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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 SIX-MONTH PERIOD ENDED JUNE 30, 2019

HIGHLIGHTS

	2019 US$' million	2018 US$' million	**Changes %**
Revenue	**3,728**	3,431	**+8.7**
Gross profit margin	**37.6%**	37.1%	**+50 bps**
EBIT	**314**	281	**+11.9**
Profit attributable to Owners of the Company	**285**	255	**+11.9**
EPS (US cents)	**15.61**	13.89	**+12.4**
Interim dividend per share (approx. US cents)	**5.79**	4.89	**+18.4**

- **First Half 2019 Revenue Totaled US$3.7 Billion up by 10.7% in local currency**
- **Net Profit Continues to Grow at a Faster Rate than Sales, up 11.9%, Driven by the 11th Consecutive First half of Gross Margin Improvement**
- **Disciplined Working Capital Management, Delivered Working Capital of 18.4% of Sales**
- **The Flagship Milwaukee Tool Business Continues to Grow 20%+ in local currency**

The board of directors (the “Directors” or the “Board”) of Techtronic Industries Company Limited (“TTI” or the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the six-month period ended June 30, 2019 together with the comparative figures in 2018.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK45.00 cents (approximately US5.79 cents) (2018: HK38.00 cents (approximately US4.89 cents)) per share for the six-month period ended June 30, 2019. The interim dividend will be paid to shareholders listed on the register of members of the Company on September 6, 2019. It is expected that the interim dividend will be paid on or about September 20, 2019.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Review of Operations

New Product Driving Growth

We are pleased to announce that our results for the first half of 2019 were another record for the Group with revenue increasing 8.7%, EBIT and net profit both increasing 11.9%, and earnings per share increasing 12.4%, to approximately US15.61 cents. Revenue grew 10.7% in local currency. The strong first half performance was driven by the launch of new products, category and geographic expansion. Gross margin increased in the first half for the eleventh consecutive year, up 50 bps, increasing from 37.1% to 37.6%. Our disciplined working capital management continued to yield solid performance at 18.4% of sales.

Our flagship Milwaukee Tool business once again grew over 20% globally in local currency and our Power Equipment business outperformed the market with double-digit growth. Additionally, our other Power Equipment brands posted excellent results, led by the Ryobi business with high single digit growth. Our Floor Care business is improving nicely with a strategic focus on cordless and carpet washing.

Our geographic expansion was also a highlight for the first half with the European team delivering an outstanding 14.2% growth in local currency, led by Milwaukee Tool with over 25% growth. In rest of world, Australia and our Asian companies continued to deliver above market growth at 12.8%. Our North American businesses continued to perform exceptionally well at 9.7% growth with Milwaukee Tool up 20%+ in the US and 28%+ in Canada.

High margin new products, productivity gains, and volume leverage improved gross margin in the first half for the eleventh consecutive year. TTI delivered a good first half result due to productivity and supply chain expansion outside of our traditional base, along with volume leverage. We are rapidly expanding our global manufacturing footprint. This global supply chain, along with swift and effective managerial action, helped us mitigate headwinds in the first half, including tariffs.

BUSINESS REVIEW

Power Equipment

The Power Equipment segment continued the strong momentum with 14.3% growth in local currency, to revenue of US$3.3 billion. New products, geographic expansion, and entry into new categories all contributed to the excellent performance.

Professional and Industrial Solutions

Our Milwaukee Tool global business delivered 22.2% growth in local currency for the first half of 2019 and continues to outperform the global market. The high-performance MILWAUKEE FUEL cordless range had an outstanding first half with over 24% growth bolstered by key new product launches.

Milwaukee Tool continues to bring significant technological advancements to batteries, brushless motors, and system electronics. These cordless innovations deliver increased capabilities in power, run time, and performance which propelled Milwaukee Tool to a global cordless market leadership position. The M18 system, the fastest-growing cordless system for the professional end user, now offers a platform of over 180 products. In addition, Milwaukee Tool continues its dominant leadership position in the global sub-compact cordless space, with the M12 cordless system now featuring over 100 products.

High performance cordless lighting continues to be a highlight of Milwaukee Tool's business growth. Lighting is a good example of category expansion rapidly gaining traction. With recent introductions in the personal lighting and the site lighting categories, Milwaukee Tool now offers one of the most comprehensive cordless work lighting portfolio in the industry.

The MILWAUKEE PACKOUT system continues to exceed growth expectations with an innovative, durable and mobile storage system. We continue to expand our PACKOUT system beyond the already comprehensive 17 unique professional modular storage products, with more to come.

The newly launched MILWAUKEE mechanics hand tool line is a great example of a new category targeting new verticals and represents tremendous growth opportunity for the second half and beyond. Our innovative wrenches, ratchets and socket sets have been well received by targeted user groups.

Our MILWAUKEE tape measure business continues to show impressive growth with the introduction of the MILWAUKEE STUD tape measures, the industry's most durable tape measure, equipped with innovative technology which protects the blade from ripping and wearing, delivering one of the longest-lasting blades on the market.

Power Equipment

Consumer Power Tools & Outdoor

The RYOBI ONE+ cordless tool range is the number one line of DIY cordless tools in the world today. We are continuing to expand this leadership position with a series of exciting RYOBI ONE+ products. The RYOBI ONE + Air Cannon fan, RYOBI ONE+ band saw, and RYOBI ONE+ grease gun are great examples of the ongoing expansion of this world leading system.

The Ryobi Outdoor business delivered 15.9% growth in the first half, led by the revolutionary range of cordless outdoor products. The leadership cordless mower range continues to disrupt and transform a legacy petrol market into an easier to use and environmentally friendly solution. We successfully expanded our cordless offerings with additional mowers, blowers vacs, sprayers, foggers, and string trimmers.

A key strength of the Ryobi business is the overarching range of cordless products that span from power tools to outdoor, and many other categories.

Floor Care and Appliances

We are encouraged with the implementation of our new floorcare strategy, led by our next generation Carpet Washing and Solution range. The next phase of this new strategy is the rollout of our new cordless ONEPWR system that will position the HOOVER brand for years of growth and profitability. Hoover's new ONEPWR cordless system is rolling out with a family of 9 cordless cleaning products that share the same powerful lithium-ion battery. We are also rolling out the cordless ONEPWR platform under the VAX brand in the UK and ANZ. This technologically advanced battery platform will allow us to expand into new areas.

Our Carpet Washing and Solutions business posted double-digit growth, led by the success of SMARTWASH and POWERDASH. POWERDASH is now the number 1 selling carpet washer in North America. Additionally, our new line of detergents formulated to optimize the performance of our Carpet Washers are selling well.

Additionally, our Milwaukee Tool business has developed an exciting range of job site cordless cleaning products underscoring the synergies and shared technology platform with the Floor Care division. These MILWAUKEE floorcare products are selling above expectations and hold great promise.

Our outlook for the full year 2019 Floor Care is on track to deliver targeted increase in profits. Although the first half revenue reflects the planned process of exiting a lower margin market in Western Europe and our ongoing exit from Corded Uprights (down 12% in local currency in the first half), our overall sales outlook for the full year is encouraging with above plan sales on our focused strategic areas, and this trend will continue to gather momentum in the years ahead.

Outlook

We are well positioned to deliver a strong second half, and importantly, a strong future. Our expanding global manufacturing network continues to deliver consistent, outstanding productivity gains and we are working hard to offset and minimize the impact of challenging headwinds, including tariffs.

We continue to focus on things we can control, such as rigorously managing non-strategic SGA spend. New product development is a core strength of TTI and our new product flow continues to accelerate. We continue to aggressively invest in this high speed, world class process so that we can bring to market a stream of high margin new products with cutting edge technology for the months and years to come. With the strength of our new product programs, our outstanding team and strong brand portfolio, we are poised to deliver excellent results.

FINANCIAL REVIEW

Financial Results

Reported revenue for the period grew by 8.7% as compared to the same period last year, amounting to US$3,728 million. Profit attributable to Owners of the Company amounted to US$285 million as compared to US$255 million reported last year, an increase of 11.9%. Basic earnings per share was at US15.61 cents (2018: US13.89 cents), an increase of 12.4%.

EBIT amounted to US$314 million, an increase of 11.9% as compared to the US$281 million reported in the same period last year.

Result Analysis

Gross Margin

Gross margin improved to 37.6% as compared to 37.1% in the same period last year. The margin improvement was the result of new product introduction, product mix, category expansion, improvements in operational efficiency and supply chain productivity together with very effective action plans to mitigate the tariffs impact.

Operating Expenses

Total operating expenses for the period amounted to US$1,093 million as compared to US$996 million reported for the same period last year, representing 29.3% of revenue (2018: 29.0%). During the period under review, R&D spent remains at 2.9% of revenue (2018: 2.9%) to maintain the high velocity growth momentum.

Net interest expenses for the period amounted to US$7 million as compared to US$5 million reported for the same period last year, representing 0.2% of revenue (2018: 0.2%). Interest cover, expressed as a multiple of EBITDA to total interest was at 19.3 times (2018: 22.3 times).

Effective tax rate for the period was at 7.1% (2018: 7.5%).

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to US$3.2 billion, an increase of 4.0% as compared to December 31, 2018. Book value per share was US$1.74 as compared to US$1.67 at December 31, 2018, an increase of 4.2%.

Financial Position

The Group continued to maintain a strong financial position. As at June 30, 2019, the Group's cash and cash equivalents amounted to US$1,206 million (US$1,104 million at December 31, 2018) after the payment of US$117.6 million dividend during the period (US$93.8 million in first half 2018), of which 48.6%, 31.0%, 8.0%, and 12.4% were denominated in US$, RMB, EUR and other currencies respectively.

The Group's net gearing, expressed as a percentage of total net borrowings (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, was at 13.1% as compared to 1.8% as at June 30, 2018. The Group remains confident that gearing will further improve by end of the year.

Bank Borrowings

Long term borrowing accounted for 40.9% of total debts (56.0% at December 31, 2018).

The Group's major borrowings continued to be in US$. 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 exposure, 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 11.1% of the total debt, the balance being floating rate debts.

Working Capital

Total inventory was at US$1,961 million as compared to US$1,578 million as at June 30, 2018. Days inventory increased by 6 days from 88 days to 94 days. The higher inventory days as compared with same period last year was mainly due to the strategic decision to carry a higher level of inventory to support our service level, considering our high growth momentum and the pull in ahead of tariff becoming effective. The Group will continue to focus on managing the inventory level and improve inventory turns.

Trade receivables turnover days were at 63 days as compared to 67 days as at June 30, 2018. Excluding the gross up of the receivables factored which is without recourse in nature, receivables turnover days was at 61 days as compared to 63 days as at June 30, 2018. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing credit exposure.

Trade payables days were 91 days as compared to 93 days as at June 30, 2018.

Working capital as a percentage of sales was at 18.4% as compared to 17.0% for the same period last year.

Capital Expenditures

Total capital expenditures for the period amounted to US$211 million and additional US$42 million for headquarters located in the USA (2018: US$86 million).

Capital Commitments and Contingent Liabilities

As at June 30, 2019, total capital commitments for the acquisition of property, plant and equipment contracted for but not provided amounted to US$34 million (2018: US$30 million), and there were no material contingent liabilities or off balance sheet obligations.

Charges

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

HUMAN RESOURCES

The Group employed a total of 29,536 employees (26,110 employees as at June 30, 2018) in Hong Kong and overseas. Total staff cost for the period under review amounted to US$625 million as compared to US$514 million in the same period last year.

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improve 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, share awards and bonuses to eligible staff, based on the performance of the Group and the individual employee.

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 six-month period ended June 30, 2019, save that none of the Directors are appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under Article 107(A) of the Articles of Association of the Company, one-third of the Board must retire by rotation at each annual general meeting of the Company, and if eligible, offer themselves for re-election.

The Company has also voluntarily complied with a number of 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 its 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 six-month period ended June 30, 2019.

Another code of conduct on terms no less onerous than the Model Code that applies to securities transactions of all relevant employees who may be in possession of unpublished price sensitive information in relation to the Company (the "Code for Securities Transactions by Relevant Employees") has also been adopted. No incident of non-compliance was noted by the Company during the period.

Both the Model Code and the Code for Securities Transactions by Relevant Employees have been published on the Company's website (www.ttigroup.com).

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with the Company's independent auditor, Deloitte Touche Tohmatsu, and the senior management of the Group the unaudited financial statements of the Company for the six-month period ended June 30, 2019, the accounting principles and practices adopted by the Group and the internal controls and financial reporting matters. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

A total of 2,350,000 ordinary shares were cancelled by the Company during the period. Among these shares cancelled by the Company during the period, 850,000 shares were bought back and settled during the period at prices ranging from HK$40.45 to HK$41.50 and 1,500,000 shares were bought back in December 2018 and cancelled in January 2019 at prices ranging from HK$41.25 to HK$43.00. The aggregate amount paid by the Company for such buy-backs cancelled during the period amounting to US$12,644,000 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 period 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 period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from September 5, 2019 to September 6, 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on September 4, 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the Company's website (www.ttigroup.com) and the HKExnews website (www.hkexnews.hk) of Hong Kong Exchanges and Clearing Limited. The 2019 Interim Report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the above websites in due course.

By order of the Board
Horst Julius Pudwill
Chairman

Hong Kong, August 14, 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 four Independent Non-executive Directors, namely Mr Christopher Patrick Langley OBE, 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).

RESULTS SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the six-month period ended June 30, 2019

	Notes	**2019 US$'000 (Unaudited)**	2018 US$'000 (Unaudited)
Revenue	3 & 4	**3,728,247**	3,430,828
Cost of sales		**(2,325,499)**	(2,157,198)
Gross profit		**1,402,748**	1,273,630
Other income		**4,372**	3,252
Interest income		**17,817**	13,156
Selling, distribution and advertising expenses		**(581,768)**	(522,233)
Administrative expenses		**(402,688)**	(374,791)
Research and development costs		**(108,592)**	(99,111)
Finance costs		**(25,166)**	(18,470)
Profit before share of results of associates and taxation		**306,723**	275,433
Share of results of associates		**27**	-
Profit before taxation		**306,750**	275,433
Taxation charge	5	**(21,687)**	(20,657)
Profit for the period	6	**285,063**	254,776
Other comprehensive (loss) income:			
Item that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		**(3,114)**	135
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss) gain on foreign currency forward contracts in hedge accounting		**(994)**	40,758
Exchange differences on translation of foreign operations		**(2,934)**	(22,871)
Other comprehensive (loss) income for the period		**(7,042)**	18,022
Total comprehensive income for the period		**278,021**	272,798
Profit for the period attributable to:			
Owners of the Company		**285,004**	254,737
Non-controlling interests		**59**	39
		285,063	254,776
Total comprehensive income attributable to:			
Owners of the Company		**277,962**	272,759
Non-controlling interests		**59**	39
		278,021	272,798
Earnings per share (US cents)	8		
Basic		**15.61**	13.89
Diluted		**15.55**	13.84

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at June 30, 2019

	Notes	**June 30 2019 US$'000 (Unaudited)**	December 31 2018 US$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9 & 17	**965,526**	790,936
Lease prepayments		**-**	28,475
Right of use assets	2 & 9	**236,318**	-
Goodwill		**581,096**	581,215
Intangible assets	9	**641,086**	620,801
Interests in associates		**3,282**	3,664
Financial assets at fair value through profit or loss		**5,663**	5,361
Derivative financial instruments		**9,441**	9,441
Deferred tax assets		**86,170**	83,945
		2,528,582	2,123,838
Current assets			
Inventories		**1,961,134**	1,766,722
Right to returned goods asset		**16,987**	14,005
Trade and other receivables	10	**1,373,612**	1,126,798
Deposits and prepayments		**132,737**	126,841
Bills receivable	10	**6,518**	5,057
Tax recoverable		**5,787**	12,852
Trade receivables from associates	11	**11,140**	2,253
Derivative financial instruments		**28,202**	33,788
Financial assets at fair value through profit or loss		**25,762**	32,828
Bank balances, deposits and cash		**1,205,564**	1,103,880
		4,767,443	4,225,024
Current liabilities			
Trade and other payables	12	**1,884,935**	1,921,452
Bills payable	12	**26,396**	41,164
Warranty provision		**108,587**	105,215
Tax payable		**10,992**	15,300
Derivative financial instruments		**1,046**	712
Lease liabilities		**57,847**	-
Obligations under finance leases – due within one year		**-**	288
Discounted bills with recourse		**258,163**	243,360
Unsecured borrowings – due within one year	13	**760,514**	255,228
Refund liabilities from right of return		**36,470**	33,267
		3,144,950	2,615,986
Net current assets		**1,622,493**	1,609,038
Total assets less current liabilities		**4,151,075**	3,732,876

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) - continued
As at June 30, 2019

	Notes	**June 30 2019 US$'000 (Unaudited)**	December 31 2018 US$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	14	**659,545**	654,991
Reserves		**2,521,386**	2,402,780
Equity attributable to Owners of the Company		**3,180,931**	3,057,771
Non-controlling interests		**(371)**	(430)
Total equity		**3,180,560**	3,057,341
NON-CURRENT LIABILITIES			
Lease liabilities		**166,667**	-
Obligations under finance leases – due after one year		**-**	725
Unsecured borrowings – due after one year	13	**663,377**	540,214
Retirement benefit obligations		**125,864**	119,974
Deferred tax liabilities		**14,607**	14,622
		970,515	675,535
Total equity and non-current liabilities		**4,151,075**	3,732,876

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, 2018 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, 2018 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 Standard ("HKFRS"), the accounting policies and method of computation used in the condensed consolidated financial statements for the six-month ended June 30, 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2018.

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 and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after January 1, 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

2. **Significant accounting policies** (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Excludes non-lease components

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of land and building, furniture and fixtures, plant and machinery and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

2. **Significant accounting policies** (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

Right of use assets

Except for short-term leases and leases of low value assets, the Group recognizes right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right of use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right of use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right of use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right of use assets.

2. **Significant accounting policies** (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:
- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right of use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right of use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right of use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right of use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right of use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

2. **Significant accounting policies** (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognize right of use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right of use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at January 1, 2019, the Group recognized additional lease liabilities and measured right of use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16. C8(b)(i) transition.

2. **Significant accounting policies** (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is approximately 2.8%.

	At January 1, 2019
	US$'000
Operating lease commitments disclosed as at December 31, 2018	316,373
Lease liabilities discounted at relevant incremental borrowing rates	287,180
Add: Extension options reasonably certain to be exercised	1,863
Less: Recognition exemption – short-term leases	(585)
Recognition exemption – low value assets	(4,580)
Leases not yet commenced to which the entity is committed	(5,301)
Non-lease components to be excluded from the lease liability	(880)
Lease liabilities relating to operating leases recognized upon application of HKFRS 16	277,697
Add: Obligations under finance leases recognized at December 31, 2018 (note b)	1,013
Lease liabilities as at January 1, 2019	278,710
Analyzed as	
Current	55,559
Non-current	223,151
	278,710

The carrying amount of right of use assets as at January 1, 2019 comprises the following:

	Right of use assets
	US$'000
Right of use assets relating to operating leases recognized upon application of HKFRS 16	255,558
Reclassification from lease prepayments (note a)	28,475
Amounts included in property, plant and equipment under HKAS 17	
- Assets previously under finance leases (note b)	715
	284,748
By class:	
Leasehold land (lease prepayments)	28,475
Land and buildings	210,715
Office equipment, furniture and fixtures	2,528
Plant and machinery	2,930
Motor vehicles	40,100
	284,748

2. **Significant accounting policies** (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

Note a: Upfront payments for leasehold lands were classified as lease prepayments as at December 31, 2018. Upon application of HKFRS 16, the lease prepayments amounting to US$ 28,475,000 were reclassified to right of use assets.

Note b: In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at January 1, 2019 amounting to US$715,000 as right of use assets. In addition, the Group reclassified the obligations under finance leases of US$288,000 and US$725,000 to lease liabilities as current and non-current liabilities respectively at January 1, 2019.

The following table summarizes the impact of transition to HKFRS 16 on retained profits at January 1, 2019.

	Impact of adopting HKFRS 16 at January 1, 2019
	US$'000
Retained profits	
Recognition of the differences between right of use assets and lease liabilities	22,139

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018	Reclassifications	Adjustments	Carrying amounts under HKFRS 16 at January 1, 2019
	US$'000	US$'000	US$'000	US$'000
Non-current Assets				
Property, plant and equipment	790,936	(715)	-	790,221
Lease prepayments	28,475	(28,475)	-	-
Right of use assets	-	29,190	255,558	284,748
Current Liabilities				
Lease liabilities	-	288	55,271	55,559
Obligations under finance leases	288	(288)	-	-
Non-current Liabilities				
Lease liabilities	-	725	222,426	223,151
Obligations under finance leases	725	(725)	-	-
Capital and Reserves				
Retained profits	2,559,178	-	(22,139)	2,537,039

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six-month ended June 30, 2019, movements in working capital have been computed based on opening statement of financial position as at January 1, 2019 as disclosed above.

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, 2019

	Power Equipment US$'000	**Floor Care and Appliances US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Segment revenue				
External sales	**3,321,761**	**406,486**	**-**	**3,728,247**
Inter-segment sales	**-**	**112**	**(112)**	**-**
Total segment revenue	**3,321,761**	**406,598**	**(112)**	**3,728,247**

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

Inter-segment sales are charged at prevailing market rates.

	Six-month period ended June 30					
	2019			2018		
	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	**313,928**	**144**	**314,072**	280,176	571	280,747
Interest income			**17,817**			13,156
Finance costs			**(25,166)**			(18,470)
Share of results of associates			**27**			-
Profit before taxation			**306,750**			275,433
Taxation charge			**(21,687)**			(20,657)
Profit for the period			**285,063**			254,776

Segment results represent the profit earned by each segment without the allocation of interest income, finance costs and shares of results of associates. 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	
	2019	2018
	US$'000	US$'000
Types of goods or services:		
Sales of goods	**3,706,835**	3,422,054
Commission and royalty income	**21,412**	8,774
	3,728,247	3,430,828

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	
	2019	2018
	US$'000	US$'000
North America	**2,845,008**	2,599,475
Europe	**595,198**	554,785
Other countries	**288,041**	276,568
	3,728,247	3,430,828

5. **Taxation charge**

	Six-month period ended June 30	
	2019	2018
	US$'000	US$'000
Current tax:		
Hong Kong Tax	**(874)**	(754)
Overseas Tax	**(22,837)**	(13,385)
Deferred Tax	**2,024**	(6,518)
	(21,687)	(20,657)

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	
	2019	2018
	US$'000	US$'000
Profit for the period has been arrived at after charging (crediting):		
Amortization of intangible assets	**54,551**	53,956
Amortization of lease prepayments	**-**	182
Depreciation of property, plant and equipment	**69,611**	62,962
Depreciation of right of use assets	**30,808**	-
Total depreciation and amortization	**154,970**	117,100
Fair value loss (gain) on listed equity securities	**7,065**	(6,647)
Impairment loss on trade receivables, net of reversal	**8,945**	6,568
Net exchange (gain) loss	**(1,442)**	509
Write down of inventories	**19,157**	18,346
Staff costs	**624,869**	514,050

7. Dividends

A dividend of HK50.00 cents (approximately US6.44 cents) per share with a total of approximately US$117,621,000 (2018: HK39.75 cents (approximately US5.12 cents) per share with a total of approximately US$93,827,000) was paid to shareholders as the final dividend for 2018 (2018: final dividend for 2017) on June 21, 2019.

The Directors have determined that an interim dividend of HK45.00 cents (approximately US5.79 cents) per share with a total of approximately US$105,870,000 (2018: HK38.00 cents (approximately US4.89 cents) per share with a total of approximately US$89,595,000) shall be paid to the shareholders of the Company whose names appear in the Register of Members on September 6, 2019.

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	
	2019	2018
	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	**285,004**	254,737
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,825,960,944**	1,833,993,305
Effect of dilutive potential ordinary shares:		
Share options	**5,724,117**	6,028,096
Share awards	**687,353**	410,094
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,832,372,414**	1,840,431,495

The computation of diluted earnings per share does not assume the exercise of certain Company's share options because exercise price of those options were higher than the average market price of the Company's shares for the period ended June 30, 2019 and 2018.

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

During the period, the Group spent approximately US$253 million (for the six-month ended June 30, 2018: US$86 million) and US$76 million (for the six-month ended June 30, 2018: US$63 million) on the acquisition of property, plant and equipment and intangible assets respectively.

During the period, the Group entered into certain new lease agreements for the use of land and buildings, office equipment, furniture and fixtures, plant and machinery and motor vehicles. The Group is required to make periodic payments. On lease commencement, the Group recognized US$39,141,000 of right of use asset and US$39,141,000 lease liability.

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 credit losses, based on invoice date, at the end of the reporting period is as follows:

Age	**June 30 2019 US$'000**	December 31 2018 US$'000
0 to 60 days	**1,141,082**	680,424
61 to 120 days	**140,661**	346,055
121 days or above	**36,809**	62,684
Total trade receivables	**1,318,552**	1,089,163
Other receivables	**55,060**	37,635
	1,373,612	1,126,798

All the Group's bills receivable at June 30, 2019 are aged within 120 days.

11. Trade receivables from associates

The trade receivables from associates are aged 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 2019 US$'000**	December 31 2018 US$'000
0 to 60 days	**794,959**	822,557
61 to 120 days	**203,121**	248,261
121 days or above	**11,659**	15,006
Total trade payables	**1,009,739**	1,085,824
Other payables	**875,196**	835,628
	1,884,935	1,921,452

All the Group's bills payable at June 30, 2019 are aged within 120 days.

13. Unsecured borrowings

During the period, the Group obtained new bank borrowings of US$1,552 million (2018: US$1,141 million) which mainly carry interest at the London Interbank Offered Rate. The Group also repaid bank borrowings of US$924 million (2018: US$1,212 million).

14. Share capital

	Number of shares		Share capital	
	June 30 2019	December 31 2018	**June 30 2019 US$'000**	December 31 2018 US$'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	**1,828,521,941**	1,835,021,941	**654,991**	653,918
Issue of shares upon exercise of share options	**1,855,000**	600,000	**4,554**	1,073
Buy-back of shares	**(2,350,000)**	(7,100,000)	**-**	-
At the end of the period	**1,828,026,941**	1,828,521,941	**659,545**	654,991

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
January 2019	**2,350,000**	**43.00**	**40.45**	**12,644**

The consideration paid on the buy-back of the shares of approximately US$12,644,000 was charged to retained profits.

15. Contingent liabilities

	June 30 2019 US$'000	December 31 2018 US$'000
Guarantees given to banks in respect of credit facilities utilized by associates	**8,877**	8,877

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.

- 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, 2019	December 31, 2018		
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$$9,441,000**	Acquisition right of certain property, plant and equipment: US$9,441,000	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$28,202,000; and Liabilities – US$1,046,000**	Assets – US$33,788,000; and Liabilities – US$712,000	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 financial assets at FVTPL in the consolidated statement of financial position	**Listed shares: US$25,762,000**	Listed shares: US$32,828,000	Level 1	Quoted bid prices in an active market.
4) Other financial assets classified as financial assets at FVTPL in the consolidated statement of financial position	**Club membership debentures: US$2,317,000**	Club membership debentures: US$2,316,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
	Unlisted equity securities: US$3,301,000	Unlisted equity securities: US$3,000,000	Level 3	The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in private market.
	Other: US$45,000	Other: US$45,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.

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 2019 US$'000	December 31 2018 US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**33,801**	119,350