management personnel on performing behavior-based safety audits by observing employees while they work and then discussing the safe and unsafe actions and observations. TTI FC NA also has each employee sign a safety pledge indicating that they will perform their jobs in a safe manner.

Furthermore, TTI FC NA has certified, first-aid/CPR responders in all areas of the facility to respond to any emergencies that may arise during working hours. TTI FC NA also trains the leadership team to be safety coaches for their employees. Training is completed through a combination of instructor led and online training. Work-place safety initiatives and safety incidents are monitored by the Director of EHS, the EHS Associate and the joint management/employee safety committee.

TTI Canada follows a similar health and safety approach to TTI FC NA. TTI Canada has a Health and Safety ("H&S") Committee that meets quarterly to review health and safety activities. Members of the H&S Committee comprise representatives from the corporate location and its five (5) service branches, as well as representation from the field. Provincial Health and Safety Regulation booklets are posted at each of the locations, along with the minutes of each meeting as per the policy. Provincial Health and Safety Ministry officials make periodic visits to the sites to ensure compliance. Managers at each site also conduct ongoing inspections to affirm first aid kits, fire extinguishers and defibrillators are in proper working order and well stocked. TTI Canada also provides access to First Aid courses for all employees.

When proper health care is not available in various regions, TTI has stepped in to ensure our employees and their families are receiving adequate health care. For example, in Greenwood, Mississippi, Milwaukee Tool established the Greenwood Clinic that operates within our Greenwood plant for employees and their family members. This was put in place due to the lack of primary care doctors in that area. It has and will continue to provide an easy to access, available primary care options to help employees and their families obtain important preventive services such as annual exams and immunizations, lab tests, and help with early identification of costly, long-term chronic diseases before they progress.

Every employee in TTI EMEA's Eastern European offices undergoes an obligatory medical check before starting his/her employment. In accordance with governing regulations, employees must participate in an Occupational Health & Safety training course. Employees are then required to pass an initial test. Within the first year of employment, employees are required to take a second Occupational Health and Safety training course and again, pass a test.

In U.A.E., TTI MEA's employees adhere to the Jebel Ali Freezone Authority ("JAFZA") rules & regulations. JAFZA performs annual office checks for local environmental, health and safety compliance.

Additionally, TTI MEA purchased new monitors for employees to improve eye protection and ergonomics.

Maintaining Exceptional People Through Training and Development

TTI is committed to providing comprehensive training programs, which collectively provide a uniform platform to all employees at all our locations, as well as an educational basis to enhance and improve employee skills. TTI is proud of its robust course, "Learn TTI", which provides online training to new and existing employees on compliance and other subjects to strengthen both business and leadership skills. "Learn TTI" supports both various self-study vocational training and specific management courses for designated individuals. Our business units also strongly encourage internal and external training opportunities.

TTI Canada has worked hard over the past couple of years to partner with third-party training providers to customize training for employees. As a result, TTI Canada has developed a training manual for employees that showcases the offering for the Sales and Marketing Teams and Managers. Some of the course titles include, Building Customer Relationships, Time Management, Situational Leadership, Leadership Development, DiSC, Territory Engagement and Strategic Distributor Workshops and Management Essentials.

In 2014, TTI Canada launched a mentoring program to allow employees to spend one-on-one time with the leaders of the organization. Employees are paired up with a tenured individual who offers insight into specific career paths and areas of interest. TTI Canada also offers a "Job Shadowing" program whereby employees can work beside a colleague in a different role to experience first-hand what that role entails, allowing employees to make knowledgeable choices when developing their career plan at TTI Canada.

At TTI PE, succession planning is reviewed every year with areas and roles identified. Similarly, training and development needs are identified during the Annual Performance Review process, whereby employees and managers meet to discuss and lay out specific individual plans. Development and training initiatives also include collaboration with local technical and vocational schools. TTI PE also fosters continuing education, allowing employees to remain current in their field.

TTI is very active in recruiting college graduates to begin their career at TTI. Known as Team TTI, the group goes through a rigorous training program. All new employees are assigned a 90-day electronic learning plan that is completed via Learn TTI. Within the first 60 days of employment, all employees travel to the Pudwill Learning Center (PLC) to attend an intensive course in sales tactics, business management, and product knowledge. After six months of service, new employees return to the PLC to learn more about communication, problem solving and project management.

Like new employees, new managers at TTI PE attend management training within their first 90 days after promotion. This training covers a wide variety of topics, including leading a team, utilizing resources, understanding the business at a management level and recruiting.

At TTI, tracking the percentage of employees trained and the average training hours completed by gender and employee category is not mandatory. Some of our business units keep track of employees trained and training hours, while other business units are working toward implementing a system to tally those numbers. For example, in Hong Kong, 39% of men and 32% of women took additional non-mandatory training. By category, 33% of senior level males completed additional training, whereas 90% of senior level females completed additional training. Middle management male and female employees were nearly identical with 48% and 47% completing additional training. Male employees at TTI HK participated in 34% of additional training compared to only 9% of female counterparts.

33%
of senior level males completed additional training

90%
of senior level females completed additional training

Likewise, in TTI Korea, 46% of men and 54% of women took additional training. 100% of the male middle management completed additional training, while 25% of female middle management did. Male employees at TTI Korea participated in 47% of additional training compared to 67% of female counterparts.

At TTI FC NA, over 3,000 hours of employee training were recorded and the average number of training hours spent by employee was 6.09 in 2017.

Additionally, 100% of TTI Canada employees are trained based on their job category. In 2017, of the six senior management employees, all attended the Situational Leadership Course that involved 24 training hours. Middle Management participated in 56 hours of training, while new employees received 144 hours of classroom training along with eLearning courses.

At the North America Milwaukee Tool locations, 2,100 employees were trained involving 23,089 hours of training. This included 446 courses and totaled 16,390 attendees across all training events[6].

At TTI Zhuhai, 100% of employees received training. On average, workers participated in four hours of training and staff received eight hours of training. For all locations in the PRC, 28% of females and 72% of males completed additional training. Overall, the employees in the PRC completed 49,260 hours of training in 2017.

Of the more than 400 employees at DreBo, 28% participated in non-mandatory training. Of that 28%, 23 were female employees and 95 male employees. The three senior management male employees averaged 61 hours of training. The one middle management female employee averaged 16 hours of training compared to 20 hours of the middle management male employees. At the employee level, male employees averaged 20 hours of training, whereas females averaged 21 hours of training.

[6] These numbers include TTI mandatory courses.

Respect for our Labor Force

TTI complies with all applicable international, national, state and local employment laws designed to protect the rights of all individuals and does not allow the use of child or forced labor in any of its facilities. TTI Handbooks outline company policies, as well as statutory laws and regulations that our organization requires to stay compliant. All TTI employees are mandated to take the "Learn TTI" course on Modern Slavery and Human Trafficking and our Code of Ethics and Business Conduct as part of their onboarding. We also expect our suppliers and business partners to comply with our Business Partner Code of Conduct and our approach on this is outlined below.

In the United States, employees must complete a formal employee application for employment and must provide government-issued identification confirming that they are legally permitted to work. For workers under the age of 18, we follow local guidelines that limit number of hours allowed and hours of employment. Those hours must be approved by the employee's parent or legal guardian.

In the PRC, we have additional mandated policies regarding child labor, juvenile workers and forced labor. Our PRC facilities never hire any person under the age of 16 and only hire juvenile workers between the ages of 16 and 18 during peak seasons. However, TTI requires our PRC locations to adhere to the Juvenile Worker Protection Policy and register the juvenile worker with the local Labor Bureau. In addition to following TTI policies, our PRC locations have instituted several preventative actions during hiring, including:

- Human Resources checks identification cards (with date of birth information) of each candidate via a system linked with public security.
- Upon hiring, Human Resources registers all juvenile workers' names with the local labor bureau.

Sustainability in our Supply Chain

Globally, our focus is to assess and manage environmental and social risks across our supply chain. We engage and partner with TTI customers and suppliers to achieve this goal.

Our suppliers must comply with TTI's policy against modern slavery and human trafficking based on the requirements of the California Transparency in Supply Chains Act and the UK Modern Slavery Act. TTI has also updated the Business Partners Code of Conduct to address these requirements. In 2017, we implemented changes and took additional steps in our selection and monitoring of our suppliers.

To assist with monitoring the compliance of our suppliers, TTI launched a new supply chain compliance platform in December 2017. Enrolling our suppliers into the platform ensures TTI suppliers: (1) acknowledge TTI's Policy Against Modern Slavery and Human Trafficking and Conflict Minerals Policy and TTI's Business Partners Code of Conduct; and (2) complete surveys on supply chain transparency and modern slavery. Suppliers are also required to complete a Conflict Minerals Reporting Template ("CMRT").

Suppliers' performance is monitored against our Business Partners Code of Conduct through regular internal and external audits. If non-performance issues or breaches are found, TTI will investigate. All non-compliances must be rectified through corrective action plans. Depending on the severity of the non-compliance, corrective action plans include training, additional factory audits and ongoing monitoring, or the business relationship is terminated.

It is TTI's vision that through our continued effort in education, engagement and partnership, we can help our suppliers develop a shared culture that values corporate social responsibility. Implementing changes and taking additional steps will promote a sustainable supply chain in our industry.

Product Responsibility

Powerful brands and operational excellence are two of the cornerstones of TTI's business model. The safety of our products, which are designed, manufactured, distributed or licensed by TTI is of the highest priority. Our business units:

- Comply with all applicable laws and regulations for the markets where such products are sold;
- Meet or exceed all applicable voluntary industry standards; and
- Meet reasonable consumer expectations for safety.

In an article published in December 2017 by ProPublica, TTI is lauded for keeping its promise to put a low-emissions generator on the market after years of discussion about the deadly risks of carbon monoxide emissions on the portable generator consumer. The Consumer Protection Safety Commission ("CPSC") and the industry began discussions about implementing mandatory or voluntary standards in 2015. A year later, and still without any standards in place, TTI presented to the CPSC in 2016 an engine emitting 90% less carbon monoxide. In 2017, TTI launched its portable generator with the new engine into the market as the first company in the industry to do so.

To better achieve global expectations, TTI hired a Global Product Safety Director in 2017 to direct the development, implementation and maintenance of a comprehensive product safety and consumer product regulatory compliance policy and system to ensure conformity and drive continual improvement of the safety and regulatory function globally. Within our business units, we have teams who are responsible for the safety, quality and regulatory compliance of our products. All products are tested for safety and quality to make sure they comply with all applicable requirements and that our customers are purchasing the safest and most innovative products on the market. Our internal legal departments manage the legal, regulatory and safety compliance of our products. Product recalls are referred to our legal teams, and together with the safety and regulatory departments, comply with regulations to manage the recalls until disposition.

TTI respects others' intellectual property rights and all applicable laws and regulations regarding fair competition and advertising. TTI's legal teams review packaging and products before production and launch to ensure such compliance.

In this age of cybersecurity attacks, TTI is especially diligent about the protection of our data, customers' data, as well as our employees' personal information. In 2015, TTI created the position of Group Senior Manager – Cybersecurity. The manager oversees heads of IT who monitor internal systems for each business unit globally. We also have a Cybersecurity Steering Committee comprised of the Group Senior Manager – Cybersecurity and members of senior management.

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

Our Stance on Enforcing Anti-Corruption

TTI does not under any circumstances allow corruption or bribery in our interactions with others. We are committed to following all applicable anti-corruption and anti-money laundering laws of the countries in which we operate. Additionally, we may not make or receive bribes to or from commercial business partners, such as vendors or other parties, for the purpose of obtaining or retaining business or otherwise securing an improper business advantage.

The prohibitions of these laws apply not only to actions taken by us as individuals; they also apply to actions taken by any outside parties doing business on our Company's behalf. We have taken great steps internally to provide policies and procedures on how best to report and respond. In addition to Employee Handbooks, TTI has in place the Code of Ethics and Business Conduct, the Complaint Resolution Policy and Procedure and the Business Partner Code of Conduct. All employees are required to complete the TTI Code of Ethics and Business Conduct Training upon their hiring. The TTI Corporate Complaint Resolution Policy and Procedures outlines the manner in which concerns or complaints may be filed, and the manner in which they will be handled, including confidentiality, no-retaliation, types of inquiries, record-keeping and information rights.

TTI has established an independent complaint hotline whereby any person may contact the third-party operator to make a complaint or report information confidentially and anonymously. Alternatively, employees may also contact TTI's General Counsel. Complaints are then investigated by our internal audit team and corrective measures are taken accordingly.

At the end of 2017, TTI rolled out an online supplier compliance program through a company that delivers supply chain transparency services to support corporate sustainability, regulatory compliance and social responsibility initiatives. TTI suppliers receive an email invitation to login to the platform, to collaborate and verify compliance with TTI's supply chain policies.

In addition to the policies and the online supplier compliance program, we mandate in PRC each employee and each vendor to execute a Declaration of Non-Conflict of Interest. Furthermore, during new hire orientation, employees receive face-to-face training on the Employee Handbook. TTI is also a member of the China Enterprise Anti-Fraud Alliance.

Similarly, in Hong Kong, our employees review a New Employee Induction presentation, which outlines our policy and procedure on soliciting, accepting and offering advantages.

At TTI Canada, we have the TTI Code of Ethics and Business Conduct posters posted at each of our service centers and corporate office. We even commissioned a rendering of the "Our Core Values logo" to be installed at our corporate office as a reminder to employees.

Of the more than 35 countries where TTI is located, we have only had two concluded cases of corrupt practices against former employees in 2017. In one case, a former employee was sentenced to ten months in prison, while the other case is currently on appeal.

Investing in our Communities

TTI has a longstanding commitment to support the communities in which we live and work by providing resources, time and money to those charities where our efforts are best focused. Some of our business units have in place a formal committee, which is tasked with the selection of organizations that will allow its employees to give back to their communities and beyond. Other business units maintain sponsorship with the same charities year after year. However, those business units who sponsor community activities also evaluate new sponsorship opportunities through informal or formal means.

Throughout the year, TTI has partnered with more than 50 volunteer programs and charities worldwide, giving thousands of volunteer hours and hundreds of thousands of US dollars. Some of our business units allot a specific number of work hours or days for employees to volunteer at their favorite charity. Our employees choose a variety of organizations to support ranging from education, home building and child wellness to sports. Some of these activities are highlighted below.

The Next Generation

In Hong Kong, TTI donated US$52,500 to the Scholarship for Future Stars – Upward Mobility Scholarship. The scholarships are given to youth from less privileged backgrounds. The scholarships fund the youths' education with the hope that through education, children will achieve upward social mobility.

Encouraging Science, Technology, Engineering and Mathematics ("STEM")

STEM Forward – through volunteer efforts and financial donations, Milwaukee Tool supports STEM education and advancement in Wisconsin schools. Milwaukee Tool employees volunteer on robotics teams as mentors to high school students. Milwaukee Tool also sponsored "Girls in Stem Day" where time and tool contributions were both donated.

Building a Better Future

Our products serve as an avenue for giving those in our communities a place to call home. For years, TTI has been a proud sponsor of Habitat for Humanity. In the U.S., our employees volunteer their time to build homes in their communities and across their country. TTI continuously makes tool donations to Habitat for Humanity. Similarly, our Milwaukee brand tools and employee know-how assist with Operation Tiny Homes and Veterans Outreach of Wisconsin.

Children and Families

This year, the lower United States and Caribbean Islands were hit hard by Hurricanes Harvey and Irma. TTI employees donated US$31,755 to the Red Cross and TTI promised to match employee donations and contribute an additional US$50,000. TTI exceeded its initial contributory promise and, together with the employee donations, contributed US$125,000 to assist children and families in the recovery efforts.

Support Through Activity

TTI Canada selects charity events that offer both a team-building opportunity for our employees and supports children's sport activities, such as baseball and hockey through monetary donations. Before the Christmas holidays, TTI participates in a team-building charity volleyball tournament that raises funds for the Hospital for Sick Kids in Toronto. TTI Canada also participates in CN Tower Stair Climbs to help the World Wildlife Fund, which tackles major conservation issues to help safeguard the habitats of hundreds of species and continues to make ground-breaking progress towards habitat sustainability.

Legend – Techtronic Industries Business Divisions

Name of Business Division/Companies	Abbreviation	Country/Location
A&M Industries S.a.r.l.	TTI Benelux	Belgium, Netherlands, Luxembourg
DreBo Werkzeugfabrik GmbH	DreBo	Germany
Empire	Empire	Wisconsin, U.S.
Milwaukee Electric Tool Corporation	Milwaukee Tool	Wisconsin, U.S. Mississippi, U.S.
Royal Appliance International GmbH	N/A	Germany
Techtronic Industries Australia Pty. Ltd. and Techtronic Industries N.Z. Limited	TTI ANZ	Australia/New Zealand
Techtronic Industries Canada Inc.	TTI Canada	Canada
Techtronic Industries Company Ltd.	TTI HK	Hong Kong
Techtronic Industries (Dongguan) Co. Ltd.	TTI AIP	PRC
TTI Machine Shop Ltd.		PRC
TTI Plastic Shop Company Ltd.		PRC
Techtronic Industries Floor Care North America	TTI FC NA	North Carolina, U.S., Ohio, U.S., Tennessee, U.S.
Techtronic Industries GmbH	TTI GmbH	Germany
Techtronic Industries Korea Ltd.	TTI Korea	Korea
Techtronic Industries Middle East & Africa FZCO	TTI MEA	United Arab Emirates
Techtronic Industries North America Inc.	TTI NA	Maryland, U.S.
Techtronic Industries Power Equipment	TTI PE	South Carolina, U.S.
Techtronic Industries (UK) Ltd.	TTI EMEA	United Kingdom, France Spain, Portugal, Switzerland, Austria, Hungary, Czech Republic, Germany, Poland, Russia, Slovakia, Denmark, Norway, Sweden, Finland
Techtronic Industries (Zhuhai) Co. Ltd.	TTI Zhuhai	PRC

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, 2017.

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 51 and 52 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, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 108.

An interim dividend of HK27.75 cents (approximately US3.57 cents) per share amounting to approximately US$65,507,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK39.75 cents (approximately US5.12 cents) per share to the shareholders on the register of members on May 28, 2018, amounting to approximately US$93,877,000.

Property, Plant and Equipment

The Group continued to expand its business and during the year spent approximately US$895,000 on leasehold land and buildings, acquired moulds and tooling for approximately US$15,795,000, office equipment, furniture and fixtures for approximately US$10,783,000 and plant and machinery for approximately US$14,386,000. 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 of 1,500,000 ordinary shares (those bought back by the Company during 2016 at prices ranging from HK$27.50 to HK$28.15 per share) were settled and cancelled by the Company during 2017. The aggregate amount paid by the Company for such buy-backs cancelled during 2017 amounting to US$5,388,000 was charged to the retained earnings.

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

Directors

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

Group Executive Directors:

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

Non-executive Directors:

Prof Roy Chi Ping Chung GBS BBS JP
Mr Camille Jojo

Independent Non-executive Directors:

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

In accordance with Article 107(A) of the Company's Articles of Association, Messrs. Stephan Horst Pudwill, Chi Chung Chan, Roy Chi Ping Chung and Christopher Patrick Langley will retire at the forthcoming Annual General Meeting, being eligible, will offer themselves 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, 2017 and during the period from January 1, 2018 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, 2017, 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	149,843,500[2]	553,500	367,316,794	20.02%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	216,159,794[3]	—		
Mr Stephan Horst Pudwill	Beneficial owner	4,959,500	2,750,000	41,717,000	2.27%
	Beneficiary of a trust	34,007,500[4]	—		
Mr Joseph Galli Jr	Beneficial owner	3,183,000	1,000,000	4,183,000	0.23%
Mr Kin Wah Chan	Beneficial owner	100,000	1,750,000	1,850,000	0.10%
Mr Chi Chung Chan	Beneficial owner	400,000	1,750,000	2,150,000	0.12%
Prof Roy Chi Ping Chung GBS BBS JP	Beneficial owner	49,005,948	300,000	86,380,978	4.71%
	Interests of controlled corporation	37,075,030[5]	—		
Mr Camille Jojo	Beneficial owner	11,500	250,000	261,500	0.01%
Mr Christopher Patrick Langley OBE	Beneficial owner	200,000	150,000	350,000	0.02%
Mr Manfred Kuhlmann	Beneficial owner	225,000	175,000	400,000	0.02%
Mr Peter David Sullivan	Beneficial owner	—	950,000	950,000	0.05%
Mr Vincent Ting Kau Cheung	Beneficial owner	3,920,000	150,000	4,070,000	0.22%
Mr Johannes-Gerhard Hesse	Beneficial owner	—	135,000	135,000	0.01%

Notes:

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

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

(2) These included Mr Horst Julius Pudwill's interests in 1,324,000 awarded shares, of which 300,000 awarded shares remained unvested under the Share Award Scheme as of December 31, 2017. 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 shares were held by Cordless Industries Company Limited* in which Prof Roy Chi Ping Chung GBS BBS JP has a beneficial interest.

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

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at December 31, 2017.

Share Options

Share Option Schemes

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

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

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

(i) employees; or

(ii) Directors; or

(iii) secondees; or

(iv) any shareholders of any member of the Group or invested entity or controlling shareholders or any holders of any securities issued by any member of the Group; or

(v) business partners; or

(vi) suppliers; or

(vii) customers; or

(viii) advisers of the Group.

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

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

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; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant.

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

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HKD	Exercise period
Directors									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	155,500	—	—	155,500	32.100	17.3.2018 - 16.3.2027
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 - 16.3.2027
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 - 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 - 16.3.2027
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 - 16.3.2027
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Camille Jojo	17.3.2017	D	—	250,000	—	—	250,000	32.100	17.3.2018 - 16.3.2027
Mr Christopher Patrick Langley OBE	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Manfred Kuhlmann	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	(125,000)	—	25,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Vincent Ting Kau Cheung	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Johannes-Gerhard Hesse	19.6.2017	E	—	135,000	—	—	135,000	36.300	19.6.2018 - 18.6.2027
Total for directors			**7,798,000**	**2,790,500**	**(675,000)**	**—**	**9,913,500**		

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 HKD	Exercise period
Employees	24.8.2007	D	670,000	—	(620,000)	(50,000)	—	8.390	24.8.2008 - 23.8.2017
	16.10.2007	D	15,000	—	(15,000)	—	—	8.810	16.10.2008 - 15.10.2017
	14.1.2008	D	430,000	—	(405,000)	—	25,000	7.566	14.1.2009 - 13.1.2018
	17.4.2008	D	250,000	—	(50,000)	—	200,000	7.780	17.4.2009 - 16.4.2018
	14.5.2008	D	40,000	—	(40,000)	—	—	7.500	14.5.2009 - 13.5.2018
	16.11.2009	D	1,420,000	—	(820,000)	—	600,000	6.770	16.11.2010 - 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 - 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 - 16.1.2021
	23.3.2017	D	—	200,000	—	—	200,000	32.150	23.3.2018 - 22.3.2027
	19.6.2017	E	—	350,000	—	—	350,000	36.300	19.6.2018 - 18.6.2027
Total for employees			**2,875,000**	**550,000**	**(1,950,000)**	**(50,000)**	**1,425,000**		
Total for all categories			**10,673,000**	**3,340,500**	**(2,625,000)**	**(50,000)**	**11,338,500**		

The weighted average closing prices of the Company's shares immediately before the various dates on which the share options were granted during 2017 was HK$32.42.

The closing prices of the Company's shares immediately before the various dates on which the share options were granted ranged from HK$31.80 to HK$36.00 in 2017.

The weighted average closing prices of the Company's shares immediately before various dates during 2017 and 2016 on which the share options were exercised were HK$38.21 and HK$30.75 respectively.

The fair values of the share options granted in 2017 measured at various dates on which the share options were granted ranged from HK$7.98 to HK$8.68. The weighted average fair value of the share options granted in 2017 was HK$8.11 per option.

Arrangements to Purchase Shares or Debentures

Other than as disclosed above and for satisfying the awarded shares granted under the Company's share award 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.

Directors' Indemnities

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

Management Contracts

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

Equity-linked Agreements

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

Substantial Shareholders' Interests

As at December 31, 2017, 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)	110,003,134	(L)	5.99%
FMR LLC (2)	109,683,644	(L)	5.98%
JPMorgan Chase & Co. (3)	109,685,632	(L)	5.98%
	452,346	(S)	0.02%
	65,505,351	(LP)	3.57%
Schroders Plc (4)	127,628,261	(L)	6.96%
The Capital Group Companies, Inc. (5)	92,447,000	(L)	5.04%

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

Substantial Shareholders' Interests (continued)

Notes:

(1) The following is a breakdown of the interest in shares in the Company held by FIL Limited:

		Total interests in shares				
Name	**Remarks**	**Direct interests**	**(L/S/LP)***	**Deemed interests**	**(L/S/LP)***	**Approximate percentage of interests**
FIL Limited	(1a)	—	—	110,003,134	(L)	5.99%
FIL Asia Holdings Pte Limited	(1b)	—	—	42,443,350	(L)	2.31%
FIL Japan Holdings (Singapore) Pte Limited	(1b)	—	—	203,850	(L)	0.01%
FIL Japan Holdings KK	(1b)	—	—	203,850	(L)	0.01%
FIL INVESTMENTS (JAPAN) LTD	(1b)	—	—	203,850	(L)	0.01%
FIL Responsible Entity (Australia) Ltd	(1b)	—	—	28,500	(L)	0.00%
FIL Investment Management (Hong Kong) Limited	(1b)	—	—	3,799,500	(L)	0.21%
	(1b)	13,456,500	(L)	—	—	0.73%
FIL Investment Management (Singapore) Limited	(1b)	—	—	307,000	(L)	0.02%
	(1b)	28,333,500	(L)	—	—	1.54%
FIL Fund Management Limited	(1b)	—	—	57,556,500	(L)	3.14%
FIL Genesis Limited	(1b)	—	—	10,000	(L)	0.00%
FIL Holdings (Luxembourg) S.A.	(1b)	—	—	57,164,500	(L)	3.12%
FIL Investment Management (Luxembourg) S.A.	(1b)	—	—	57,164,500	(L)	3.12%
FIL Holdings (UK) Limited	(1b)	—	—	60,779,400	(L)	3.31%
FIL Investment Services (UK) Limited	(1b)	—	—	12,615,000	(L)	0.69%
FIL Investments International	(1b)	—	—	441,000	(L)	0.02%
	(1b)	56,589,500	(L)	—	—	3.08%
FIL PENSIONS MANAGEMENT	(1b)	—	—	5,334,400	(L)	0.29%
483A Bay Street Holdings LP	(1b)	—	—	8,470,609	(L)	0.46%
BlueJay Lux 1 S.a.r.l.	(1b)	—	—	8,470,609	(L)	0.46%
FIC Holdings ULC	(1b)	—	—	8,470,609	(L)	0.46%
FIDELITY INVESTMENTS CANADA ULC	(1b)	—	—	8,470,609	(L)	0.46%

Remarks:

(1a) The capacity of FIL Limited in holding the 110,003,134 shares of long position was as controlled corporation.

(1b) FIL Asia Holdings Pte Limited, FIL Japan Holdings (Singapore) Pte Limited, FIL Japan Holdings KK, FIL INVESTMENTS (JAPAN) LTD, FIL Responsible Entity (Australia) Ltd, FIL Investment Management (Hong Kong) Limited, FIL Investment Management (Singapore) Limited, FIL Fund Management Limited, FIL Genesis Limited, FIL Holdings (Luxembourg) S.A., FIL Investment Management (Luxembourg) S.A., FIL Holdings (UK) Limited, FIL Investment Services (UK) Limited, FIL Investments International, FIL PENSIONS MANAGEMENT, 483A Bay Street Holdings LP, BlueJay Lux 1 S.a.r.l., FIC Holdings ULC and FIDELITY INVESTMENTS CANADA ULC were all directly or indirectly owned by FIL Limited and by virtue of the SFO, FIL Limited was deemed to be interested in the shares held by these subsidiaries.

Substantial Shareholders' Interests (continued)

Notes: (continued)

(2) The following is a breakdown of the 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)	—	—	109,683,644	(L)	5.98%
Fidelity Management & Research Company	(2b)	—	—	67,300,325	(L)	3.67%
	(2b)	5,000	(L)	—	—	0.00%
FMR CO., INC	(2b)	—	—	18,114,000	(L)	0.99%
	(2b)	44,270,657	(L)	—	—	2.41%
Fidelity Management & Research (U.K.) Inc.	(2b)	—	—	10,954,400	(L)	0.60%
FMR Investment Management (UK) Limited	(2b)	10,954,400	(L)	—	—	0.60%
FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED	(2b)	6,564,000	(L)	—	—	0.36%
FIDELITY MANAGEMENT & RESEARCH (JAPAN) LIMITED	(2b)	1,966,500	(L)	—	—	0.11%
FIAM Holdings Corp.	(2b)	—	—	40,174,524	(L)	2.19%
Fidelity Institutional Asset Management Trust Company	(2b)	—	—	1,000	(L)	0.00%
	(2b)	20,956,868	(L)	—	—	1.14%
FIAM Institutional Funds Manager, Inc.	(2b)	—	—	553,657	(L)	0.03%
FIAM LLC	(2b)	19,216,656	(L)	—	—	1.05%
FIDELITY INVESTMENTS MONEY MANAGEMENT, INC.	(2b)	—	—	31,916	(L)	0.00%
FIMM, LLC	(2b)	—	—	13,893	(L)	0.00%
FIDELITY MANAGEMENT TRUST COMPANY	(2b)	—	—	3,034,500	(L)	0.17%
FIDELITY SELECTCO, LLC	(2b)	—	—	2,557,408	(L)	0.14%
STRATEGIC ADVISERS, INC.	(2b)	—	—	2,747,000	(L)	0.15%
	(2b)	295	(L)	—	—	0.00%
Fidelity Canada Investors LLC	(2b)	—	—	8,426,954	(L)	0.46%
483A Bay Street Holdings LP	(2b)	—	—	8,426,954	(L)	0.46%
BlueJay Lux 1 S.a.r.l.	(2b)	—	—	8,426,954	(L)	0.46%
FIC Holdings ULC	(2b)	—	—	8,426,954	(L)	0.46%
FIDELITY INVESTMENTS CANADA ULC	(2b)	—	—	8,426,954	(L)	0.46%

Remarks:

(2a) The capacity of FMR LLC in holding the 109,683,644 shares of long position was as controlled corporation.

(2b) Fidelity Management & Research Company, FMR CO., INC, Fidelity Management & Research (U.K.) Inc., FMR Investment Management (UK) Limited, FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED, FIDELITY MANAGEMENT & RESEARCH (JAPAN) LIMITED, FIAM Holdings Corp., Fidelity Institutional Asset Management Trust Company, FIAM Institutional Funds Manager, Inc., FIAM LLC, FIDELITY INVESTMENTS MONEY MANAGEMENT, INC., FIMM, LLC, FIDELITY MANAGEMENT TRUST COMPANY, FIDELITY SELECTCO, LLC, STRATEGIC ADVISERS, INC., Fidelity Canada Investors LLC, 483A Bay Street Holdings LP, BlueJay Lux 1 S.a.r.l., FIC Holdings ULC and FIDELITY INVESTMENTS CANADA ULC 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)	—	—	109,685,632	(L)	5.98%
		—	—	452,346	(S)	0.02%
		—	—	65,505,351	(LP)	3.57%
J.P. Morgan Securities LLC	(3b)	1,231,565	(L)	—	—	0.07%
		93,500	(S)	—	—	0.01%
JF Asset Management Limited	(3b)	9,352,000	(L)	—	—	0.51%
JPMorgan Asset Management (Japan) Limited	(3b)	1,242,700	(L)	—	—	0.07%
JPMorgan Asset Management (Taiwan) Limited	(3b)	668,000	(L)	—	—	0.04%
J.P. Morgan Investment Management Inc.	(3b)	24,249,000	(L)	—	—	1.32%
J.P. Morgan Trust Company of Delaware	(3b)	31,550	(L)	—	—	0.00%
J.P. Morgan Whitefriars LLC	(3b)	1,359,618	(L)	—	—	0.07%
		73,346	(S)	—	—	0.00%
JPMorgan Chase Bank, N.A.	(3b)	—	—	2,698,039	(L)	0.15%
		—	—	358,846	(S)	0.02%
J.P. Morgan Equity Holdings, Inc.	(3b)	—	—	31,550	(L)	0.00%
J.P. Morgan International Finance Limited	(3b)	—	—	2,698,039	(L)	0.15%
		—	—	358,846	(S)	0.02%
J.P. Morgan Securities plc	(3b)	1,338,421	(L)	—	—	0.07%
		285,500	(S)	—	—	0.02%
JPMorgan Chase Bank, N.A.	(3b)	67,452,706	(L)	—	—	3.68%
JPMorgan Asset Management (UK) Limited	(3b)	2,760,072	(L)	—	—	0.15%
J.P. Morgan Broker-Dealer Holdings Inc	(3b)	—	—	1,231,565	(L)	0.07%
		—	—	93,500	(S)	0.01%
J.P. Morgan Capital Holdings Limited	(3b)	—	—	1,338,421	(L)	0.07%
		—	—	285,500	(S)	0.02%
JPMorgan Asset Management Holdings Inc	(3b)	—	—	47,623,772	(L)	2.60%
JPMorgan Asset Management (Asia) Inc.	(3b)	—	—	11,262,700	(L)	0.61%
JPMorgan Asset Management Holdings (UK) Limited	(3b)	—	—	2,760,072	(L)	0.15%
JPMorgan Chase Holdings LLC	(3b)	—	—	48,886,887	(L)	2.66%
		—	—	93,500	(S)	0.01%
J.P. Morgan Overseas Capital LLC	(3b)	—	—	1,359,618	(L)	0.07%
		—	—	73,346	(S)	0.00%
JPMorgan Asset Management International Limited	(3b)	—	—	2,760,072	(L)	0.15%

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 109,685,632 shares of long position, 452,346 shares of short position and 65,505,351 shares of lending pool respectively was as controlled corporation.

(3b) J.P. Morgan Securities LLC, JF Asset Management Limited, JPMorgan Asset Management (Japan) Limited, JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan Investment Management Inc., J.P. Morgan Trust Company of Delaware, J.P. Morgan Whitefriars LLC, JPMorgan Chase Bank, N.A., J.P. Morgan Equity Holdings, Inc., J.P. Morgan International Finance Limited, J.P. Morgan Securities plc, JPMorgan Chase Bank, N.A., JPMorgan Asset Management (UK) Limited, J.P. Morgan Broker-Dealer Holdings Inc, J.P. Morgan Capital Holdings Limited, JPMorgan Asset Management Holdings Inc, JPMorgan Asset Management (Asia) Inc., JPMorgan Asset Management Holdings (UK) Limited, JPMorgan Chase Holdings LLC, J.P. Morgan Overseas Capital LLC and JPMorgan Asset Management International Limited were all directly or indirectly owned by JPMorgan Chase & Co. and by virtue of the SFO, JPMorgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.

(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)	—	—	127,628,261	(L)	6.96%
Schroder Administration Limited	(4b)	—	—	127,628,261	(L)	6.96%
Schroder International Holdings Limited	(4b)	—	—	111,200,500	(L)	6.06%
Schroder Investment Management Limited	(4b)	7,523,000	(L)	—	—	0.41%
	(4b)	—	—	7,885,878	(L)	0.43%
Schroder Investment Management North America Limited	(4b)	7,885,878	(L)	—	—	0.43%
Schroder Investment Management (Hong Kong) Limited	(4b)	47,164,500	(L)	—	—	2.57%
Schroder Wealth Holdings Limited	(4b)	—	—	1,018,883	(L)	0.06%
Schroder & Co. Limited	(4b)	—	—	886,383	(L)	0.05%
Schroder & Co. (Asia) Limited	(4b)	886,383	(L)	—	—	0.05%
Schroder & Co Bank AG	(4b)	132,500	(L)	—	—	0.01%
Schroder Investment Management (Singapore) Limited	(4b)	64,036,000	(L)	—	—	3.49%

Remarks:

(4a) Schroders Plc is listed on London Stock Exchange. The capacity of Schroders Plc in holding the 127,628,261 shares of long position was as investment manager.

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

Substantial Shareholders' Interests (continued)

Notes: (continued)

(5) The following is a breakdown of the interest in shares in the Company held by The Capital Group Companies, Inc.:

		Total interests in shares				
Name	**Remarks**	**Direct interests**	**(L/S/LP)***	**Deemed interests**	**(L/S/LP)***	**Approximate percentage of interests**
The Capital Group Companies, Inc.	(5a)	—	—	92,447,000	(L)	5.04%
Capital Research and Management Company	(5b)	92,447,000	(L)	—	—	5.04%

Remarks:

(5a) The capacity of The Capital Group Companies, Inc., in holding the 92,447,000 shares of long position was as controlled corporation.

(5b) Capital Research and Management Company was directly or indirectly owned by The Capital Group Companies, Inc. and by virtue of the SFO, The Capital Group Companies, Inc. was deemed to be interested in the shares held by this subsidiary.

Save as disclosed above, no other person was interested in or had a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of the Part XV of the SFO as at December 31, 2017.

Environmental, Social and Governance ("ESG")

The Company has adopted the latest ESG reporting guidelines issued by the Stock Exchange. A report on TTI's environmental, social and governance commitment can be found on pages 70 to 91.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended December 31, 2017.

Donations

During the year, the Group made charitable and other donations totalling US$2,061,000.

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 13, 2018

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 108 to 186, which comprise the consolidated statement of financial position as at December 31, 2017, 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, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	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, 2017 the carrying value of goodwill and trademarks attributable to the Floor Care and Appliances segment was US$143 million (2016: US$143 million). This segment is profitable but has underperformed in comparison to other cash generating units and management has made a number of key assumptions and assertions to support their assessment of the carrying value of goodwill and other intangible assets attributable to this segment. The key assumptions include growth rates, discount rates applied and the forecast performance based on management's view of future business prospects. There is no impairment on goodwill and intangible assets with indefinite useful lives for the Floor Care and Appliances segment for the year ended December 31, 2017.	Our procedures in relation to management's assessment of the carrying value of goodwill and other intangible assets for the Floor Care and Appliances segment included: • Assessing the valuation methodology adopted by management which is disclosed in Note 20 to the consolidated financial statements; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Reconciling input data used in the cash flow forecasts to supporting evidence, such as approved budgets and considering the reasonableness of those budgets; • Considering the potential impact of reasonably possible downside changes in these key assumptions; and • Meeting with the independent valuation specialist engaged by management to understand the assumptions they used in building up the discounted cash flow model. In performing our audit procedures, we engaged our internal valuation specialists to assess the discount rate applied by benchmarking against independent data.
Capitalization of Deferred Development Costs We identified the capitalization of deferred development costs as a key audit matter due to significant management judgement about the future performance and viability of the products. The Group conducts a significant level of development activities and has to apply judgement in identifying projects meeting the criteria for capitalization under the requirements of accounting standards and to capture accurate time and cost information for those projects. As disclosed in Note 19 to the consolidated financial statements, as at December 31, 2017 the carrying value of deferred development costs was US$316 million (2016: US$297 million) and the additions during the year were US$109 million (2016: US$112 million).	Our procedures in relation to capitalization of deferred development costs included: • Testing management's controls over capitalization of deferred development costs; • Evaluating the nature of the type of the research and development expenses incurred that are capitalized into intangible assets; • Assessing the reasonableness of the capitalization based on our knowledge of the business and industry; and • Evaluating the appropriateness of expenses capitalized, on a sample basis, by agreeing the material costs, overheads and engineers' hours incurred to external invoices and internal timesheets and payroll records.

Key Audit Matters (continued)

Key Audit Matter	How our Audit Addressed the Key Audit Matter
Recoverability of Deferred Tax Assets We identified the recoverability of deferred tax assets as a key audit matter due to the recognition of these assets involving judgement by management as to the likelihood of the realization of these deferred tax assets, which is based on a number of factors including whether there will be sufficient taxable profits in future periods to support recognition. As disclosed in Note 41 to the consolidated financial statements, as at December 31, 2017 the Group has recognized US$93 million (2016: US$178 million) of deferred tax assets in the consolidated statement of financial position.	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 13, 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2017

	Notes	2017 US$'000	2016 US$'000
Revenue	6	**6,063,633**	5,480,413
Cost of sales		**(3,837,426)**	(3,495,234)
Gross profit		**2,226,207**	1,985,179
Other income	7	**5,454**	5,039
Interest income	8	**10,792**	11,653
Selling, distribution and advertising expenses		**(925,146)**	(794,280)
Administrative expenses		**(623,710)**	(598,492)
Research and development costs		**(163,621)**	(147,277)
Finance costs	9	**(24,480)**	(21,793)
Profit before taxation		**505,496**	440,029
Taxation charge	10	**(34,972)**	(31,242)
Profit for the year	11	**470,524**	408,787
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		**(7,325)**	(7,063)
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss) gain on foreign currency forward contracts in hedge accounting		**(46,936)**	29,339
Exchange differences on translation of foreign operations		**62,671**	(82,000)
Other comprehensive income (loss) for the year		**8,410**	(59,724)
Total comprehensive income for the year		**478,934**	349,063
Profit for the year attributable to:			
Owners of the Company		**470,425**	408,982
Non-controlling interests		**99**	(195)
		470,524	408,787
Total comprehensive income attributable to:			
Owners of the Company		**478,835**	349,258
Non-controlling interests		**99**	(195)
		478,934	349,063
Earnings per share (US cents)	15		
Basic		**25.66**	22.32
Diluted		**25.58**	22.24

Consolidated Statement of Financial Position

As at December 31, 2017

	Notes	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**688,868**	601,230
Lease prepayments	17	**30,836**	29,581
Goodwill	18	**555,350**	553,194
Intangible assets	19	**580,424**	546,636
Interests in associates	21	**2,780**	3,667
Available-for-sale investments	22	**3,697**	613
Derivative financial instruments	27	**9,558**	9,986
Deferred tax assets	41	**92,939**	178,191
		1,964,452	1,923,098
Current assets			
Inventories	23	**1,467,420**	1,296,425
Trade and other receivables	24	**1,136,876**	950,882
Deposits and prepayments		**112,627**	98,638
Bills receivable	25	**8,008**	11,190
Tax recoverable		**6,698**	11,694
Trade receivables from an associate	26	**2,790**	3,540
Derivative financial instruments	27	**3,798**	20,199
Held-for-trading investments	28	**32,293**	—
Bank balances, deposits and cash	29	**863,515**	804,741
		3,634,025	3,197,309
Current liabilities			
Trade and other payables	30	**1,574,402**	1,330,807
Bills payable	31	**54,952**	54,137
Warranty provision	32	**97,268**	80,088
Tax payable		**23,912**	100,164
Derivative financial instruments	27	**43,830**	2,175
Obligations under finance leases - due within one year	33	**2,895**	2,982
Discounted bills with recourse	34	**87,837**	93,897
Unsecured borrowings - due within one year	37	**260,342**	403,825
Bank overdrafts	29	**—**	1,656
		2,145,438	2,069,731
Net current assets		**1,488,587**	1,127,578
Total assets less current liabilities		**3,453,039**	3,050,676

Consolidated Statement of Financial Position

As at December 31, 2017

	Notes	2017 US$'000	2016 US$'000
Capital and Reserves			
Share capital	38	**653,918**	649,214
Reserves		**2,087,307**	1,750,324
Equity attributable to Owners of the Company		**2,741,225**	2,399,538
Non-controlling interests		**(507)**	(606)
Total equity		**2,740,718**	2,398,932
Non-current Liabilities			
Obligations under finance leases - due after one year	33	**8,722**	10,760
Unsecured borrowings - due after one year	37	**564,678**	490,452
Retirement benefit obligations	40	**124,517**	108,167
Deferred tax liabilities	41	**14,404**	42,365
		712,321	651,744
Total equity and non-current liabilities		**3,453,039**	3,050,676

The consolidated financial statements on pages 108 to 186 were approved and authorized for issue by the Board of Directors on March 13, 2018 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, 2017

	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, 2016	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
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**470,425**	**470,425**	**99**	**470,524**
Remeasurement of defined benefit obligations	**—**	**—**	**—**	**—**	**2,024**	**—**	**—**	**2,024**	**—**	**2,024**
Fair value loss on foreign currency forward contracts in hedge accounting	**—**	**—**	**—**	**—**	**—**	**(47,485)**	**—**	**(47,485)**	**—**	**(47,485)**
Deferred tax liability on remeasurement of defined benefit obligations	**—**	**—**	**—**	**—**	**(9,349)**	**—**	**—**	**(9,349)**	**—**	**(9,349)**
Deferred tax liability on hedging reserve	**—**	**—**	**—**	**—**	**—**	**549**	**—**	**549**	**—**	**549**
Exchange differences on translation of foreign operations	**—**	**—**	**62,671**	**—**	**—**	**—**	**—**	**62,671**	**—**	**62,671**
Other comprehensive income (loss) for the year	**—**	**—**	**62,671**	**—**	**(7,325)**	**(46,936)**	**—**	**8,410**	**—**	**8,410**
Total comprehensive income (loss) for the year	**—**	**—**	**62,671**	**—**	**(7,325)**	**(46,936)**	**470,425**	**478,835**	**99**	**478,934**
Shares issued at premium on exercise of options	**4,704**	**—**	**—**	**(917)**	**—**	**—**	**—**	**3,787**	**—**	**3,787**
Buy-back of shares	**—**	**—**	**—**	**—**	**—**	**—**	**(5,388)**	**(5,388)**	**—**	**(5,388)**
Vesting of awarded shares	**—**	**3,370**	**—**	**(3,370)**	**—**	**—**	**—**	**—**	**—**	**—**
Shares for share award scheme	**—**	**(3,455)**	**—**	**—**	**—**	**—**	**—**	**(3,455)**	**—**	**(3,455)**
Recognition of equity-settled share-based payments	**—**	**—**	**—**	**4,193**	**—**	**—**	**—**	**4,193**	**—**	**4,193**
Lapse of share options	**—**	**—**	**—**	**(14)**	**—**	**—**	**14**	**—**	**—**	**—**
Final dividend – 2016	**—**	**—**	**—**	**—**	**—**	**—**	**(70,778)**	**(70,778)**	**—**	**(70,778)**
Interim dividend – 2017	**—**	**—**	**—**	**—**	**—**	**—**	**(65,507)**	**(65,507)**	**—**	**(65,507)**
At December 31, 2017	**653,918**	**(10,561)**	**(94,058)**	**6,902**	**(20,421)**	**(28,784)**	**2,234,229**	**2,741,225**	**(507)**	**2,740,718**

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

	2017 US$'000	2016 US$'000
Operating Activities		
Profit before taxation	**505,496**	440,029
Adjustments for:		
Amortization/write-off of intangible assets	**97,698**	90,544
Amortization of lease prepayments	**732**	744
Depreciation on property, plant and equipment	**114,503**	101,342
Employee share-based payments expense	**4,193**	9,448
Fair value gain on interest rate swap	**—**	(660)
Fair value loss on foreign currency forward contracts	**8,920**	21,115
Fair value (gain) loss on held-for-trading investments	**(2,447)**	139
Fair value loss on derivative financial instruments	**428**	558
Finance costs	**24,480**	21,793
Impairment loss on trade receivables	**21,940**	11,712
Interest income	**(10,792)**	(11,653)
Loss on disposal of property, plant and equipment	**12,514**	12,902
Loss on disposal of held-for-trading investments	**—**	49
Reversal of impairment loss on trade receivables	**(3,485)**	(4,544)
Write down of inventories	**6,949**	13,836
Operating cash flows before movements in working capital	**781,129**	707,354
Increase in inventories	**(158,395)**	(144,774)
Increase in trade and other receivables, deposits and prepayments	**(208,221)**	(105,610)
Decrease in bills receivable	**3,182**	16,087
Decrease (increase) in trade receivables from an associate	**750**	(859)
Increase in trade and other payables	**230,453**	164,456
Increase in bills payable	**815**	16,697
Increase in warranty provision	**13,827**	6,517
Increase (decrease) in retirement benefit obligations	**18,373**	(1,718)
Net payment for purchase of shares for share award scheme	**(3,455)**	(9,309)
Cash generated from operations	**678,458**	648,841
Interest paid	**(24,480)**	(21,793)
Hong Kong Profits Tax paid	**(5,441)**	(4,174)
Overseas tax paid	**(51,048)**	(53,994)
Overseas tax refunded	**812**	14,694
Net Cash from Operating Activities	**598,301**	583,574

	2017 US$'000	2016 US$'000
Investing Activities		
Additions to intangible assets	**(131,415)**	(116,277)
Interest received	**10,792**	11,653
Proceeds from disposal of held-for-trading investment	**—**	928
Proceeds from disposal of property, plant and equipment	**9,676**	975
Purchase of available-for-sale investment	**(3,081)**	—
Purchase of held-for-trading investment	**(29,846)**	—
Purchase of property, plant and equipment	**(203,630)**	(186,604)
Repayment from associates	**887**	2,921
Net Cash used in Investing Activities	**(346,617)**	(286,404)
Financing Activities		
(Decrease) increase in discounted bills with recourse	**(6,060)**	16,268
Dividends paid	**(136,285)**	(102,121)
New bank loans obtained	**2,206,220**	1,668,892
Proceeds from issue of shares	**3,787**	1,704
Repayment of bank loans	**(2,275,477)**	(1,819,587)
Repayment of obligations under finance leases	**(3,786)**	(2,653)
Buy-back of shares	**(5,388)**	(5,425)
Net Cash used in Financing Activities	**(216,989)**	(242,922)
Net Increase in Cash and Cash Equivalents	**34,695**	54,248
Cash and Cash Equivalents at Beginning of the Year	**803,085**	770,771
Effect of Foreign Exchange Rate Changes	**25,735**	(21,934)
Cash and Cash Equivalents at End of the Year	**863,515**	803,085
Analysis of the Balances of Cash and Cash Equivalents		
Represented by:		
Bank balances, deposits and cash	**863,515**	804,741
Bank overdrafts	**—**	(1,656)
	863,515	803,085

1. General

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

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 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.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following 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.

A reconciliation between the opening and closing balances of these items is provided in Note 49. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 49, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective as at January 1, 2017:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[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 HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRS	Annual Improvement to HKFRSs 2015-2017 Cycle[2]

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 a date to be determined.
4 Effective for annual periods beginning on or after January 1, 2021.

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

2. Application of New and Revised 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 which are relevant to the Group are:

- All recognized financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortized 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 amortized 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 generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets 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 recognized 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 Financial Instruments, Recognition and Measurement. 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 recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. 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 retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and Measurement:

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 22: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognized in profit or loss. Upon initial application of HKFRS 9, the directors of the Company do not anticipate that fair value changes related to these securities will have material impact on the Group's consolidated financial statements.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognized by Group as at January 1, 2018 would be slightly increased as compared to the accumulated amount recognized under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognized under expected credit loss model would reduce the opening retained profits at January 1, 2018.

Hedge Accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of HKFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirements will not have a material impact on the Group's current hedge designation and hedge accounting.

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

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 recognized for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of US$317,271,000 as disclosed in Note 43. A preliminary assessment indicates that these arrangements may meet the definition of a lease. Upon application of HKFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. Significant Accounting Policies

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

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

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

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

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

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

The principal accounting policies are set out below.

Basis of Consolidation

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

Business Combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); 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 recognized immediately in profit or loss as a bargain purchase gain.

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

3. Significant Accounting Policies (continued)

Goodwill

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

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

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

If the recoverable amount of the cash generating unit is less than the carrying amount of the cash generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit (or groups of cash generating units). Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized 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 (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Interests in Associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associates. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of loss of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize 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 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

3. Significant Accounting Policies (continued)

Interests in Associates (continued)

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

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

Intangible Assets

Intangible Assets Acquired Separately

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

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

Intangible Assets Acquired in a Business Combination

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

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

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

Internally-generated Intangible Assets - Research and Development Expenditure

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

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

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

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

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

3. Significant Accounting Policies (continued)

Leasing

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

The Group as Lessee

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

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

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

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

Leasehold Land and Building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease prepayments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease 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, if any.

Freehold land is not depreciated.

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

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

3. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

Impairment 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 relevant 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Financial Instruments

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

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 recognized immediately in profit or loss.

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 recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Effective Interest Method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial Assets at 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 recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

Loans and Receivables

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

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
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables 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 amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

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

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 Company are recognized at the proceeds received, net of direct issue costs.

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

Effective Interest Method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis.

Other Financial Liabilities at Amortized Cost

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

Derivative Financial Instruments

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

Hedge Accounting

The Group designates certain derivatives as 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 recognized in other comprehensive income and accumulated in the hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognized hedged item.

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 recognized 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; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period in accordance with the revenue recognition policy.

Derecognition

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

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

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

Provisions

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

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

For a provision in relation to employee termination benefits, the liability and expenses are recognized 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 realizable value. Cost of inventories is calculated using the first-in, first-out method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

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

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

Commission income is recognized when services are provided.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Taxation

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

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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 recognized at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

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

All other borrowing costs are recognized 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 the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee share-based compensation reserve.

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

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

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

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

Government Grants

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

Retirement Benefit Schemes

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

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

Defined benefit costs are categorized as follows:

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

3. Significant Accounting Policies (continued)

Retirement Benefit Schemes (continued)

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

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

Short-term and other Long-term Employee Benefits

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

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

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

4. Key Sources of Accounting Estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

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

Estimated Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of their recoverable amounts, which is the higher of the value in use and fair value less costs of disposal of the cash generating units to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2017, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US$555,350,000 (2016: US$553,194,000) and approximately US$219,440,000 (2016: US$219,440,000) respectively. Details of the recoverable amount calculation are disclosed in Note 20. In determining whether the goodwill and intangible assets with indefinite useful lives are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the cash generating units. When the actual revenues and future cash flows are less than expected, a material 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.

4. Key Sources of Accounting Estimates (continued)

Capitalization, Useful Lives and Estimated Impairment of Deferred Development Costs

Determining the development costs, including the time and costs for individual projects, to be capitalized requires estimations and assumptions based on the expected future economic benefits to be generated by the products resulting from these development costs. Other important estimations and assumptions in this assessment process are the feasibility of mass production, the distinction between research and development and the estimated useful life. As at December 31, 2017, the carrying amounts of deferred development costs of the Group are US$316,312,000 (2016: US$297,261,000). The estimation of their useful lives impacts the level of annual amortization recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material 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, 2017, the Group's carrying amount of property, plant and equipment is US$688,868,000 (2016: US$601,230,000). 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 intends to derive future economic benefits from the use of the Group's property, plant and equipment. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate assets' carrying values are written down to their recoverable amount and the amount of the write-down is charged against the results of operations.

Income Taxes

As at December 31, 2017, a deferred tax asset of approximately US$46,523,000 (2016: US$89,952,000) in relation to unused tax losses and approximately US$24,196,000 (2016: US$48,199,000) in relation to employee related provisions has been recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient taxable profits, or taxable temporary differences, will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognized in profit or loss for the period in which the reversal takes place. During the year, deferred tax assets of approximately US$15,116,000 (2016: US$9,200,000) in relation to unused tax losses were utilized.

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, 2017, the Group's carrying amount of trade and other receivables, bills receivable and trade receivables from an associate is US$1,150,454,000 (net of allowance for doubtful debts of US$37,114,000) (2016: US$969,279,000 (net of allowance for doubtful debts of US$20,025,000)).

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, 2017

	Power Equipment US$'000	Floor Care and Appliances US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue				
External sales	5,137,697	925,936	—	6,063,633
Inter-segment sales	—	1,915	(1,915)	—
Total segment revenue	5,137,697	927,851	(1,915)	6,063,633

Inter-segment sales are charged at prevailing market rates.

Result				
Segment results	511,722	7,462	—	519,184
Interest income				10,792
Finance costs				(24,480)
Profit before taxation				505,496
Taxation charge				(34,972)
Profit for the year				470,524

5. Segment Information (continued)

Segment Revenue and Results (continued)

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.

Other Segment Information

For the year ended December 31, 2017

Amounts included in the measure of segment results:

	Power Equipment US$'000	**Floor Care and Appliances US$'000**	**Consolidated US$'000**
Loss on disposal of property, plant and equipment	**11,593**	**921**	**12,514**
Write down of inventories	**5,304**	**1,645**	**6,949**
Impairment loss on trade receivables	**18,719**	**3,221**	**21,940**
Depreciation and amortization	**157,192**	**51,981**	**209,173**

5. Segment Information (continued)

Other Segment Information (continued)

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 amortization	139,266	51,469	190,735

Revenue from Major Products

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

	2017 US$'000	2016 US$'000
Power Equipment	**5,137,697**	4,470,590
Floor Care and Appliances	**925,936**	1,009,823
Total	**6,063,633**	5,480,413

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***	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
North America	**4,625,483**	4,160,886	**896,578**	829,447
Europe	**918,833**	889,587	**121,978**	111,417
Other countries	**519,317**	429,940	**836,922**	789,777
Total	**6,063,633**	5,480,413	**1,855,478**	1,730,641

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

Information about Major Customer

During the years ended December 31, 2017 and 2016, the Group's largest customer contributed total revenue of US$2,760,045,000 (2016: US$2,453,525,000), of which US$2,688,536,000 (2016: US$2,373,928,000) was under the Power Equipment segment and US$71,509,000 (2016: US$79,597,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total revenue.

6. Revenue

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

	2017 US$'000	2016 US$'000
Sales of goods	**6,042,103**	5,472,493
Commission and royalty income	**21,530**	7,920
	6,063,633	5,480,413

7. Other Income

Other income in both 2017 and 2016 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

	2017 US$'000	2016 US$'000
Interests on:		
Bank borrowings and overdrafts	**23,699**	20,938
Obligations under finance leases	**781**	855
	24,480	21,793

10. Taxation Charge

	2017 US$'000	2016 US$'000
Current tax:		
Hong Kong Profits Tax	(2,035)	(1,669)
Underprovision in prior years	(1,542)	(1,770)
	(3,577)	(3,439)
Overseas taxation	(39,847)	(30,061)
Over provision in prior years	59,381	4,155
	19,534	(25,906)
Deferred tax (Note 41):		
Current year	49,093	21,080
Deferred tax asset impairment	(40,374)	(21,590)
Change in tax rates	(59,648)	(1,387)
	(50,929)	(1,897)
	(34,972)	(31,242)

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.

Overprovision of income tax in prior years includes reversal of provisions for estimated tax expenses in respect of successfully completed tax audits, primarily in the People's Republic of China ("PRC").

The substantial deferred tax expense associated with the change in marginal United States ("US") Federal tax rates from 35% to 21% has triggered a substantial writedown of existing US net deferred tax assets amounted to US$59,552,000 which is primarily comprised of tax loss carryforwards.

The tax charge for the year is reconciled as follows:

	2017 US$'000	2017 %	2016 US$'000	2016 %
Profit before taxation	505,496		440,029	
Tax at Hong Kong Profits Tax rate	(83,407)	16.5%	(72,605)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	79,537	(15.7%)	68,749	(15.6%)
Tax effect of expenses not deductible for tax purposes	(15,571)	3.0%	(25,814)	5.9%
Tax effect of income not taxable for tax purposes	22,386	(4.4%)	19,413	(4.4%)
Utilization of deductible temporary differences previously not recognized	2,100	(0.4%)	386	(0.1%)
Tax effect of tax losses and deductible temporary differences not recognized	2,166	(0.5%)	(779)	0.2%
Deferred tax asset impairment	(40,374)	8.0%	(21,590)	4.9%
Over provision in respect of prior years	57,839	(11.4%)	2,385	(0.6%)
Tax effect of changes in tax rates	(59,648)	11.8%	(1,387)	0.3%
Tax charge for the year	(34,972)	6.9%	(31,242)	7.1%

Details of deferred tax are set out in Note 41.

11. Profit for the Year

	2017 US$'000	2016 US$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	**93,938**	88,649
Amortization of lease prepayments	**732**	744
Auditors' remuneration	**3,352**	3,309
Cost of inventories recognized as an expense	**3,837,426**	3,495,234
Depreciation and amortization on property, plant and equipment		
Owned assets	**111,363**	98,609
Assets held under finance leases	**3,140**	2,733
Fair value gain on interest rate swap	**—**	(660)
Fair value loss on foreign currency forward contracts	**8,920**	21,115
Fair value (gain) loss on held-for-trading investments	**(2,447)**	139
Fair value loss on derivative financial instruments	**428**	558
Impairment loss on trade receivables	**21,940**	11,712
Loss on disposal of property, plant and equipment	**12,514**	12,902
Loss on disposal of held-for-trading investments	**—**	49
Net exchange gain	**(1,999)**	(12,389)
Operating lease expenses recognized in respect of:		
Motor vehicles	**20,448**	19,230
Plant and machinery	**10,058**	14,694
Premises	**43,356**	33,642
Other assets	**2,820**	2,761
Reversal of impairment loss on trade receivables	**(3,485)**	(4,544)
Unconditional government grants	**(315)**	(375)
Write off of intangible assets	**3,760**	1,895
Write down of inventories	**6,949**	13,836
Staff costs		
Directors' remuneration		
Fees	**273**	244
Other emoluments	**42,913**	36,061
	43,186	36,305
Other staff costs	**767,285**	632,530
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)		
Defined contribution plans	**10,286**	9,160
Defined benefit plans (Note 40)	**1,925**	2,211
	822,682	680,206

Staff costs disclosed above do not include an amount of US$140,125,000 (2016: US$126,298,000) of staff costs incurred relating to research and development activities.

12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2016: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

For the year ended December 31, 2017

		Other emoluments				
	Fees US$'000	Basic salaries and allowances US$'000	Contributions to retirement benefits schemes US$'000	Bonus US$'000	Share-based payments US$'000	Total US$'000
Mr Horst Julius Pudwill (Note i)	—	**1,671**	**2**	**11,815**	**1,268**	**14,756**
Mr Stephan Horst Pudwill (Note i)	—	**353**	**2**	**1,420**	**348**	**2,123**
Mr Joseph Galli Jr (Note i)	—	**1,661**	**180**	**13,100**	**3,263**	**18,204**
Mr Kin Wah Chan (Note i)	—	**722**	**2**	**1,732**	**348**	**2,804**
Mr Chi Chung Chan (Note i)	—	**719**	**2**	**2,595**	**348**	**3,664**
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	**39**	**6**	—	**338**	**117**	**500**
Mr Camille Jojo (Note ii)	**39**	**13**	—	—	**199**	**251**
Mr Christopher Patrick Langley OBE (Note iii)	**39**	**15**	—	—	**117**	**171**
Mr Manfred Kuhlmann (Note iii)	**39**	**43**	—	—	**117**	**199**
Mr Peter David Sullivan (Note iii)	**39**	**45**	—	—	**117**	**201**
Mr Vincent Ting Kau Cheung (Note iii)	**39**	**47**	—	—	**117**	**203**
Mr Johannes-Gerhard Hesse (Note iii)	**39**	**10**	—	—	**61**	**110**
Total	**273**	**5,305**	**188**	**31,000**	**6,420**	**43,186**

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 (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 GBS 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

12. Directors' Emoluments (continued)

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

Note ii: The individuals represent the Non-Executive Directors of the Company. The Non-Executive Directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

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

The bonuses were based on past performance of the Group.

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

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2016: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining two (2016: one) individuals for the year ended December 31, 2017 were as follows:

	2017 US$'000	2016 US$'000
Basic salaries and allowances	**1,265**	767
Contributions to retirement benefits schemes	**152**	91
Bonus	**6,366**	1,500
Other benefit	**59**	42
Share-based payments	**—**	—
	7,842	2,400

The emoluments of these two (2016: one) highest paid individuals for the year ended December 31, 2017 were within the following bands:

	No. of persons	
HK$	**2017**	2016
18,500,001 to 19,000,000	**—**	1
24,000,001 to 24,500,000	**1**	—
36,500,001 to 37,000,000	**1**	—

During each of the two years ended December 31, 2017 and 2016, 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

	2017 US$'000	2016 US$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2016: HK30.00 cents (approximately US3.86 cents)		
(2015: HK23.25 cents (approximately US2.99 cents)) per share	**70,778**	54,881
Interim dividend paid:		
2017: HK27.75 cents (approximately US3.57 cents)		
(2016: HK20.00 cents (approximately US2.57 cents)) per share	**65,507**	47,240
	136,285	102,121

The final dividend of HK39.75 cents (approximately US5.12 cents) per share with a total of approximately US$93,877,000 in respect of the year ended December 31, 2017 (2016: final dividend of HK30.00 cents (approximately US3.86 cents) per share in respect of the year ended December 31, 2016) 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:

	2017 US$'000	2016 US$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	**470,425**	408,982
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,833,278,393**	1,832,139,377
Effect of dilutive potential ordinary shares:		
Share options	**5,403,141**	6,024,374
Share award	**147,754**	713,467
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,838,829,288**	1,838,877,218

The computation of diluted earnings per share does not assume the exercise of certain Company's options because the exercise price of those options were higher than the average market price for shares for the year ended December 31, 2017.

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, 2016	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
Currency realignment	4,226	3,322	7,218	14,615	212	4,497	—	1,323	35,413
Additions	895	2,072	10,783	14,386	970	15,795	—	160,383	205,284
Disposals	(23,450)	(178)	(19,020)	(1,714)	(765)	(59,187)	—	(6,356)	(110,670)
Reclassification	29,184	10,811	17,066	15,507	110	60,003	—	(132,681)	—
At December 31, 2017	**193,239**	**89,191**	**225,647**	**322,146**	**6,271**	**312,060**	**2,369**	**127,590**	**1,278,513**
Depreciation and Impairment									
At January 1, 2016	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
Currency realignment	1,008	2,447	4,556	5,731	202	2,422	—	—	16,366
Provided for the year	6,009	7,717	16,795	27,338	878	55,752	14	—	114,503
Eliminated on disposals	(18,450)	(16)	(18,440)	(482)	(638)	(50,454)	—	—	(88,480)
At December 31, 2017	**31,223**	**41,597**	**147,842**	**172,616**	**4,268**	**189,780**	**2,319**	**—**	**589,645**
Carrying amounts									
At December 31, 2017	**162,016**	**47,594**	**77,805**	**149,530**	**2,003**	**122,280**	**50**	**127,590**	**688,868**
At December 31, 2016	139,728	41,715	64,669	139,323	1,918	108,892	64	104,921	601,230

Note: Buildings with a carrying amount of US$20,633,000 (2016: US$21,958,000) 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% - 25%
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:

	2017 US$'000	2016 US$'000
Land and buildings situated outside Hong Kong are analyzed as follows:		
Freehold	**75,058**	50,049
Leasehold	**20,633**	21,958
	95,691	72,007
Land and buildings situated in Hong Kong	**66,325**	67,721
	162,016	139,728

The carrying amounts of the Group's property, plant and equipment include amounts of approximately US$10,665,000 (2016: US$12,958,000) 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$283,554,000 (2016: US$283,657,000) in respect of fully depreciated property, plant and equipment that are still in use.

17. Lease Prepayments

	US$'000
Cost	
At January 1, 2016	38,084
Currency realignment	(2,522)
At December 31, 2016	35,562
Currency realignment	2,420
At December 31, 2017	**37,982**
Amortization	
At January 1, 2016	5,643
Currency realignment	(406)
Provided for the year	744
At December 31, 2016	5,981
Currency realignment	433
Provided for the year	732
At December 31, 2017	**7,146**
Carrying amounts	
At December 31, 2017	**30,836**
At December 31, 2016	29,581

All lease prepayments are related to leases outside Hong Kong.

18. Goodwill

	US$'000
At January 1, 2016	553,789
Currency realignment	(595)
At December 31, 2016	553,194
Currency realignment	2,156
At December 31, 2017	**555,350**

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, 2016	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
Currency realignment	222	31	—	—	—	—	253
Additions	108,965	22,450	—	—	—	—	131,415
Written off in the year	(37,479)	(1,252)	(78)	—	—	(10,634)	(49,443)
At December 31, 2017	**801,490**	**88,839**	**234,212**	**453**	**10,500**	**—**	**1,135,494**
Amortization							
At January 1, 2016	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
Currency realignment	181	1	—	—	—	—	182
Provided for the year	86,780	5,220	461	—	592	885	93,938
Eliminated on write off	(34,304)	(699)	(46)	—	—	(10,634)	(45,683)
At December 31, 2017	**485,178**	**52,095**	**13,138**	**453**	**4,206**	**—**	**555,070**
Carrying amounts							
At December 31, 2017	**316,312**	**36,744**	**221,074**	**—**	**6,294**	**—**	**580,424**
At December 31, 2016	297,261	20,037	221,567	—	6,886	885	546,636

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

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

Included in trademarks of the Group, US$219,440,000 (2016: US$219,440,000) are trademarks as considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 20.

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

Deferred development costs	20% - $33\frac{1}{3}$%
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, 2017 allocated to these units are as follows:

	Goodwill		Trademarks	
	2017	2016	**2017**	2016
	US$'000	US$'000	**US$'000**	US$'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	**22,909**	20,753	**—**	—
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**	6
	555,350	553,194	**219,440**	219,440

No impairment of goodwill and trademarks have been recognized for the year ended December 31, 2017 and December 31, 2016.

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

Power Equipment - MET ("MET")

The recoverable amount of MET's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 10.0% (2016: 10.0%) per annum.

Cash flow projections during the budget period for MET are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on MET's past performance, management's expectations of the market development, the success in new products launched, the success in reducing the working capital requirements and the success of the cost cutting strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2016: 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% (2016: 11.0%) per annum.

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

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% (2016: 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% (2016: 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% (2016: 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% (2016: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Baja's goodwill and intangibles to exceed the aggregate recoverable amounts.

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

The recoverable amount of RAM/Hoover/VAX's goodwill and intangibles has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 14.0% (2016: 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% (2016: 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

	2017 US$'000	2016 US$'000
Unlisted shares, at cost less impairment loss recognized	—	—
Share of net assets	—	—
Amounts due from associates	2,780	3,667
	2,780	3,667

Particulars of the associates as at December 31, 2017 and December 31, 2016 are set out in Note 52.

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

At the end of the reporting period, amongst the associates, the Group held 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together the "Gimelli Group companies"). The Group has discontinued recognizing its share of the losses of the Gimelli Group companies. The unrecognized share of profit (loss) for the year and cumulatively, extracted from the relevant management accounts of the associates, are US$424,000 (2016: US$557,000) and (US$3,955,000) (2016: (US$4,379,000)) respectively.

22. Available-for-sale Investments

	2017 US$'000	2016 US$'000
Unlisted equity securities and club membership debentures, at cost less impairment loss recognized	3,697	613

As at December 31, 2017, 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

	2017 US$'000	2016 US$'000
Raw materials	87,481	120,919
Work in progress	37,195	9,787
Finished goods	1,342,744	1,165,719
	1,467,420	1,296,425

24. Trade and other Receivables

	2017 US$'000	2016 US$'000
Trade receivables	**1,143,319**	954,875
Less: Allowances for doubtful debts	**(37,114)**	(20,025)
	1,106,205	934,850
Other receivables	**30,671**	16,032
	1,136,876	950,882

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:

	2017 US$'000	2016 US$'000
0 to 60 days	**753,407**	759,702
61 to 120 days	**276,964**	141,223
121 days or above	**75,834**	33,925
Total trade receivables	**1,106,205**	934,850

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$159,086,000 (2016: US$112,148,000) 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 59 days (2016: 42 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

	2017 US$'000	2016 US$'000
1 - 60 days	**130,324**	100,131
61 - 120 days	**12,656**	10,524
121 - 365 days	**15,271**	541
1 - 2 years	**730**	782
Over 2 years	**105**	170
Total	**159,086**	112,148

24. Trade and Other Receivables (continued)

Movement in the Allowance for Doubtful Debts

	2017 US$'000	2016 US$'000
Balance at beginning of the year	**20,025**	23,705
Currency realignment	**968**	(907)
Impairment losses recognized on receivables	**21,940**	11,712
Amounts written off as uncollectible	**(2,334)**	(9,941)
Amounts recovered during the year	**(3,485)**	(4,544)
Balance at end of the year	**37,114**	20,025

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to US$37,114,000 (2016: US$20,025,000) 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)

	2017 US$'000	2016 US$'000
0 - 120 days	**3,641**	3,975
121 - 365 days	**19,169**	6,743
1 - 2 years	**12,554**	8,514
Over 2 years	**1,750**	793
Total	**37,114**	20,025

In accordance with receivables purchase agreements, certain trade receivables were factored to banks (the "Factored Trade Receivables"). As the Group still retained the risks associated in respect of default payments, the Group has continued to recognize the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of approximately US$75,000,000 (2016: US$75,000,000) were recognized 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, 2017 and 2016 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

	2017 US$'000	2016 US$'000
Assets		
Acquisition right of certain property, plant and equipment	**9,558**	9,986
Foreign currency forward contracts – under hedge accounting	**3,641**	19,857
Foreign currency forward contracts – not under hedge accounting	**157**	342
	13,356	30,185
Liabilities		
Foreign currency forward contracts – under hedge accounting	**43,830**	1,392
Foreign currency forward contracts – not under hedge accounting	**—**	783
	43,830	2,175

Acquisition Right of Certain Property, Plant and Equipment

As at December 31, 2017 and 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$9,558,000 valued on September 30, 2017 (2016: 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:

2017

Notional amounts in millions	**Maturity**
Sell EUR 601M, Buy US$	**January 31, 2018 to December 30, 2019**
Sell US$ 170M, Buy RMB	**September 27, 2018 to December 28, 2018**
Sell GBP 30M, Buy EUR	**January 16, 2018 to December 11, 2018**
Sell PLN 30M, Buy EUR	**January 18, 2018 to May 17, 2018**
Buy US$ 223M, Sell AU$	**January 31, 2018 to December 31, 2018**
Buy US$ 66M, Sell GBP	**January 2, 2018 to December 21, 2018**
Buy US$ 34.5M, Sell EUR	**January 12, 2018 to December 28, 2018**
Buy US$ 163M, Sell CA$	**January 31, 2018 to October 31, 2018**
Buy US$ 3M, Sell KRW	**January 10, 2018 to February 19, 2018**

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

As at December 31, 2017, fair value loss of US$47,485,000 (December 31, 2016: fair value gain of US$29,339,000) have been recognized in other comprehensive income and accumulated in equity and are expected to be reclassified to profit or loss.

During the year, a fair value gain of US$18,152,000 (2016: loss of US$11,187,000) 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:

2017

Notional amounts in millions	**Maturity**
Buy US$ 12M, Sell NZ$	**April 19, 2018 to December 20, 2018**
Buy EUR 0.3M, Sell AU$	**January 16, 2018**

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

28. Held-for-Trading Investments

The Group's held-for-trading investments at December 31, 2017 were carried at fair value using the market bid prices on the reporting date.

Held-for-trading investments include:

	2017 US$'000	2016 US$'000
Equity securities:		
– Listed shares	**32,293**	—
	32,293	—

29. Bank Balances, Deposits and Cash/Bank Overdrafts

Bank balances carry interest at market rates which range from 0.01% to 2.02% (2016: 0.001% to 0.70%) per annum. Bank overdrafts in 2016 carried interest at market rates which ranged from 3.50% to 3.75% 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:

	2017 US$'000	2016 US$'000
0 to 60 days	**629,355**	561,148
61 to 120 days	**171,577**	142,404
121 days or above	**7,719**	7,878
Total trade payables	**808,651**	711,430
Other payables	**765,751**	619,377
	1,574,402	1,330,807

The credit period on the purchase of goods ranges from 30 days to 120 days (2016: 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, 2017 and 2016 are due within 120 days.

32. Warranty Provision

	US$'000
At January 1,2016	75,193
Currency realignment	(1,622)
Additional provision in the year	110,403
Utilization of provision	(103,886)
At December 31, 2016	80,088
Currency realignment	3,353
Additional provision in the year	114,481
Utilization of provision	(100,654)
At December 31, 2017	**97,268**

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 2.5 years to 20 years. Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 5.06% to 8.98% (December 31, 2016: 0.53% to 7.50%) 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	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Amounts payable under finance leases:				
Within one year	**3,518**	3,727	**2,895**	2,982
In more than one year but not more than two years	**3,421**	3,516	**2,970**	2,948
In more than two years but not more than three years	**3,300**	3,133	**3,028**	2,740
In more than three years but not more than four years	**2,459**	3,006	**2,361**	2,774
In more than four years but not more than five years	**315**	2,172	**301**	2,094
More than five years	**63**	216	**62**	204
	13,076	15,770	**11,617**	13,742
Less: future finance charges	**(1,459)**	(2,028)	**—**	—
Present value of lease obligations	**11,617**	13,742	**11,617**	13,742
Less: Amount due within one year shown under current liabilities			**(2,895)**	(2,982)
Amount due after one year			**8,722**	10,760

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 2.06% per annum (2016: 1.80% 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 maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

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

Gearing Ratio

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

The gearing ratio at the year end was as follows:

	2017 US$'000	2016 US$'000
Bank balances, deposits and cash	**863,515**	804,741
Debt (i)	**(849,474)**	(928,572)
Net cash (debt)	**14,041**	(123,831)
Equity (ii)	**2,741,225**	2,399,538
Net debt to equity ratio	**-0.51%**	5.16%

(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 33, 34, 37, 29 and 24 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

	2017 US$'000	2016 US$'000
Financial assets		
Fair value through profit or loss		
Held-for-trading investments	**32,293**	—
Derivative financial instruments		
Acquisition right of certain property, plant and equipment	**9,558**	9,986
Derivative financial instruments – under hedge accounting		
Foreign currency forward contracts	**3,641**	19,857
Derivative financial instruments – not under hedge accounting		
Foreign currency forward contracts	**157**	342
	13,356	30,185
Available-for-sale investments	**3,697**	613
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	**1,136,876**	950,882
Bills receivable	**8,008**	11,190
Trade receivables from an associate	**2,790**	3,540
Bank balances, deposits and cash	**863,515**	804,741
	2,011,189	1,770,353
Financial liabilities		
Derivative financial instruments – under hedge accounting		
Foreign currency forward contracts	**43,830**	1,392
Derivative financial instruments – not under hedge accounting		
Foreign currency forward contracts	**—**	783
	43,830	2,175
Other financial liabilities		
Trade and other payables	**1,574,402**	1,330,807
Bills payable	**54,952**	54,137
Discounted bills with recourse	**87,837**	93,897
Unsecured borrowings	**825,020**	894,277
Bank overdrafts	**—**	1,656
	2,542,211	2,374,774

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 analyze exposures by degree and magnitude of risks. These financial risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

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 22.1% (2016: 21.1%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 48.5% (2016: 52.5%) of purchases are denominated in the group entity's respective functional currency.

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

	Liabilities		Assets	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Foreign Currency				
EURO	**131,797**	98,830	**212,455**	159,456

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

The Group requires its group entities to use foreign exchange forward contracts to reduce the currency exposure. The foreign exchange forward contracts must be in the same currency as the hedged item. On this basis, the Group has entered into forward contracts in relation to the foreign currency amounting to US$721,579,000 (2016: US$157,799,000). It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness (see Note 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 US$ against the EURO without considering the foreign currency forward contracts entered at end of the reporting period. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the EURO:US$ foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and excludes the effect of any foreign currency forward contracts held at the reporting date. A positive number below indicates an increase in profit for the year where the US$ weakens 5% against the EURO.

	2017 US$'000	2016 US$'000
Impact of EURO		
Profit for the year [(i)]	**3,754**	2,816

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

36.2.2 Interest Rate Risk Management

The Group's exposure to interest rates on financial assets and liabilities is detailed in the liquidity risk management section of this note. The Group is exposed to cash flow interest rate risk in relation to variable-rate borrowing (see Note 37 for details of these borrowings), discounted bills with recourse, bank balances and deposits. The Group's cash flow interest rate risk is mainly concentrated on London Interbank Offered Rate ("LIBOR") arising from the Group's US$ and EURO denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk is insignificant. The management continuously monitors interest rate fluctuations and will consider further hedging interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 37 for details of these borrowings).

During the year, the Group obtained new bank borrowings of US$2,206 million (2016: US$1,669 million) which are either at fixed rate or LIBOR based. The proceeds were used to repay 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, 2017 would decrease/increase by US$3,761,000 (2016: decrease/increase by US$4,598,000). 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, 2017 of the Group would increase by US$3,229,000 (2016: N/A) as a result of the changes in fair value of held-for-trading investments.

36.2.4 Credit Risk Management

As at December 31, 2017, 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 recognized 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 minimize 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 69.4% (2016: 65.9%) of the total trade receivables as at December 31, 2017 are located.

The Group has concentration of credit risk as 36.7% (2016: 28.0%) and 48.3% (2016: 39.2%) 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, 2017, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US$274 million (2016: US$256 million) and US$1,694 million (2016: US$1,559 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, 2017 US$'000
2017								
Non-derivative financial assets								
Held-for-trading investments	—	32,293	—	—	—	—	32,293	32,293
Available-for-sale investments (Note)	—	3,573	—	124	—	—	3,697	3,697
Trade and other receivables	—	669,933	453,860	13,083	—	—	1,136,876	1,136,876
Bills receivable	—	879	7,129	—	—	—	8,008	8,008
Trade receivables from an associate	—	5	2,420	365	—	—	2,790	2,790
Bank balances, deposits and cash	0.01% - 2.02%	732,534	131,202	—	—	—	863,736	863,515
		1,439,217	594,611	13,572	—	—	2,047,400	2,047,179
Non-derivative financial liabilities								
Trade and other payables	—	(996,318)	(505,029)	(73,055)	—	—	(1,574,402)	(1,574,402)
Bills payable	—	(18,362)	(36,590)	—	—	—	(54,952)	(54,952)
Discounted bills with recourse	2.06%	(28,122)	(56,065)	(3,901)	—	—	(88,088)	(87,837)
Bank borrowings	0.66% - 3.10%	(101,642)	(67,174)	(98,116)	(30,565)	(549,802)	(847,299)	(825,020)
Financial guarantee contracts	—	(9,298)	—	—	—	—	(9,298)	—
		(1,153,742)	(664,858)	(175,072)	(30,565)	(549,802)	(2,574,039)	(2,542,211)

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, 2017 US$'000
2017								
Derivatives - net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,558	9,558	9,558
Foreign currency forward contracts								
– US$	—	—	(535)	(2,147)	—	—	(2,682)	(2,682)
		—	(535)	(2,147)	—	9,558	6,876	6,876
Derivatives - gross settlement								
Foreign currency forward contracts								
– inflow								
– EUR	—	7,574	15,209	60,781	—	—	83,564	83,564
– RMB	—	—	—	173,355	—	—	173,355	173,355
– GBP	—	3,543	13,055	49,400	—	—	65,998	65,998
– US$	—	—	153,127	781,570	—	—	934,697	934,697
– AU$	—	299	—	—	—	—	299	299
– NZ$	—	4,002	8,004	18,013	—	—	30,019	30,019
– KRW	—	1,807	1,167	—	—	—	2,974	2,974
		17,225	190,562	1,083,119	—	—	1,290,906	1,290,906
– outflow								
– EUR	—	(7,717)	(15,372)	(63,020)	—	—	(86,109)	(86,109)
– RMB	—	—	—	(170,007)	—	—	(170,007)	(170,007)
– GBP	—	(3,772)	(13,997)	(52,668)	—	—	(70,437)	(70,437)
– US$	—	—	(158,501)	(810,070)	—	—	(968,571)	(968,571)
– AU$	—	(297)	—	—	—	—	(297)	(297)
– NZ$	—	(3,988)	(7,979)	(17,842)	—	—	(29,809)	(29,809)
– KRW	—	(1,855)	(1,171)	—	—	—	(3,026)	(3,026)
		(17,629)	(197,020)	(1,113,607)	—	—	(1,328,256)	(1,328,256)
		(404)	(6,458)	(30,488)	—	—	(37,350)	(37,350)

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								
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% - 3.75%	(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

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

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

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

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 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.

Fair Value Measurements Recognized in the Statement of Financial Position

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

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

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

36. Financial Instruments (continued)

36.3 Fair Value (continued)

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

Financial assets / financial liabilities		Fair value 2017	Fair value 2016	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$9,558,000**	Acquisition right of certain property, plant and equipment: US$9,986,000	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$3,798,000; and Liabilities – US$43,830,000**	Assets – US$20,199,000; and Liabilities – US$2,175,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
3)	Held-for-trading non-derivative financial assets classified as held-for-trading investments in the consolidated statement of financial position	**Listed shares: US$32,293,000**	—	Level 1	Quoted bid prices in an active market.

36. Financial Instruments (continued)

36.3 Fair Value (continued)

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

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

	Level 1 US$'000	Level 2 US$'000	Total US$'000
2017			
Financial assets			
Acquisition right of certain property, plant and equipment	—	9,558	9,558
Foreign currency forward contracts	—	3,798	3,798
Held-for-trading investments	32,293	—	32,293
Total	32,293	13,356	45,649
Financial liabilities			
Foreign currency forward contracts	—	(43,830)	(43,830)
Total	—	(43,830)	(43,830)
2016			
Financial assets			
Acquisition right of certain property, plant and equipment	—	9,986	9,986
Foreign currency forward contracts	—	20,199	20,199
Total	—	30,185	30,185
Financial liabilities			
Foreign currency forward contracts	—	(2,175)	(2,175)
Total	—	(2,175)	(2,175)

36.4 Transfer of Financial Assets

The following were the Group's financial assets as at December 31, 2017 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 recognize the full carrying amount of the receivables and has recognized 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 amortized cost in the Group's consolidated statement of financial position.

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

	2017 US$'000	2016 US$'000
Carrying amount of transferred assets	162,837	168,897
Carrying amount of associated liabilities	(162,837)	(168,897)
Net position	—	—

37. Unsecured Borrowings

	2017 US$'000	2016 US$'000
Bank advance from Factored Trade Receivables	**75,000**	75,000
Bank loans	**750,020**	819,277
Total borrowings	**825,020**	894,277

The borrowings of the Group are repayable as follows:

	2017 US$'000	2016 US$'000
Fixed rate		
In more than two years but not more than five years	**104,735**	—
Floating rate		
Within one year	**260,342**	403,825
In more than one year but not more than two years	**25,022**	115,941
In more than two years but not more than five years	**434,921**	374,511
	825,020	894,277
Less: Amount due within one year shown under current liabilities	**(260,342)**	(403,825)
Amount due after one year	**564,678**	490,452

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

	2017	2016
Effective interest rate:		
Fixed-rate borrowings	**2.55% to 3.10%**	N/A
Variable-rate borrowings	**0.66% to 3.07%**	0.72% to 2.60%

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, 2017	**13,542**
As at December 31, 2016	265,387

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

38. Share Capital

	2017 Number of shares	2016 Number of shares	2017 US$'000	2016 US$'000
Ordinary shares				
Authorized shares	**2,400,000,000**	2,400,000,000	**N/A**	N/A
Issued and fully paid:				
At the beginning of the year	**1,833,896,941**	1,833,736,941	**649,214**	647,109
Issue of shares upon exercise of share options	**2,625,000**	1,660,000	**4,704**	2,105
Buy-back of shares	**(1,500,000)**	(1,500,000)	**—**	—
At the end of the year	**1,835,021,941**	1,833,896,941	**653,918**	649,214

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

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

Month of cancellation	No. of ordinary shares	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid US$'000
January 2017	**1,500,000**	**28.15**	**27.50**	**5,388**

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US$5,388,000 was charged to retained profits.

39. Reserves

	Shares held for share award scheme US$'000	Employee share-based compensation reserve US$'000	Retained profits US$'000	Total US$'000
The Company				
At January 1, 2016	(9,254)	6,050	1,436,539	1,433,335
Loss for the year	—	—	(92,062)	(92,062)
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
Loss for the year	**—**	**—**	**(27,472)**	**(27,472)**
Total comprehensive loss for the year	**—**	**—**	**(27,472)**	**(27,472)**
Shares issued at premium on exercise of options	**—**	**(917)**	**—**	**(917)**
Buy-back of shares	**—**	**—**	**(5,388)**	**(5,388)**
Vesting of awarded shares	**3,370**	**(3,370)**	**—**	**—**
Shares for share award scheme	**(3,455)**	**—**	**—**	**(3,455)**
Recognition of equity-settled share-based payments	**—**	**4,193**	**—**	**4,193**
Lapse of share options	**—**	**(14)**	**14**	**—**
Final dividend – 2016	**—**	**—**	**(70,778)**	**(70,778)**
Interim dividend – 2017	**—**	**—**	**(65,507)**	**(65,507)**
At December 31, 2017	**(10,561)**	**6,902**	**1,067,800**	**1,064,141**

As at December 31, 2017, the Company's reserves available for distribution to shareholders comprised the retained profits of US$1,067,800,000 (2016: US$1,236,931,000).

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 (2016: 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 recognized in profit or loss of US$10,474,000 (2016: US$9,348,000) 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:

	2017 **US$'000**	2016 US$'000
Pension plan obligations (Note i)	**82,764**	78,020
Post-retirement, medical and dental plan obligations (Note ii)	**19**	68
Life and medical insurance plan (Note ii)	**1,431**	1,630
Post-employment benefit plan obligations (Note iii)	**13,348**	11,234
Others	**26,955**	17,215
	124,517	108,167

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, 2018, 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 January 5, 2018 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 12, 2018 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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Discount rate	**1.65%**	2.00%	**1.00%**	0.75%	**3.00%**	2.75%	**3.90%**	4.11%
Expected rate of salary increases	**2.00%**	2.00%	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
Expected return on plan assets	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**3.90%**	4.11%
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$5,272,000 (2016: US$7,102,000) and that the actuarial value of these assets represented 28.3% (2016: 38.7%) 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	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Current service cost and interest cost	**N/A**	N/A	**—**	—	**3**	3	**N/A**	N/A
Accumulated post-employment benefit obligations for medical costs	**N/A**	N/A	**—**	—	**93**	106	**N/A**	N/A

40. Retirement Benefit Obligations (continued)

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

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Service cost:								
Current service cost	**478**	418	**—**	—	**—**	—	**—**	—
Net interest on defined benefit liabilities	**966**	1,463	**—**	1	**43**	34	**438**	295
Components of defined benefit costs recognized in profit or loss	**1,444**	1,881	**—**	1	**43**	34	**438**	295
Remeasurement on the net defined benefit liability:								
Actuarial (gains) losses arising from changes in financial assumptions	**(3,472)**	4,838	**(42)**	(45)	**(186)**	550	**1,676**	4,625
Components of defined benefit costs recognized in other comprehensive income	**(3,472)**	4,838	**(42)**	(45)	**(186)**	550	**1,676**	4,625
Total	**(2,028)**	6,719	**(42)**	(44)	**(143)**	584	**2,114**	4,920

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	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Present value of funded obligations	**—**	—	**—**	—	**—**	—	**18,620**	18,336
Fair value of plan assets	**—**	—	**—**	—	**—**	—	**(5,272)**	(7,102)
	—	—	**—**	—	**—**	—	**13,348**	11,234
Present value of unfunded obligations	**82,764**	78,020	**19**	68	**1,431**	1,630	**—**	—
	82,764	78,020	**19**	68	**1,431**	1,630	**13,348**	11,234

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	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
At January 1	**78,020**	77,871	**68**	126	**1,630**	1,109	**18,336**	15,450
Exchange differences	**10,767**	(2,923)	**—**	—	**—**	—	**—**	—
Current service cost	**478**	418	**—**	—	**—**	—	**—**	—
Actuarial (gains) losses	**(3,472)**	4,838	**(42)**	(45)	**(186)**	550	**1,514**	4,332
Interest cost	**966**	1,463	**—**	1	**43**	34	**677**	600
Benefit paid	**(3,995)**	(3,647)	**(7)**	(14)	**(56)**	(63)	**(1,907)**	(2,046)
At December 31	**82,764**	78,020	**19**	68	**1,431**	1,630	**18,620**	18,336

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	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
At January 1	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**7,102**	5,637
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	**239**	304
Actuarial losses	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**(162)**	(293)
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	**(1,907)**	(2,046)
At December 31	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**5,272**	7,102

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 3.90% (2016: 4.11%).

The actual return on plan assets was US$77,000 (2016: US$11,000).

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

The Group expects to make a contribution of US$4,000,000 (2016: Nil) 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 recognized and movements thereon during the current and prior year:

	Accelerated tax depreciation US$'000	Warranty provision US$'000	Employee related provision US$'000	Tax losses US$'000	Inventory provision and LIFO US$'000	Others US$'000	Total US$'000
At January 1, 2016	(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
Currency realignment	**1**	**275**	**845**	**(850)**	**52**	**2,115**	**2,438**
Credit to hedging reserve	**—**	**—**	**—**	**—**	**—**	**549**	**549**
(Charge) credit to profit or loss	**(15,297)**	**3,027**	**(6,689)**	**22,525**	**(1,730)**	**6,883**	**8,719**
Change in tax rates	**9,390**	**(4,286)**	**(8,810)**	**(65,104)**	**(2,822)**	**11,984**	**(59,648)**
Charge to equity	**—**	**—**	**(9,349)**	**—**	**—**	**—**	**(9,349)**
At December 31, 2017	**(18,786)**	**12,629**	**24,196**	**46,523**	**6,376**	**7,597**	**78,535**

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:

	2017 US$'000	2016 US$'000
Deferred tax assets	**92,939**	178,191
Deferred tax liabilities	**(14,404)**	(42,365)
	78,535	135,826

At the end of the reporting period, the Group has unused tax losses of US$1,296 million (2016: US$848 million) available for the offset against future taxable profits that carry forward for at least twenty years. No deferred tax asset has been recognized in respect of tax losses of US$1,114 million (2016: US$618 million) due to the lack of probable future taxable profits.

42. Major Non-Cash Transactions

During the year ended December 31, 2017, the Group entered into finance lease arrangements in respect of assets at the inception of the finance leases of US$1,654,000 (2016: US$3,850,000).

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:

	2017 US$'000	2016 US$'000
Within one year	**66,532**	52,824
In the second to fifth year inclusive	**149,640**	138,994
After five years	**101,099**	63,242
	317,271	255,060

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

	2017 US$'000	2016 US$'000
Guarantees given to banks in respect of credit facilities utilized by associates	**9,298**	9,545

In addition, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at December 31, 2017 amounted to US$372,530,000 (2016: US$235,920,000).

45. Share Options

Scheme Option Schemes

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

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

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

(i) employees; or

(ii) Directors; or

(iii) secondees; or

(iv) any shareholders of any member of the Group or invested entity or controlling shareholders or any holders of any securities issued by any member of the Group; or

(v) business partners; or

(vi) suppliers; or

(vii) customers; or

(viii) advisers of the Group.

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

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

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

45. Share Options (continued)

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

2017

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors									
Mr Horst Julius Pudwill	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	155,500	—	—	155,500	32.100	17.3.2018 - 16.3.2027
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 - 16.3.2027
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 - 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 - 16.3.2027
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	500,000	—	—	500,000	32.100	17.3.2018 - 16.3.2027
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Camille Jojo	17.3.2017	D	—	250,000	—	—	250,000	32.100	17.3.2018 - 16.3.2027
Mr Christopher Patrick Langley OBE	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Manfred Kuhlmann	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	(125,000)	—	25,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 - 20.5.2022
	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Vincent Ting Kau Cheung	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	—	150,000	—	—	150,000	32.100	17.3.2018 - 16.3.2027
Mr Johannes-Gerhard Hesse	19.6.2017	E	—	135,000	—	—	135,000	36.300	19.6.2018 - 18.6.2027
Total for directors			7,798,000	2,790,500	(675,000)	—	9,913,500		

45. Share Options (continued)

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

2017

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Employees	24.8.2007	D	670,000	—	(620,000)	(50,000)	—	8.390	24.8.2008 - 23.8.2017
	16.10.2007	D	15,000	—	(15,000)	—	—	8.810	16.10.2008 - 15.10.2017
	14.1.2008	D	430,000	—	(405,000)	—	25,000	7.566	14.1.2009 - 13.1.2018
	17.4.2008	D	250,000	—	(50,000)	—	200,000	7.780	17.4.2009 - 16.4.2018
	14.5.2008	D	40,000	—	(40,000)	—	—	7.500	14.5.2009 - 13.5.2018
	16.11.2009	D	1,420,000	—	(820,000)	—	600,000	6.770	16.11.2010 - 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 - 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 - 16.1.2021
	23.3.2017	D	—	200,000	—	—	200,000	32.150	23.3.2018 - 22.3.2027
	19.6.2017	E	—	350,000	—	—	350,000	36.300	19.6.2018 - 18.6.2027
Total for employees			2,875,000	550,000	(1,950,000)	(50,000)	1,425,000		
Total for all categories			10,673,000	3,340,500	(2,625,000)	(50,000)	11,338,500		
Exercisable at the end of the year							7,998,000		

45. Share Options (continued)

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

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 GBS 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		

45. Share Options (continued)

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

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

Date of grant	Exercise price HK$	Expected life of share options	Expected volatility based on historical volatility of share prices	Yields of Hong Kong Government Bonds	Expected annual dividend yield
For the year ended December 31, 2017					
17.3.2017	32.100	3 years	39%	1.207%	1.5%
23.3.2017	32.150	3 years	39%	1.057%	1.5%
19.6.2017	36.300	3 years	38%	0.778%	1.5%

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

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

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

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

The closing price of the Company's shares immediately before the various dates on which the share options were granted ranged from HK$31.80 to HK$36.00 in 2017.

The weighted average closing prices of the Company's shares immediately before various dates during 2017 and 2016 on which the share options were exercised were HK$38.21 and HK$30.75 respectively.

The Group recognized a total expense of US$2,246,000 for the year ended December 31, 2017 (2016: US$1,069,000) in relation to share options granted by the Company.

The fair values of the share options granted in 2017 measured at various dates on which the share options were granted ranged from HK$7.98 to HK$8.68. The weighted average fair value of the share options granted in 2017 was HK$8.11 per option.

The Company had 11,338,500 share options outstanding, (2016: 10,673,000), which represented approximately 0.62% (2016: 0.58%) of the issued share capital of the Company as at December 31, 2017. No option was cancelled during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.20% of the issued shares of the Company as at December 31, 2017. Total securities available for issue under Scheme E are 183,299,194 shares, which represented approximately 10.00% of the issued shares of the Company as at December 31, 2017.

46. Share Award Scheme

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

The share award scheme of the Company was adopted by the Board of Directors on January 9, 2008. 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$1,947,000 (2016: US$8,379,000). During 2017, 1,036,500 shares (2016: 2,324,500 shares) were transferred to the awardees upon vesting.

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

	Number	
	2017	2016
At January 1	**1,025,000**	2,349,500
Awarded (Note (a))	**311,500**	1,000,000
Vested	**(1,036,500)**	(2,324,500)
At December 31 (Note (b))	**300,000**	1,025,000

Notes:

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

(b) At the end of the year, the average fair value per share is HK$30.82 (2016: HK$29.22). 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	
	2017	2016
Less than 1 year	**150,000**	1,025,000
More than 1 year	**150,000**	—
	300,000	1,025,000

47. Capital Commitments

	2017 US$'000	2016 US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**21,888**	32,828

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:

	2017 US$'000	2016 US$'000
Sales income	**5,801**	7,281
Purchases	**5,719**	7,204

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

	2017 US$'000	2016 US$'000
Short-term benefits	**59,348**	43,225
Post-employment benefits	**808**	717
Share-based payments	**6,420**	6,942
	66,576	50,884

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. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Unsecured borrowings Note 37 US$'000	Discounted bills with recourse Note 34 US$'000	Obligations under finance leases Note 33 US$'000	Total US$'000
At January 1, 2017	894,277	93,897	13,742	1,001,916
Financing cash flows:				
New bank loans obtained	2,206,220	—	—	2,206,220
Repayment	(2,275,477)	(6,060)	(3,786)	(2,285,323)
Foreign exchange translation	—	—	7	7
Inception of finance lease	—	—	1,654	1,654
Interest expenses	23,699	—	781	24,480
Interest paid	(23,699)	—	(781)	(24,480)
At December 31, 2017	**825,020**	**87,837**	**11,617**	**924,474**

50. Statement of Financial Position of the Company

As at December 31, 2017

	Note	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,898**	4,132
Intangible assets		**4**	7
Investments in subsidiaries		**1,168,489**	1,147,043
Loans to subsidiaries		**860,741**	791,656
Interests in associates		**1,488**	2,376
Available-for-sale investments		**3,311**	228
		2,036,931	1,945,442
Current assets			
Other receivables		**46**	—
Deposits and prepayments		**4,046**	10,056
Held-for-trading investments		**32,293**	—
Amounts due from subsidiaries		**2,041,292**	2,043,260
Bank balances, deposits and cash		**261,018**	267,280
		2,338,695	2,320,596
Current liabilities			
Trade and other payables		**57,864**	42,530
Tax payable		**815**	2,700
Amounts due to subsidiaries		**2,003,610**	1,530,083
Unsecured borrowings - due within one year		**30,600**	317,594
		2,092,889	1,892,907
Net current assets		**245,806**	427,689
Total assets less current liabilities		**2,282,737**	2,373,131
Capital and Reserves			
Share capital		**653,918**	649,214
Reserves	39	**1,064,141**	1,233,465
		1,718,059	1,882,679
Non-current Liabilities			
Unsecured borrowings - due after one year		**564,678**	490,452
Total equity and non-current liabilities		**2,282,737**	2,373,131

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 13, 2018 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

51. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2017 and December 31, 2016 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company 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	British Virgin Islands ("BVI")	US$ 1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd.#	PRC	US$ 47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT$ 5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP 4,000,000	—	100	Trading of power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AU$ 25,575,762	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR 25,600	—	100	Trading of power equipment products

51. Particulars of Principal Subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
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) MXN 362,720,990 (Serie II)	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZ$ 4,165,500	100	—	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries North America, Inc.	US	US$ 10	100	—	Investment holding
Techtronic Outdoor Products Technology Limited	Bermuda	US$ 12,000	100	—	Investment and intellectual properties holding
Techtronic Power Tools Technology Limited	BVI	US$ 1	100	—	Investment and intellectual properties holding
Techtronic Product Development Limited	Hong Kong	HK$ 2	100	—	Engage in research and development activities
Techtronic Trading Limited	Hong Kong	HK$ 2	100	—	Trading of power equipment, floor care and outdoor power equipment products

51. Particulars of Principal Subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
TTI (Macao Commercial Offshore) Limited	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 summarized as follows:

Principal activities	Principal place of business	Number of subsidiaries 2017	2016
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, Hong Kong, Latin America, PRC, US	**33**	33
Investment holding	Australia, BVI, Europe, Hong Kong, US	**23**	23
Dormant	BVI, Europe, Hong Kong, US	**13**	13

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

52. 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 2017 %	2016 %	Principal activities
Gimelli International (Holdings) Limited	The Cayman Islands	US$ 6,250	**40.8**	40.8	Investment holding

Financial Summary

Results

	Year ended December 31				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	**2017** **US$'000**
Revenue	4,299,755	4,752,960	5,038,004	5,480,413	**6,063,633**
Profit before taxation	276,398	325,159	386,957	440,029	**505,496**
Taxation charge	(29,036)	(25,680)	(32,814)	(31,242)	**(34,972)**
Profit for the year	247,362	299,479	354,143	408,787	**470,524**
Attributable to:					
Owners of the Company	250,284	300,330	354,427	408,982	**470,425**
Non-controlling interests	(2,922)	(851)	(284)	(195)	**99**
Profit for the year	247,362	299,479	354,143	408,787	**470,524**
Basic earnings per share (US cents)	13.68	16.41	19.37	22.32	**25.66**

Assets and Liabilities

	As at December 31				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	**2017** **US$'000**
Total assets	4,012,559	4,351,383	4,802,718	5,120,407	**5,598,477**
Total liabilities	2,267,123	2,384,357	2,647,146	2,721,475	**2,857,759**
	1,745,436	1,967,026	2,155,572	2,398,932	**2,740,718**
Equity attributable to Owners of the Company	1,740,713	1,967,153	2,155,983	2,399,538	**2,741,225**
Non-controlling interests	4,723	(127)	(411)	(606)	**(507)**
	1,745,436	1,967,026	2,155,572	2,398,932	**2,740,718**

Corporate Information

Board of Directors

Group Executive Directors

Mr Horst Julius Pudwill
Chairman

Mr Stephan Horst Pudwill
Vice Chairman

Mr Joseph Galli Jr
Chief Executive Officer

Mr Patrick Kin Wah Chan
Mr Frank Chi Chung Chan

Non-executive Directors

Prof Roy Chi Ping Chung GBS BBS JP
Mr Camille Jojo

Independent Non-executive Directors

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

Financial Calendar 2018

March 13	: Announcement of 2017 annual results
May 15	: Last day to register for the entitlement to attend and vote at Annual General Meeting
May 16-18	: Book closure period for the entitlement to attend and vote at Annual General Meeting
May 18	: Annual General Meeting
May 25	: Last day to register for 2017 final dividend
May 28	: Book closure period for 2017 final dividend
June 22	: 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

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Tel: (852) 2980 1888

ADR Depositary

The Bank of New York

Principal Bankers

Bank of America, N.A.
Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
Citibank N.A.
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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