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TECHTRONIC INDUSTRIES CO. LTD.

創科實業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 669)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

| Highlights | 2018 | 2017 | Changes |
|---|---|---|----------------|
| | US\$¹ million | US\$¹ million | |
| Revenue | 7,021 | 6,064 | +15.8% |
| Gross profit margin | 37.2% | 36.7% | +50 bps |
| EBIT | 607 | 519 | +17.0% |
| Profit attributable to Owners of the Company | 552 | 470 | +17.4% |
| Basic earnings per share (US cents) | 30.16 | 25.66 | +17.5% |
| Dividend per share (approx. US cents) | 11.33 | 8.69 | +30.4% |

The board of directors (the “Directors” or the “Board”) of Techtronic Industries Company Limited (“TTI” or the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended December 31, 2018 together with the comparative figures in 2017.

TTI is pleased to report that in 2018 we delivered another year of record profit and our ninth consecutive year of record revenue. We have delivered impressive growth through the years while continuing to drive gross margin expansion. Our momentum could not be stronger and we are highly confident in our disciplined focus on the key strategic drivers of powerful brands, innovative products, exceptional people, and operational excellence.

The financial highlights include:

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

BUSINESS HIGHLIGHTS

Industry Leading Year

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

Strong Financial Performance

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

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

Reshaping Cordless Performance

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

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

Operational Excellence

An important element of our strategic approach to continuous operational improvement is our diversified global manufacturing network. With multiple manufacturing operations in Europe, Asia, and the United States and our supply chain, we have focused manufacturing capabilities that harness cost efficiencies with the flexibility to handle our high level of growth while adapting to an ever changing market. TTI has made significant investments in the expansion of our distribution, manufacturing and R&D capabilities in North America and added a new manufacturing complex in Vietnam to support the rapid growth. Continuing our productivity trend, global headcount for the entire Group increased 5.7%, well below the 15.8% revenue increase. Additionally, ongoing investments in automation, supply chain, and productivity improvements continue to drive higher quality at better cost while promoting environmental, social and governance requirements. We remain committed to delivering world class on-time fill rates with superior quality products while maintaining best cost.

REVIEW OF OPERATIONS

Power Equipment, Accessories and Hand Tools

Representing 85.6% of total sales, the Power Equipment business reported global sales of US\$ 6.0 billion, a 17.0% increase over the same period in 2017. A multitude of strategic factors contributed to the record performance including innovative new product introductions, product category expansion, geographic expansion and market share gains. Operating profit was US\$598 million, an increase of 16.9% over last year.

Industrial Tools

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

Power Tools

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

In 2018, Milwaukee Tool introduced the most powerful line of M18 FUEL products ever. These tools have the performance of traditional corded tools but with the productivity and safety of cordless. The M18 FUEL ½” Hammer Drill Driver is the most powerful and compact in the Milwaukee Tool range. The powerful M18 SUPER SAWZALL reciprocating saw was launched with faster cut speeds than a corded reciprocating saw delivering up to 150 cuts per charge. The new M18 FUEL Table Saw allows contractors to rip large jobsite materials to size while creating more power than a corded saw and providing unmatched run time. The break-through M18 16” Chainsaw was introduced with the power to address the most demanding application and the capability to outperform gas and higher voltage competitors. These are just a few of the exciting FUEL products that were introduced during the year.

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

HIGH OUTPUT and Personal Lighting

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

Accessories

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

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

Hand Tools & Storage

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

DIY and Professional Tools

RYOBI DIY Power Tools

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

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

AEG Professional Tools

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

RYOBI Outdoor Products

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

Floor Care and Appliances

The Floor Care and Appliance business returned to positive sales growth in 2018 with cordless vacuums and carpet washing products driving our 9.3% growth. The business continued to drive efficiency and lower costs to align the business around the strategic plan of increasing market share and profitability through the focus on carpet washing and cordless cleaning. This is allowing resources to be dedicated to the future as we invest in the global cordless product development under our HOOVER, VAX, DIRT DEVIL and ORECK brands, all with major product launches planned for 2019. We remain confident that the focus on carpet washing and the significant portfolio transition to cordless cleaning will continue to improve the business.

North America

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

Europe

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

DIVIDEND

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

FINANCIAL REVIEW

FINANCIAL RESULTS

Result Analysis

The Group's revenue for the year amounted to US\$7.0 billion, an increase of 15.8% as compared to US\$6.1 billion in 2017. Profit attributable to Owners of the Company amounted to US\$552 million as compared to US\$470 million in 2017, an increase of 17.4%. Basic earnings per share for the year improved to US30.16 cents as compared to US25.66 cents in 2017.

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

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

Gross Margin

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

Operating Expenses

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

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

Financial Position

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

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

Bank Borrowings

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

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

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

Working Capital

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

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

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

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

Capital Expenditure

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

Capital Commitments and Contingent Liabilities

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

Charge

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

Major Customers and Suppliers

For the year ended December 31, 2018

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

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

HUMAN RESOURCES

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

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

CORPORATE STRATEGY AND BUSINESS MODEL

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

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

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

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

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

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters, including the review of Group’s consolidated financial statements for the year ended December 31, 2018. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) (the “Corporate Governance Code”) throughout the year ended December 31, 2018, save that none of the Directors are appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under Article 107(A) of the Articles of Association of the Company, one-third of the board of directors (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.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

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, 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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

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

CLOSURE OF REGISTER OF MEMBERS

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

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

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on May 17, 2019 and the notice of the annual general meeting will be published and dispatched to the shareholders of the Company within the prescribed time and in such manner as required under the Listing Rules.

Exciting Future

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

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

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

By Order of the Board
Horst Julius Pudwill
Chairman

Hong Kong, March 6, 2019

As at the date of this announcement, the Board comprises five group Executive Directors, namely Mr Horst Julius Pudwill (Chairman), Mr Stephan Horst Pudwill (Vice Chairman), Mr Joseph Galli Jr. (Chief Executive Officer), Mr Patrick Kin Wah Chan and Mr Frank Chi Chung Chan, two Non-executive Directors, namely Prof Roy Chi Ping Chung GBS BBS JP and Mr Camille Jojo and five Independent Non-executive Directors, namely Mr Christopher Patrick Langley OBE, Mr Manfred Kuhlmann, Mr Peter David Sullivan, Mr Vincent Ting Kau Cheung and Mr Johannes-Gerhard Hesse.

This results announcement is published on the website of the Company (www.ttigroup.com) and the HKExnews (www.hkexnews.hk).

All trademarks and trade names listed other than AEG and RYOBI are owned by the Group.

AEG is a registered trademark of AB Electrolux (publ.), and is used under license.

RYOBI is a registered trademark of Ryobi Limited, and is used under license.

RESULTS SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

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

| | <i>Note</i> | 2018 US\$'000 | 2017 US\$'000 |
|---|-------------|--------------------------------|------------------|
| Profit for the year attributable to: | | | |
| Owners of the Company | | 552,463 | 470,425 |
| Non-controlling interests | | 77 | 99 |
| | | 552,540 | 470,524 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 553,411 | 478,835 |
| Non-controlling interests | | 77 | 99 |
| | | 553,488 | 478,934 |
| Earnings per share (US cents) | 7 | | |
| Basic | | 30.16 | 25.66 |
| Diluted | | 30.06 | 25.58 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

| | <i>Notes</i> | 2018 US\$'000 | 2017 US\$'000 |
|--|--------------|--------------------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 & 12 | 790,936 | 688,868 |
| Lease prepayments | | 28,475 | 30,836 |
| Goodwill | | 581,215 | 555,350 |
| Intangible assets | | 620,801 | 580,424 |
| Interests in associates | | 3,664 | 2,780 |
| Available-for-sale investments | | - | 3,697 |
| Financial assets at fair value through profit of loss | | 5,361 | - |
| Derivative financial instruments | | 9,441 | 9,558 |
| Deferred tax assets | | 83,945 | 92,939 |
| | | 2,123,838 | 1,964,452 |
| Current assets | | | |
| Inventories | | 1,766,722 | 1,467,420 |
| Right to returned goods asset | | 14,005 | - |
| Trade and other receivables | 9 | 1,126,798 | 1,136,876 |
| Deposits and prepayments | | 126,841 | 112,627 |
| Bills receivable | | 5,057 | 8,008 |
| Tax recoverable | | 12,852 | 6,698 |
| Trade receivables from an associate | | 2,253 | 2,790 |
| Derivative financial instruments | | 33,788 | 3,798 |
| Held-for-trading investments | | - | 32,293 |
| Financial assets at fair value through profit of loss | | 32,828 | - |
| Bank balances, deposits and cash | | 1,103,880 | 863,515 |
| | | 4,225,024 | 3,634,025 |
| Current liabilities | | | |
| Trade and other payables | 10 | 1,921,452 | 1,574,402 |
| Bills payable | | 41,164 | 54,952 |
| Warranty provision | | 105,215 | 97,268 |
| Tax payable | | 15,300 | 23,912 |
| Derivative financial instruments | | 712 | 43,830 |
| Obligations under finance leases - due within one year | | 288 | 2,895 |
| Discounted bills with recourse | | 243,360 | 87,837 |
| Unsecured borrowings - due within one year | | 255,228 | 260,342 |
| Refund liabilities from right of return | | 33,267 | - |
| | | 2,615,986 | 2,145,438 |
| Net current assets | | 1,609,038 | 1,488,587 |
| Total assets less current liabilities | | 3,732,876 | 3,453,039 |

| | <i>Note</i> | 2018 US\$'000 | 2017 US\$'000 |
|---|-------------|-------------------------|------------------|
| Capital and Reserves | | | |
| Share capital | <i>11</i> | 654,991 | 653,918 |
| Reserves | | 2,402,780 | 2,087,307 |
| <hr/> | | | |
| Equity attributable to Owners of the Company | | 3,057,771 | 2,741,225 |
| Non-controlling interests | | (430) | (507) |
| <hr/> | | | |
| Total equity | | 3,057,341 | 2,740,718 |
| <hr/> | | | |
| Non-current Liabilities | | | |
| Obligations under finance leases - due after one year | | 725 | 8,722 |
| Unsecured borrowings - due after one year | | 540,214 | 564,678 |
| Retirement benefit obligations | | 119,974 | 124,517 |
| Deferred tax liabilities | | 14,622 | 14,404 |
| <hr/> | | | |
| | | 675,535 | 712,321 |
| <hr/> | | | |
| Total equity and non-current liabilities | | 3,732,876 | 3,453,039 |
| <hr/> | | | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as appropriate.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the years ended December 31, 2018 and 2017 included in this preliminary announcement of annual results 2018 do not constitute the Company's statutory annual consolidated financial statements for those years but are derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the financial statements for the year ended December 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance (Cap. 622) and will deliver the financial statements for the year ended December 31, 2018 in due course.
- The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance (Cap. 622).

Application of New and Revised Hong Kong Financial Reporting Standards New and Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

1.1 HKFRS 15 Revenue from Contracts with Customers

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

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

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

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

Summary of effects arising from initial application of HKFRS 15

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

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

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

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

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

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

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

Impact on the consolidated statement of financial position

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

1.2 HKFRS 9 Financial Instruments

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

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

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

The Group continues to apply HKAS 39 for hedge accounting.

Summary of effects arising from initial application of HKFRS 9

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

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

(a) Available-for-sale ("AFS") investments

From AFS investments to fair value through profit or loss ("FVTPL")

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

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

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

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

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

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

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

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

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

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

New and revised HKFRSs in issue but not yet effective

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

| | |
|---------------------------------------|---|
| HKFRS 16 | Leases ¹ |
| HKFRS 17 | Insurance Contracts ² |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments ¹ |
| Amendments to HKFRS 3 | Definition of a Business ⁴ |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation ¹ |
| 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 1 and HKAS 8 | Definition of Material ⁵ |
| Amendments to HKAS 19 | Plan Amendment, Curtailment and Settlement ¹ |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures ¹ |
| Amendments to HKFRS | Annual Improvement to HKFRSs 2015-2017 Cycle ¹ |

¹ Effective for annual periods beginning on or after January 1, 2019.

² Effective for annual periods beginning on or after January 1, 2021.

³ Effective for annual periods beginning on or a date to be determined.

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

⁵ Effective for annual periods beginning on or after January 1, 2020.

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

HKFRS 16 Leases

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of US\$316,373,000. 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.

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

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

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

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

2. Segment Information

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

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

1. Power Equipment – sales of power tools, power tool accessories, outdoor products, and outdoor product accessories for consumer, trade, professional and industrial users. The products are available under the MILWAUKEE, EMPIRE, AEG, RYOBI and HOMELITE brands plus original equipment manufacturer (“OEM”) customers.
2. Floor Care and Appliances – sales of floor care products and floor care accessories under the HOOVER, DIRT DEVIL, VAX and ORECK brands plus OEM customers.

Information regarding the above segments is reported below.

Segment revenue and results

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

For the year ended December 31, 2018

| | Power Equipment US\$’000 | Floor Care and Appliances US\$’000 | Eliminations US\$’000 | Consolidated US\$’000 |
|------------------------|---|---|----------------------------------|----------------------------------|
| Segment revenue | | | | |
| External sales | 6,009,495 | 1,011,687 | - | 7,021,182 |
| Inter-segment sales | - | 1,442 | (1,442) | - |
| Total segment revenue | 6,009,495 | 1,013,129 | (1,442) | 7,021,182 |

Inter-segment sales are charged at prevailing market rates.

| | | | | |
|------------------------|----------------|--------------|---|-----------------|
| Result | | | | |
| Segment results | 598,283 | 9,172 | - | 607,455 |
| Interest income | | | | 25,204 |
| Finance costs | | | | (38,049) |
| Profit before taxation | | | | 594,610 |
| Taxation charge | | | | (42,070) |
| Profit for the year | | | | 552,540 |

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 |

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.

Revenue from major products

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

| | 2018 US\$'000 | 2017 US\$'000 |
|---------------------------|------------------|------------------|
| Power Equipment | 6,009,495 | 5,137,697 |
| Floor Care and Appliances | 1,011,687 | 925,936 |
| Total | 7,021,182 | 6,063,633 |

Revenue from sales of goods is recognized at a point in time. Commission and royalty income is recognized over time.

Geographical information

The Group's revenue from external customers by geographical location, determined based on the location of the customer by geographical location are detailed below:

| | 2018 US\$'000 | 2017 US\$'000 |
|-----------------|------------------|------------------|
| North America | 5,371,768 | 4,625,483 |
| Europe | 1,071,056 | 918,833 |
| Other countries | 578,358 | 519,317 |
| Total | 7,021,182 | 6,063,633 |

Information about major customer

During the years ended December 31, 2018 and 2017, the Group's largest customer contributed total revenue of US\$3,194,744,000 (2017: US\$2,760,045,000), of which US\$3,143,450,000 (2017: US\$2,688,536,000) was under the Power Equipment segment and US\$51,294,000 (2017: US\$71,509,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 10% of total revenue.

3. Other Income

Other income in both 2018 and 2017 mainly comprises of the sale of scrap materials and claims and reimbursements from customers and vendors.

4. Finance Costs

| | 2018 US\$'000 | 2017 US\$'000 |
|----------------------------------|------------------|------------------|
| Interests on: | | |
| Bank borrowings | 37,407 | 23,699 |
| Obligations under finance leases | 642 | 781 |
| | 38,049 | 24,480 |

5. Taxation Charge

| | 2018 US\$'000 | 2017 US\$'000 |
|---------------------------------|------------------|------------------|
| The total tax charge comprises: | | |
| Hong Kong Profits Tax | (3,145) | (3,577) |
| Overseas tax | (30,171) | 19,534 |
| Deferred tax | (8,754) | (50,929) |
| | (42,070) | (34,972) |

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

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

6. Profit for the Year

| | 2018 | 2017 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Profit for the year has been arrived at after charging: | | |
| Amortization of intangible assets | 108,758 | 93,938 |
| Amortization of lease prepayments | 747 | 732 |
| Depreciation and amortization on property, plant and equipment | 129,229 | 114,503 |
| Staff costs | 912,696 | 822,682 |

Staff costs disclosed above do not include an amount of US\$149,073,000 (2017: US\$140,125,000) incurred of staff costs relating to research and development activities.

7. Earnings per Share

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

| | 2018 | 2017 |
|--|----------------------|---------------|
| | US\$'000 | US\$'000 |
| Earnings for the purposes of basic and diluted earnings per share: | | |
| Profit for the year attributable to Owners of the Company | 552,463 | 470,425 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,831,782,645 | 1,833,278,393 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 5,678,803 | 5,403,141 |
| Share award | 505,165 | 147,754 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 1,837,966,613 | 1,838,829,288 |

The computation of diluted earnings per share does not assume the exercise of certain Company's share options because the exercise prices of those options were higher than the average market price of the Company's shares for the year ended December 31, 2018.

8. Additions of Property, Plant and Equipment

During the year, the Group spent approximately US\$259 million (2017: US\$205 million) on the acquisition of property, plant and equipment.

9. Trade and Other Receivables

The Group had a policy of allowing credit periods ranging mainly from 30 days to 120 days. The ageing analysis of trade receivables, net of allowances for credit losses, presented on the basis of the revenue recognition date, which is usually the invoice date, at the end of the reporting period is as follows:

| | 2018 | 2017 |
|-------------------------|------------------|-----------|
| | US\$'000 | US\$'000 |
| 0 to 60 days | 680,424 | 753,407 |
| 61 to 120 days | 346,055 | 276,964 |
| 121 days or above | 62,684 | 75,834 |
| <hr/> | | |
| Total trade receivables | 1,089,163 | 1,106,205 |
| Other receivables | 37,635 | 30,671 |
| <hr/> | | |
| | 1,126,798 | 1,136,876 |

10. Trade and Other Payables

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

| | 2018 | 2017 |
|----------------------|------------------|-----------|
| | US\$'000 | US\$'000 |
| 0 to 60 days | 822,557 | 629,355 |
| 61 to 120 days | 248,261 | 171,577 |
| 121 days or above | 15,006 | 7,719 |
| <hr/> | | |
| Total trade payables | 1,085,824 | 808,651 |
| Other payables | 835,628 | 765,751 |
| <hr/> | | |
| | 1,921,452 | 1,574,402 |

The credit period on the purchase of goods ranges from 30 days to 120 days (2017: 30 days to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

11. Share Capital

| | 2018 Number of shares | 2017 Number of shares | 2018 US\$'000 | 2017 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 | 1,835,021,941 | 1,833,896,941 | 653,918 | 649,214 |
| Issue of shares upon exercise of share options | 600,000 | 2,625,000 | 1,073 | 4,704 |
| Buy-back of shares | (7,100,000) | (1,500,000) | - | - |
| At the end of the year | 1,828,521,941 | 1,835,021,941 | 654,991 | 653,918 |

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

| Month of cancellation | No. of ordinary shares | Price per share | | Aggregate consideration paid US\$'000 |
|------------------------------|-----------------------------------|-------------------------|------------------------|--|
| | | Highest HK\$ | Lowest HK\$ | |
| March 2018 | 1,000,000 | 46.25 | 45.00 | 5,911 |
| May 2018 | 500,000 | 45.35 | 44.75 | 2,906 |
| June 2018 | 672,000 | 47.55 | 43.85 | 3,947 |
| July 2018 | 1,378,000 | 43.50 | 41.70 | 7,634 |
| September 2018 | 200,000 | 47.25 | 47.00 | 1,218 |
| October 2018 | 250,000 | 43.90 | 43.75 | 1,415 |
| November 2018 | 3,100,000 | 41.40 | 36.25 | 15,577 |
| | 7,100,000 | | | 38,608 |

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$38,608,000 was charged to retained profits.

12. Capital Commitments

| | 2018 US\$'000 | 2017 US\$'000 |
|---|-------------------------|------------------|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | 119,350 | 21,888 |

13. Contingent Liabilities

| | 2018 | 2017 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Guarantees given to banks in respect of credit facilities utilized by associates | 8,877 | 9,298 |
