Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

To the Board of Directors of
Techtronic Industries Company Limited
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Techtronic Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 30, which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting"("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

Hong Kong
August 15, 2018

Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six-month period ended June 30, 2018

	Notes	2018 US$'000 (Unaudited)	2017 US$'000 (Unaudited)
Revenue	4	**3,430,828**	2,881,620
Cost of sales		**(2,157,198)**	(1,825,797)
Gross profit		**1,273,630**	1,055,823
Other income		**3,252**	2,271
Interest income		**13,156**	3,561
Selling, distribution and advertising expenses		**(522,233)**	(430,307)
Administrative expenses		**(374,791)**	(318,131)
Research and development costs		**(99,111)**	(77,181)
Finance costs		**(18,470)**	(12,653)
Profit before taxation		**275,433**	223,383
Taxation charge	5	**(20,657)**	(18,988)
Profit for the period	6	**254,776**	204,395
Other comprehensive income (loss):			
Item that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		**135**	(193)
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on foreign currency forward contracts in hedge accounting		**40,758**	(30,082)
Exchange differences on translation of foreign operations		**(22,871)**	31,997
Other comprehensive income for the period		**18,022**	1,722
Total comprehensive income for the period		**272,798**	206,117
Profit (loss) for the period attributable to:			
Owners of the Company		**254,737**	204,433
Non-controlling interests		**39**	(38)
		254,776	204,395
Total comprehensive income (loss) attributable to:			
Owners of the Company		**272,759**	206,155
Non-controlling interests		**39**	(38)
		272,798	206,117
Earnings per share (US cents)	8		
Basic		**13.89**	11.17
Diluted		**13.84**	11.14

Condensed Consolidated Financial Statements

Consolidated Statement of Financial Position (Unaudited)

As at June 30, 2018

	Notes	June 30 2018 US$'000 (Unaudited)	December 31 2017 US$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9 & 17	**699,297**	688,868
Lease prepayments		**30,145**	30,836
Goodwill		**554,882**	555,350
Intangible assets	9	**587,793**	580,424
Interests in associates		**2,906**	2,780
Available-for-sale investments		**—**	3,697
Financial assets at fair value through profit or loss		**5,265**	—
Derivative financial instruments		**9,558**	9,558
Deferred tax assets		**85,416**	92,939
		1,975,262	1,964,452
Current assets			
Inventories		**1,577,696**	1,467,420
Trade and other receivables	10	**1,235,241**	1,136,876
Deposits and prepayments		**126,495**	112,627
Bills receivable	10	**15,049**	8,008
Tax recoverable		**15,359**	6,698
Trade receivables from an associate	11	**1,380**	2,790
Derivative financial instruments		**18,500**	3,798
Held-for-trading investments		**—**	32,293
Financial assets at fair value through profit or loss		**45,488**	—
Bank balances, deposits and cash		**863,127**	863,515
		3,898,335	3,634,025
Current liabilities			
Trade and other payables	12	**1,665,304**	1,574,402
Bills payable	12	**45,025**	54,952
Warranty provision		**99,204**	97,268
Tax payable		**22,663**	23,912
Derivative financial instruments		**7,632**	43,830
Obligations under finance leases – due within one year		**2,921**	2,895
Discounted bills with recourse		**222,302**	87,837
Unsecured borrowings – due within one year	13	**201,170**	260,342
		2,266,221	2,145,438
Net current assets		**1,632,114**	1,488,587
Total assets less current liabilities		**3,607,376**	3,453,039

Consolidated Statement of Financial Position (Unaudited)

As at June 30, 2018

	Notes	June 30 2018 US$'000 (Unaudited)	December 31 2017 US$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	14	**654,604**	653,918
Reserves		**2,252,589**	2,087,307
Equity attributable to Owners of the Company		**2,907,193**	2,741,225
Non-controlling interests		**(468)**	(507)
Total equity		**2,906,725**	2,740,718
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		**7,352**	8,722
Unsecured borrowings – due after one year	13	**553,267**	564,678
Retirement benefit obligations		**125,671**	124,517
Deferred tax liabilities		**14,361**	14,404
		700,651	712,321
Total equity and non-current liabilities		**3,607,376**	3,453,039

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Consolidated Statement of Changes in Equity (Unaudited)

For the six-month period ended June 30, 2018

	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, 2017 (audited)	649,214	(10,476)	(156,729)	7,010	(13,096)	18,152	1,905,463	2,399,538	(606)	2,398,932
Profit (loss) for the period	—	—	—	—	—	—	204,433	204,433	(38)	204,395
Remeasurement of defined benefit obligations	—	—	—	—	(193)	—	—	(193)	—	(193)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	(30,082)	—	(30,082)	—	(30,082)
Exchange differences on translation of foreign operations	—	—	31,997	—	—	—	—	31,997	—	31,997
Other comprehensive income (loss) for the period	—	—	31,997	—	(193)	(30,082)	—	1,722	—	1,722
Total comprehensive income (loss) for the period	—	—	31,997	—	(193)	(30,082)	204,433	206,155	(38)	206,117
Shares issued at premium on exercise of options	1,419	—	—	(277)	—	—	—	1,142	—	1,142
Buy-back of shares	—	—	—	—	—	—	(5,388)	(5,388)	—	(5,388)
Vesting of awarded shares	—	45	—	(45)	—	—	—	—	—	—
Recognition of equity-settled share-based payments	—	—	—	1,898	—	—	—	1,898	—	1,898
Final dividend – 2016	—	—	—	—	—	—	(70,778)	(70,778)	—	(70,778)
At June 30, 2017 (unaudited)	650,633	(10,431)	(124,732)	8,586	(13,289)	(11,930)	2,033,730	2,532,567	(644)	2,531,923
Profit for the year	—	—	—	—	—	—	265,992	265,992	137	266,129
Remeasurement of defined benefit obligations	—	—	—	—	2,217	—	—	2,217	—	2,217
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	(17,403)	—	(17,403)	—	(17,403)
Deferred tax liability on remeasurement of defined benefit obligation	—	—	—	—	(9,349)	—	—	(9,349)	—	(9,349)
Deferred tax liability on hedging reserve	—	—	—	—	—	549	—	549	—	549
Exchange differences on translation of foreign operations	—	—	30,674	—	—	—	—	30,674	—	30,674
Other comprehensive income (loss) for the period	—	—	30,674	—	(7,132)	(16,854)	—	6,688	—	6,688
Total comprehensive income (loss) for the period	—	—	30,674	—	(7,132)	(16,854)	265,992	272,680	137	272,817
Shares issued at premium on exercise of options	3,285	—	—	(640)	—	—	—	2,645	—	2,645
Vesting of awarded shares	—	3,325	—	(3,325)	—	—	—	—	—	—
Shares for share award scheme	—	(3,455)	—	—	—	—	—	(3,455)	—	(3,455)
Recognition of equity-settled share-based payments	—	—	—	2,295	—	—	—	2,295	—	2,295
Lapse of share options	—	—	—	(14)	—	—	14	—	—	—
Interim dividend – 2017	—	—	—	—	—	—	(65,507)	(65,507)	—	(65,507)
At December 31, 2017 (audited)	653,918	(10,561)	(94,058)	6,902	(20,421)	(28,784)	2,234,229	2,741,225	(507)	2,740,718
Adjustment (Note: 2.2.1)	**—**	**—**	**—**	**—**	**—**	**—**	**1,570**	**1,570**	**—**	**1,570**
At January 1, 2018 (restated)	**653,918**	**(10,561)**	**(94,058)**	**6,902**	**(20,421)**	**(28,784)**	**2,235,799**	**2,742,795**	**(507)**	**2,742,288**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**254,737**	**254,737**	**39**	**254,776**
Remeasurement of defined benefit obligations	**—**	**—**	**—**	**—**	**135**	**—**	**—**	**135**	**—**	**135**
Fair value gain on foreign currency forward contracts in hedge accounting	**—**	**—**	**—**	**—**	**—**	**40,758**	**—**	**40,758**	**—**	**40,758**
Exchange differences on translation of foreign operations	**—**	**—**	**(22,871)**	**—**	**—**	**—**	**—**	**(22,871)**	**—**	**(22,871)**
Other comprehensive income (loss) for the period	**—**	**—**	**(22,871)**	**—**	**135**	**40,758**	**—**	**18,022**	**—**	**18,022**
Total comprehensive income (loss) for the period	**—**	**—**	**(22,871)**	**—**	**135**	**40,758**	**254,737**	**272,759**	**39**	**272,798**
Shares issued at premium on exercise of options	**686**	**—**	**—**	**(128)**	**—**	**—**	**—**	**558**	**—**	**558**
Buy-back of shares	**—**	**—**	**—**	**—**	**—**	**—**	**(12,764)**	**(12,764)**	**—**	**(12,764)**
Vesting of awarded shares	**—**	**637**	**—**	**(637)**	**—**	**—**	**—**	**—**	**—**	**—**
Shares for share award scheme	**—**	**(4,674)**	**—**	**—**	**—**	**—**	**—**	**(4,674)**	**—**	**(4,674)**
Recognition of equity-settled share-based payments	**—**	**—**	**—**	**2,346**	**—**	**—**	**—**	**2,346**	**—**	**2,346**
Lapse of share options	**—**	**—**	**—**	**(6)**	**—**	**—**	**6**	**—**	**—**	**—**
Final dividend – 2017	**—**	**—**	**—**	**—**	**—**	**—**	**(93,827)**	**(93,827)**	**—**	**(93,827)**
At June 30, 2018 (unaudited)	**654,604**	**(14,598)**	**(116,929)**	**8,477**	**(20,286)**	**11,974**	**2,383,951**	**2,907,193**	**(468)**	**2,906,725**

Condensed Consolidated Financial Statements

Consolidated Statement of Cash Flows (Unaudited)

For the six-month period ended June 30, 2018

	June 30 2018 US$'000 (Unaudited)	June 30 2017 US$'000 (Unaudited)
Operating Activities		
Profit before taxation	**275,433**	223,383
Adjustments for:		
Amortization/write-off of intangible assets	**55,134**	47,116
Amortization of lease prepayments	**182**	174
Depreciation on property, plant and equipment	**62,962**	54,933
Employee share-based payments expense	**2,346**	1,899
Fair value (gain) loss on foreign currency forward contracts	**(7,399)**	7,266
Fair value gain on listed equity securities	**(6,647)**	—
Finance costs	**18,470**	12,653
Impairment loss on trade receivables	**7,955**	12,353
Interest income	**(13,156)**	(3,561)
Loss on disposal of property, plant and equipment	**5,447**	3,486
Loss on disposal of listed equity securities	**(120)**	—
Reversal of impairment loss on trade receivables	**(1,387)**	(621)
Write down of inventories	**18,346**	3,228
Operating cash flows before movements in working capital	**417,566**	362,309
Increase in inventories	**(140,085)**	(112,315)
Increase in trade and other receivables, deposits and prepayments	**(124,226)**	(188,116)
(Increase) decrease in bills receivable	**(7,041)**	5,402
Decrease in trade receivables from an associate	**1,410**	2,571
Increase in trade and other payables	**96,749**	64,609
Decrease in bills payable	**(9,927)**	(10,415)
Increase in warranty provision	**3,388**	2,837
Increase in retirement benefit obligations	**1,289**	2,772
Net payment for purchase of shares for share award scheme	**(4,673)**	—
Cash generated from operations	**234,450**	129,654
Interest paid	**(18,470)**	(12,653)
Hong Kong Profits Tax paid	**(6,152)**	(2,621)
Overseas tax paid	**(18,214)**	(9,755)
Net Cash from Operating Activities	**191,614**	104,625

	June 30 2018 US$'000 (Unaudited)	June 30 2017 US$'000 (Unaudited)
Investing Activities		
Additions to intangible assets	**(62,511)**	(65,977)
Interest received	**13,156**	3,561
Proceeds from disposal of listed equity securities	**2,108**	—
Proceeds from disposal of property, plant and equipment	**1,669**	100
Purchase of listed equity securities	**(8,536)**	—
Purchase of property, plant and equipment	**(85,407)**	(71,818)
Advance to associates	**(126)**	—
Net Cash used in Investing Activities	**(139,647)**	(134,134)
Financing Activities		
Increase in discounted bills with recourse	**134,465**	10,739
Dividends paid	**(93,827)**	(70,778)
New bank loans obtained	**1,140,933**	1,088,744
Proceeds from issue of shares	**558**	1,142
Repayment of bank loans	**(1,211,517)**	(993,678)
Repayment of obligations under finance leases	**(1,491)**	(1,667)
Buy-back of shares	**(12,764)**	(5,388)
Net Cash (used in) from Financing Activities	**(43,643)**	29,114
Net Increase (Decrease) in Cash and Cash Equivalents	**8,324**	(395)
Cash and Cash Equivalents at Beginning of the Period	**863,515**	803,085
Effect of Foreign Exchange Rate Changes	**(8,712)**	13,247
Cash and Cash Equivalents at End of the Period	**863,127**	815,937
Analysis of the Balances of Cash and Cash Equivalents		
Represented by:		
Bank balances, deposits and cash	**863,127**	818,142
Bank overdrafts	**—**	(2,205)
	863,127	815,937

Condensed Consolidated Financial Statements

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The financial information relating to the year ended December 31, 2017 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements 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 Hong Kong Companies Ordinance.
- The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and method of computations used in the condensed consolidated financial statements for the six-month ended June 30, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. Significant accounting policies (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

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

The Group recognizes revenue from the trading of electrical and electronic products. 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. 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.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognizing revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Warranties

The Group accounts for the warranty in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

2. Significant accounting policies (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, 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) 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.

The Group continues to apply HKAS 39 Financial Instruments: Recognition and Measurement for hedge accounting.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39.

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognized financial assets that are within the scope of HKFRS 9 are subsequently measured at amortized cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the 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.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the 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.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset.

The directors of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.1.

2. Significant accounting policies (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (continued)

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bills receivable, trade receivables from an associate and bank balances, deposits and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognizes lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

2. Significant accounting policies (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

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.

2.2.1 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) 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.

		Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 US$'000	Fair value remeasurement under HKFRS 9 US$'000	New carrying amount under HKFRS 9 US$'000
1.	Trade and other receivables	Loans and receivables	Financial assets at amortized cost	1,136,876	N/A	1,136,876
2.	Bills receivable	Loans and receivables	Financial assets at amortized cost	8,008	N/A	8,008
3.	Trade receivables from an associate	Loans and receivables	Financial assets at amortized cost	2,790	N/A	2,790
4.	Other financial assets (note)	Available-for-sale financial assets	FVTPL	3,697	1,570	5,267
5.	Listed equity securities	FVTPL	FVTPL	32,293	N/A	32,293
6.	Bank balances, deposits and cash	Loans and receivables	Financial assets at amortized cost	863,515	N/A	863,515

Note:

At the date of initial application of HKFRS 9, the Group's other financial assets of US$3,697,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gain of US$1,570,000 relating to those financial assets previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits as at January 1, 2018.

Except as described above, the application of amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Segment information

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

For the period ended June 30, 2018

	Power Equipment US$'000	Floor Care and Appliances US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue				
External sales	**2,962,123**	**468,705**	**—**	**3,430,828**
Inter-segment sales	**—**	**727**	**(727)**	**—**
Total segment revenue	**2,962,123**	**469,432**	**(727)**	**3,430,828**

For the period ended June 30, 2017

	Power Equipment US$'000	Floor Care and Appliances US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue				
External sales	2,466,589	415,031	—	2,881,620
Inter-segment sales	—	991	(991)	—
Total segment revenue	2,466,589	416,022	(991)	2,881,620

Inter-segment sales are charged at prevailing market rates.

	Six-month period ended June 30					
	2018			2017		
	Power Equipment US$'000	**Floor Care and Appliances US$'000**	**Consolidated US$'000**	Power Equipment US$'000	Floor Care and Appliances US$'000	Consolidated US$'000
Segment results	**280,176**	**571**	**280,747**	232,113	362	232,475
Interest income			**13,156**			3,561
Finance costs			**(18,470)**			(12,653)
Profit before taxation			**275,433**			223,383
Taxation charge			**(20,657)**			(18,988)
Profit for the period			**254,776**			204,395

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.

4. Revenue

An analysis of the Group's revenue is as follows:

	Six-month period ended June 30	
	2018	2017
	US$'000	US$'000
Types of goods or services:		
Sales of goods	**3,422,054**	2,863,308
Commission and royalty income	**8,774**	18,312
	3,430,828	2,881,620

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

The Group's revenue from external customers by geographical location, determined based on the location of the customer is as follows:

	Six-month period ended June 30	
	2018	2017
	US$'000	US$'000
North America	**2,599,475**	2,200,727
Europe	**554,785**	446,241
Other countries	**276,568**	234,652
	3,430,828	2,881,620

5. Taxation charge

	Six-month period ended June 30	
	2018	2017
	US$'000	US$'000
Current tax:		
Hong Kong Tax	**(754)**	(2,821)
Overseas Tax	**(13,385)**	8,561
Deferred Tax	**(6,518)**	(24,728)
	(20,657)	(18,988)

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods.

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

6. Profit for the period

	Six-month period ended June 30	
	2018	2017
	US$'000	US$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**62,962**	54,933
Amortization of lease prepayments	**182**	174
Amortization of intangible assets	**53,956**	45,298
Total depreciation and amortization	**117,100**	100,405
Net exchange loss	**509**	5,285
Staff costs	**514,050**	464,697
Fair value gain on listed equity securities	**(6,647)**	—

7. Dividends

A dividend of HK39.75 cents (approximately US5.12 cents) per share with a total of approximately US$93,827,000 (2017: HK30.00 cents (approximately US3.86 cents) per share with a total of approximately US$70,778,000) was paid to shareholders as the final dividend for 2017 (2017: final dividend for 2016) on June 22, 2018.

The Directors have determined that an interim dividend of HK38.00 cents (approximately US4.89 cents) per share with a total of approximately US$89,663,000 (2017: HK27.75 cents (approximately US3.57 cents) per share with a total of approximately US$65,507,000) shall be paid to the shareholders of the Company whose names appear in the Register of Members on September 7, 2018.

8. 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:

	Six-month period ended June 30	
	2018	2017
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the period attributable to Owners of the Company	**254,737**	204,433
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,833,993,305**	1,829,895,206
Effect of dilutive potential ordinary shares:		
Share options	**6,028,096**	5,141,103
Share awards	**410,094**	719,597
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,840,431,495**	1,835,755,906

The computation of diluted earnings per share does not assume the exercise of certain Company's options because price of those options were higher than the average market price for shares for the period ended June 30, 2018.

9. Additions to property, plant and equipment/intangible assets

During the period, the Group spent approximately US$86 million (for the six-month ended June 30, 2017: US$72 million) and US$63 million (for the six-month ended June 30, 2017: US$66 million) on the acquisition of property, plant and equipment and intangible assets respectively.

10. Trade and other receivables/Bills receivable

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

Age	**June 30 2018 US$'000**	December 31 2017 US$'000
0 to 60 days	**862,710**	753,407
61 to 120 days	**259,010**	276,964
121 days or above	**81,179**	75,834
Total trade receivables	**1,202,899**	1,106,205
Other receivables	**32,342**	30,671
	1,235,241	1,136,876

All the Group's bills receivable at June 30, 2018 are due within 120 days.

11. Trade receivables from an associate

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

12. Trade and other payables/Bills payable

The aging analysis of trade payables based on the invoice date is as follows:

Age	**June 30 2018 US$'000**	December 31 2017 US$'000
0 to 60 days	**723,557**	629,355
61 to 120 days	**210,424**	171,577
121 days or above	**12,658**	7,719
Total trade payables	**946,639**	808,651
Other payables	**718,665**	765,751
	1,665,304	1,574,402

All the Group's bills payable at June 30, 2018 were aged and are due within 120 days.

13. Unsecured borrowings

During the period, the Group obtained new bank borrowings of US$1,141 million (2017: US$1,089 million) which mainly carry interest at the London Interbank Offered Rate. The Group also repaid the existing bank borrowings of US$1,212 million (2017: US$994 million).

14. Share capital

	Number of shares		Share capital	
	June 30 2018	December 31 2017	**June 30 2018 US$'000**	December 31 2017 US$'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 period	**1,835,021,941**	1,833,896,941	**653,918**	649,214
Issue of shares upon exercise of share options	**525,000**	2,625,000	**686**	4,704
Buy-back of shares	**(2,172,000)**	(1,500,000)	**—**	—
At the end of the period	**1,833,374,941**	1,835,021,941	**654,604**	653,918

During the period, 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
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**
	2,172,000			**12,764**

The consideration paid on the buy-back of the shares of approximately US$12,764,000 was charged to retained profits.

15. Contingent liabilities

	June 30 2018 US$'000	December 31 2017 US$'000
Guarantees given to banks in respect of credit facilities utilized by associates	**8,877**	9,298

16. Fair value measurements of financial instruments

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 is observable.

16. Fair value measurements of financial instruments (continued)

- 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).

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	June 30, 2018	December 31, 2017		
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$9,558,000	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$18,500,000; and Liabilities – US$7,632,000**	Assets – US$3,798,000; and Liabilities – US$43,830,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
3) Listed equity securities classified as held-for-trading investments in the consolidated statement of financial position	**Listed shares: US$45,488,000**	Listed shares: US$32,293,000	Level 1	Quoted bid prices in an active market.
4) Other financial assets classified as financial assets at fair value through profit or loss in the consolidated statement of financial position	**Club membership debentures: US$2,265,000**	N/A	Level 2	The fair value was arrived at by reference to market evidence of recent transaction prices for similar comparables in the similar condition.
	Unlisted equity securities: US$3,000,000	N/A	Level 3	The fair value was arrived at by reference to the latest purchase price per share for subscribing the shares of the investment in private market.
	US$5,265,000			

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

17. Capital commitments

	June 30 2018 US$'000	December 31 2017 US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**30,272**	21,888