

Independent Auditor's Report

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TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED

創科實業有限公司

(incorporated in Hong Kong with limited liability)

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter

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

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

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

Capitalization of Deferred Development Costs

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

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

How our Audit Addressed the Key Audit Matter

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

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

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

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

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

Key Audit Matters (continued)

Key Audit Matter

Recoverability of Deferred Tax Assets

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

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

How our Audit Addressed the Key Audit Matter

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 6, 2019