Techtronic Industries

ANNUAL REPORT 2022

POWERSTATE BRUSHLESS MOTOR

The combination of M12 REDLITHIUM Batteries and REDLINK PLUS Intelligence hardware and software, delivers the power to remove spot welds with best-in-class removal rates

M12 FUEL BANDFILE

The MILWAUKEE M12 FUEL Bandfile is the first cordless bandfile to deliver pneumatic performance, compact size and features for the professional automotive, industrial and metalworking user. Harnessing the power of M12 FUEL technology, the M12 FUEL Bandfile delivers a best-in-class material removal rate and is resistant to belt slip, offering pneumatic performance without the hassle of hoses, cords and routine tool maintenance.

Contents

Company Profile

Techtronic Industries Company Limited (the "Company", the "Group" or "TTI") is a fast-growing world leader in Power Tools, Accessories, Hand Tools, Outdoor Power Equipment, and Floorcare & Cleaning for Do-It-Yourself (DIY)/Consumer, professional and industrial users in the home improvement, repair, maintenance, construction and infrastructure industries. The Company is committed to accelerating the transformation of these industries through superior environmentally friendly cordless technology. The TTI brands like MILWAUKEE, RYOBI and HOOVER are recognized worldwide for their deep heritage and cordless product platforms of superior quality, outstanding performance, safety, productivity and compelling innovation.

Founded in 1985 and listed on the Stock Exchange of Hong Kong ("SEHK") in 1990, TTI is included in the Hang Seng Index as one of their constituent stocks. The Company maintains a powerful brand portfolio, global manufacturing and product development footprint, healthy financial position with record 2022 worldwide sales of US$13.3 billion and over 44,000 employees.

Financial Highlights

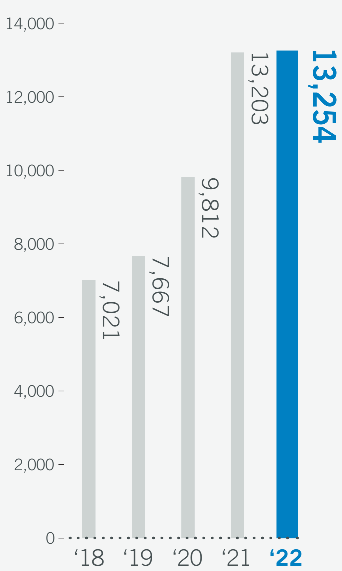
	2022 US$' million	2021 US$' million	Changes
Revenue	**13,254**	13,203	+0.4%
Gross profit margin	**39.3%**	38.8%	+54 bps
EBIT	**1,201**	1,192	+0.8%
Profit attributable to Owners of the Company	**1,077**	1,099	(2.0%)
Basic earnings per share (US cents)	**58.86**	60.04	(2.0%)
Dividend per share (approx. US cents)	**23.81**	23.81	—

Revenue

US$13,254 million

Delivered 2.8% local currency sales growth in 2022

US$m

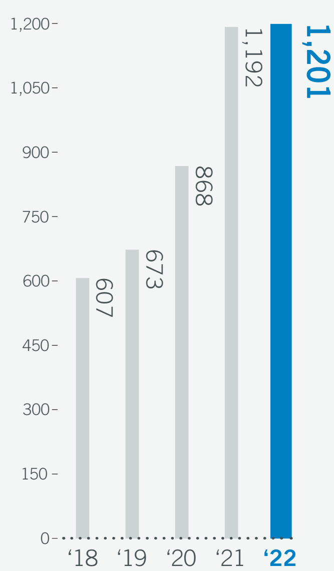


EBIT

US$1,201 million

Increased 0.8% to US$1.2 billion with margin up slightly to 9.1%

US$m

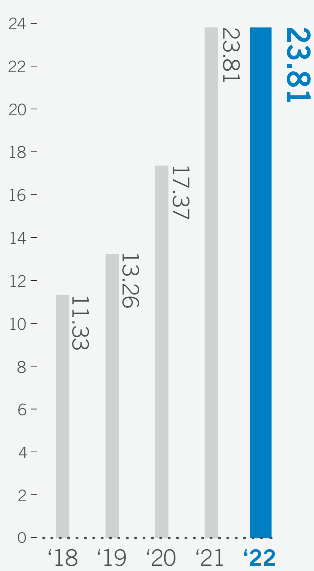


Dividend per share

US23.81 cents

The Board is recommending a final dividend of US11.58 cents which result in a full-year dividend of US23.81 cents

US cents

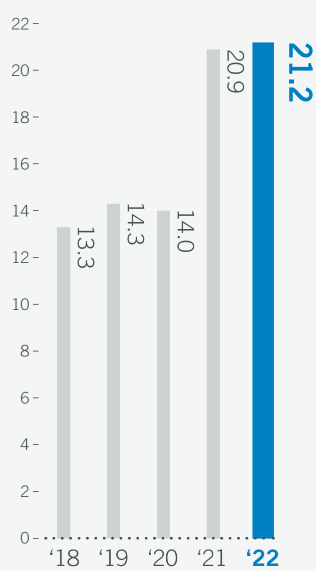


Working capital as % of sales

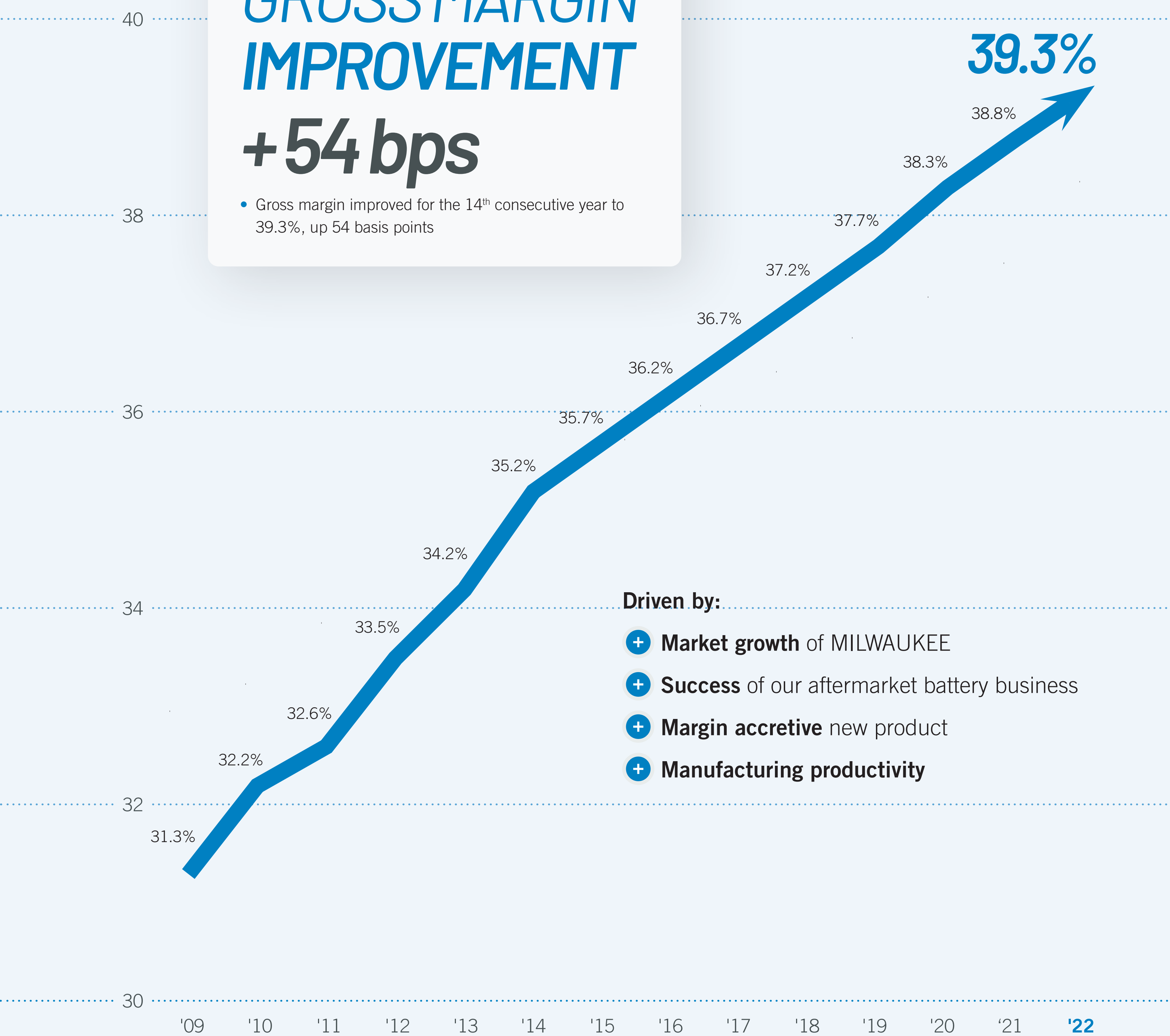
21.2%

Working capital to sales finished the year at 21.2% compared to 20.9% a year ago

%



Gross Profit Margin
%



For the year ended December 31, 2022

14TH CONSECUTIVE YEAR OF

GROSS MARGIN IMPROVEMENT

+54 bps

- Gross margin improved for the 14th consecutive year to 39.3%, up 54 basis points

Driven by:

- **Market growth** of MILWAUKEE
- **Success** of our aftermarket battery business
- **Margin accretive** new product
- **Manufacturing productivity**

Chairman's Statement

TTI demonstrated the resilience of its business model in 2022 in a more challenging operating environment. After nearly doubling the revenue base from 2018 to 2021, we delivered 2.8% local currency sales growth in 2022 due to the extraordinary growth of the MILWAUKEE business.

Dramatic share gains driven by our cordless market leadership, superior new product innovation, geographic expansion, and our in-field marketing initiatives propelled our industry leading performance.

Our Power Equipment business, representing 93.0% of total sales, grew 5.5% in local currency. MILWAUKEE grew 21.8% in local currency, offsetting declines in our consumer and floorcare businesses. In our Power Equipment business, we generated low double-digit organic growth in Europe and ROW along with positive growth in our core North American business.

Gross margin improved for the 14th consecutive year, from 38.8% in 2021 to 39.3% in 2022. Mix improvement was primarily driven by the above market growth of MILWAUKEE, the success of our aftermarket battery business, margin accretive new product and manufacturing productivity. This more than compensated for margin pressure in Consumer as TTI reduced production to lower inventory levels.

TTI continued to execute on operational excellence. For the entirety of the 2020 to 2022 time period, we maintained unparalleled customer fill rates despite widespread disruption throughout global supply chains. We have successfully diversified our manufacturing footprint into Vietnam, Mexico and the US, while maintaining our world-class facility in China. Our updated manufacturing footprint improves efficiencies, accelerates speed-to-market and maximizes flexibility.

With a strong increase in free cash flow and healthy balance sheet, TTI is well positioned to further expand our global cordless leadership position in the years to come.

In 2022, we strengthened our leadership position in clean technology, environmental preservation, corporate accountability, and social responsibility. Significant progress was made in developing cordless products with zero emissions and noise pollution, while reducing the carbon footprint of our manufacturing processes. We also worked diligently towards reducing our absolute Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions by 60% by 2030. This past year, we saw a 4% improvement in our emission intensity which resulted in a total reduction of 6,000 tonnes of CO_2e emissions.

Financial Performance

TTI EBIT increased 0.8% to US$1.2 billion with margin up slightly to 9.1%. Net Profit declined 2.0% to US$1.1 billion due to higher interest expense. Earnings per share declined 2.0% to US58.86 cents.

We generated free cash flow of US$329 million, with a tremendous improvement in the second half. Working capital to sales finished the year at 21.2% compared to 20.9% a year ago. Importantly, days of finished goods inventory declined 3 days to 113 days at year end. Capital spending was reduced to US$581 million, coming off high investment levels in 2021.

The Board is recommending a final dividend of HK90.00 cents (approximately US11.58 cents) per share. Together, with the interim dividend of HK95.00 cents (approximately US12.23 cents) per share, this will result in a full-year dividend of HK185.00 cents (approximately US23.81 cents) per share, same as last year.

Outlook

TTI is well positioned to outperform the market in 2023. We have not only right-sized our SG&A cost base, but also streamlined our fixed overhead position and prudently managed our production levels while developing a stream of innovative new products. We remain highly confident in our ability to continue driving gross margin improvement through the introduction of margin accretive new products and manufacturing productivity. With a strong increase in free cash flow and healthy balance sheet, TTI is well positioned to further expand our global cordless leadership position in the years to come.

Horst Julius Pudwill
Chairman
March 1, 2023

Chief Executive Officer's Message

2022 was another successful year for TTI. We grew +2.8% in local currency to US$13.3 billion in sales, which is in addition to our exceptional +28% sales growth in 2020 and +35% growth in 2021. Gross Margin improved for the 14th consecutive year to 39.3% and EBIT also improved to US$1.2 billion.

Free Cash Flow was another highlight, finishing the year with US$329 million of positive cash generation. More importantly, we are well positioned to continue delivering strong financial performance and free cash flow in the years ahead.

It is our mission to convert users from products using legacy power sources like petrol, corded, manual, hydraulic, and pneumatic to our cordless solutions in the power tool, light equipment, outdoor products, and cleaning categories. Our technologically advanced cordless products command a premium in the market, especially within our MILWAUKEE business, which drives our continued gross margin improvement. In addition, the growth of our aftermarket battery business to US$1.3 billion in sales revenue in 2022, is another major driver of our gross margin accretion.

Powerful Brands

In 2022, our Flagship MILWAUKEE business delivered +22% growth in local currency. This is the 9th consecutive year with local currency growth over 20%, making MILWAUKEE the number one and fastest-growing global brand in the professional cordless power tool market. Beyond cordless, MILWAUKEE is also well known for innovation in power tool accessories, PACKOUT storage solutions, hand tools, and Personal Protective Equipment. One example of breakthrough innovation in 2022 included the launch of our MILWAUKEE BOLT compatible helmets and hard hats. These helmets provide greater protection from falling objects with customizable accessories that allows users to choose compatible face, ear, and eye protection, as well as other features that work together on the helmet.

The winning, high performance, high speed, transparent TTI culture we have inculcated throughout the company is a powerful driver of our results.

RYOBI also continued to strengthen its leadership position in 2022 as the number one DIY tool and battery-powered outdoor brand worldwide. We are very excited about the strength of the new product pipeline within the RYOBI 18V ONE+, RYOBI 40V, RYOBI USB Lithium, and RYOBI 80V cordless platforms.

Geographic Expansion Success

Across the globe, our world-class international teams delivered excellent results in 2022. I could not be more proud of our continued success in Europe, where we have grown from a very small presence to a position of commanding cordless leadership. We also continued to make strong advancements across the Asian theater, led by our MILWAUKEE MX FUEL Light Equipment System rollout in Japan. Additionally, our results in Canada, Mexico, Australia, and New Zealand all significantly outperformed their respective markets.

Advanced Research and Development

TTI's success as a company is reliant on the introduction of high quality, margin accretive new products and our drive for advancing cordless technology only continues to intensify. We are a leader in recruiting highly sought-after software, electrical, and other technical engineers to accelerate the pace of our technological advancements. In 2022, we added another 879 engineers into our distinguished research and development system. Breakthrough products like the 4th Generation MILWAUKEE M18 FUEL Drill Driver launched in 2022 would not have been possible without the contributions of this advanced talent.

Not only are these 4th Generation tools more powerful, faster, quieter, cooler, lighter, more compact, equipped with electronics to charge faster and extend battery life cycle, but they are also the first in the industry to utilize Machine Learning. The advanced electronics within the tool leverage a combination of real-life and machine data points to allow the tool to react to situations where it needs to shut down the tool's motor to prevent over-rotation and potential injuries to users. The future of this Machine Learning technology within the cordless power tool, light equipment, battery-powered outdoor, and cleaning categories is very exciting.

Sustainability

Responsible sustainability practices are embedded deep into our culture at TTI but are especially engrained in our product development processes. The selection of environmentally-friendly raw materials, responsibly mined natural elements, and vendors with impeccable safety standards are all required. Even more importantly, we believe we are leading the industry in cleantech cordless products that lower the end user's carbon emission output, noise pollution, and improve the end user's safety.

World Class Global Supply Chain

The bold investments we have made to enhance our manufacturing and distribution capabilities have increased the agility of the company, accelerating our speed to market while maximizing operational flexibility. We have now expanded beyond our world-class manufacturing center in China, into Vietnam, Mexico and the United States. I am especially excited about the opening of our new, state-of-the-art, hand tool factory in West Bend, Wisconsin. This factory will set a new standard for hand tool manufacturing with proprietary automation that improves safety and operational efficiencies.

Exceptional People

Since its beginning over 15 years ago, the TTI Leadership Development Program has supported our growth by creating a pipeline of future leaders across the engineering, sales, marketing, purchasing, supply chain, manufacturing, and finance disciplines. In 2022, we continued to infuse the program with 1,830 high potential graduates from top universities worldwide. These graduates bolster our high-performance culture and continue to develop into leadership roles of increasing responsibility over time. Since joining the program off the college campus, we now have 1 LDP graduate in a Business Unit President position, 36 Vice Presidents, 63 Directors, and over 1,000 in Manager level positions. We are committed to developing even more LDPs into meaningful leadership roles throughout the organization in 2023 and beyond.

We also have the deepest senior management team in the industry, with many executives in place for over a decade. I am thankful for the commitment and dedication of our highly talented team and believe this is a powerful competitive advantage that powers our continued growth.

Breakthrough Leadership

The winning, high performance, high speed, transparent TTI culture we have inculcated throughout the company is a powerful driver of our results. We launched the "Breakthrough Leadership" management training initiative in 2019 to catalyze and perpetuate our TTI culture and to develop strong leadership and strategic skills throughout the company. Each year, top worldwide leaders meet for an intensive session on company objectives and strategies, organizational development, culture building, and leadership. These powerful sessions result in many new relationships and new perspectives to help the team reach their full potential. Additionally, the attendees leave the sessions energized to pursue breakthrough changes and intensify our culture throughout their organization.

A Vision for Cordless Leadership

While we were encouraged with our performance throughout a challenging 2022, we are especially excited about the plans we have in place for the next five years. It is through our bold strategic direction, operational excellence, exceptional team, and TTI culture that we have consistently delivered on our goals of outgrowing the market, driving gross margin improvement, growing EBIT faster than sales, and delivering strong cash flow. The recent investments we've made in new product development, manufacturing, logistics, geographic expansion, and in-field marketing initiatives have created a strong foundation for our continued growth. We are well positioned to continue to extend our global cordless leadership while delivering strong financial performance.

I feel incredibly fortunate for the partnership and support of our Chairman, Horst Pudwill, and Vice-Chairman, Stephan Pudwill. I'd like to thank them for their tremendous leadership in 2022 and look forward to the years of partnership ahead. Together, we share a vision for building and growing a great company.

Joseph Galli Jr
Chief Executive Officer
March 1, 2023

Powerful Brands

- Flagship MILWAUKEE business delivered +22% growth in local currency
- MILWAUKEE's 9th consecutive year with local currency growth over 20%
- RYOBI also continued to strengthen its leadership position in 2022 as the number one DIY tool and battery-powered outdoor brand worldwide

Geographic Expansion Success

- Across the globe, our world-class international teams delivered excellent results in 2022
- We also continued to make strong advancements across the Asian theater, led by our MILWAUKEE MX FUEL Light Equipment System rollout in Japan
- Our results in Canada, Mexico, Australia, and New Zealand all significantly outperformed their respective markets

Advanced Research and Development

- TTI's success as a company is reliant on the introduction of high quality, margin accretive new products and our drive for advancing cordless technology
- In 2022, we added another 879 engineers into our distinguished research and development system
- Launched 4th Generation of MILWAUKEE breakthrough products that are more powerful, faster, quieter, cooler, lighter, more compact, equipped with electronics to charge faster and extend battery life cycle, but they are also the first in the industry to utilize Machine Learning

Sustainability

- Responsible sustainability practices are embedded deep into our culture at TTI
- We believe we are leading the industry in cleantech cordless products that lower the end user's carbon emission output, noise pollution, and improve the end user's safety

World Class Global Supply Chain

- The bold investments we have made to enhance our manufacturing and distribution capabilities have increased the agility of the company, accelerating our speed to market while maximizing operational flexibility
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STRATEGIC DRIVERS

TTI is a global strategy-based organization. We have been diligent in researching and refining the key concepts for ongoing sustainability and growth. Early on, leadership identified four strategic areas that would drive our success: **Powerful Brands, Innovative Products, Exceptional People** and **Operational Excellence.**

The synergy in our four strategic drivers creates a culture of disruptive innovation and execution resulting in world-class, powerful brands. This dynamic structure of interconnectivity not only maximizes growth and improvement in every area of our company; but also, delivers the innovative, high-quality driven products needed by consumers and professionals around the world.

Milwaukee®

TRADE VERTICAL INNOVATION:

DIVERSIFIED & DISRUPTIVE

It all starts with the user. We don't make assumptions. Instead, we set out to deliver disruptive innovation by getting out on the jobsite, alongside trade professionals, to understand their challenges – the frustrations, the needs, and previous limitations. We set out to completely rethink a solution with new-to-world technology and unparalleled levels of design and engineering. Whether it's bringing cordless power to traditionally corded or gas products and manual activities, or advances to fundamental tools and equipment, MILWAUKEE's focus is on working directly with users to help improve their productivity and safety.


Electrician
Plumbing
Mechanical
HVACR
Remodeler
Power Utility
General Contractor
AUTOMOTIVE • DIESEL • TIRE
Transportation Maintenance
AVIATION • MARINE • MASS TRANSIT
MRO
Landscape Maintenance
Residential Construction

M12

PORTABLE PRODUCTIVITY
TRADE FOCUSED
SYSTEM WIDE

148+ TOOLS

MILWAUKEE continues to lead the subcompact category with innovative solutions that deliver portable productivity and performance. In 2022, we set a new standard within the subcompact drilling and driving class with the introduction of the new M12 FUEL 1/2” Hammer Drill/Driver and M12 FUEL 1/4” Hex Impact Driver. The M12 FUEL 1/2” Hammer Drill/Driver is the industry’s most powerful subcompact hammer drill while the M12 FUEL 1/4” Hex Impact Driver is the industry’s fastest subcompact impact driver. Each of these breakthrough products are also the most compact solutions in their respective categories.

Cordless Platforms

They last longer, think faster and work harder than all other professional lithium-ion batteries. Built to withstand even the harshest environments, REDLITHIUM batteries deliver more work over the life of the battery, no matter what the job.

Technology

Highly advanced motor technology boosts efficiency, generating more power from a compact power source. That means the ultimate performance, durability and run-time comes in a smaller, lighter package. An advanced combination of hardware and software, REDLINK Intelligence enables full-circle communication between our batteries and tools, allowing for unmatched levels of performance, protection and productivity.




NEW PRODUCTS


M12 FUEL
1/2" Hammer Drill/Driver


M12 FUEL
1/4" Hex Impact Driver


M12 FUEL
3/8" X 13" Bandfile


M12 FUEL
3/8" Extended Reach High Speed Ratchet


M12 REDLITHIUM
HIGH OUTPUT CP2.5
Battery Pack

M12 REDLITHIUM
HIGH OUTPUT XC5.0
Battery Pack


M12 FUEL
16 Gauge Variable Speed Nibbler


M12 FUEL
Orbital Detail Sander

Evolving alongside constantly changing jobsite needs, MILWAUKEE delivered the next generation of high-performance drilling and driving solutions with the introduction of the new M18 FUEL 1/2” Hammer Drill and M18 FUEL 1/4” Hex Impact Driver. The new M18 FUEL 1/2” Hammer Drill and M18 FUEL 1/4” Hex Impact Driver are the most powerful solutions on the market, delivering the fastest driving speeds with enhanced safety features. Additionally, 2022 brought the introduction of important charging and power supply solutions to the M18 platform with the new M18 PACKOUT Six Bay Rapid Charger and M18 CARRY-ON 3600W/1800W Power Supply.

M18™

PERFORMANCE DRIVEN
TRADE FOCUSED
SYSTEM WIDE

262+ TOOLS

Cordless Platforms

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NEW PRODUCTS

M18 FUEL
1/2” Hammer Drill/Driver

M18 FUEL
1/4” Hex Impact Driver

M18 FUEL
3” x 18” Belt Sander

M18 CARRY-ON
3600W/1800W Power Supply

M18
200' Mid-Stiff Pipeline Inspection System

M18 FUEL
Compact Pipe Threader w/ ONE-KEY

M18 FUEL
15 mm Random Orbital Polisher

M18 PACKOUT
Six Bay Rapid Charger

M18 REDLITHIUM XC5.0
Resistant Battery Pack

EQUIPMENT REDEFINED
TRADE FOCUSED
SYSTEM WIDE

With the launch of the MILWAUKEE MX FUEL Equipment System, we entered the multi-billion dollar light equipment space. Our continued focus on our end users and continued investment in MX FUEL has yielded 14 total solutions through the end of 2022, making the MX FUEL system the largest, highest performing light equipment battery system.

Cordless Platforms

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NEW PRODUCTS

MX FUEL
Pipe Threading Machine

MX FUEL
Core Rig w/ Stand

OUTDOOR POWER EQUIPMENT

MILWAUKEE continued to launch high-performance solutions for the landscape maintenance professional in 2022, expanding its Outdoor Power Equipment category. The new M18 FUEL 21" Self-Propelled Dual Battery Mower delivers more max torque than 200cc gas alternatives. The new M18 FUEL Dual Battery Blower provides the highest constant power by delivering a power output higher than all handheld gas blowers and maintaining that power level throughout the full charge of the battery. Both solutions are examples of industry-leading solutions MILWAUKEE is bringing to this rapidly expanding category.

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NEW PRODUCTS

M18 FUEL
21" Self-Propelled Dual Battery Mower

M18 FUEL
HATCHET 8" Pruning Saw

M18 FUEL
Dual Battery Blower

M12 FUEL
8" Hedge Trimmer

M12
1 Gallon Handheld Sprayer

M12
2 Gallon Handheld Sprayer

M18 FUEL QUIK-LOK
Rubber Broom Attachment

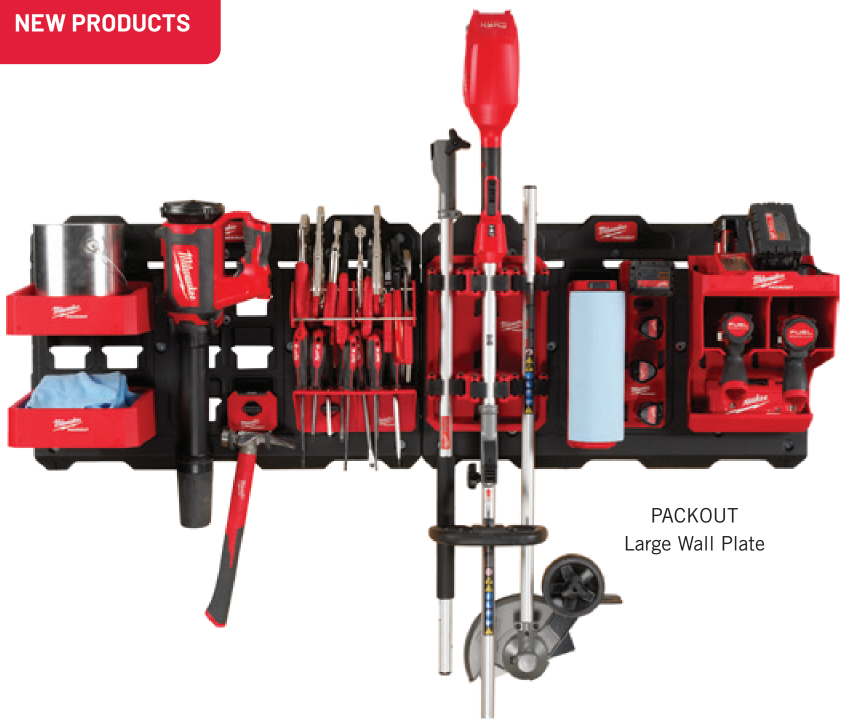
M18 FUEL QUIK-LOK
Bristle Brush Attachment

M18 FUEL QUIK-LOK
Brush Cutter Attachment

STORAGE

The PACKOUT Modular Storage System is the most versatile and durable modular storage system in the industry. Now with 70 fully interchangeable products, the MILWAUKEE PACKOUT Modular Storage System continues to expand to meet the professional's tool storage, transportation and organizational needs. This year, we added 20+ Shop Storage solutions, bringing the versatility of PACKOUT into the shop so users can fully customize their storage with wall plates, hooks, tool racks, tool holders and a cabinet that connects with all PACKOUT solutions.

NEW PRODUCTS



PACKOUT
Large Wall Plate

PACKOUT
Cabinet

PACKOUT Tool Station

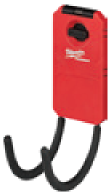
PACKOUT
Long Handle Tool Rack

PACKOUT M18
Battery Rack

PACKOUT M12
Battery Rack

PACKOUT
Compact Shelf

PACKOUT 9"
Straight Hook



PACKOUT 6"
Curved Hook

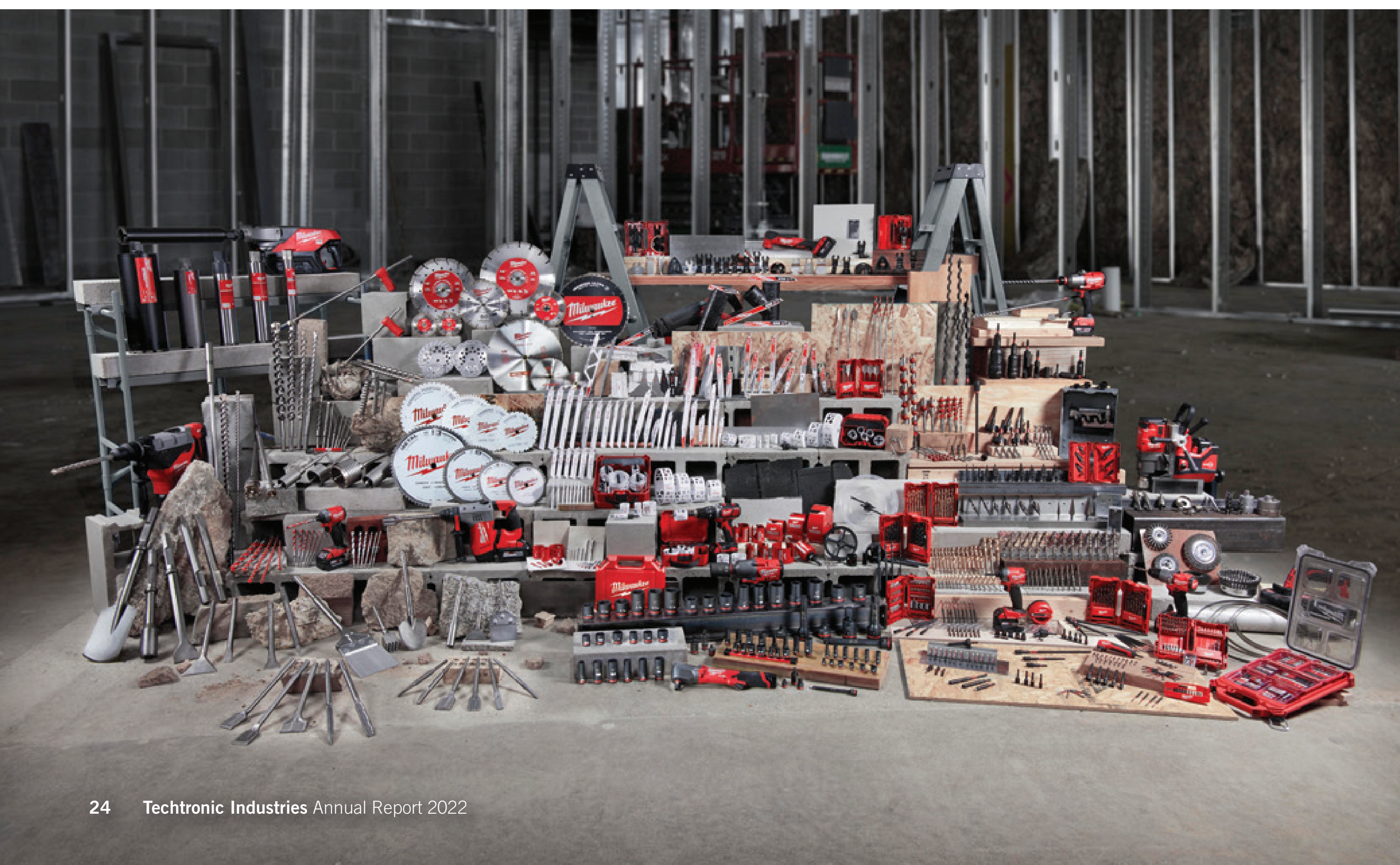
POWER TOOL ACCESSORIES

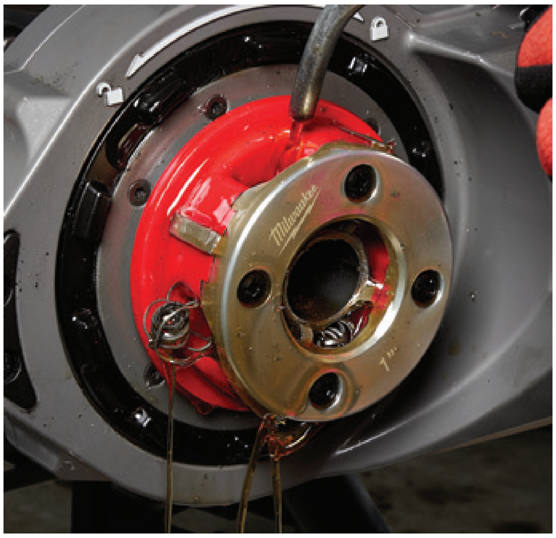
MILWAUKEE is committed to providing professional users with a broad range of accessory solutions that save time and increase productivity on the jobsite. All of our accessory solutions are engineered to deliver maximum life, durability and efficiency. We continue to lead in multiple product segments through our investment in new technologies, best-in-class manufacturing capabilities and efficient consumable accessories, which deliver world class run-time to MILWAUKEE's broad range of cordless tools.

As a result of our leadership position in carbide technology, we delivered ground-breaking innovation in the SAWZALL blades category. In 2022, we introduced THE WRECKER with NITRUS CARBIDE SAWZALL Blade, which is the longest-lasting, fastest cutting and most versatile blade for demolition jobs.

Our focus on the plumbing, mechanical and electrical contractor continued in 2022 with the introduction of new Portable Pipe Threading Accessories. As part of this launch, MILWAUKEE delivered the industry's lightest portable pipe threading die heads and replacement portable pipe dies.

2022 was an important year for our drilling & driving accessories segment. For the first time, MILWAUKEE introduced 42 new drilling & driving accessory storage solutions that are optimized for use with the MILWAUKEE PACKOUT Modular Storage System. This new capability will allow users to integrate their drilling & driving accessory cases inside their PACKOUT storage devices for better organization and convenience.





NEW PRODUCTS

NITRUS CARBIDE
SAWZALL Blades

1/2" – 2" High Speed NPT
Forged Aluminum Die Head
PACKOUT Kit

36 Pc SHOCKWAVE IMPACT DUTY
3/8" Drive Metric & SAE 6 Point Deep
Socket Set w/ PACKOUT

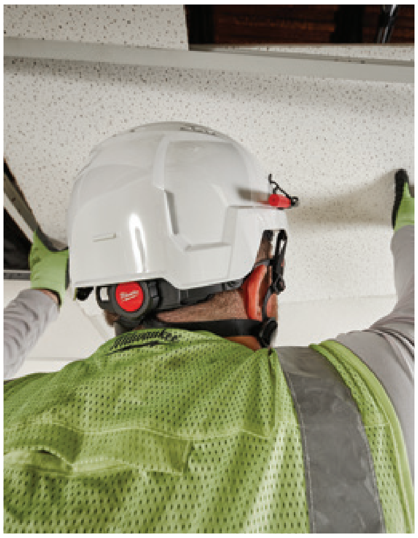
80 Pc SHOCKWAVE IMPACT DUTY
Driver Bit Set

Milwaukee®

SAFETY

MILWAUKEE is committed to keeping professionals safe on the jobsite with the launch of the BOLT hard hat and helmet system – the first system that allows users to secure accessories to their MILWAUKEE head protection simultaneously for a complete head protection solution. Eye Visors, Polycarbonate Face Shields, Metal Mesh Face Shields, Sunshade and a specifically designed BOLT REDLITHIUM USB headlamp all joined the BOLT system in 2022.

With 900+ solutions across multiple categories – hard hats/helmets, eye protection, hearing protection, high visibility vests, respirators, work gloves – MILWAUKEE is continuing to improve safety and productivity on the jobsite through a deep understanding of user needs.



NEW PRODUCTS

BOLT Accessories

RYOBI

SETTING THE BAR HIGH

AS THE #1 DIY TOOL BRAND

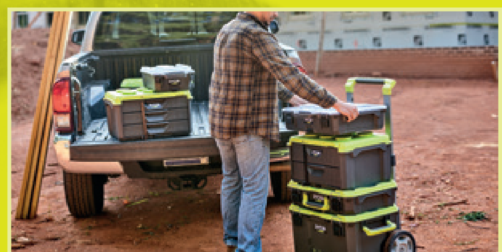
RYOBI continues to innovate and lead the way as the #1 DIY Tool Brand on the planet. The breadth of line, cordless convenience, and value of products, all compatible with a battery interface that has remained consistent since 1996, makes the RYOBI 18V ONE+ Cordless System the platform of choice for users from DIYers to professionals. For tackling more demanding yardwork, the RYOBI 40V system provides gas performance with cordless convenience. The RYOBI 80V system, introduced in 2022, features the most powerful products to date from RYOBI, allowing users to eliminate gas and operate Zero Turn Riding Mowers, Lawn Tractors and more on clean, quiet, zero emission battery power.

RYOBI 18V ONE+ HP & 40V HP Brushless tools utilize advanced technologies and superior ergonomics to deliver high performance tools and a premium user experience like never before. RYOBI WHISPER SERIES products, its quietest range of products, enables users to utilize high performing products that are engineered to be quieter by design. The RYOBI LINK Modular Storage system continues to grow and enables users to easily organize, access, and transport their lives with a wide variety of customizable wall and mobile storage solutions. Rounding out the RYOBI family is the USB LITHIUM cordless platform, now offering over ten compact and portable tools that are rechargeable via a USB-C port in the included battery.

LIGHT DIY

HEAVY DIY/REMODEL

HOBBY/CRAFT & MAKER



STORAGE & ORGANIZATION

LAWN & GARDEN

TRANSPORTATION MAINTENANCE

LIFESTYLE & RECREATION

CLEANING

The RYOBI 18V ONE+ System features over 280 innovative product solutions, giving users the ultimate versatility and selection to get the job done. With cordless lithium technology, RYOBI powers through almost anything. From drilling, cutting, fastening, and cleaning, to lighting, plumbing, trimming, mowing, and clearing, the ONE+ System gives users The Power To Do More.

Best of all, RYOBI stayed true to its same 18V battery platform giving its users peace of mind as they expand their collections. The newest products and batteries from RYOBI's 18V ONE+ System are compatible with the same RYOBI tools and batteries from 1996. So no matter our user's interest or skill level, whether they're on the jobsite or at home, there's a ONE+ product for everyone.

OVER 280 18V ONE+ PRODUCTS

18V ONE+ HP

RYOBI 18V ONE+ HP tools feature premium brushless motors, advanced electronics, and high performance lithium batteries to deliver a best-in-class user experience. These high performance tools utilize advanced technology to deliver more power, runtime, durability, and speed. 18V ONE+ HP tools are designed with superior ergonomics without sacrificing performance.

NEW PRODUCTS

18V ONE+ HP Brushless
Dedicated Stick Edger

18V ONE+ HP Brushless
AIRSTRIKE 21° Framing Nailer

18V ONE+
VERSE Clamp Speaker

18V ONE+ HP Compact
Brushless 4-Mode 1/2"
Impact Wrench

18V ONE+
6-Port Fast Charger

18V ONE+
1800 Watt Power Station

18V ONE+ LINK
3 Gallon Wet/Dry Vacuum

RYOBI®

40V

OVER 85 40V PRODUCTS

The RYOBI 40V System puts the power in your hands to tackle any job with gas performance and cordless convenience. With over 85 innovative products and counting, each is engineered to deliver superior performance and fade-free runtime. With battery pack sizes ranging from the compact and lightweight 2Ah to the high performing 12Ah, RYOBI's 40V Cordless System provides the power, freedom, and versatility users desire for their lawn and garden needs.

40V HP

RYOBI 40V HP tools combine premium brushless motors, advanced electronics, and high performance lithium batteries to deliver gas power and superior runtime all while maintaining compatibility with the full 40V family of products.

NEW PRODUCTS

40V HP Brushless WHISPER SERIES
2000 PSI 1.2 GPM Pressure Washer

40V HP Brushless
Jet Fan Blower/Vacuum

40V HP Brushless
20” Chainsaw

40V WHISPER SERIES
14” Air Cannon

40V HP Brushless
8” Stick Edger

RYOBI

Lawn Mowers

18V ONE+

40V

80V

This year, RYOBI is excited to expand its lawn mower offerings in both the 40V HP and 80V HP families. The new RYOBI 80V HP Brushless 30” Walk-Behind Lawn Mower is RYOBI’s largest walk-behind lawn mower to date, allowing users to cut up to 1 acre on a single battery charge. Joining the RYOBI 80V HP Lithium Zero Turn Riding Mowers are two all new 80V HP Lithium Riding Lawn Tractors. The most versatile tractors on the market, the 42” and 46” models are proudly assembled in Anderson, South Carolina, and will expand the 80V platform to even more users. With the engines providing power equivalence up to 23 horsepower and cutting up to 2.5 acres on a single charge, these new Lithium Riding Lawn Tractors will provide cordless options to an entirely new segment of customers.

These new 80V HP mowers join the RYOBI lineup of 18V and 40V walk behind mowers to provide a range of options that meet every user’s needs with cordless convenience.

WHISPER SERIES

RYOBI is well positioned to lead the transition from gas to battery-powered outdoor power equipment and extend our leadership position in noise reduction with an expanded lineup of RYOBI WHISPER SERIES products. These products are focused on addressing the growing number of regions and areas introducing restrictions on the usage of gas-powered outdoor equipment that emit harmful carbon emissions and generate unacceptable levels of noise. RYOBI WHISPER SERIES products are more powerful and engineered to be quieter by design.

NEW PRODUCTS

80V HP Brushless WHISPER SERIES 30"
Cross Cut Self-Propelled Lawn Mower

40V HP Brushless 20"
Multi-Blade Lawn Mower

40V 18" Side
Discharge Mower

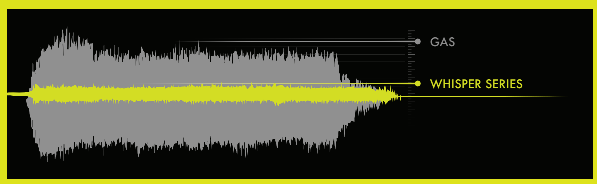
80V HP Brushless 42"
Lithium Electric Riding
Lawn Tractor

80V HP Brushless 46"
Lithium Electric Riding
Lawn Tractor

RYOBI WHISPER SERIES products are RYOBI's quietest range of products. These products are engineered with noise reducing technology to be quieter by design. These products provide best-in-class performance and remarkable power while operating up to 85% quieter than comparable gas products.

In 2022, RYOBI expanded the WHISPER SERIES family by 12 products and will continue to add more solutions in 2023. RYOBI's WHISPER SERIES product line gives users maximum performance with quieter design.

RYOBI WHISPER SERIES advantage vs Gas Products: A difference you can hear.



NEW PRODUCTS

18V ONE+ HP Brushless WHISPER SERIES 12" Chainsaw

40V HP Brushless WHISPER SERIES 16" Front Tine Tiller

40V HP Brushless WHISPER SERIES 26" Hedge Trimmer

18V ONE+ HP Brushless WHISPER SERIES 20" Lawn Mower

The RYOBI LINK Modular Storage System enables users to organize, access, and transport their lives with a wide variety of wall and mobile solutions that provide limitless customization. LINK is providing users with new ways to organize the home, jobsite, and everywhere in between. LINK Modular Storage solutions give users the versatility and durability they need from modular storage, while providing unparalleled levels of customization.

With brand new mobile and wall rail solutions released in 2022, the product line will expand further in 2023. The LINK modular storage system will only continue to grow as it expands to over 30 compatible organization solutions.

ORGANIZE. ACCESS. TRANSPORT.

Allowing users to Organize, Access, and Transport their lives, the RYOBI LINK Modular Storage System seamlessly connects wall and mobile storage needs. LINK creates an endlessly customizable storage solution for all users from homeowners to professionals, allowing them to own their space.

NEW PRODUCTS

LINK Wall Small Parts
Organizer

LINK 2-Drawer
Tool Box

LINK ONE+
Battery Shelf

LINK Rolling Base

RYOBI's newest cordless system, USB LITHIUM powers a line of handheld portable solutions meant to replace tools typically powered by disposable alkaline batteries. USB LITHIUM Batteries are easily rechargeable with any USB-C cable.

The system began with a Rotary Tool, Power Cutter, Power Carver, and Cordless Screwdriver, and expanded to over 10 solutions including categories such as lighting, air movement, and hobby, craft & maker products. RYOBI is excited to continue growth in this new lineup, with USB LITHIUM providing compact, portable, rechargeable solutions for cordless power and productivity.

NEW PRODUCTS

USB LITHIUM Compact
LED Flashlight

USB LITHIUM
Clamp Fan

USB LITHIUM
High Pressure Inflator

USB LITHIUM
LED Flip Light

USB LITHIUM
Glue Pen

RYOBI

Cordless Cleaning

18V ONE+

40V

RYOBI offers a wide variety of cordless cleaning solutions on both the 18V and 40V lines to allow users to power through the mess without breaking a sweat. These products range from stick vacs, hand vacs, wet/dry vacs, scrubbers, sprayers, and spot cleaners that deliver powerful performance with cordless convenience. With nine newly released products in 2022, the cleaning category will further expand in 2023 with innovative solutions and high-quality accessories for cleaning around the job site, workshop, home, and wherever life takes you.

Cleaning Unplugged

Make chores easier with RYOBI cordless cleaning products. Easy-to-use and ergonomic, RYOBI has all users cleaning needs covered from vacuums to scrubbers, power cleaners and more. Power through the mess without breaking a sweat.

NEW PRODUCTS

18V ONE+ HP Brushless
Jobsite Hand Vacuum

18V ONE+ Soap Dispensing
Telescoping Scrubber

18V ONE+ SWIFTCLEAN
Spot Cleaner

18V ONE+ HP Cordless
Pet Stick Vac with
Dual-Roller Bar

40V 10 Gallon
Wet/Dry Vacuum

18V ONE+ 1 Gallon
Wet/Dry Vacuum

The Heart of a Clean Home

As a leader in the industry, HOOVER continues to develop and deliver best-in-class technology and innovation in the cleaning space. The name HOOVER has become synonymous with cleaning. Every product HOOVER develops delivers a quality and meaningful user experience, targeting pain points and eliminating common problems like cords, excessive noise, long dry-times and hair wrap. HOOVER has a long history of being a trusted household name and continues to drive the industry forward.

HOOVER ONEPWR Cordless System Providing Premium Performance

HOOVER "cuts the cord" on vacuums for good with the ONEPWR battery system. This fully-compatible network of batteries and machines allows users to clean what they want, when they want – without sacrificing performance or runtime. The true benefit of the ONEPWR battery system is that every ONEPWR battery works with every HOOVER ONEPWR cordless product.

NEW PRODUCTS

HUSHTONE™
POWERFULLY QUIET

HOOVER recognizes that products used in the home often cause disruptions to everyday life. The HOOVER HUSHTONE technology reduces volume and improves sound quality without sacrificing run-time or performance. The advanced engineering efforts in electronics and noise suppression paired with a high-quality brushless motor, allows HOOVER HUSHTONE to clean without the interruption of excessive noise.

ONEPWR CLEANSLATE
Cordless Carpet Cleaner & Upholstery Spot Cleaner

ONEPWR
STREAMLINE
Cordless Hard Floor Cleaner

ONEPWR
EMERGE PET
Cordless Stick Vacuum

ONEPWR
EVOLVE PET ELITE
Cordless Vacuum

VAX continues to expand its portfolio of carpet cleaners, spot washers and cordless vacuums with the brand-new triggerless VAX PLATINUM SMARTWASH Pet-Design, the SPOTWASH HOME Pet-Design and the BLADE 5. Offering features such as motion-sense technology, dedicated tools and expert cleaning features, the products are designed to both rescue and revive, easily removing dirt, spills, stains – even pet mess – throughout both home and car, leaving carpets and upholstery looking and smelling fresh. With all cordless products powered by the interchangeable ONEPWR battery offering an impressive runtime of up to 90 minutes, antibacterial protection and additional cleaning tools, VAX's products can handle anything.

NEW PRODUCTS

PLATINUM SMARTWASH Pet-Design

Rapid Power 2 Reach

SPOTWASH HOME Pet-Design

BLADE 5 Pet and Car

Glide 2

ONEPWR SPOTWASH

Great Products, Great Value

DIRT DEVIL has a strong legacy in the cleaning space and is well known for its straightforward and easy-to-use products. By being laser focused on the user, we have unlocked a great opportunity to grow and expand the brand in the home cleaning space. DIRT DEVIL continuously commits to delivering high quality products that are easy to use.

NEW PRODUCTS

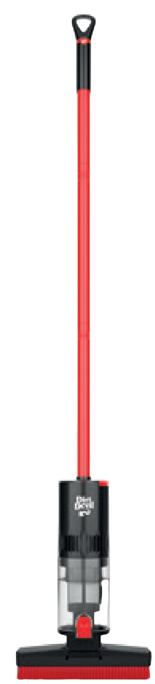
GRAB & GO
8V Cordless Hand Vacuum

Portable Carpet &
Upholstery Spot Cleaner

Desktop Air Purifier

Multi-Surface
Total Pet+
Upright Vacuum

Steam Mop
Hard Floor Cleaner



BroomVac

MILWAUKEE M18 FUEL 1/2" Drill/Driver

Power Equipment
Sales

US$12,329 m

93.0% of total sales

HOOVER ONEPWR EVOLVE PET ELITE Cordless Vacuum

Floorcare & Cleaning
Sales

US$925 m

7.0% of total sales

Review of Operations

Power Equipment

Our Power Equipment segment delivered local currency sales growth of 5.5%. Reported sales rose 3.1% to US$12.3 billion. We grew operating profit 6.6% to US$1.2 billion while making investments to extend our leadership position in the Professional and DIY Tool markets. Based on the wide international reach of our brands, MILWAUKEE is the #1 global Professional Tool brand, and RYOBI is the #1 DIY Tool brand worldwide. More importantly, both MILWAUKEE and RYOBI are the clear leaders in the cordless market, with a commanding and growing global position.

MILWAUKEE

In 2022, we grew our flagship MILWAUKEE business 21.8% in local currency with reported sales up 18.7%. Growth for the MILWAUKEE business was well balanced across cordless Power Tools, battery-powered Outdoor Power Equipment, Hand Tools, PACKOUT Storage, Accessories, and Personal Protective equipment (PPE). Growth was equally well balanced by geography with every major region of the world growing over 21.5% in local currency.

Power Tools

Our MILWAUKEE business continued to expand its addressable market with groundbreaking innovation propelled by aggressive R&D spending. This is enabling penetration of additional end market verticals that are still in the beginning stages of cordless conversion. Cordless tool solutions yield dramatic environmental, safety, and productivity benefits for the end user. Many of our fastest growing verticals are concentrated in areas of infrastructure, maintenance and repair, and industrial capital spending. These include power utility, transportation maintenance, semiconductor production, electric vehicles, mining, and oil and gas.

MILWAUKEE continues to convert users from traditional power sources including corded, pneumatic, hydraulic and petrol tools to our lithium cordless battery technology. We continue to differentiate ourselves with the breadth of cordless offerings targeted at a growing number of industry-specific trades. Leading the way is the MILWAUKEE M18 system with 262 tools on the platform, the M12 system with 148 tools and the rapidly expanding MX FUEL equipment system with over 20 products by the end of 2023.

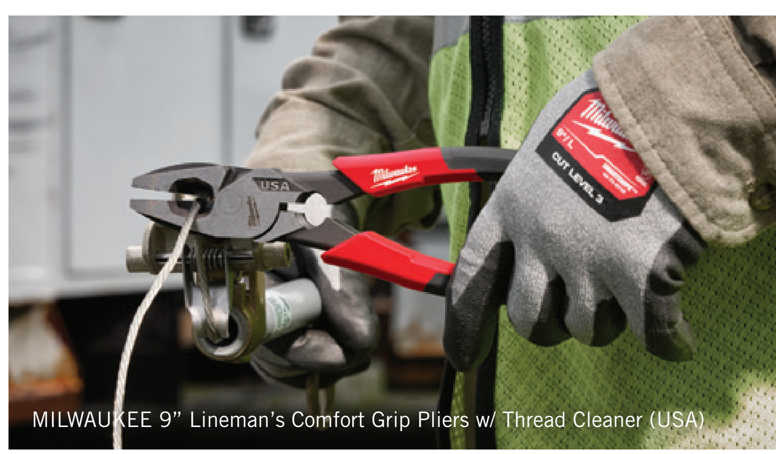

MILWAUKEE M18 FUEL 21" Self-Propelled Dual Battery Mower

Outdoor Products

MILWAUKEE has identified an enormous opportunity to convert professional landscapers from petrol to battery to promote greater environmental safety, noise reduction, productivity, and convenience. MILWAUKEE Outdoor continued to significantly outpace the market in 2022 with the introduction of a broad array of new products. Led by the successful release of the highly anticipated 21" M18 FUEL self-propelled, dual battery mower in early 2022, MILWAUKEE also launched several new attachments to the M18 FUEL power head, a new line of blowers, M18 FUEL HATCHET pruning saw, and a new compact hedge trimmer.

Hand Tools

Our stream of highly innovative hand tools launched over the past decade has grown the Hand Tool category into a larger proportion of the overall revenue base. We are driving growth in this area with an investment in our manufacturing site in West Bend, Wisconsin, where we are launching our innovative Made-in-USA hand tools designed for professional trades in Q2 2023.



MILWAUKEE 9" Lineman's Comfort Grip Pliers w/ Thread Cleaner (USA)

Storage

PACKOUT Modular Storage continues to be a major growth engine at MILWAUKEE business. It has changed the way professionals transport materials from the jobsite to their vehicles and to the shop. More than 20 new Shop Storage solutions were introduced in 2022. These new solutions have brought additional users into the system because of the unique modularity benefits and various accessories that optimize space. A new PACKOUT M18 six-bay rapid charger, PACKOUT tumblers, and coolers, along with PACKOUT nested hand tool and accessory kits were also launched over the past year. The PACKOUT range offers more than 65 products today with dozens more in development.

Personal Protective Equipment

MILWAUKEE is disrupting the realm of personal protective equipment (PPE). Like its cordless and storage businesses, MILWAUKEE is taking a systems approach to bring new users into the product ecosystem with a broad range of solutions that provide best-in-class worker safety. We are dramatically expanding the MILWAUKEE BOLT helmet line with a full range of accessories that facilitate greater face, eye, sun, and hearing protection. Another focus category for MILWAUKEE within PPE has been cut-resistant hand protection. New high dexterity gloves were recently launched and provide users with a thinner design to easily grip materials while providing cut resistant protection.

MILWAUKEE M18 PACKOUT Six Bay Rapid Charger

MILWAUKEE BOLT Full Face Shield

RYOBI 80V HP Brushless 46" Battery Cordless Electric Riding Lawn Tractor

RYOBI

RYOBI is the #1 global cordless DIY Tool brand featuring 180 tools, 84 outdoor products, and 23 cleaning products in the 18V ONE+ battery system alone. Our relentless focus on cordless battery powered solutions continued in 2022, as we introduced two new cordless platforms in the RYOBI brand. These include the USB lithium line of products, offering portable product solutions with rechargeable power, and the 80V lithium battery platform powering our new zero-turn electric riding mowers. We also continued to expand our core 18V ONE+ and 40V platforms as well, offering users the broadest line of DIY cordless solutions, positioning these cordless systems for future growth.


RYOBI Hobby Station

RYOBI 40V HP Brushless 600 CFM WHISPER SERIES Blower

RYOBI Power Tools

The RYOBI Power Tool business declined mid-single digits in 2022, after several years of explosive growth. RYOBI Power Tools still remains about 49.1% above 2019 pre-pandemic levels as it has continued to gain market share as the number one global DIY power tool brand.

In 2022, RYOBI further expanded its product line with the introduction of an array of new products and categories. All new cordless stick vacs, hand vacs, and cordless scrubbers bring more powerful, more ergonomic, and quieter product designs to the rapidly growing cleaning category. New ONE+ HP cordless miter saws and table saws deliver corded power and cutting performance in these portable cordless solutions. Also in 2022, RYOBI launched a brand-new range of battery-powered hobby tools and accessories.

RYOBI Outdoor

Following several years of solid growth, the RYOBI Outdoor business declined in 2022 due to retail inventory corrections. We are well positioned to lead the transition from petrol to battery powered cordless outdoor power equipment and extend our leadership position in noise reduction with an expanded line of RYOBI WHISPER SERIES outdoor products. These products are focused on addressing the growing number of geographic regions and municipalities introducing restrictions on the usage of gas-powered outdoor equipment that emit harmful carbon emissions and generate unacceptable levels of noise. We are highly optimistic about the future of this business.

RYOBI 18V ONE+ HP Brushless 10" Sliding Compound Miter Saw

Floorcare & Cleaning

Floorcare declined 25.6% in 2022 from a post-pandemic consumer demand and retailer inventory reduction, but accounted for only 7.0% of total sales of TTI. We moved quickly and boldly to reduce the excess inventory in 2022. Heading into 2023, inventories are at a much healthier level and we are looking forward to growing this business with the launch of our new innovative cordless products.


VAX BLADE 5 Pet and Car

Financial Review

Financial Results

Result Analysis

The Group's revenue for the year amounted to US$13.3 billion, an increase of 0.4% as compared to US$13.2 billion in 2021. Profit attributable to Owners of the Company amounted to US$1,077 million as compared to US$1,099 million in 2021, a decrease of 2.0%. Basic earnings per share for the year was at US58.86 cents as compared to US60.04 cents in 2021.

EBIT amounted to US$1,201 million, an increase of 0.8% as compared to US$1,192 million in 2021.

Gross Margin

Gross margin improved to 39.3% as compared to 38.8% last year. The margin improvement was the result of margin accretive new product introduction, mix improvements by Milwaukee's extraordinary growth, robust aftermarket battery business, manufacturing productivity and very stringent cost controls.

Operating Expenses

Total operating expenses for the year amounted to US$4,025 million as compared to US$3,943 million in 2021, representing 30.4% of turnover (2021: 29.9%). The increase was mainly due to the strategic investments in new products and promotional activities to maintain the sales growth momentum, margin improvements and high service levels.

Investments in product design and development amounted to US$484 million, representing 3.7% of turnover (2021: 3.2%) reflecting our continuous strive for innovation. We will continue to invest in breakthrough technology and deliver broad base end-user products and categories as these are most critical not only to maintain sales growth momentum but also margin expansions.

Net interest expenses for the year amounted to US$44 million as compared to US$10 million in 2021, representing 0.3% of turnover (2021:0.1%). The increase mainly due to the 7 interest rates increased total to 4.25% during the year. Interest coverage, expressed as a multiple of EBITDA to total interest was 24.7 times (2021: 38.6 times).

The effective tax rate, being tax charged for the year to before tax profits was at 6.9% (2021: 7.0%). The Group will continue to leverage its global operations and align its strategy to cope with various tax policies change globally to further improve overall tax efficiencies.

Liquidity And Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to US$5.2 billion as compared to US$4.7 billion in 2021. Book value per share was at US$2.84 as compared to US$2.57 last year, an increase of 10.5%.

Financial Position

The Group continued to maintain a strong financial position. As at December 31, 2022, the Group's cash and cash equivalents amounted to US$1,429 million (2021: US$1,874 million), of which 38.8%, 25.1%, 19.2%, and 16.9% were denominated in US$, RMB, EUR and other currencies respectively.

The Group generated free cash flow of US$329 million during the year.

The Group's net gearing, expressed as a percentage of total net borrowing (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, was at 32.1% as compared to 28.2% in 2021.

Bank Borrowings

Long term borrowings accounted for 38.7% of total debts (2021: 32.1%).

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

Amongst the bank borrowings, fixed rate debts account for 32.4% of the total bank borrowings, the balance being floating rate debts.

Working Capital

Total inventory was at US$5,085 million as compared to US$4,850 million in 2021. Days inventory increased by 6 days from 134 days to 140 days. The increase was due to the strategic decision to increase safety level of raw materials to protect against shortages and provide maximum production flexibility and maintain high service levels. Raw material inventory increased by 7 days to 24 days with Finished Goods inventory reduced by 3 days to 113 days when compared to last year.

Trade receivable turnover days were at 41 days as compared to 53 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 40 days as compared to 50 days last year. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing the credit exposure.

Trade payable days were at 104 days as compared to 110 days in 2021 as we effectively managed our payments to generate optimal financing arrangements for both the Group and suppliers. Our trade terms continued to be favorable to TTI.

Working capital as a percentage of sales was at 21.2% as compared to 20.9% in 2021.

Capital Expenditure

Total capital expenditures for the year amounted to US$581 million (2021: US$747 million) representing 4.4% of Sales.

Capital Commitments and Guarantees

As at December 31, 2022, total capital commitments for the acquisition of property, plant and equipment and equity interest in a subsidiary contracted for but not provided amounted to US$328 million (2021: US$235 million), and there were no material guarantees or off balance sheet obligations.

Charge

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

Major Customers and Suppliers

For the year ended December 31, 2022

(i) the Group's largest customer and five largest customers accounted for approximately 47.8% and 58.3% respectively of the Group's total revenue; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 8.9% and 19.8% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

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

Human Resources

The Group employed a total of 44,705 employees as at December 31, 2022 (2021: 51,426) in Hong Kong and overseas. Total staff cost for the year under review amounted to US$2,420 million (2021: US$2,207 million).

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

Corporate Strategy and Business Model

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

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

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

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

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

Our Commitment to ESG

TTI is committed to operating its business in line with Environmental, Social and Governance (ESG) best practices, and to do so in compliance with all applicable laws and regulations. We understand that a large measure of our ability to grow, innovate and prosper depends on our ESG performance. We have a robust risk management system in place which allows us to identify and address issues in an appropriate and timely manner as well as mitigate risk to our business. We have identified legal and regulatory requirements related to ESG practices that have the potential to have a significant impact to our operations and performance. We had no reports of material ESG-related non-compliance in 2022.

In 2022, we continued to develop our Sustainability Strategy and Implementation Plan to align our actions and goals globally with the United Nations Sustainable Development Goals. In terms of governance, the ESG Working Committee with the guidance of the ESG Executive Committee and the Board of Directors has continued to implement our sustainability strategy and monitor activities and ESG performance against our goals.

TTI understands the importance of continuous engagement with our stakeholders to monitor and address their expectations and evolving legal and industry requirements. We have various communication channels with our key stakeholders including employees, customers, shareholders, and suppliers. Communication occurs via regular meetings, focus group discussions and training sessions.

Details on our ESG commitments, relevant policies, standards, specific ESG key performance results and initiatives of 2022 are shared in our ESG Report.

Purchase, Sale or Redemption of Securities

Other than 800,000 shares of the Company purchased on-market for satisfying the awarded shares granted under the Company's share award schemes (details of which will be set out in the Corporate Governance Report to be included in this Annual Report), neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters, including the review of Group's consolidated financial statements for the year ended December 31, 2022. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Dividend

The Directors have recommended a final dividend of HK90.00 cents (approximately US11.58 cents) per share with a total of approximately US$212,513,000 for the year ended December 31, 2022 (2021: HK 1 dollar (approximately US12.87 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 19, 2023. Subject to the approval by the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about July 7, 2023. This payment, together with the interim dividend of HK95.00 cents (approximately US12.23 cents) per share (2021: HK85.00 cents (approximately US10.94 cents)) paid on September 16, 2022, makes a total payment of HK185.00 cents (approximately US23.81 cents) per share for 2022 (2021: HK185.00 cents (approximately US23.81 cents)).

Closure of Register of Members

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

To ascertain members' eligibility to attend and vote at the 2023 Annual General Meeting, the register of members of the Company will be closed from May 10, 2023 to May 12, 2023, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2023 Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on May 9, 2023.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 19, 2023 when no transfers of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on May 18, 2023.

Board of Directors

Group Executive Directors

Horst Julius Pudwill
MSc
Chairman

Mr Horst Julius Pudwill, aged 78, is Chairman of TTI, a position he has held since he jointly founded the Group in 1985. Until 2008, he also served as Chief Executive Officer. As Chairman, Mr Pudwill focuses on the strategic planning and development of the Group and continues to have oversight of the operations, with the Chief Executive Officer reporting directly to him. Mr Pudwill has extensive experience in international trade, business and commerce. Mr Pudwill is also a director of Sunning Inc. which has an interest in the equity of the Company.

Mr Pudwill holds a Master of Science Degree in Engineering and a General Commercial Degree.

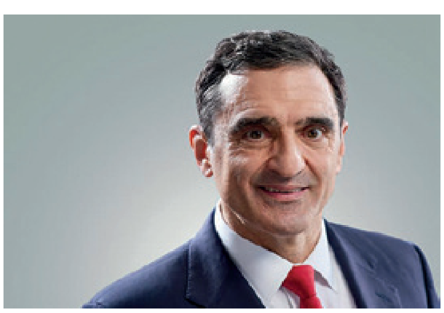
Mr Pudwill is the father of Mr Stephan Horst Pudwill, Vice Chairman and Group Executive Director.

Stephan Horst Pudwill
Vice Chairman

Mr Stephan Horst Pudwill, aged 46, joined the Group in 2004. Mr Pudwill was appointed as Executive Director in 2006 and subsequently was appointed as the Vice Chairman of the Company on October 1, 2016. He is mainly responsible for managing, improving and monitoring internal operations and identifying synergistic business opportunities within the Group.

Prior to joining the Group, Mr Pudwill held managerial positions at Daimler Chrysler AG that included product marketing and strategic planning for the Mercedes-Benz car group.

Mr Pudwill holds a Bachelor of Arts Degree from the University of British Columbia and is Mr Horst Julius Pudwill's son.



Joseph Galli Jr
BSBA, MBA
Chief Executive Officer

Mr Joseph Galli Jr, aged 64, joined the Group in 2006 as the Chief Executive Officer of Techtronic Appliances and was appointed as Chief Executive Officer and Executive Director of TTI effective February 1, 2008. He is responsible for integrating acquisitions in North America and Europe, and enhancing the global sales potential of the Group's strong brand portfolio. He is also responsible for leading the management team in the Group's daily operation.

Mr Galli joined Black & Decker in 1980 where he worked for over 19 years and held various high level management positions, rising to the position of President of Worldwide Power Tools and Accessories. During his tenure at Black & Decker, he was responsible for highly successful launch of the "DeWalt®" Brand heavy duty power tools in 1992. After leaving Black & Decker, Mr Galli joined Amazon.com where he was Director, President and Chief Operating Officer from 1999 to 2000. From 2001 to 2005, he was a Director and Chief Executive Officer of Newell Rubbermaid Inc.

Mr Galli graduated from the University of North Carolina in 1980 with a Bachelor of Science in Business Administration. In 1987, he obtained an MBA from Loyola College in Baltimore, Maryland.

Group Executive Directors (continued)

Patrick Kin Wah Chan
FCCA, FCPA
Operations Director

Mr Patrick Kin Wah Chan, aged 63, joined the Group in 1988 and was appointed as Executive Director in 1990. He is now in charge of the manufacturing operations of the Group.

Mr Chan is currently the Vice-Chairman of the Dongguan City Association of Enterprises with Foreign Investment, he is also the Vice-Director of Electric Tool Sub-Association of China Electrical Equipment Industrial Association.

Mr Chan is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Frank Chi Chung Chan
FCCA, FCPA, CPA (Practising)
Group Chief Financial Officer

Mr Frank Chi Chung Chan, aged 69, joined the Group in 1991 and was appointed as Executive Director in 1992. He is now responsible for corporate affairs and financial management of the Group.

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

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

Non-executive Directors

Roy Chi Ping Chung
GBS, BBS, JP

Prof Roy Chi Ping Chung GBS BBS JP, aged 70, is a Co-founder of TTI. Prof Chung, previously the Group Managing Director since 1985, was appointed as the Group Vice Chairman and Executive Director of the Company on April 18, 2007. He has been re-designated to Non-executive Director of the Company with effect from July 1, 2011.

Prof Chung holds a Doctor of Engineering Degree from the University of Warwick, United Kingdom and Doctor of Business Administration Degree from City University of Macau. He was appointed as an Industrial Professor by the University of Warwick, United Kingdom in December 2010. He was awarded a Doctor of Business Administration honoris causa by the University of Macau and an Honorary Doctor of Science by the University of Warwick, United Kingdom in 2019, an Honorary Doctor of Business Administration by the Lingnan University in 2015, an Honorary Doctor of Business Administration by the Hong Kong Polytechnic University in 2007 and an Honorary Doctorate Degree by the University of Newcastle, New South Wales, Australia in 2006. He was awarded the Gold Bauhinia Star (GBS) and the Bronze Bauhinia Star (BBS) by the Hong Kong SAR Government on June 30, 2017 and July 1, 2011 respectively. He was also appointed as Justice of Peace by the Hong Kong SAR Government on July 1, 2005 and won the Hong Kong Young Industrialists Award in 1997. In November 2014, he was further awarded the Industrialist of the Year.

Prof Chung was the Chairman of the Federation of Hong Kong Industries from July 2011 to July 2013 and has been serving as the Honorary President of the Federation since July 5, 2013. He was appointed as Chairman of Vocational Training Council from January 2018 until December 2019. He is also the Founder and Chairman of Bright Future Charitable Foundation.

Prof Chung is also an Independent Non-executive Director of TK Group (Holdings) Limited, Vitasoy International Holdings Limited and Fujikon Industrial Holdings Limited (resigned with effect from June 23, 2021).

Camille Jojo

Mr Camille Jojo, aged 66, was appointed as a Non-executive Director with effect from October 30, 2015. Mr Jojo has practiced as a lawyer in Hong Kong for a continuous period in excess of 30 years as a specialist in (i) civil litigation in the higher courts of Hong Kong, (ii) arbitration and (iii) regulatory. He graduated with a LL.B. Hons. degree from the University of Cardiff in 1977 and obtained his Professional Qualifying Examination Certificate from Guildford College of Law in 1978. He was qualified and was admitted as a solicitor of the Supreme Court of England and Wales in 1980, as a solicitor of the Supreme Court of Hong Kong in 1982 and as a solicitor and barrister of the Supreme Court of Victoria, Australia in 1984. Mr Jojo was admitted as a fellow of the Chartered Institute of Arbitrators in November 1997. He has been a member of the Law Society Insolvency Law Committee since 1996 and was granted Higher Rights of Audience as a solicitor advocate in respect of civil proceedings in the Hong Kong Courts in 2015. Mr Jojo was awarded the Dispute Resolution Lawyer of the Year 2018 at the 17th Annual Hong Kong Law Awards. He is a Partner of Norton Rose Fulbright Hong Kong and head of its dispute resolution practice in Hong Kong.

Independent Non-executive Directors

Peter David Sullivan
BS

Mr Peter David Sullivan, aged 74, was appointed as Independent Non-executive Director effective February 1, 2008. He was an Executive Director and Chief Executive Officer of Standard Chartered Bank (Hong Kong) Limited. Mr Sullivan held governance responsibility for franchises of the Standard Chartered Group in Japan, Australia, the Philippines and Bohai Bank in Tianjin, China. He also held a number of other major appointments, including as the Chairman of the Hong Kong Association of Banks and the British Chamber of Commerce.

Mr Sullivan is the Chairman of Circle BMI Health LTD. He retired as a Non-executive Director of AXA ASIA, AXA China Region Insurance Company Limited, AXA Wealth Management Ltd and AXA General Insurance Hong Kong on May 1, 2021. He retired as a Non-executive Director to the boards of Standard Bank Group and The Standard Bank of South Africa Limited in May 2020. Mr Sullivan was an Independent Non-executive Director of Standard Bank plc London and SmarTone Telecommunications Holdings Limited, a Non-executive Director of AXA Asia Pacific Holdings Limited that was listed on the Australian and New Zealand stock exchanges.

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

Johannes-Gerhard Hesse

Mr Johannes-Gerhard Hesse (commonly known as Hans-Gerd Hesse), aged 63, was appointed as an Independent Non-executive Director of the Company with effect from October 1, 2016. Mr Hesse holds a graduate degree in Business Administration from the University of Cologne and has acquired extensive business management, strategy, leadership and corporate governance experience in Europe and Asia.

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

Independent Non-executive Directors (continued)

Robert Hinman Getz

Mr Robert Hinman Getz, aged 60, was appointed as an Independent Non-executive Director of the Company with effect from January 1, 2020. Mr Getz has over 30 years of experience as a private equity investor and advisor. He has extensive experience in private and public equity and debt transactions and international mergers and acquisitions. Mr Getz holds a Master of Business Administration Degree in Finance from New York University, and a Bachelor of Arts Degree in International Relations, cum laude, from Boston University.

Mr Getz currently serves as the Founder and Managing Partner of Pecksland Capital, a private investment and advisory firm since 2016. Mr Getz previously served as Co-Founder and Managing Director of Cornerstone Equity Investors, a New York based private equity concern, from 1996 to 2016. Before the formation of Cornerstone in 1996, Mr Getz served as a Managing Director and Partner of Prudential Equity Investors and its predecessor firm Prudential Venture Capital.

Mr Getz has served as a Director of numerous United States and international public and private companies in the technology, manufacturing, finance, and metals and mining sectors. Currently, Mr Getz serves as the Non-executive Chairman of the Board of Directors of Haynes International, Inc. (HAYN:NSDQ), a public United States-based integrated developer and producer of specialty alloys primarily for use in the aerospace industry and industrial applications. He also serves as a Non-executive Director of Ero Copper Corp. (ERO:TSE), a public Brazilian copper mining and exploration company. Mr Getz previously served until 2016 as a Non-Executive Director of Newmarket Gold Inc., a public Australian gold mining and exploration company prior to its acquisition by Kirkland Lake Gold in 2017. He also served until December 2019 as a Non-Executive Director of Jaguar Mining Inc., a public Brazilian gold mining company. Mr Getz is a member of the National Association of Corporate Directors.

Virginia Davis Wilmerding

Ms Virginia Davis Wilmerding, aged 53, was appointed as an Independent Non-executive Director of the Company with effect from April 9, 2021. Ms Wilmerding holds an A.B. degree in East Asian Studies from Princeton University and is an experienced reputational risk advisor and environmental, social and governance (ESG) expert.

Ms Wilmerding is currently a Partner with FGS Global, (formed by the merger of Finsbury Glover Hering and Sard Verbinnen), a global critical issues consultancy advising on the stakeholder economy, working across Greater China, Asia, and the United States. She counsels executives and boards of leading listed Asian, European and U.S. companies on critical issues and complex financial situations including capital markets transactions, governance and activism, geopolitical challenges, reputation management and investor engagement. Prior to joining FGS Global, Ms Wilmerding was a Partner at Brunswick Group, where she helped drive dramatic growth in the Asia business from 2010 to 2020.

During Ms Wilmerding's consultancy career over more than 13 years at both firms, she has led the technology, media and telecom (TMT) sector business across the Asia-Pacific region and has served as one of the global leads of the ESG and governance practice. Other corporate experience includes business development and joint venture operational roles for Hutchison Whampoa and Lucent Technologies in Hongkong and Shanghai from 1991 to 1996 and heading corporate affairs for U.S. private equity-backed Internet services companies in Boston. She speaks fluent conversational Mandarin and can read and write Chinese.

Independent Non-executive Directors (continued)

Virginia Davis Wilmerding (continued)

Ms Wilmerding is a founding steering committee member of the 30% Club Hong Kong and was a Board Trustee of Princeton in Asia (PiA) from 1997-2021, where she served on the Board's executive, nominating and development committees. In 2022, Ms Wilmerding earned the CFA Institute Certificate in ESG Investing and in 2021, she earned the Financial Times Level 7 Non-Executive Director Diploma, a formally accredited, post-graduate qualification for non-executive directors. Ms Wilmerding regularly writes on current affairs and ESG/governance issues. She published a business advice book for women entrepreneurs in 2006 (John Wiley & Sons).

Caroline Christina Kracht

Ms Caroline Christina Kracht, aged 50, was appointed as Independent Non-executive Director of the Company with effect from March 7, 2022. Ms Kracht is an expert adviser to boards and top management teams on business strategy and corporate finance, mergers and acquisitions, as well as capital markets. She holds a Master Degree in Management (with distinction), the German university degree of Diplom-Kauffrau and a French Diplôme de Grande Ecole from ESCP Business School. Ms Kracht also attended the Advanced Management Program at the Harvard Business School.

Ms Kracht is a co-founder and partner of MoreThan Capital, a Luxembourg based global investment and advisory firm founded, backed, and powered by a global community of business leaders, focused on investing in and helping companies on the verge of scaling-up enter new markets and transform from start-ups into mature businesses. She is also a sector expert in financial services, energy (oil and gas, power, renewables), industrials, chemicals, and other natural resources with global experience working in Asia (PRC, India, Indonesia, Japan, Malaysia, South Korea, Thailand), Europe (Germany, France, UK, Switzerland) and North America (Canada, U.S.).

Ms Kracht was the head of investment banking (Asia-Pacific) and a member of Scotiabank's Asia-Pacific executive team for Scotiabank from 2016 to 2020. She joined Scotiabank in Hong Kong as managing director responsible for energy investment banking across Asia-Pacific in 2011. Prior to this, Ms Kracht spent 13 years with Morgan Stanley with increasingly senior positions in investment banking and firm management in London, San Francisco, Frankfurt and Hong Kong. During Ms Kracht's 22-year career at Scotiabank and Morgan Stanley, the executive management expertise she has gained is directly relevant to strategy, audit, risk and compliance, nomination and remuneration, and ethics committees. She speaks fluent English, German and French.

Ms Kracht is a founder and board director of GJWHF Ltd., a Hong Kong non-profit organization on the economic empowerment of women. She was a member of the advisory board of the Mentoring Programme for Women Leaders of The Women's Foundation (TWF), a Hong Kong non-profit organization dedicated to challenging stereotypes, empowering women in poverty and growing the number of women in leadership positions.

Corporate Governance Report

The Company is committed to high standard corporate governance to enhance shareholders' interests and promote sustainable development. A quality board of directors (the "Board") with balanced skills, experience and diversity of perspectives is vital to the Company for effective risk management, internal controls and leadership, as well as transparency and accountability to all shareholders. The Board reviewed codes of conducts, policies and practices, corporate governance framework and disclosure of this Corporate Governance Report, from time to time, to improve the Company's corporate governance practices in respect of the latest developments on all applicable laws, rules and regulations.

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Corporate Governance Code") throughout the year ended December 31, 2022, 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.

Corporate Governance Policy

Corporate governance plays an important role in maintaining sustainability. The Board continuously monitors, reviews and develops the policies and practices of corporate governance to ensure the compliance of the laws, rules and regulatory requirements governing the Group as well as the Company's Articles of Association. The Board performs the corporate governance function through, but not limited to, the following:

- monitor and review the compliance of the Model Code for Securities Transactions by Directors, the Code for Securities Transactions by Relevant Employees and other codes of conduct of the Company.
- review and monitor compliance of the Corporate Governance Code.
- review and monitor the Directors' and the senior management's training and continuous professional development.
- review the disclosure set out in this Corporate Governance Report.

Board of Directors

Roles and Responsibilities

The Board is collectively responsible for leading, supervising and creating directions and strategies for the affairs of the Group with an effective corporate governance framework to strike for long term success of the Company. The Board is also responsible for ensuring ongoing effective communication with shareholders and engagement with key stakeholders. The principal responsibilities of the Board include, but are not limited to, the following:

- develop and review overall mid-term and long-term strategies, objectives and directions of the Company.
- review and monitor risks and changes in local and international business communities in order to enhance shareholders' value.
- evaluate and oversee the Company's financial performance and operations through determination of the annual budget and continuous review of performance results.
- consider matters covering appointment of Directors, senior management and external auditors, major acquisitions and disposals, as well as other significant operational matters.
- develop, review and monitor the policies and practices on corporate governance of the Company.

Delegation to Board Committees and senior management of the Group with specific functions is monitored continuously by the Board with clear instructions as well as reservation for the Board's decision and consideration of specifically identified matters. The Board reviews regularly the formal written procedures adopted by the Company for the governance of delegation and reservation of responsibilities of the Board.

Board Composition

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

Group Executive Directors

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

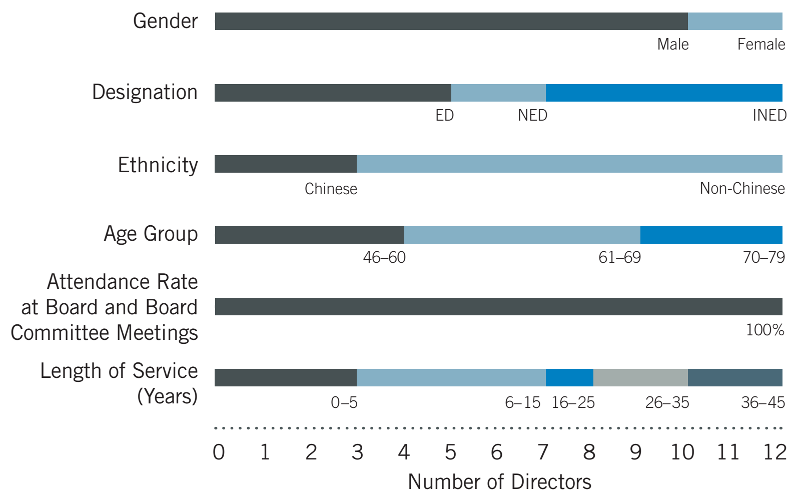
Non-executive Directors

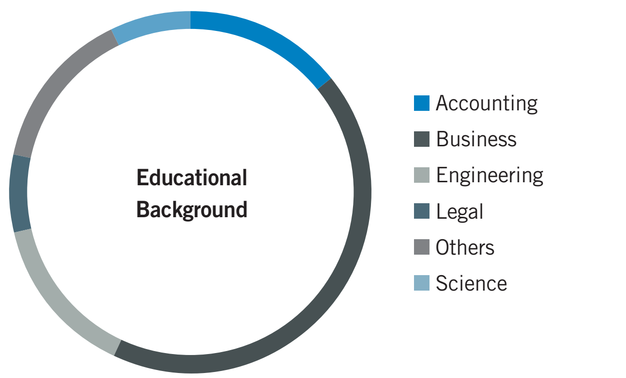
Prof Roy Chi Ping Chung GBS BBS JP
Mr Camille Jojo

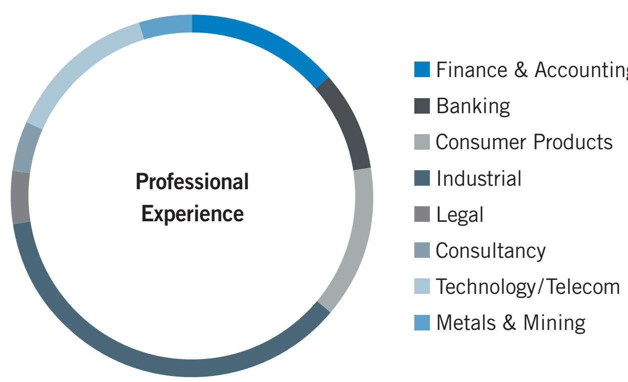
Independent Non-executive Directors

Mr Peter David Sullivan
Mr Johannes-Gerhard Hesse
Mr Robert Hinman Getz
Ms Virginia Davis Wilmerding
Ms Caroline Christina Kracht

Biographical details and relevant relationships of the members of the Board are set out on pages 55 to 60 of this annual report. A list of Directors and their roles and functions are published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk).







Both the management of the Board and the day-to-day management are essential to the Company's success and sustainability. In order to promote balance of power, authority and accountability, the roles of Chairman and Chief Executive Officer of the Company have been segregated and clearly distinguished.

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

- ensure all Directors are properly briefed on issues arising at Board meetings and always receive clear, accurate and reliable information in a timely manner.
- lead the Board to perform its responsibilities and act in the best interests of the Company, and ensure the Board works effectively.
- encourage all Directors to make full and active contributions to the Board's affairs to enhance the performance of the Board's responsibilities.
- enhance effective communication with shareholders and encourage the views of shareholders are communicated to the Board as a whole.
- ensure and oversee sound practices and procedures.

The roles of Chief Executive Officer comprise, but are not limited to, the following:

- take the lead to oversee the global management team in the Group's daily operations.
- perform the Company's strategic initiatives and management strategies.
- enhance the global sales potential of the Company's strong brand portfolio and facilitate the integration of acquisitions, if any.

Appointment of directors is recommended by the Nomination Committee for approval of the Board to ensure the Board performs effectively and enhances its diversity. By considering the expertise, skills and experience of candidates of directorship, the Nomination Committee makes recommendations to the Board in order to achieve the effective balance and diversity of the Board. Directors are aware that they must be able to contribute sufficient time and attention to the affairs of the Company before accepting their appointment. A formal and detailed orientation is provided for each newly appointed Director to ensure proper understanding of duties and responsibilities of Directors under the Listing Rules, the Company's Articles of Association, and related ordinances and relevant regulatory requirements of Hong Kong. Presentations by external professionals and senior executives of the Company are also provided to ensure a proper understanding of the Company's business and operations. In accordance with the Company's Articles of Association and the Listing Rules, Directors are subject to retirement by rotation at least once every three years. Any Directors appointed to fill a casual vacancy would be subject to election by shareholders at the next annual general meeting after their appointment.

The Board treasures the culture of openness and independent views as key elements to effectiveness. Independent Non-executive Directors and Non-executive Directors form a majority of the Board, and the Independent Non-executive Directors represent over one-third of the Board as at the date of this report. The Company has complied with Rule 3.10 of the Listing Rules in relation to the requirement of independent non-executive directors. All Independent Non-executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received annual confirmation of independence from each of the Independent Non-executive Directors and they are still considered to be independent.

The Board has arranged appropriate Directors' and Officers' liability insurance to indemnify the Directors and Officers of the Group for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are reviewed annually.

Directors' Continuous Professional Development

The Company provides regular updates, training and written materials to all Directors on relevant laws, rules and regulations to make sure they are aware of the current trends in the commercial and regulatory environment in which the Company conducts its business. In order to ensure that the Directors' contribution to the Board remains informed and relevant, the Directors are encouraged to participate in various professional development programs such as seminars, webcasts and relevant reading materials, especially in relation to compliance requirements to develop and refresh their knowledge and skills and the latest updates on the relevant rules and regulations.

All Directors participate in continuous professional development as set out in code provision C.1.4 of the Corporate Governance Code. According to the records of training provided by each Director to the Company, the training received by the Directors in 2022 is summarized in the following table:

	Type of Continuous Professional Development Programme		
	Updates on business operations, laws, rules and regulations or corporate governance matters	**Updates on directors' roles, functions and duties**	**Updates on accounting, financial or other professional skills**
Group Executive Directors			
Mr Horst Julius Pudwill	√	√	
Mr Stephan Horst Pudwill	√	√	
Mr Joseph Galli Jr	√	√	
Mr Kin Wah Chan	√	√	√
Mr Chi Chung Chan	√	√	√
Non-executive Directors			
Prof Roy Chi Ping Chung GBS BBS JP	√	√	√
Mr Camille Jojo	√	√	√
Independent Non-executive Directors			
Mr Peter David Sullivan	√	√	
Mr Johannes-Gerhard Hesse	√	√	√
Mr Robert Hinman Getz	√	√	
Ms Virginia Davis Wilmerding	√	√	√
Ms Caroline Christina Kracht	√	√	√

Compliance with the Codes for Securities Transactions

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") has been adopted by the Board. In response to the specific enquiries made, all Directors have confirmed that they have fully complied with the required standards as set out in the Model Code during the year ended December 31, 2022.

The Company has also adopted 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"). During the year, no incident of non-compliance was noted by the Company.

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

Board Meetings

The Board focuses on the Company's strategies and values for on-going sustainability, success and growth of the Group.
The Company held regular Board meetings, where at least four Board meetings are scheduled in a year with more frequent meetings as and when required. In 2022, five Board meetings were held and the attendance records of each Director are set out in the section headed "Board, Board Committee and General Meetings in 2022" at the end of this report.

Board meeting, Board Committee meeting and Annual General Meeting dates for 2023 were agreed upon at the Board meeting held in August 2022 in order to ensure maximum attendance of Directors and to facilitate the effectiveness of the Board. The meeting agenda is drawn up by the Chairman in consultation with members of the Board to propose any other matters for inclusion of the agenda. Minutes of the Board and Board Committee meetings with sufficient details of matters and concerns discussed are prepared and maintained by the Company Secretary of the Company (the "Company Secretary"), which are sent to the Directors for comments and records. The Company Secretary keeps Board records in safe custody of which are available for inspection by the Directors.

To facilitate informed decisions of the Board, clear, accurate and reliable information are provided to all Directors in a timely manner. Furthermore, all related materials with sufficient details in relation to the Board's issues are accessible to all Directors. To enhance understanding of the business of the Group and Directors' responsibilities under statute and at common law, all Directors are provided with briefings and professional development training as necessary. The Company Secretary provides full support to the Directors in order to ensure Board procedures and all applicable laws, rules and regulations are followed. Directors are also provided with access to senior management of the Group upon request, as well as to independent professional advice on performing their duties at the Company's expenses.

Board Committees

The Board has established three Board Committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee, to delegate various responsibilities of the Board. Each of these Board Committees has specific written terms of reference which deal clearly with their authority and duties and have been published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk).

The diversity and effectiveness of the Board are continuously reviewed by the Directors. To ensure independent views and inputs are available to the Board, Independent Non-executive Directors form the majority of all Board Committees. With active participation and regular attendance of Independent Non-executive Directors, independent insights and opinions are encouraged to be contributed and expressed at the Board Committee meetings. The Board oversees and monitors the delegated authorities and responsibilities through regular reporting by the Board Committees in relation to their activities involved and recommendations and decisions made. The attendance records of each Board Committee are set out in the section headed "Board, Board Committee and General Meetings in 2022" at the end of this report.

Audit Committee

The Audit Committee is chaired by Mr Peter David Sullivan with other members being Mr Johannes-Gerhard Hesse, Mr Camille Jojo, Mr Robert Hinman Getz and Ms Caroline Christina Kracht (who has been appointed as a member of Audit Committee with effect from March 1, 2023). All members except Mr Camille Jojo are Independent Non-executive Directors. The Company has complied with Rule 3.21 of the Listing Rules in relation to the requirement of the Audit Committee.

The Audit Committee plays an important role in risk management and internal control aspects. The Audit Committee aims to review and monitor the effectiveness of the risk management and internal control systems to ensure the compliance with the Group's obligations under the Listing Rules and other applicable laws and regulations. The Audit Committee oversees the completeness and integrity of the financial statements of the Company and takes ad hoc responsibilities which may be delegated by the Board from time to time. The Audit Committee is also directly responsible on behalf of the Board for the oversight of the performance of the Company's external auditors, the assessment of the independence and qualifications of the external auditors, the selection, oversight and remuneration of the Company's external auditors and the maintenance of an appropriate relationship with the external auditors.

The Audit Committee held four meetings in 2022 and performed duties summarized below:

- review and make recommendations to the Board for the approval of the interim and annual financial statements of the Group.
- monitor and review the Group's accounting principles and practices, financial reporting matters and significant financial matters.
- review and assist to maintain the effectiveness of risk management and internal controls systems of the Group.
- monitor and review the scope, extent and effectiveness of internal audit function of the Group.
- oversee the relationship between the Company and the external auditors, assess the performance of the external auditors and recommend the re-appointment of the external auditors.
- review the audit and non-audit services provided by the external auditors.

Nomination Committee

The Nomination Committee is chaired by Mr Horst Julius Pudwill (Chairman of the Board) with the other members being Mr Johannes-Gerhard Hesse, Mr Robert Hinman Getz and Ms Virginia Davis Wilmerding (who has been appointed as a member of the Nomination Committee with effect from August 10, 2022). All members except Mr Horst Julius Pudwill are Independent Non-executive Directors.

The Board recognizes the benefits of board diversity and realizes increasing diversity is vital in maintaining an effective board. The Board should have a balance of skills, experience and diversity of perspectives appropriate for the requirements of the business of the Group in order to effectively discharge its function. The Nomination Committee aims to ensure a fair and transparent process of Board appointments, and in particular, to assist the Board to identify suitably qualified candidates and make recommendations for consideration of the Board and shareholders. When considering suitable candidates of Directors, the Nomination Committee considers factors including, but not limited to, professional knowledge, industry experience, ethics, integrity, personal skills and as well as the ability to contribute sufficient time and attention to the Board in their recommendations.

The Nomination Committee held three meetings in 2022. The work performed by the Nomination Committee in 2022, with sufficient resources provided by the Company and/or independent professional advice when necessary, included:

- review of the size, composition and structure of the Board regularly.
- make recommendations to the Board on relevant matters relating to the retirement and re-election of the Directors at the 2022 Annual General Meeting.
- assess the independence of the Independent Non-executive Directors.
- review the Nomination Policy and the Board Diversity Policy.

The Board currently has two female Directors out of the twelve Directors with balanced skills, experience and diversity of perspectives to enhance the Company's business and values. The Group has also taken, and continues to take, steps to promote diversity at all levels of its workforce. Opportunities for employment, training and career development are equally opened to all eligible employees without discrimination. Gender ratio in the workforce of the Company can be found in the "Environmental, Social and Governance Report" ("ESG Report") which will be published separately. The ESG Report forms part of this report. The Board has adopted the Board Diversity Policy in August 2013, which is published on the Company's website (www.ttigroup.com). Widening diversity at the Board level is essential for sustainable development of the Group and the Board considers that the current gender diversity in respect of the Board taking into account the Group's business model and industry-wide practice and specific needs of the Company is satisfactory. The Nomination Committee would consider various perspectives and measurable objectives, including, but not limited to, age, gender, professional experience, educational background, cultural and length of service while reviewing the composition of the Board with an aim to promote gender diversity culture and avoid a single gender Board. The ultimate decision will be based on merit and contribution that the Directors and any selected candidates will bring to the Board. An analysis of the current Board composition based on these objective criteria is set out on page 62 of this report.

Remuneration Committee

The Remuneration Committee is composed of a majority of Independent Non-executive Directors and is chaired by Mr Robert Hinman Getz with the other members of the Committee being Mr Peter David Sullivan, Mr Camille Jojo and Ms Virginia Davis Wilmerding (who has been appointed as a member of the Remuneration Committee with effect from March 1, 2023).

The Remuneration Committee develops and administers fair and transparent procedures for setting policy on the overall human resources strategy of the Group, including those related to the remuneration of the Group's Directors and senior management. The Remuneration Committee is responsible for recommending the remuneration packages of Directors and senior management of the Group taking into account their merit, competence and qualifications, individual performance, the Company's operating results and return to shareholders, and considering relevant market practices. The Remuneration Committee makes recommendations to the Board on the remuneration packages of the Executive Directors and members of senior management, including, without limitation, base salaries, benefits in kind, incentive payments and grants, and consults the Chairman and/or Chief Executive Officer (CEO) for the proposals of other Executive Directors' remuneration packages. The Remuneration Committee also makes recommendations to the Board on the remuneration of the Non-executive Directors and the Independent Non-executive Directors. The Remuneration Committee reports directly to the Board on its decisions or recommendations.

The Remuneration Committee held five meetings in 2022 and performed, among other work, the following:

- review and make recommendations on the existing Remuneration Policy for Directors and senior management.
- review and update the peer group used to assess the competitiveness of Executive Director remuneration.
- assess the Executive Directors' performance and remuneration packages.
- recommend pay packages for Executive Directors and CEO to the full Board.

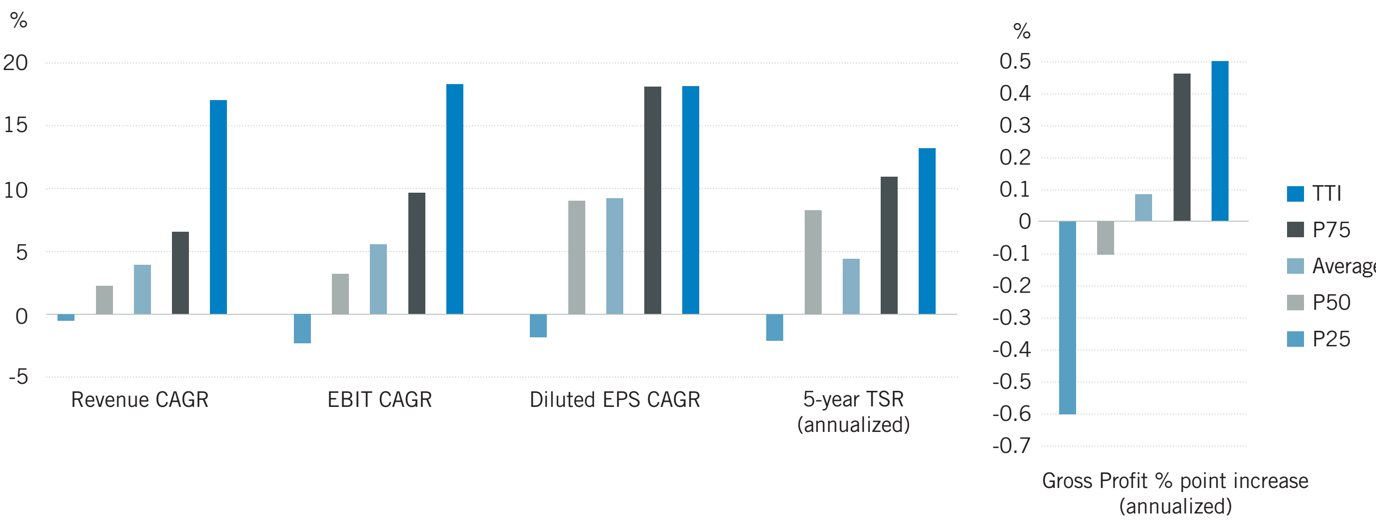
The Board ensures that the Remuneration Committee has access to sufficient internal and third-party resources, including professional advice, to fulfill its duties. The Group engages a global executive compensation consulting firm as an independent third party to advise the Remuneration Committee, including providing assessments of the competitiveness of compensation of the Executive Directors, including the Chairman and the CEO. The compensation packages of the Group's Executive Directors were assessed relative to similar positions at 24 peer companies operating in the same or adjacent industries. The consultant's assessment took into account the Group's absolute shareholder returns, financial and operational performance, as well as performance relative to the peer companies.

GROUP CEO INCENTIVE COMPENSATION

The Remuneration Committee reviewed and recommended to the Board for approval the 2022 incentive payouts for the Chairman, the CEO and other Executive Directors commensurate with the solid and resilient financial and operational performance delivered by the Group in 2022, and recognizing the deliberate investments made to position the Group for future growth and profitability improvements.

Compensation delivered to the Executive Directors, and in particular the CEO, is dependent on company performance as assessed on a number of operational and financial metrics as well as progress against key strategic objectives. The Remuneration Committee believes it is extremely important to align executive compensation with long-term shareholder outcomes. As shown in Chart 1 below, over the past five years the Group has exceeded or equalled the 75th percentile performance of the 24 peer companies in key financial and operational performance metrics including revenue growth, EBIT growth, diluted EPS growth, gross profit margin improvement, and working capital management. Importantly, the Company's stock price and TSR performance over the past five years remains exceptional in both relative and absolute terms. The Company's 5-year TSR exceeds the 75th percentile performance of the 24 companies included in the company's compensation peer group.

Chart 1: TTI's Five Year Financial Performance as Compared to 24 Peer Companies [1]



1. Five-year TTI performance through FY 2022 measured against most recently available five-year performance for each company in the peer group.

ANNUAL INCENTIVE AWARDS

As part of the Group's annual incentive plan, the Remuneration Committee in 2022 approved a share award to Mr Galli in connection with the Group's 2021 fiscal year performance ("2022 STI Share Grants"). This share award was made in addition to the cash payout made under the company's annual incentive plan. Specifically, the Remuneration Committee granted Mr Galli 1,000,000 shares in March 2022 following review and certification of the achievement of the Group 2021 fiscal year performance. As this grant is made as part of the annual incentive plan, these shares vested upon grant.

Over the past five years the Remuneration Committee has modified Mr Galli's compensation package so that it is significantly focused on performance-based share awards. The Remuneration Committee believes that rewarding the CEO for the achievement of sustained outstanding performance in the form of Group equity meaningfully aligns him with long-term shareholder outcomes and creates further incentives for improved future performance.

LONG-TERM INCENTIVE AWARDS

In 2018 the Board approved multi-year performance-based share awards to Mr Galli ("2018 CEO Share Awards") with the granting of the awards conditional upon the Company's achievement of share price, financial and operational performance criteria ("Performance Criteria") over successive three-year performance periods ending each year from 2019 to 2024. For the three-year period ending in 2022, Mr Galli delivered exceptional financial and operational performance and strong relative share price performance, when measured against the performance of our key competitors. Additionally, a number of strategic objectives were achieved over the past three years, including diversification and expansion of the Group's manufacturing footprint and achievement of good progress towards the Groups ESG goal of significantly reduced GHG emissions. As a result of this strong financial and operational performance, during a time of significant economic instability, Mr Galli was granted one million shares for the three-year period ending in 2022. These shares are scheduled to vest to Mr Galli on January 1, 2025, if he remains in his current role.

For the three-year period 2019 to 2022, the Group delivered 20.0% compound annual revenue growth and 21.3% compound annual EBIT growth. The Group's revenue growth over this period equaled the 95th percentile of performance of the Primary Peer Group while EBIT growth equaled the 87th percentile of the Primary Peer Group. Additionally, the Company's profit margin exceeds 65% of the peers and profit margin improvement was greater than 80% of the peer group over the past three years.

The remainder of the 2018 CEO Share Awards (up to one million shares) will be awarded to Mr Galli subject to the Company's future performance and meeting of the financial and operational goals set out in the 2018 CEO Share Awards plan for the period 2023 to 2024.

Besides the 2018 CEO Share Awards, the Board approved another multi-year performance-based share awards to Mr Galli ("2020 CEO Share Awards") with the granting of the awards conditional upon the Company's achievement of financial and operational performance criteria ("Financial and Performance Criteria") for the years between 2022 to 2026. Under the 2020 CEO Share Awards, 1,000,000 shares will be granted each year between 2022 and 2026 and vest the following year if the Financial and Performance Criteria have been achieved.

MR GALLI'S PERFORMANCE HISTORY

The compensation package awarded to Mr Galli, including his annual cash incentive and his 2022 STI Share Grants, were awarded on the basis of the Group's strong financial and operational performance in 2022 despite substantial economic disruptions and uncertainty which significantly and negatively impacted overall industry results and our key peers' performance.

Mr Galli's overall compensation package is designed and managed with a long-term focus, and rewards him for the Company's very strong growth and performance over the entire period of his tenure as CEO of the Group and incentivizes him to:

- achieve the short-term and long-term financial and operational goals set by the Board,
- to meet the Group's strategic goals in order to position the company for future profitable growth,
- to align his long-term remuneration outcomes with sustained shareholder value creation, and
- ensure his continued service to the Company in his current role.

Since his appointment in February 2008 to the CEO role, Techtronic's stock price has increased from HK$8.40 on 1 February 2008 to close at HK$87.10 on 30 December 2022, an increase of about 937%, greatly exceeding both the Hang Seng Index (-18%) and the S&P500 Index (+175%) over the same time period. Since February 2008, the Group's equity market capitalization has grown more than 12.5 times, from approximately HK$12.6 billion to nearly HK$160 billion at the end of December 2022.

EQUITY PLAN DESCRIPTIONS

The Board has adopted two share award schemes, namely the 2008 Share Award Scheme and the 2018 Share Award Scheme. The 2008 Share Award Scheme was adopted on January 9, 2008 (the "2008 Adoption Date") and expired from January 9, 2018 and all awards granted thereunder have been duly vested. Following the expiry of the 2008 Share Award Scheme, the 2018 Share Award Scheme was adopted with effect from January 17, 2018 (the "2018 Adoption Date") and shall be terminated on the earlier of the 10th anniversary of the 2018 Adoption Date or such date of early termination as determined by the Board.

The purpose of both the 2008 Share Award Scheme and the 2018 Share Award Scheme is to recognize the contributions by Eligible Persons as defined below and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The scheme rules of the schemes are substantially identical and a summary of the principal terms of both schemes is set out below:

Any employee or Director (including, without limitation, any Executive, Non-executive or Independent Non-executive Director) of any member of the Group (the "Eligible Person") will be entitled to participate the schemes. Unless terminated earlier by the Board in accordance with the respective scheme rules, the effective term of each scheme is 10 years commencing on the adoption date of the relevant scheme provided that no contribution to the trust will be made by the Company on or after the 10th anniversary date of the adoption date of the relevant scheme. Details of both schemes were announced by the Company on the respective adoption date of the schemes.

The Board may, from time to time, at their absolute discretion select any Eligible Person for participation in any scheme as a selected grantee (the "Selected Grantee") and determine the number of shares to be awarded or make reference to a nominal amount. The relevant number of shares awarded will be purchased by the trustee of the schemes from the market or new shares will be subscribed for by the trustee at the cost of the Company and be held in trust until they are vested. Upon acceptance of the share awards, no payment is required. When a Selected Grantee has satisfied all vesting conditions specified by the Board, the trustee will transfer the relevant vested shares together with the income derived therefrom (net of accrued interest) to such Selected Grantee.

The maximum number of shares which can be awarded under each scheme is 10% of the issued share capital of the Company as at the adoption date thereof, and the maximum number of shares which can be awarded under each scheme to a Selected Grantee, at any one time, shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date thereof. The total issued share capital of the Company as at the 2008 Adoption Date and the 2018 Adoption Date were 1,501,252,152 shares and 1,835,021,941 shares, respectively.

Since the 2018 Adoption Date and up to December 31, 2022, a total of 12,658,500 shares had been awarded under the 2018 Share Award Scheme, representing 0.69% of the issued share capital of the Company as at the 2018 Adoption Date. Recognition of share-based payment expenses under the 2018 Share Award Scheme during the year was US$31,980,000. During the year ended December 31, 2022, a total of 3,011,000 shares had been awarded under the 2018 Share Award Scheme to two Directors of the Company, representing 0.16% of the issued share capital of the Company as at the 2018 Adoption Date. The total payout, including related expenses, amounted to US$52,112,000. In addition, during the year ended December 31, 2022, 1,784,500 shares were transferred to nine Directors and a Selected Grantee upon vesting under the 2018 Share Award Scheme. As at December 31, 2022, details of the awarded shares granted under the 2018 Share Award Scheme of the Company were as follows:

				Number of awarded shares							
Share awards holders	Date of Award	Share award scheme category	Number of awarded shares	As at January 1, 2022	Awarded during the year	Vested during the year	Lapsed during the year	As at December 31, 2022	Vesting Period	Closing price at the Date of Award HK$	Purchase price HK$
Directors											
Mr Horst Julius Pudwill	21.3.2018	2018	500,000	125,000	—	(125,000)	—	—	15.3.2019 – 15.3.2022	47.00	30.29
	20.5.2019	2018	300,000	100,000	—	(100,000)	—	—	20.5.2020 – 20.5.2022	50.20	28.15
	21.12.2020	2018	1,000,000	—	—	—	—	—	21.12.2020 – 21.12.2021	107.00	44.55
	30.12.2021	2018	300,000	300,000	—	—	—	300,000	3.4.2023 – 30.12.2023[4]	154.90	115.13
Mr Stephan Horst Pudwill	21.3.2018	2018	50,000	12,500	—	(12,500)	—	—	15.3.2019 – 15.3.2022	47.00	30.29
	21.12.2020	2018	100,000	—	—	—	—	—	21.12.2020 – 21.12.2021	107.00	44.55
	30.12.2021	2018	50,000	50,000	—	(25,000)	—	25,000	30.12.2022 – 30.12.2023	154.90	115.13

Share awards holders	Date of Award	Share award scheme category	Number of awarded shares	Number of awarded shares As at January 1, 2022	Awarded during the year	Vested during the year	Lapsed during the year	As at December 31, 2022	Vesting Period	Closing price at the Date of Award HK$	Purchase price HK$
Directors (continued)											
Mr Joseph Galli Jr [5]	21.3.2018	2018	514,000	128,500	—	(128,500)	—	—	15.3.2019 – 15.3.2022	47.00	30.29
	3.1.2020	2018	1,000,000	1,000,000	—	—	—	1,000,000	On or about 1.1.2025	64.70	44.38
	21.12.2020	2018	1,000,000	—	—	—	—	—	21.12.2020	107.00	44.55
	4.3.2021	2018	1,000,000	—	—	—	—	—	4.3.2021	121.40	80.25
	4.3.2021	2018	1,000,000	1,000,000	—	—	—	1,000,000	On or about 1.1.2025	121.40	80.25
	31.12.2021	2018	1,000,000	1,000,000	—	—	—	1,000,000	On or about 1.1.2025	155.20	121.14
	3.3.2022	2018	1,000,000	—	1,000,000	(1,000,000)	—	—	3.3.2022	136.10	130.19
	3.3.2022	2018	1,000,000	—	1,000,000	—	—	1,000,000	On or about 3.3.2023	136.10	130.19
	30.12.2022	2018	1,000,000	—	1,000,000	—	—	1,000,000	On or about 1.1.2025	87.10	142.95
Mr Kin Wah Chan	21.3.2018	2018	50,000	12,500	—	(12,500)	—	—	15.3.2019 – 15.3.2022	47.00	30.29
	21.12.2020	2018	100,000	—	—	—	—	—	21.12.2020 – 21.12.2021	107.00	44.55
	30.12.2021	2018	50,000	50,000	—	(25,000)	—	25,000	30.12.2022 – 30.12.2023	154.90	115.13
Mr Chi Chung Chan	21.3.2018	2018	50,000	12,500	—	(12,500)	—	—	15.3.2019 – 15.3.2022	47.00	30.29
	21.12.2020	2018	100,000	—	—	—	—	—	21.12.2020 – 21.12.2021	107.00	44.55
	30.12.2021	2018	50,000	50,000	—	(25,000)	—	25,000	30.12.2022 – 30.12.2023	154.90	115.13
Prof Roy Chi Ping Chung GBS BBS JP	21.12.2020	2018	10,000	5,000	—	(5,000)	—	—	21.12.2021 – 21.12.2022	107.00	44.55
	30.12.2021	2018	12,500	12,500	—	(12,500)	—	—	30.12.2022	154.90	115.13
Mr Camille Jojo	2.1.2019	2018	10,000	—	—	—	—	—	2.1.2019	41.10	28.15
	20.5.2019	2018	150,000	50,000	—	(50,000)	—	—	20.5.2020 – 20.5.2022	50.20	38.30
	3.1.2020	2018	12,500	—	—	—	—	—	3.1.2020	64.70	44.62
	21.12.2020	2018	10,000	5,000	—	(5,000)	—	—	21.12.2021 – 21.12.2022	107.00	44.55
	31.12.2020	2018	10,500	—	—	—	—	—	31.12.2020	110.60	49.67
	30.12.2021	2018	18,000	12,500	—	(12,500)	—	—	30.12.2021 – 30.12.2022	154.90	115.13
	30.12.2022	2018	11,000	—	11,000	(11,000)	—	—	30.12.2022	87.10	142.95
Mr Peter David Sullivan	21.12.2020	2018	10,000	5,000	—	(5,000)	—	—	21.12.2021 – 21.12.2022	107.00	44.55
	30.12.2021	2018	12,500	12,500	—	(12,500)	—	—	30.12.2022	154.90	115.13
Mr Johannes-Gerhard Hesse	21.12.2020	2018	10,000	5,000	—	(5,000)	—	—	21.12.2021 – 21.12.2022	107.00	44.55
	30.12.2021	2018	12,500	12,500	—	—	—	12,500	2.5.2024[6]	154.90	115.13

Share awards holders	Date of Award	Share award scheme category	Number of awarded shares	Number of awarded shares: As at January 1, 2022	Awarded during the year	Vested during the year	Lapsed during the year	As at December 31, 2022	Vesting Period	Closing price at the Date of Award HK$	Purchase price HK$
Directors (continued)											
Mr Robert Hinman Getz	21.12.2020	2018	10,000	5,000	—	—	—	5,000	N/A(7)	107.00	44.55
	30.12.2021	2018	12,500	12,500	—	—	—	12,500	N/A(8)	154.90	115.13
Ms Virginia Davis Wilmerding	30.12.2021	2018	12,500	12,500	—	—	—	12,500	N/A(9)	154.90	115.13
Total for directors			**11,538,500**	**3,991,000**	**3,011,000**	**(1,584,500)**	**—**	**5,417,500**			
Employees	20.5.2019	2018	1,100,000	600,000	—	(200,000)	—	400,000	20.5.2020 – 20.5.2024	50.20	45.30
	21.12.2020	2018	10,000	—	—	—	—	—	20.5.2021	107.00	44.55
	21.12.2020	2018	10,000	—	—	—	—	—	30.7.2021	107.00	44.55
Total for employees			**1,120,000**	**600,000**	**—**	**(200,000)**	**—**	**400,000**			
Total for all categories			**12,658,500**	**4,591,000**	**3,011,000**	**(1,784,500)**	**—**	**5,817,500**			

Notes:

(1) All the awarded shares are purchased on the market. No share awards were cancelled during the year ended December 31, 2022.

(2) At the end of the year, the average fair value per share is HK$100.52. The average fair value of the awarded shares is based on the average purchase cost.

(3) During the reporting year, a total of 800,000 shares were purchased at an aggregate consideration of US$9,796,000 for satisfying the awards granted pursuant to the 2018 Share Award Scheme.

(4) The Board has exercised its discretion under the scheme rules to amend the vesting date of the 150,000 shares which were awarded to Mr Horst Julius Pudwill from December 30, 2022 to April 3, 2023.

(5) As to the agreement for the separate 5,000,000 awarded shares to be granted to Mr Joseph Galli Jr between 2020 to 2024 in five equal tranches (i.e. 1,000,000 awarded shares per year) provided the Company meets certain performance criteria each year, the first, second, third and fourth tranches of 1,000,000 shares were awarded to Mr Galli on January 3, 2020, March 4, 2021, December 31, 2021 and December 30, 2022 respectively. These shares are scheduled to vest to Mr Galli on or about January 1, 2025 if he remains in his current role. Details of remaining 1,000,000 awarded shares to be granted as disclosed above are not included. The above mentioned performance criteria are set out in the "Remuneration Committee" section in this Corporate Governance Report.

As to the agreement for the 5,000,000 shares might be granted subject to, inter alia, the achievement of performance criteria (reaching specific EBIT target each year) for the years between 2022 to 2026 respectively, the 1,000,000 shares for 2022 were granted to Mr Galli on March 3, 2022 and will be vested on 1st anniversary of the date of award upon completion of certain performance criteria, otherwise, the grant for that year will lapse. Details of remaining 4,000,000 shares to be granted as disclosed above are not included. The above mentioned performance criteria are set out in the "Remuneration Committee" section in this Corporate Governance Report.

(6) The Board has exercised its discretion under the scheme rules to amend the vesting date of the 12,500 shares which were awarded to Mr Johannes-Gerhard Hesse from December 30, 2022 to May 2, 2024.

(7) The Board has exercised its discretion under the scheme rules to amend the vesting date of the 5,000 shares which were awarded to Mr Robert Hinman Getz from December 21, 2022 to upon his cessation as a director of the Company.

(8) The Board has exercised its discretion under the scheme rules to amend the vesting date of the 12,500 shares which were awarded to Mr Robert Hinman Getz from December 30, 2022 to upon his cessation as a director of the Company.

(9) The Board has exercised its discretion under the scheme rules to amend the vesting date of the 12,500 shares which were awarded to Ms Virginia Davis Wilmerding from December 30, 2022 to upon her cessation as a director of the Company.

The closing price of the Company's shares immediately before the various dates on which the share awards were granted ranged from HK$87.45 to HK$124.80 in 2022.

The weighted average closing price of the Company's shares immediately before the various dates on which the share awards were vested during 2022 was HK$116.07.

The number of shares available for grant under 2018 Share Award Scheme at the beginning and the end of 2022 were 173,854,694 and 170,843,694 respectively.

The number of shares that may be issued in respect of share awards granted under the 2018 Share Award Scheme during 2022 divided by the number of shares in issue for the year is 0.16%.

The total number of shares available for issue under the 2018 Share Award Scheme is 170,843,694, which represents approximately 9.31% of the issued shares of the Company as at December 31, 2022.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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

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

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

The fair value of the share award is estimated based on the share price of the Company on date of purchase/grant.

During the year, (i) the vesting period of a total of 11,000 shares granted to Mr Camille Jojo was less than 12 months; and (ii) all share awards granted under the 2018 Share Award Scheme were not subject to any performance-based target or clawback mechanism except for those granted to Mr Joseph Galli Jr as detailed in Note (5) on page 71. The Remuneration Committee is of the view that these are justifiable as all such decisions were (i) made before the corresponding new requirements under Chapter 17 of the Listing Rules became effective on January 1, 2023 and within the authority and discretion of the Board as stipulated under the rules of the 2018 Share Award Scheme; and (ii) aligned with the purpose of the 2018 Share Award Scheme as a recognition and reward of the grantee's contributions to the Group's continuing operation and development and which in turn is beneficial to the shareholders and the Company as a whole from a business sustainability and stability perspective.

Save as disclosed above, no other person was granted share awards for the year ended December 31, 2022.

Change in Directors' Emoluments

Ms Caroline Christina Kracht, an Independent Non-executive Director, was appointed as member of the Audit Committee with effect from March 1, 2023 who will be entitled to the Audit Committee fee which has been fixed by the Board.

Ms Virginia Davis Wilmerding, an Independent Non-executive Director, was appointed as member of the Remuneration Committee with effect from March 1, 2023 who will be entitled to the Remuneration Committee fee which has been fixed by the Board.

Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are followed. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is also responsible for facilitating information flow and communication among Directors as well as with Shareholders and management of the Company. The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary undertook over 15 hours of professional training to update her skills and knowledge every year.

Accountability and Audit

The Board acknowledges its responsibility for overseeing the preparation of the accounts of the Group which give a true and fair view of the Group's state of affairs, results and cash flows for the year.

The Board will present a balanced, clear and understandable assessment of annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to the regulators as well as information required to be disclosed pursuant to statutory requirements.

Risk Management and Internal Controls

Effective risk management and internal control systems are vital in order to achieve long term goals of the Group through identifying and evaluating the Group's risks and formulating appropriate mitigating controls. The Board continuously monitors and reviews key internal control policies which include delegated authorities, non-audit services, treasury management policy, policy on market disclosure and investor and media relations, as well as key risk management functions which include legal, insurance, human resources, capital management and treasury. The Board conducts an annual review of the effectiveness of the risk management and internal control systems of the Company, which is designed to manage and minimize risks of failure in operational systems, and to provide reasonable but not absolute assurance that material misstatement or loss can be avoided.

The internal audit function is essential for providing an independent and objective assurance to the Audit Committee and the Board in controlling the internal business environment. The internal audit function maintains independent review continuously on key business aspects in accordance with the annual audit plan, and report the key findings to the Board through the Audit Committee. In addition, the Internal Auditor of the Company reports periodically to the Audit Committee and communicates with the Chairman of the Audit Committee regularly so as to evaluate and manage significant risks that may be identified throughout. The internal audit function also regularly reviews the adequacy of resources, the completeness and accuracy of risk assessments, risk reporting and adequacy of risk mitigation efforts.

The Board, together with the Audit Committee, focus on strengthening the Group's risk management culture, ensuring the whole risk management framework is adequate and effective and overseeing the internal audit function. The Group continuously reviews its risk framework in light of substantial changes and pursues improvements of enterprise risk management. A whistle blowing policy (the "Whistle Blowing Policy") has been adopted in order to detect and identify improprieties and bring the issues to the attention of the management, the Audit Committee as well as the Board. Furthermore, the Group regularly conducts in-house anti-bribery training sessions to bolster the Group's anti-corruption culture, awareness and knowledge.

The Board, and in particular the Audit Committee, conducts a continuous review of the effectiveness of the Group's risk management and internal control systems that have been put in place. The reviews covering financial, operational, and compliance controls and risk management performed in 2022 included:

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

The Company identifies, assesses and prioritizes the risks that are most relevant to the Company's success according to their likelihood and impacts. Risk assessment is conducted with the objective to improve the design and effectiveness of the Company's internal control. Mitigation plans or controls enhancement are developed and implemented by business units based on the risk assessment. The Company also reviews its risk framework on an ongoing basis considering substantial changes and pursues improvements of enterprise risk management.

The procedures and internal controls for handling and disseminating of inside information are governed by the Model Code, the Code for Securities Transactions by Relevant Employees, the Whistle Blowing Policy, the Policy on Market Disclosure, Investor and Media Relations with a view to ensure compliance with the Company's Articles of Association and the statutory and regulatory requirements that the Group is subject to.

In light of the above reviews and policies, the Board confirms that the Group's risk management and internal controls systems are effective and adequate.

External Auditor

Deloitte Touche Tohmatsu, the external auditor of the Group, provided the following audit and non-audit services to the Group in 2022:

Nature of Services	**Amount (US$ million)**
External Audit Services	2.65
Taxation Services	0.36
Other Services	0.38

The other services provided by Deloitte Touche Tohmatsu comprised professional services conducted under the terms of specified engagements.

The nature and ratio of annual fees to external auditor for audit services and non-audit services are subject to scrutiny by the Audit Committee to ensure the independence of the external auditor. All non-audit services from external auditor are regulated by a Policy on Non-Audit Services published on the Company's website (www.ttigroup.com).

The Audit Committee and the external auditor of the Group meet twice a year without the presence of the management of the Group to enhance independent reporting by external auditor of the Group. In order to maintain effective communication with shareholders, the external auditor attended the 2022 Annual General Meeting to answer questions about the accounting policies, the auditor independence, the conduct of the audit and the preparation and content of the auditor's report.

Investor Relations and Shareholder Communications

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

Shareholders' Communication Policy

The Board has adopted the Shareholders' Communication Policy on March 22, 2012, which primarily covers the current practices for communicating with shareholders and is published on the Company's website (www.ttigroup.com). All the Company's circulars, announcements, notices and results of general meetings, annual and interim reports, and webcasts of results presentations conducted at press conferences, which are published on the Company's website (www.ttigroup.com), provide timely, efficient and accurate information to shareholders and investors. Essential information is communicated to the shareholders mainly through the Company's financial reports, general meetings and the information published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk). In addition, the Company holds regular meetings with institutional shareholders and analysts and encourages shareholders to attend annual general meetings to communicate with Directors and management of the Company directly. Important shareholders' dates in the coming financial year are set out in the section headed "Corporate Information" of this annual report. The Board reviews the implementation of the Shareholders' Communication Policy on a regular basis (including steps taken at the general meetings, the handling of queries received and the multiple channels of communication and engagement in place) and considered it has been properly and effectively implemented during the year.

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

Shareholders' Rights

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

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

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

PROCEDURE FOR NOMINATING A PERSON FOR ELECTION AS A DIRECTOR

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

PROCEDURE FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

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

PROCEDURE FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

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

Constitutional Document

No change has been made to the Company's constitutional document during 2022. The constitutional document of the Company was published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk).

Board, Board Committee and General Meetings in 2022

A summary of attendance of Board, Board Committee and general meetings in 2022 are detailed in the following table:

	Meetings attended/Held in 2022				
	Board	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**General Meeting**
Number of meeting(s) held during the year	5	4	3	5	1
Group Executive Directors					
Mr Horst Julius Pudwill	5/5		3/3		1/1
Mr Stephan Horst Pudwill	5/5				1/1
Mr Joseph Galli Jr	5/5				1/1
Mr Kin Wah Chan	5/5				1/1
Mr Chi Chung Chan	5/5				1/1
Non-executive Directors					
Prof Roy Chi Ping Chung GBS BBS JP	5/5				1/1
Mr Camille Jojo	5/5	4/4		5/5	1/1
Independent Non-executive Directors					
Mr Peter David Sullivan	5/5	4/4		5/5	1/1
Mr Johannes-Gerhard Hesse	5/5	4/4	3/3		1/1
Mr Robert Hinman Getz	5/5	4/4	3/3	5/5	1/1
Ms Virginia Davis Wilmerding(1)	5/5		1/1		1/1
Ms Caroline Christina Kracht(2)	3/3				1/1
Date(s) of meeting(s)	20.1.2022	1.3.2022	1.3.2022	1.3.2022	13.5.2022
	2.3.2022	12.5.2022	9.8.2022	9.8.2022	
	12.5.2022	10.8.2022	8.11.2022	23.8.2022	
	10.8.2022	8.11.2022		8.11.2022	
	9.11.2022			20.12.2022	

Notes:

(1) Ms Virginia Davis Wilmerding was appointed as a member of the Nomination Committee and the Remuneration Committee on August 10, 2022 and March 1, 2023 respectively.

(2) Ms Caroline Christina Kracht was appointed as Independent Non-executive Director and a member of the Audit Committee on March 7, 2022 and March 1, 2023 respectively.

Report of the Directors

The directors have the pleasure in presenting their annual report and the audited financial statements for the year ended December 31, 2022.

Principal Activities and Business Review

The Company acts as an investment holding company.

The principal activities of the principal subsidiaries and an associate are set out in Notes 51 and 52 to the consolidated financial statements, respectively.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Company Ordinance"), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred, and an indication of likely future development in the Group's business, can be found in the "Chairman's Statement", "Chief Executive Officer's Message", "Review of Operations", "Management's Discussion and Analysis", "Corporate Governance Report", and "Financial Summary" sections of this Annual Report, and the "Environmental, Social and Governance Report" (the "ESG Report"), which will be published separately. The above sections and the ESG Report form part of this report.

Results and Appropriations

The results of the Group for the year ended December 31, 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 89.

An interim dividend of HK95.00 cents (approximately US12.23 cents) per share amounting to approximately US$224,317,000 was paid to the shareholders during the year.

The directors recommend the payment of a final dividend of HK90.00 cents (approximately US11.58 cents) per share to the shareholders on the register of members on May 19, 2023, amounting to approximately US$212,513,000.

Property, Plant and Equipment

The Group continued to expand its business and during the year spent approximately US$3,130,000 on moulds and tooling, office equipment, furniture and fixtures for approximately US$19,524,000 and plant and machinery for approximately US$49,017,000. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 16 to the consolidated financial statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 39 to the consolidated financial statements.

Other than 800,000 shares of the Company purchased on-market by the trustee for satisfying the awarded shares granted under the Company's share award schemes (details of which are set out in the Corporate Governance Report), neither the Company nor any of its subsidiaries has, during the year, purchased, sold or redeemed any listed securities of the Company.

Directors

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

Group Executive Directors:

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

Non-executive Directors:

Prof Roy Chi Ping Chung GBS BBS JP
Mr Camille Jojo

Independent Non-executive Directors:

Mr Peter David Sullivan
Mr Johannes-Gerhard Hesse
Mr Robert Hinman Getz
Ms Virginia Davis Wilmerding
Ms Caroline Christina Kracht (appointed on March 7, 2022)

In accordance with Article 107(A) of the Company's Articles of Association, Messrs. Horst Julius Pudwill, Joseph Galli Jr, Chi Chung Chan and Robert Hinman Getz will retire at the forthcoming Annual General Meeting, being eligible, will offer themselves for re-election.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Terms of Office of Non-executive Directors and Independent Non-executive Directors

The term of office for each of the Non-executive Directors and Independent Non-executive Directors is the period up to his retirement by rotation in accordance with Article 107(A) of the Company's Articles of Association.

Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended December 31, 2022 and during the period from January 1, 2023 to the date of this Report are available on the Company's website (www.ttigroup.com).

Directors' and Chief Executive's Interests

As at December 31, 2022, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name of directors	Capacity/ Nature of interests	Interests in shares (other than pursuant to equity derivatives)[1]	Interests in underlying shares pursuant to equity derivatives[1]	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	Beneficial owner	146,309,000[2]	55,500	363,284,294	19.80%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	216,159,794[3]	—		
Mr Stephan Horst Pudwill	Beneficial owner	5,159,500[4]	5,750,000	44,917,000	2.45%
	Beneficiary of a trust	34,007,500[5]	—		
Mr Joseph Galli Jr	Beneficial owner	16,806,000[6]	—	16,806,000	0.92%
Mr Kin Wah Chan	Beneficial owner	691,000[7]	4,450,000	5,141,000	0.28%
Mr Chi Chung Chan	Beneficial owner	1,050,000[8]	4,750,000	5,800,000	0.32%
Prof Roy Chi Ping Chung GBS BBS JP	Beneficial owner	49,178,448	426,000	86,679,478	4.72%
	Interests of controlled corporation	37,075,030[9]	—		
Mr Camille Jojo	Beneficial owner	139,000	226,000	365,000	0.02%
Mr Peter David Sullivan	Beneficial owner	519,500	79,000	598,500	0.03%
Mr Johannes-Gerhard Hesse	Beneficial owner	22,500[10]	411,000	433,500	0.02%
Mr Robert Hinman Getz	Beneficial owner	68,174[11]	154,000	222,174	0.01%
Ms Virginia Davis Wilmerding	Beneficial owner	12,500[12]	29,500	42,000	less than 0.01%

Notes:

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

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

(2) These included Mr Horst Julius Pudwill's interests in 300,000 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022. Details of Mr Horst Julius Pudwill's awarded shares are set out in the Corporate Governance Report.

Directors' and Chief Executive's Interests (continued)

Notes: (continued)

(3) These shares were held by the following companies in which Mr Horst Julius Pudwill has a beneficial interest:

	No. of shares
Sunning Inc.	179,084,764
Cordless Industries Company Limited *	37,075,030
	216,159,794

(4) These included Mr Stephan Horst Pudwill's interests in 25,000 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022. Details of Mr Stephan Horst Pudwill's awarded shares are set out in the Corporate Governance Report.

(5) These shares were held by a trust of which Mr Stephan Horst Pudwill is one of the beneficiaries.

(6) These included Mr Joseph Galli Jr's interests in 5,000,000 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022; 1,000,000 awarded shares which agreed to be granted to Mr Galli shall be vested provided that Mr Galli remains an employee in good standing at the Company through the vesting date; and the 4,000,000 shares which agreed to be granted to Mr Galli shall be vested upon the achievement of performance criteria for the years between 2023 to 2026 respectively. Details of Mr Joseph Galli Jr's awarded shares are set out in the Corporate Governance Report.

(7) These included Mr Kin Wah Chan's interests in 25,000 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022. Details of Mr Kin Wah Chan's awarded shares are set out in the Corporate Governance Report.

(8) These included Mr Chi Chung Chan's interests in 25,000 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022. Details of Mr Chi Chung Chan's awarded shares are set out in the Corporate Governance Report.

(9) These shares were held by Cordless Industries Company Limited* in which Prof Roy Chi Ping Chung GBS BBS JP has a beneficial interest.

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

(10) These included Mr Johannes-Gerhard Hesse's interests in 12,500 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022. Details of Mr Johannes-Gerhard Hesse's awarded shares are set out in the Corporate Governance Report.

(11) These included Mr Robert Hinman Getz's interests in 17,500 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022. Details of Mr Robert Hinman Getz's awarded shares are set out in the Corporate Governance Report.

(12) These included Ms Virginia Davis Wilmerding's interests in 12,500 awarded shares which remained unvested under the share award schemes of the Company as of December 31, 2022. Details of Ms Virginia Davis Wilmerding's awarded shares are set out in the Corporate Governance Report.

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at December 31, 2022.

Share Options

Share Option Schemes

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

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

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

(i) employees; or
(ii) Directors; or
(iii) secondees; or
(iv) any shareholders of any member of the Group or invested entity or controlling shareholders or any holders of any securities issued by any member of the Group; or
(v) business partners; or
(vi) suppliers; or
(vii) customers; or
(viii) advisers of the Group.

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

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

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

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

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors									
Mr Horst Julius Pudwill	22.12.2020	E	47,000	—	(23,500)	—	23,500	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Stephan Horst Pudwill	20.3.2014	D	750,000	—	—	—	750,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	1,000,000	—	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Mr Kin Wah Chan	17.3.2017	D	200,000	—	—	—	200,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	1,000,000	—	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Mr Chi Chung Chan	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	1,000,000	—	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Camille Jojo	14.3.2018	E	50,000	—	—	—	50,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031

Share Options (continued)

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors (continued)									
Mr Peter David Sullivan	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Robert Hinman Getz	15.5.2020	E	75,000	—	—	—	75,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Ms Virginia Davis Wilmerding	19.8.2021	E	29,500	—	—	—	29,500	167.200	19.8.2022 – 18.8.2031
Total for directors			**16,504,500**	**—**	**(173,500)**	**—**	**16,331,000**		
Employees	17.3.2017	D	110,000	—	(40,000)	—	70,000	32.100	17.3.2018 – 16.3.2027
	19.6.2017	E	100,000	—	—	—	100,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	150,000	—	—	—	150,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	194,000	—	—	—	194,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	94,000	—	—	—	94,000	105.500	22.12.2021 – 21.12.2030
Total for employees			**648,000**	**—**	**(40,000)**	**—**	**608,000**		
Total for all categories			**17,152,500**	**—**	**(213,500)**	**—**	**16,939,000**		

No option was granted during the year ended December 31, 2022. Accordingly, the number of share options available for grant under Scheme E at the beginning and the end of the year remains at 168,012,694.

The weighted average closing price of the Company's shares immediately before the various dates on which the share options were granted during 2021 was HK$152.31.

The closing price of the Company's shares immediately before the various dates on which the share options were granted ranged from HK$152.20 to HK$163.70 in 2021.

The weighted average closing prices of the Company's shares immediately before various dates during 2022 and 2021 on which the share options was exercised were HK$87.98 (2021: HK$152.40) respectively.

The fair value of the share options granted in 2021 measured at various dates on which the share options were granted was ranged from HK$36.67 to HK$39.49. The weighted average fair value of the share options granted in 2021 was HK$36.70 per option.

Arrangements to Purchase Shares or Debentures

Other than as disclosed above and for satisfying the awarded shares granted under the Company's share award schemes (details of which are set out in this Annual Report), at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Director's Interests in Transactions, Arrangements and Contracts of Significance

No transactions, arrangements and contracts of significance, to which the Company, or any of its subsidiaries, was a party and in which a director or a connected entity of a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Indemnities

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

Management Contracts

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

Equity-linked Agreements

Other than as disclosed above and for satisfying the awarded shares granted under the Company's share award schemes (details of which are set out in this Annual Report), the Group has not entered into any equity-linked agreements during the year.

Substantial Shareholders' Interests

As at December 31, 2022, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Total interests in shares	(L/S/LP)*	Approximate aggregate percentage of interests
JPMorgan Chase & Co.[(1)]	156,216,031	(L)	8.51%
	7,252,720	(S)	0.40%
	62,805,064	(LP)	3.42%
The Bank of New York Mellon Corporation[(2)]	91,822,534	(L)	5.00%
	35,813,385	(S)	1.95%
	53,690,030	(LP)	2.93%

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

Substantial Shareholders' Interests (continued)

Notes:

(1) The following is a breakdown of the interests in shares in the Company held by JPMorgan Chase & Co.:

		Total interests in shares				
Name	Remarks	Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	Approximate percentage of interests
JPMorgan Chase & Co.	(1a)	—	—	156,216,031	(L)	8.51%
		—	—	7,252,720	(S)	0.40%
		—	—	62,805,064	(LP)	3.42%
JPMorgan Asset Management (Taiwan) Limited	(1b)	310,500	(L)	—	—	0.02%
J.P. Morgan SE	(1b)	14,500	(L)	—	—	0.00%
J.P. MORGAN MARKETS LIMITED	(1b)	5,000	(L)	—	—	0.00%
J.P. Morgan Securities LLC	(1b)	555,330	(L)	—	—	0.03%
		224,715	(S)	—	—	0.01%
JPMORGAN CHASE BANK, N.A. - LONDON BRANCH	(1b)	62,805,064	(L)	—	—	3.42%
JPMORGAN ASSET MANAGEMENT (UK) LIMITED	(1b)	6,529,572	(L)	—	—	0.36%
J.P. Morgan Investment Management Inc.	(1b)	59,481,640	(L)	—	—	3.24%
JPMorgan Asset Management Holdings Inc.	(1b)	325	(L)	—	—	0.00%
JPMorgan Asset Management (Japan) Limited	(1b)	1,336,200	(L)	—	—	0.07%
J.P. Morgan Trust Company of Delaware	(1b)	65,805	(L)	—	—	0.00%
JPMorgan Chase Bank, National Association	(1b)	6,200,356	(L)	—	—	0.34%
		56,140	(S)	—	—	0.00%
JPMorgan Asset Management (Asia Pacific) Limited	(1b)	8,120,000	(L)	—	—	0.44%
J.P. MORGAN SECURITIES PLC	(1b)	10,791,739	(L)	—	—	0.59%
		6,971,865	(S)	—	—	0.38%
JPMorgan Asset Management (Asia) Inc.	(1b)	—	—	9,766,700	(L)	0.53%
JPMorgan Asset Management Holdings Inc.	(1b)	—	—	75,777,912	(L)	4.13%
JPMorgan Chase Holdings LLC	(1b)	—	—	76,404,372	(L)	4.16%
		—	—	224,715	(S)	0.01%
J.P. Morgan International Finance Limited	(1b)	—	—	10,806,239	(L)	0.59%
		—	—	6,971,865	(S)	0.38%
JPMorgan Chase Bank, National Association	(1b)	—	—	73,611,303	(L)	4.01%
		—	—	6,971,865	(S)	0.38%
J.P. MORGAN FINANCIAL INVESTMENTS LIMITED	(1b)	—	—	5,000	(L)	0.00%
Bear Stearns Irish Holdings LLC	(1b)	—	—	5,000	(L)	0.00%
J.P. Morgan Broker-Dealer Holdings Inc.	(1b)	—	—	555,330	(L)	0.03%
		—	—	224,715	(S)	0.01%
JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	(1b)	—	—	6,529,572	(L)	0.36%
J.P. Morgan Equity Holdings, Inc.	(1b)	—	—	65,805	(L)	0.00%
J.P. MORGAN CAPITAL HOLDINGS LIMITED	(1b)	—	—	10,791,739	(L)	0.59%
		—	—	6,971,865	(S)	0.38%

Remarks:

(1a) JPMorgan Chase & Co. is listed on New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 156,216,031 shares of long position, 7,252,720 shares of short position and 62,805,064 shares of lending pool respectively was as controlled corporation.

(1b) JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan SE, J.P. MORGAN MARKETS LIMITED, J.P. Morgan Securities LLC, JPMORGAN CHASE BANK, N.A. - LONDON BRANCH, JPMORGAN ASSET MANAGEMENT (UK) LIMITED, J.P. Morgan Investment Management Inc., JPMorgan Asset Management Holdings Inc., JPMorgan Asset Management (Japan) Limited, J.P. Morgan Trust Company of Delaware, JPMorgan Chase Bank, National Association, JPMorgan Asset Management (Asia Pacific) Limited, J.P. MORGAN SECURITIES PLC, JPMorgan Asset Management (Asia) Inc., JPMorgan Asset Management Holdings Inc., JPMorgan Chase Holdings LLC, J.P. Morgan International Finance Limited, JPMorgan Chase Bank, National Association, J.P. MORGAN FINANCIAL INVESTMENTS LIMITED, Bear Stearns Irish Holdings LLC, J.P. Morgan Broker-Dealer Holdings Inc., JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED, J.P. Morgan Equity Holdings, Inc. and J.P. MORGAN CAPITAL HOLDINGS LIMITED were all directly or indirectly owned by JPMorgan Chase & Co. and by virtue of the SFO, JPMorgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.

(2) The following is a breakdown of the interest in shares in the Company held by The Bank of New York Mellon Corporation:

		Total interests in shares				
Name	**Remarks**	**Direct interests**	**(L/S/LP)***	**Deemed interests**	**(L/S/LP)***	**Approximate percentage of interests**
The Bank of New York Mellon Corporation	(2a)	—	—	91,822,534	(L)	5.00%
		—	—	35,813,385	(S)	1.95%
		—	—	53,690,030	(LP)	2.93%
The Bank of New York Mellon	(2b)	91,765,694	(L)	—	—	5.00%
		35,813,385	(S)	—	—	1.95%
BNY Mellon, National Association	(2b)	56,415	(L)	—	—	0.00%
B.N.Y. Holdings (Delaware) Corporation	(2b)	—	—	425	(L)	0.00%
BNY Mellon Trust of Delaware	(2b)	425	(L)	—	—	0.00%

Remarks:

(2a) The Bank of New York Mellon Corporation is listed on New York Stock Exchange. The capacity of The Bank of New York Mellon Corporation in holding the 91,822,534 shares of long position, 35,813,385 shares of short position and 53,690,030 shares of lending pool respectively was as controlled corporation.

(2b) The Bank of New York Mellon, BNY Mellon, National Association, B.N.Y. Holdings (Delaware) Corporation and BNY Mellon Trust of Delaware were all directly or indirectly owned by The Bank of New York Mellon Corporation and by virtue of the SFO, The Bank of New York Mellon Corporation was deemed to be interested in the shares held by these subsidiaries.

Save as disclosed above, no other person was interested in or had a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of the Part XV of the SFO as at December 31, 2022.

Dividend Policy

Stable dividend payment to shareholders of the Company is our primary objective. The Board determines the interim dividend and recommends the final dividend which requires the approval of shareholders of the Company. In proposing any dividend payout, the Board of Directors shall take into account, inter alia, the Group's operations, earnings, financial condition, cash availability, capital expenditure and future development requirements and other factors that may deem relevant at such time. Any payment of the dividend by the Company is also subject to any restrictions under the Companies Ordinance and the Company's Articles of Association.

Environmental, Social and Governance ("ESG")

The Company has adopted the latest ESG reporting guidelines issued by the Stock Exchange. The ESG Report together with this Annual Report will be published on the Company's website (www.ttigroup.com) and the Stock Exchange's website (www.hkexnews.hk) in due course in compliance with the ESG reporting guidelines as set out in Appendix 27 to the Listing Rules.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended December 31, 2022.

Donations

During the year, the Group made charitable and other donations totalling US$1,569,000.

Auditor

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs Deloitte Touche Tohmatsu as auditor of the Company.

Horst Julius Pudwill
Chairman
Hong Kong

March 1, 2023

Independent Auditor's Report

Deloitte.

德勤

TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED
創科實業有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Techtronic Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 89 to 182, which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How our Audit Addressed the Key Audit Matter
Recognition of income and deferred taxes We identified the recognition of income and deferred tax as a key audit matter as the Group operates in a complex multinational tax environment, in which the tax amounts, including provisions for potential tax exposures, and the realizability of the deferred tax assets, which depends on whether sufficient taxable profits or taxable temporary differences will be available in the future, are associated with a high degree of estimates and judgement. As disclosed in Note 10 and Note 42 to the consolidated financial statements, as at December 31, 2022, the Group has recognized US$79.7 million of income tax expense in the consolidated statement of profit or loss and other comprehensive income and US$81.1 million deferred tax assets in the consolidated statement of financial position, respectively.	Our procedures in relation to management's assessment about the recognition of income and deferred tax included: • Understanding and evaluating the management's procedures and relevant controls regarding the completeness of tax exposures and estimating the provision for income tax and deferred tax assets to be recognized; • Understanding and evaluating management's estimates and judgements and consider the status of current tax authority inquiries, judgmental positions taken in the tax returns, the outcome of previous inquiries and current estimates and developments in the tax environment; • Using our tax specialists to evaluate and challenge the adequacy of management's key assumptions and read the latest correspondence with the tax authorities to assess management's estimates; and • Evaluating management's assessment of the sufficiency of future taxable profits supporting the recognition of deferred tax assets.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 1, 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2022

	Notes	2022 US$'000	2021 US$'000
Revenue	6	**13,253,917**	13,203,161
Cost of sales		**(8,041,340)**	(8,081,548)
Gross profit		**5,212,577**	5,121,613
Other income	7	**13,517**	12,992
Interest income	8	**25,852**	32,028
Selling, distribution and advertising expenses		**(2,191,001)**	(2,165,373)
Administrative expenses		**(1,349,840)**	(1,351,733)
Research and development costs		**(484,343)**	(425,699)
Finance costs	9	**(69,868)**	(42,008)
Profit before share of result of an associate and taxation		**1,156,894**	1,181,820
Share of result of an associate		**3**	5
Profit before taxation		**1,156,897**	1,181,825
Taxation charge	10	**(79,747)**	(82,724)
Profit for the year	11	**1,077,150**	1,099,101
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		**19,376**	7,839
Items that may be reclassified subsequently to profit or loss, net of related income tax:			
Fair value (loss) gain on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting		**(63,367)**	162,205
Exchange differences on translation of foreign operations		**(128,382)**	(15,949)
Other comprehensive (loss) income for the year		**(172,373)**	154,095
Total comprehensive income for the year		**904,777**	1,253,196
Profit for the year attributable to:			
Owners of the Company		**1,077,150**	1,099,003
Non-controlling interests		**—**	98
		1,077,150	1,099,101
Total comprehensive income attributable to:			
Owners of the Company		**904,777**	1,253,098
Non-controlling interests		**—**	98
		904,777	1,253,196
Earnings per share (US cents)	15		
Basic		**58.86**	60.04
Diluted		**58.67**	59.73

Consolidated Statement of Financial Position

As at December 31, 2022

	Notes	2022 US$'000	2021 US$'000
Non-current assets			
Property, plant and equipment	16	**2,085,871**	1,852,886
Right of use assets	17	**683,289**	553,365
Goodwill	18	**598,674**	577,237
Intangible assets	19	**1,124,013**	849,785
Interest in an associate	21	**2,029**	2,026
Financial assets at fair value through profit or loss	22	**9,744**	4,959
Deposits		**177,300**	—
Finance lease receivables	23	**8,487**	—
Derivative financial instruments	29	**8,002**	8,302
Deferred tax assets	42	**81,082**	97,436
		4,778,491	3,945,996
Current assets			
Inventories	24	**5,084,951**	4,849,792
Right to returned goods asset	25	**10,563**	9,692
Trade and other receivables	26	**1,639,563**	2,022,278
Deposits and prepayments		**232,127**	151,443
Bills receivable	27	**6,887**	7,643
Finance lease receivables	23	**2,589**	—
Tax recoverable		**36,231**	29,874
Trade receivables from an associate	28	**5,026**	6,600
Derivative financial instruments	29	**76,774**	93,554
Financial assets at fair value through profit or loss	22	**13,466**	16,272
Bank balances, deposits and cash	30	**1,428,930**	1,874,401
		8,537,107	9,061,549
Current liabilities			
Trade and other payables	31	**3,777,427**	3,991,797
Bills payable	32	**20,267**	47,549
Warranty provision	33	**205,350**	182,765
Tax payable		**56,750**	56,123
Derivative financial instruments	29	**50,474**	8,282
Lease liabilities	34	**139,520**	115,194
Discounted bills with recourse	35	**2,003**	1,857
Unsecured borrowings – due within one year	38	**1,952,947**	2,252,636
Refund liabilities from right of return	25	**17,577**	22,767
		6,222,315	6,678,970
Net current assets		**2,314,792**	2,382,579
Total assets less current liabilities		**7,093,283**	6,328,575

	Notes	**2022 US$'000**	2021 US$'000
Capital and Reserves			
Share capital	39	**684,710**	683,395
Reserves		**4,520,771**	4,039,123
Equity attributable to Owners of the Company and total equity		**5,205,481**	4,722,518
Non-current Liabilities			
Lease liabilities	34	**565,561**	439,006
Unsecured borrowings – due after one year	38	**1,198,002**	1,028,351
Retirement benefit obligations	41	**47,671**	76,139
Other payables	31	**60,346**	48,502
Deferred tax liabilities	42	**16,222**	14,059
		1,887,802	1,606,057
Total equity and non-current liabilities		**7,093,283**	6,328,575

The consolidated financial statements on pages 89 to 182 were approved and authorized for issue by the Board of Directors on March 1, 2023 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended December 31, 2022

	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, 2021	673,141	(42,086)	(87,765)	17,411	(19,620)	(80,305)	3,442,229	3,903,005	(98)	3,902,907
Profit for the year	—	—	—	—	—	—	1,099,003	1,099,003	98	1,099,101
Remeasurement of defined benefit obligations	—	—	—	—	7,459	—	—	7,459	—	7,459
Fair value gain on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	—	—	—	163,556	—	163,556	—	163,556
Deferred tax asset on remeasurement of defined benefit obligations	—	—	—	—	380	—	—	380	—	380
Deferred tax liability on hedging reserve	—	—	—	—	—	(1,351)	—	(1,351)	—	(1,351)
Exchange differences on translation of foreign operations	—	—	(15,949)	—	—	—	—	(15,949)	—	(15,949)
Other comprehensive (loss) income for the year	—	—	(15,949)	—	7,839	162,205	—	154,095	—	154,095
Total comprehensive (loss) income for the year	—	—	(15,949)	—	7,839	162,205	1,099,003	1,253,098	98	1,253,196
Shares issued on exercise of options	10,254	—	—	(2,046)	—	—	—	8,208	—	8,208
Vesting of awarded shares	—	17,597	—	(17,597)	—	—	—	—	—	—
Shares for share award scheme	—	(81,251)	—	—	—	—	—	(81,251)	—	(81,251)
Recognition of share-based payments	—	—	—	33,573	—	—	—	33,573	—	33,573
Final dividend – 2020	—	—	—	—	—	—	(193,488)	(193,488)	—	(193,488)
Interim dividend – 2021	—	—	—	—	—	—	(200,627)	(200,627)	—	(200,627)
At December 31, 2021	683,395	(105,740)	(103,714)	31,341	(11,781)	81,900	4,147,117	4,722,518	—	4,722,518
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**1,077,150**	**1,077,150**	**—**	**1,077,150**
Remeasurement of defined benefit obligations	**—**	**—**	**—**	**—**	**22,007**	**—**	**—**	**22,007**	**—**	**22,007**
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	**—**	**—**	**—**	**—**	**—**	**(63,671)**	**—**	**(63,671)**	**—**	**(63,671)**
Deferred tax liability on remeasurement of defined benefit obligations	**—**	**—**	**—**	**—**	**(2,631)**	**—**	**—**	**(2,631)**	**—**	**(2,631)**
Deferred tax asset on hedging reserve	**—**	**—**	**—**	**—**	**—**	**304**	**—**	**304**	**—**	**304**
Exchange differences on translation of foreign operations	**—**	**—**	**(128,382)**	**—**	**—**	**—**	**—**	**(128,382)**	**—**	**(128,382)**
Other comprehensive (loss) income for the year	**—**	**—**	**(128,382)**	**—**	**19,376**	**(63,367)**	**—**	**(172,373)**	**—**	**(172,373)**
Total comprehensive (loss) income for the year	**—**	**—**	**(128,382)**	**—**	**19,376**	**(63,367)**	**1,077,150**	**904,777**	**—**	**904,777**
Shares issued on exercise of options	**1,315**	**—**	**—**	**(258)**	**—**	**—**	**—**	**1,057**	**—**	**1,057**
Vesting of awarded shares	**—**	**21,651**	**—**	**(21,651)**	**—**	**—**	**—**	**—**	**—**	**—**
Shares for share award scheme	**—**	**(9,796)**	**—**	**—**	**—**	**—**	**—**	**(9,796)**	**—**	**(9,796)**
Recognition of share-based payments	**—**	**—**	**—**	**47,346**	**—**	**—**	**—**	**47,346**	**—**	**47,346**
Final dividend – 2021	**—**	**—**	**—**	**—**	**—**	**—**	**(236,104)**	**(236,104)**	**—**	**(236,104)**
Interim dividend – 2022	**—**	**—**	**—**	**—**	**—**	**—**	**(224,317)**	**(224,317)**	**—**	**(224,317)**
At December 31, 2022	**684,710**	**(93,885)**	**(232,096)**	**56,778**	**7,595**	**18,533**	**4,763,846**	**5,205,481**	**—**	**5,205,481**

Consolidated Statement of Cash Flows

For the year ended December 31, 2022

	2022 US$'000	2021 US$'000
Operating Activities		
Profit before taxation	**1,156,897**	1,181,825
Adjustments for:		
Amortization/write-off of intangible assets	**132,434**	123,992
Depreciation of property, plant and equipment	**240,428**	190,289
Depreciation of right of use assets	**139,998**	112,815
Fair value gain on foreign currency forward contracts	**(4,339)**	(9,074)
Fair value loss on acquisition right of certain property, plant and equipment	**300**	192
Fair value loss on listed equity securities	**2,806**	4,792
Finance costs	**69,868**	42,008
Gain on early termination of leases	**(178)**	(734)
Gain on sale and leaseback transactions	**(9,072)**	—
(Reversal of impairment loss) impairment loss on trade receivables under expected credit loss model	**(12,268)**	24,820
Impairment loss on right of use assets	**—**	876
Interest income	**(25,852)**	(32,028)
Loss on disposal of property, plant and equipment	**16,497**	32,707
Share-based payments expense	**47,346**	33,573
Share of result of an associate	**(3)**	(5)
Write down of inventories	**61,611**	101,991
Operating cash flows before movements in working capital	**1,816,473**	1,808,039
Increase in inventories	**(361,235)**	(1,732,671)
Decrease (increase) in trade and other receivables, deposits and prepayments	**119,405**	(697,983)
Increase in right to returned goods asset	**(871)**	(426)
Decrease in bills receivable	**756**	17
Decrease (increase) in trade receivables from an associate	**1,574**	(2,360)
(Decrease) increase in trade and other payables	**(178,038)**	734,304
Decrease in refund liabilities from right of return	**(5,190)**	(3,946)
Decrease in bills payable	**(27,282)**	(14,242)
Increase in warranty provision	**26,195**	29,048
Decrease in retirement benefit obligations	**(6,462)**	(8,719)
Net payment for purchase of shares for share award scheme	**(9,796)**	(81,251)
Cash generated from operations	**1,375,529**	29,810
Interest paid	**(69,868)**	(42,008)
Hong Kong Profits Tax paid	**(1,904)**	(4,990)
Overseas tax paid	**(73,527)**	(87,874)
Hong Kong Profits Tax refunded	**41**	1,104
Overseas tax refunded	**2,832**	3,013
Net Cash from (used in) Operating Activities	**1,233,103**	(100,945)

	Note	**2022 US$'000**	2021 US$'000
Investing Activities			
Acquisition of a subsidiary	43	**(37,060)**	—
Additions to intangible assets		**(404,876)**	(310,238)
Interest received		**25,852**	32,028
Proceeds from disposal of property, plant and equipment		**3,643**	1,632
Proceeds from sale and leaseback transactions		**78,572**	—
Proceeds from (payment for) early termination of leases		**6**	(71)
Purchase of club membership debenture		**—**	(1,737)
Purchase of property, plant and equipment		**(580,990)**	(746,538)
Purchase of unlisted equity securities		**(4,800)**	—
Repayment in finance lease receivable		**423**	—
Net Cash used in Investing Activities		**(919,230)**	(1,024,924)
Financing Activities			
Increase in discounted bills with recourse		**146**	421
Dividends paid		**(460,421)**	(394,115)
New unsecured borrowings obtained		**4,839,103**	7,300,433
Proceeds from issue of shares		**1,057**	8,208
Repayment of lease liabilities		**(137,333)**	(101,736)
Repayment of unsecured borrowings		**(4,955,291)**	(5,341,104)
Net Cash (used in) from Financing Activities		**(712,739)**	1,472,107
Net (Decrease) Increase in Cash and Cash Equivalents		**(398,866)**	346,238
Cash and Cash Equivalents at Beginning of the Year		**1,874,401**	1,533,876
Effect of Foreign Exchange Rate Changes		**(46,605)**	(5,713)
Cash and Cash Equivalents at End of the Year		**1,428,930**	1,874,401
Analysis of the Balances of Cash and Cash Equivalents			
Represented by:			
Bank balances, deposits and cash		**1,428,930**	1,874,401
		1,428,930	1,874,401

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

1. General Information

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

The principal activities of the Company and its subsidiaries (the "Group") are the manufacturing and trading of electrical and electronic products.

The consolidated financial statements are presented in United States dollars ("US$"), which is also the functional currency of the Company.

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on January 1, 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond June 30, 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contract – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020

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

Impacts on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after January 1, 2022. The amendments update a reference in HKFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendment to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after January 1, 2023.

[2] Effective for annual periods beginning on or after a date to be determined.

[3] Effective for annual periods beginning on or after January 1, 2024.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKRS 16 *Lease Liability in a Sale and Leaseback*

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements of HKFRS 15 to be accounted for as a sale. The amendments require a seller-lessee to determine "lease payments" or "revised lease payments" such that the seller-lessee would not recognize a gain or loss that relates to the right of use retained by the seller-lessee. The amendments also clarify that applying the requirements does not prevent the seller-lessee from recognizing in profit or loss any gain or loss relating to subsequent partial or full termination of a lease.

As part of the amendments, Illustrative Example 25 accompanying HKFRS 16 is added to illustrate the application of the requirements in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early application permitted. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognizes the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Amendments to HKAS 1 *Non-current Liabilities with Covenants ('the 2022 Amendments')*

The 2022 Amendments modify the requirements introduced by the amendments to HKAS 1 issued in 2020, Classification of Liabilities as Current or Non-current ("the 2020 Amendment") on how an entity classifies debt and other financial liabilities with covenants as current or non-current. The amendments specify that only covenants with which the entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

The amendments also specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The amendments also defer the effective date of the 2020 Amendments to annual reporting periods beginning on or after January 1, 2024. The amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after January 1, 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

As at December 31, 2022, the Group's right to defer settlement for borrowings of US$1,198,002,000 are subject to compliance with certain financial ratios within 12 months from the reporting date. Such borrowings were classified as non-current as the Group met such ratios at December 31, 2022. Upon the application of the amendments, covenants which the Group is required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting date. Instead, the Group will disclose additional information about the covenants and facts and circumstances that indicate the Group may have difficulty complying with the covenants.

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in Note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognize a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right of use assets ("ROU assets") and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on January 1, 2023. The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies

BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

BUSINESS COMBINATIONS OR ASSET ACQUISITIONS

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business Combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organized workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

BUSINESS COMBINATIONS OR ASSET ACQUISITIONS (continued)

Business Combinations (continued)

For business combinations in which the acquisition date is on or after January 1, 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognized.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. ROU assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

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

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognized in profit or loss.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

BUSINESS COMBINATIONS OR ASSET ACQUISITIONS (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less any accumulated impairment losses, if any.

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

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

If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate is disclosed below.

INTEREST IN AN ASSOCIATE

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

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

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

The Group assesses whether there is objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

INTEREST IN AN ASSOCIATE (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

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

CHANGES IN THE GROUP'S INTEREST IN AN ASSOCIATE

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

Acquisition of additional interest in an associate

When the Group increases its ownership interest in an associate but the Group continues to use the equity method, goodwill is recognized at acquisition date if there is excess of the consideration paid over the share of carrying amount of net assets attributable to the additional interest in an associate acquired. Any excess of share of carrying amount of net assets attributable to the additional interest in an associate acquired over the consideration paid are recognized in the profit or loss in the period in which the additional interest is acquired.

INTANGIBLE ASSETS

Intangible Assets Acquired Separately

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

Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

INTANGIBLE ASSETS (continued)

Internally-Generated Intangible Assets – Research and Development Expenditure

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

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

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

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

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

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

LEASES

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.

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

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

The Group 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 standalone price of the lease component and the aggregate standalone price of the non-lease components.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term Leases and Leases of Low-value Assets

The Group applies the short-term lease recognition exemption to leases 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 or another systematic basis over the lease term.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

LEASES (continued)

The Group as a Lessee (continued)

ROU Assets

The cost of ROU assets 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.

ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

The Group presents ROU 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 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 ROU assets.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

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 standalone price for the increase in scope and any appropriate adjustments to that standalone 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.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant ROU asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

LEASES (continued)

The Group as a Lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the ROU asset arising from the head lease, not with reference to the underlying asset.

The Group uses the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease if the interest rate implicit in the sublease cannot be readily determined.

SALE AND LEASEBACK TRANSACTIONS

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a seller-lessee

For a transfer that satisfies the requirements as a sale, the Group as a seller-lessee measures the ROU asset arising from the leaseback at the proportion of the previous carrying amount of the asset and recognizes any gain or loss that relates to the rights transferred to the buyer-lessor only. ROU asset and lease liability with fixed payments are subsequently measured in accordance with the Group's accounting policies above.

If the fair value of the consideration for the sale does not equal the fair value of the asset, or if the payments for the lease are not at market rates, the Group makes the following adjustments to measure the sale proceeds at fair value:

(a) any below-market terms is accounted for as a prepayment of lease payments; and
(b) any above-market terms is accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

PROPERTY, PLANT & EQUIPMENT ("PP&E")

PP&E are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes, other than freehold land and construction in progress as described below. PP&E are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Freehold land is not depreciated and are measured at cost less subsequent accumulated impairment losses.

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

PROPERTY, PLANT & EQUIPMENT ("PP&E") (continued)

PP&E in the course of construction for production, supply or administrative purpose is carried at cost, less any recognized impairment loss. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of PP&E when completed and ready for its intended use. Depreciation of these assets, on the same basis as other PP&E, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold is presented as "ROU assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as PP&E.

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

IMPAIRMENT ON PP&E, ROU ASSETS AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of the reporting period, the Group reviews the carrying amounts of its PP&E, ROU assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired. The recoverable amount of PP&E, ROU assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of CGUs. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

BANK BALANCES, DEPOSITS AND CASH

Bank balances, deposits and cash presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers* (“HKFRS 15”). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial Assets

Classification and Subsequent Measurement of Financial Assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets 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 selling and collecting contractual cash flows; and
- the contractual terms 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 FVTPL, except for derivatives designated as cash flow hedge relationship and at 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 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* (“HKFRS 3”) applies.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Amortized Cost and Interest Income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

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 except for derivatives designated as cash flow hedge relationship.

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 assets.

Impairment of Financial Assets and Other Item Subject to Impairment Assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, bills receivable, trade receivables from an associate, finance lease receivables, bank balances and deposits) which are subject to impairment assessment under HKFRS 9. 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. Assessments 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.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case 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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

Impairment of Financial Assets and Other Item Subject to Impairment Assessment under HKFRS 9 (continued)

(i) 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.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of Default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset 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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

Impairment of Financial Assets and Other Item Subject to Impairment Assessment under HKFRS 9 (continued)

(iii) Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(iv) Write-off Policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) 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 and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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 (i.e. gross carrying amount less loss allowance for ECL).

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognized through a loss allowance account.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial Liabilities and Equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity Instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

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

Financial Liabilities at Amortized Cost

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

Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortized cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial Liabilities and Equity (continued)

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform (continued)

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Derivative Financial Instruments

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

Hedge Accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based, is not altered as a result of interest rate benchmark reform.

Assessment of Hedging Relationship and Effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial Liabilities and Equity (continued)

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income and accumulated in the hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

Amounts previously recognized in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognized hedged item. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Discontinuation of Hedge Accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transactions is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Derecognition of Financial Assets and Liabilities

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and has not retained control of the transferred asset, the Group derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

PROVISIONS

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

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sales of goods are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a using the first-in, first-out method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

REVENUE FROM CONTRACTS WITH CUSTOMERS

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 or 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 or 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.

OVER TIME REVENUE RECOGNITION (COMMISSION AND ROYALTY INCOME): MEASUREMENT OF PROGRESS TOWARDS COMPLETE SATISFACTION OF A PERFORMANCE OBLIGATION

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (i.e. royalty income), the Group recognizes revenue in the amount to which the Group has the right to invoice.

REFUND LIABILITIES

The Group recognizes a refund liability if the Group expects to refund some or all of the consideration received from customers.

SALE WITH A RIGHT OF RETURN/EXCHANGE

For a sale of products with a right of return/exchange for dissimilar products, the Group recognizes all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned/exchanged);
(b) a refund liability; and
(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers and are presented as right to returned goods asset.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

TAXATION

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

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

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

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the ROU assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the ROU 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 ROU assets and lease liabilities are assessed on a net basis. Excess of depreciation on ROU assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used, by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in a foreign operation), in which case, such exchange differences are recognized in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal or partial disposal of the foreign operation.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of an associate that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on acquisitions of foreign operations before January 1, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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

At the time when the share options are exercised, the amount previously recognized in employee share-based compensation reserve would be transferred to share capital. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in the employee share-based compensation reserve would be transferred to retained profits.

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

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

GOVERNMENT GRANTS

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

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income".

RETIREMENT BENEFIT SCHEMES

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

For defined benefit retirement benefits plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. In determining the present value of the Group's defined benefit obligations and the related current service cost and, where applicable, past service cost, the Group attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than earlier years, the Group attributes the benefit on a straight-line basis from:

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies
(continued)

Significant Accounting Policies (continued)

RETIREMENT BENEFIT SCHEMES (continued)

Past service cost is recognized in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognized when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorized as follows:

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

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

SHORT-TERM AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

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

4. Key Sources of Accounting Estimates

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

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

Key Sources of Estimation Uncertainty

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

Capitalization, Useful Lives and Estimated Impairment of Deferred Development Costs

Determining the development costs, including the time and costs for individual projects, to be capitalized requires estimations and assumptions based on the expected future economic benefits to be generated by the products resulting from these development costs. Other important estimations and assumptions in this assessment process are the feasibility of mass production, the distinction between research and development and the estimated useful life. As at December 31, 2022, the carrying amount of deferred development costs of the Group was US$836,933,000 (2021: US$572,449,000). The estimation of their useful lives impacts the level of annual amortization recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material impairment loss may arise and need to be recognized. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates that adjustments are required.

Income Taxes

The Group operates in a complex multinational tax environment. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, estimation is required in determining the Group's provision for taxation charge as there are many complex transactions and calculations, of which the ultimate tax determination is uncertain during the ordinary course of business. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as liabilities in the consolidated statement of financial position as at December 31, 2022 was US$56,750,000 (2021: US$56,123,000).

As at December 31, 2022, deferred tax assets of US$52,761,000 (2021: US$17,797,000) in relation to unused tax losses and US$64,051,000 (2021: US$74,748,000) in relation to employee related provisions has been recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax assets mainly depends on whether sufficient taxable profits, or taxable temporary differences, will be available in the future. In cases where the actual future taxable profits generated are less than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of the deferred tax assets may arise, which would be recognized in profit or loss for the period in which the reversal or further recognition takes place.

5. Segment Information

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

The principal categories of goods supplied are "Power Equipment" and "Floorcare & Cleaning". The Group's operating segments under HKFRS 8 are as follows:

1. Power Equipment – sales of power tools, power tool accessories, outdoor products, and outdoor product accessories for consumer, trade, professional and industrial users. The products are available under the MILWAUKEE, EMPIRE, AEG, RYOBI, HOMELITE and HART brands plus original equipment manufacturer ("OEM") customers.
2. Floorcare & Cleaning – sales of floorcare products and floorcare accessories under the HOOVER, DIRT DEVIL, VAX and ORECK brands plus OEM customers.

Segment Revenue and Results

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

For the year ended December 31, 2022

	Power Equipment US$'000	**Floorcare & Cleaning US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Segment revenue				
External sales	**12,329,071**	**924,846**	**—**	**13,253,917**
Inter-segment sales	**—**	**61,836**	**(61,836)**	**—**
Total segment revenue	**12,329,071**	**986,682**	**(61,836)**	**13,253,917**

Inter-segment sales are charged at prevailing market rates.

Result				
Segment results	**1,238,993**	**(38,080)**	**—**	**1,200,913**
Interest income				**25,852**
Finance costs				**(69,868)**
Profit before taxation				**1,156,897**

For the year ended December 31, 2021

	Power Equipment US$'000	Floorcare & Cleaning US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue				
External sales	11,960,891	1,242,270	—	13,203,161
Inter-segment sales	—	20,340	(20,340)	—
Total segment revenue	11,960,891	1,262,610	(20,340)	13,203,161

Inter-segment sales are charged at prevailing market rates.

Result				
Segment results	1,162,480	29,227	—	1,191,707
Interest income				32,028
Finance costs				(42,008)
Profit before taxation				1,181,727

5. Segment Information (continued)

Segment Revenue and Results (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned or loss incurred by each segment without allocation of interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resources allocation and performance assessment.

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the chief operating decision makers for review.

Other Segment Information

For the year ended December 31, 2022

Amounts included in the measure of segment results:

	Power Equipment US$'000	**Floorcare & Cleaning US$'000**	**Consolidated US$'000**
Loss on disposal of property, plant and equipment	**14,089**	**2,408**	**16,497**
Gain on sale and leaseback transactions	**(9,072)**	**—**	**(9,072)**
Write down of inventories	**59,161**	**2,450**	**61,611**
Reversal of impairment loss on trade receivables under expected credit loss model	**(10,777)**	**(1,491)**	**(12,268)**
Write-off of intangible assets	**10,817**	**1,192**	**12,009**
Depreciation and amortization	**462,536**	**38,315**	**500,851**
Gain on early termination of leases	**(178)**	**—**	**(178)**

For the year ended December 31, 2021

Amounts included in the measure of segment results:

	Power Equipment US$'000	Floorcare & Cleaning US$'000	Consolidated US$'000
Loss on disposal of property, plant and equipment	31,374	1,333	32,707
Write down of inventories	90,860	11,131	101,991
Impairment loss (reversal of impairment loss) on trade receivables under expected credit loss model	32,226	(7,406)	24,820
Write-off of intangible assets	26,830	1,493	28,323
Depreciation and amortization	356,938	41,835	398,773
Gain on early termination of leases	(734)	—	(734)

5. Segment Information (continued)

Revenue from Major Products

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

	2022	2021
	US$'000	US$'000
Power Equipment	**12,329,071**	11,960,891
Floorcare & Cleaning	**924,846**	1,242,270
Total	**13,253,917**	13,203,161

Geographical Information

The Group's revenue from external customers by geographical location determined based on the location of the customer and information about its non-current assets by geographical location, determined based on the location of the group entity owning the assets are detailed below:

	Revenue from external customers		**Non-Current Assets***	
	2022	2021	**2022**	2021
	US$'000	US$'000	**US$'000**	US$'000
North America	**10,232,470**	10,225,163	**2,695,426**	2,329,309
Europe	**1,927,755**	1,951,454	**196,590**	189,085
Other countries	**1,093,692**	1,026,544	**1,608,318**	1,314,879
Total	**13,253,917**	13,203,161	**4,500,334**	3,833,273

* Non-current assets exclude interest in an associate, financial assets at FVTPL, derivative financial instruments and deferred tax assets.

Information about Major Customer

During the years ended December 31, 2022 and 2021, the Group's largest customer contributed total revenue of US$6,333,127,000 (2021: US$6,275,193,000), of which US$6,293,896,000 (2021: US$6,206,588,000) was under the Power Equipment segment and US$39,231,000 (2021: US$68,605,000) was under the Floorcare & Cleaning segment. There is no other customer contributing more than 10% of total revenue.

6. Revenue

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

	2022 **US$'000**	2021 US$'000
Sales of goods	**13,238,728**	13,187,327
Commission and royalty income	**15,189**	15,834
	13,253,917	13,203,161

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

The Group sells products mainly to the wholesale market. Revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location or pick up point (delivery).

Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

Revenue is recognized for sales which are considered highly probable and where a significant reversal of the cumulative revenue recognized will not occur. A contract liability is recognized for sales in which revenue has not yet been recognized. The Group's right to recover the product when customers exercise their right to return products is recognized as a right to returned goods asset and a corresponding adjustment to cost of sales.

As at December 31, 2022, revenue for unsatisfied contracts to be recognized by the Group over one year is immaterial. As permitted by HKFRS 15, the transaction price allocated to unsatisfied contracts for contracts with period of one year or less is not disclosed.

7. Other Income

Other income in both 2022 and 2021 mainly comprises of the sale of scrap materials and claims and reimbursements from customers and vendors.

8. Interest Income

Interest income represents interest earned on bank deposits.

9. Finance Costs

	2022 **US$'000**	2021 US$'000
Interest on:		
Unsecured borrowings	**58,810**	31,656
Lease liabilities	**11,058**	10,352
	69,868	42,008

10. Taxation Charge

	2022 US$'000	2021 US$'000
Current tax:		
Hong Kong Profits Tax	**(1,344)**	(1,337)
Under provision in prior years	**(559)**	(392)
	(1,903)	(1,729)
Overseas taxation	**(64,554)**	(105,702)
Under provision in prior years	**(453)**	(1,539)
	(65,007)	(107,241)
Deferred tax (Note 42):		
Current year	**1,636**	39,916
Deferred tax asset impairment	**(14,452)**	(14,127)
Change in tax rates	**(21)**	457
	(12,837)	26,246
	(79,747)	(82,724)

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

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

The taxation charge for the year is reconciled as follows:

	2022 US$'000	**2022 %**	2021 US$'000	2021 %
Profit before taxation	**1,156,897**		1,181,825	
Tax at Hong Kong Profits Tax rate	**(190,888)**	**16.5%**	(195,001)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	**139,542**	**(12.1%)**	161,337	(13.7%)
Tax effect of expenses not deductible for tax purposes	**(33,032)**	**2.9%**	(61,339)	5.2%
Tax effect of income not taxable for tax purposes	**2,422**	**(0.2%)**	3,386	(0.3%)
Utilization of deductible temporary differences previously not recognized	**3,368**	**(0.3%)**	8,100	(0.7%)
Tax effect of tax losses and deductible temporary differences not recognized	**14,325**	**(1.2%)**	16,394	(1.4%)
Deferred tax asset impairment	**(14,452)**	**1.2%**	(14,127)	1.2%
Under provision in respect of prior years	**(1,012)**	**0.1%**	(1,931)	0.2%
Tax effect of changes in tax rates	**(21)**	**0.0%**	457	0.0%
Tax effect of share of result of an associate	**1**	**0.0%**	—	0.0%
Taxation charge for the year	**(79,747)**	**6.9%**	(82,724)	7.0%

Details of deferred tax are set out in Note 42.

11. Profit for the Year

	2022	2021
	US$'000	US$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	**120,425**	95,669
Auditors' remuneration	**3,714**	3,352
Cost of inventories recognized as an expense	**8,041,340**	8,081,548
Depreciation of property, plant and equipment	**240,428**	190,289
Depreciation of right of use assets	**139,998**	112,815
Fair value gain on foreign currency forward contracts	**(4,339)**	(9,074)
Fair value loss on acquisition right of certain property, plant and equipment	**300**	192
Fair value loss on listed equity securities	**2,806**	4,792
Gain on early termination of leases	**(178)**	(734)
Gain on sale and leaseback transactions	**(9,072)**	—
(Reversal of impairment loss) impairment loss on trade receivables under expected credit loss model	**(12,268)**	24,820
Impairment loss on right of use assets	**—**	876
Loss on disposal of property, plant and equipment	**16,497**	32,707
Net exchange gain	**(112,125)**	(1,443)
Expenses relating to short-term leases and low-value assets recognized in respect of:		
Motor vehicles	**3,716**	988
Plant and machinery	**6,619**	6,437
Office equipment, furniture and fixtures	**20,659**	11,768
Premises	**13,696**	14,618
Other assets	**1,560**	1,036
Share of result of an associate	**(3)**	(5)
Unconditional government grants	**(685)**	(1,026)
Write down of inventories	**61,611**	101,991
Write-off of intangible assets	**12,009**	28,323
Staff costs		
Directors' remuneration		
Fees	**644**	515
Other emoluments	**76,843**	86,645
	77,487	87,160
Other staff costs	**1,836,729**	1,765,516
Contributions to retirement benefits schemes (other than those included in the Directors' emoluments)		
Defined contribution plans	**29,838**	24,594
Defined benefit plans (Note 41)	**865**	874
	1,944,919	1,878,144

Staff costs disclosed above do not include an amount of US$475,188,000 (2021: US$328,684,000) of staff costs incurred relating to research and development activities.

12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2021: thirteen) directors, disclosed pursuant to the applicable Listing Rules and the CO, was as follows:

For the year ended December 31, 2022

		Other emoluments				
	Fees US$'000	Basic salaries and allowances US$'000	Contributions to retirement benefits schemes US$'000	Bonus US$'000	Share-based payments US$'000	Total US$'000
Mr Horst Julius Pudwill (Note i)	—	1,826	2	10,803	2,994	15,625
Mr Stephan Horst Pudwill (Note i)	—	988	2	2,200	5,270	8,460
Mr Joseph Galli Jr (Note i)	—	1,851	10	14,100	16,781	32,742
Mr Kin Wah Chan (Note i)	—	912	2	2,641	5,270	8,825
Mr Chi Chung Chan (Note i)	—	909	—	2,940	5,270	9,119
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	94	—	—	—	366	460
Mr Camille Jojo (Note ii)	94	29	—	—	601	724
Mr Peter David Sullivan (Note iii)	94	47	—	—	366	507
Mr Johannes-Gerhard Hesse (Note iii)	94	29	—	—	261	384
Mr Robert Hinman Getz (Note iii)	94	50	—	—	212	356
Ms Virginia Davis Wilmerding (Note iii)	94	4	—	—	107	205
Ms Caroline Christina Kracht (appointed on March 7, 2022) (Note iii)	80	—	—	—	—	80
Total	644	6,645	16	32,684	37,498	77,487

12. Directors' Emoluments (continued)

For the year ended December 31, 2021

		Other emoluments				
	Fees US$'000	Basic salaries and allowances US$'000	Contributions to retirement benefits schemes US$'000	Bonus US$'000	Share-based payments US$'000	Total US$'000
Mr Horst Julius Pudwill (Note i)	—	1,671	2	14,257	3,249	19,179
Mr Stephan Horst Pudwill (Note i)	—	1,034	2	2,556	4,630	8,222
Mr Joseph Galli Jr (Note i)	—	1,743	874	22,773	13,870	39,260
Mr Kin Wah Chan (Note i)	—	905	2	3,035	4,630	8,572
Mr Chi Chung Chan (Note i)	—	902	—	4,362	4,630	9,894
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	—	149	226
Mr Camille Jojo (Note ii)	77	27	—	—	364	468
Mr Peter David Sullivan (Note iii)	77	37	—	—	149	263
Mr Johannes-Gerhard Hesse (Note iii)	77	27	—	—	149	253
Mr Robert Hinman Getz (Note iii)	77	28	—	—	193	298
Ms Virginia Davis Wilmerding (appointed on April 9, 2021) (Note iii)	56	—	—	—	42	98
Mr Christopher Patrick Langley OBE (retired after the conclusion of the annual general meeting of the Company held on May 14, 2021) (Note iii)	29	6	—	—	162	197
Mr Vincent Ting Kau Cheung (passed away on July 31, 2021) (Note iii)	45	23	—	—	162	230
Total	515	6,403	880	46,983	32,379	87,160

Note i: The individuals represent the Executive Directors of the Company and the Group. The Executive Directors' emoluments shown above were mainly for their services in connection with management of the affairs of the Company and the Group. Mr Joseph Galli Jr serves as the Chief Executive Officer of the Group.

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

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

The bonuses were based on past performance of the Group.

The above emoluments include the value of share options granted and shares awarded to certain directors under the Company's share option schemes and share award scheme, respectively, as estimated at the date of grant and award. The share-based payments represent the costs of share options and share awards granted to directors as charged to the Company's profit and loss, but not as income of respective directors. Details of these benefits in kind are disclosed under the sections "Share Options" and "Share Award Scheme" in Notes 45 and 46 respectively.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2021: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2021: one) individuals for the year ended December 31, 2022 were as follows:

	2022 US$'000	2021 US$'000
Basic salaries and allowances	905	829
Contributions to retirement benefits schemes	183	40
Bonus	10,515	7,500
Share-based payments	—	—
	11,603	8,369

The emoluments of these one (2021: one) highest paid individuals for the year ended December 31, 2022 were within the following bands:

	No. of persons	
HK$	2022	2021
65,000,001 to 65,500,000	—	1
90,000,001 to 90,500,000	1	—

During each of the two years ended December 31, 2022 and 2021, no emoluments have been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during those years.

14. Dividends

	2022 US$'000	2021 US$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2021: HK1 dollar (approximately US12.87 cents) (2020: HK82.00 cents (approximately US10.55 cents)) per share	236,104	193,488
Interim dividend paid:		
2022: HK95.00 cents (approximately US12.23 cents) (2021: HK85.00 cents (approximately US10.94 cents)) per share	224,317	200,627
	460,421	394,115

The final dividend of HK90.00 cents (approximately US11.58 cents) per share with a total of approximately US$212,513,000 in respect of the year ended December 31, 2022 (2021: final dividend of HK1 dollar (approximately US12.87 cents) per share in respect of the year ended December 31, 2021) has been proposed by the directors of the Company and is subject to approval by the shareholders in the Annual General Meeting.

15. Earnings per Share

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

	2022	2021
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	**1,077,150**	1,099,003
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,829,931,694**	1,830,544,048
Effect of dilutive potential ordinary shares:		
Share options	**4,199,642**	7,179,011
Share awards	**1,900,192**	2,287,031
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,836,031,528**	1,840,010,090

16. Property, Plant and Equipment

	Freehold land and land and buildings (Note)	Leasehold improvements	Office equipment, furniture and fixtures	Plant and machinery	Motor vehicles	Moulds and tooling	Vessels	Aircraft	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost										
At January 1, 2021	459,680	90,431	285,727	481,709	8,664	360,643	7,106	27,695	383,857	2,105,512
Currency realignment	(1,552)	(36)	(2,771)	(1,198)	(140)	2,345	—	—	(871)	(4,223)
Additions	4,193	11,965	29,226	67,609	1,977	1,945	—	41,119	588,504	746,538
Disposals	(2,614)	(2,218)	(19,285)	(14,714)	(170)	(137,483)	—	(1,321)	(9,590)	(187,395)
Reclassification	94,826	14,640	30,148	81,343	140	143,129	—	—	(364,226)	—
At December 31, 2021	554,533	114,782	323,045	614,749	10,471	370,579	7,106	67,493	597,674	2,660,432
Currency realignment	**(1,713)**	**(5,484)**	**(5,109)**	**(21,513)**	**(152)**	**(9,447)**	**—**	**—**	**(2,019)**	**(45,437)**
Additions	**—**	**5,862**	**19,524**	**49,017**	**849**	**3,130**	**—**	**2,467**	**500,141**	**580,990**
Acquisition of a subsidiary (Note 43)	**—**	**1,057**	**141**	**1,327**	**—**	**106**	**—**	**—**	**569**	**3,200**
Disposals	**(68,197)**	**(6,430)**	**(32,394)**	**(11,284)**	**(342)**	**(72,051)**	**—**	**—**	**(4,622)**	**(195,320)**
Reclassification	**94,075**	**17,948**	**59,998**	**63,633**	**257**	**111,812**	**—**	**—**	**(347,723)**	**—**
At December 31, 2022	**578,698**	**127,735**	**365,205**	**695,929**	**11,083**	**404,129**	**7,106**	**69,960**	**744,020**	**3,003,865**
Depreciation and Impairment										
At January 1, 2021	52,494	49,241	178,568	253,438	5,030	224,321	5,419	4,041	—	772,552
Currency realignment	(146)	(1)	(2,145)	(885)	(91)	1,029	—	—	—	(2,239)
Provided for the year	13,334	13,110	33,939	55,750	1,560	69,681	1,191	1,724	—	190,289
Eliminated on disposals	(21)	(1,886)	(15,096)	(12,399)	(151)	(122,713)	—	(790)	—	(153,056)
At December 31, 2021	65,661	60,464	195,266	295,904	6,348	172,318	6,610	4,975	—	807,546
Currency realignment	**(1,454)**	**(3,098)**	**(3,548)**	**(12,083)**	**(116)**	**(4,001)**	**—**	**—**	**—**	**(24,300)**
Provided for the year	**14,579**	**15,739**	**37,839**	**69,734**	**1,645**	**96,188**	**494**	**4,210**	**—**	**240,428**
Eliminated on disposals	**(2,321)**	**(4,258)**	**(29,805)**	**(8,954)**	**(241)**	**(60,101)**	**—**	**—**	**—**	**(105,680)**
At December 31, 2022	**76,465**	**68,847**	**199,752**	**344,601**	**7,636**	**204,404**	**7,104**	**9,185**	**—**	**917,994**
Carrying amounts										
At December 31, 2022	**502,233**	**58,888**	**165,453**	**351,328**	**3,447**	**199,725**	**2**	**60,775**	**744,020**	**2,085,871**
At December 31, 2021	488,872	54,318	127,779	318,845	4,123	198,261	496	62,518	597,674	1,852,886

Note: Buildings with a carrying amount of US$11,371,000 (2021: US$13,319,000) are erected on leasehold land that is presented as ROU assets on the consolidated statement of financial position.

16. Property, Plant and Equipment (continued)

The above PP&E, other than freehold land and construction in progress, are depreciated on a straight-line basis, at the following rates per annum:

Land and buildings	Over the Shorter of lease term or useful life of twenty to fifty years
Leasehold improvements	$2\frac{1}{2}\% – 37\frac{1}{2}\%$
Office equipment, furniture and fixtures	$10\% – 33\frac{1}{3}\%$
Plant and machinery	$5\% – 33\frac{1}{3}\%$
Motor vehicles	$10\% – 33\frac{1}{3}\%$
Moulds and tooling	$18\% – 33\frac{1}{3}\%$
Vessels	20% – 25%
Aircraft	$6\% – 16\frac{2}{3}\%$

The carrying amounts of properties shown above comprise:

	2022 **US$'000**	2021 US$'000
Properties situated outside Hong Kong are analyzed as follows:		
Freehold land	**431,519**	414,814
Land and buildings	**11,371**	13,319
	442,890	428,133
Land and buildings situated in Hong Kong	**59,343**	60,739
	502,233	488,872

The cost of the Group's PP&E includes amounts of US$233,661,000 (2021: US$286,318,000) in respect of fully depreciated PP&E that are still in use.

17. Right of Use Assets

	Land and buildings US$'000	Office equipment, furniture and fixtures US$'000	Plant and machinery US$'000	Motor vehicles US$'000	Aircraft US$'000	Leasehold land US$'000	Total US$'000
Cost							
At January 1, 2021	496,258	8,310	6,453	104,858	12,582	37,854	666,315
Currency realignment	(9,483)	(21)	(143)	(2,393)	—	1,019	(11,021)
Additions	241,862	5,934	4,337	42,021	—	—	294,154
Early termination/end of leases	(40,413)	(1,165)	(1,707)	(13,432)	—	—	(56,717)
Impairment loss	(876)	—	—	—	—	—	(876)
At December 31, 2021	687,348	13,058	8,940	131,054	12,582	38,873	891,855
Currency realignment	**(16,937)**	**(33)**	**(256)**	**(3,727)**	**—**	**(3,057)**	**(24,010)**
Additions	**232,501**	**9,457**	**534**	**51,424**	**—**	**—**	**293,916**
Acquisition of a subsidiary (Note 43)	**1,701**	**11**	**—**	**—**	**—**	**—**	**1,712**
Early termination/end of leases	**(25,800)**	**(1,153)**	**(224)**	**(11,025)**	**(12,582)**	**—**	**(50,784)**
At December 31, 2022	**878,813**	**21,340**	**8,994**	**167,726**	**—**	**35,816**	**1,112,689**
Depreciation							
At January 1, 2021	206,808	3,499	4,307	48,627	9,961	9,395	282,597
Currency realignment	(6,317)	(9)	(79)	(1,613)	—	264	(7,754)
Provided for the year	80,020	2,331	1,068	27,372	1,258	766	112,815
Elimination on early termination/end of leases	(33,421)	(1,138)	(1,667)	(12,942)	—	—	(49,168)
At December 31, 2021	247,090	4,683	3,629	61,444	11,219	10,425	338,490
Currency realignment	**(8,423)**	**(8)**	**(128)**	**(2,216)**	**—**	**(835)**	**(11,610)**
Provided for the year	**100,733**	**4,527**	**1,498**	**31,306**	**1,201**	**733**	**139,998**
Elimination on early termination/end of leases	**(13,765)**	**(1,129)**	**(224)**	**(9,940)**	**(12,420)**	**—**	**(37,478)**
At December 31, 2022	**325,635**	**8,073**	**4,775**	**80,594**	**—**	**10,323**	**429,400**
Carrying amounts							
At December 31, 2022	**553,178**	**13,267**	**4,219**	**87,132**	**—**	**25,493**	**683,289**
At December 31, 2021	440,258	8,375	5,311	69,610	1,363	28,448	553,365

17. Right of Use Assets (continued)

During the year ended December 31, 2022, the Group disposed certain PP&E mainly Land and buildings with carrying amount of approximately US$67,595,000 at consideration of US$78,572,000 to an independent third party. Subsequently, the Group entered into a lease agreement with the purchaser to leaseback the PP&E for 36 months. The transaction constituted a sales and leaseback transaction and the Group recognized ROU assets and lease liabilities of approximately US$11,735,000 and US$13,640,000 respectively.

	2022 **US$'000**	2021 US$'000
Expense relating to short-term leases	**27,549**	22,536
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**18,701**	12,311
Total cash outflow for leases	**194,641**	146,935

For both years, the Group leases land and buildings, office equipment, furniture and fixtures, plant and machinery, motor vehicles and aircraft for its operations. Lease contracts are entered into for term of up to 50 years (2021: 50 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for premises, plant and machinery, office equipment, furniture and fixtures and motor vehicles. As at December 31, 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Leases Committed

As at December 31, 2022, the Group entered into new leases for certain PP&E that have not yet commenced, with average non-cancellable period that ranges from 2 to 6 years (2021: 1 to 6 years) with extension options, the total future undiscounted cash flows under which amounts to US$12,212,000 (2021: US$59,395,000) over the non-cancellable period.

Details of the lease maturity analysis of the lease liabilities are set out in Note 34.

18. Goodwill

	US$'000
At January 1, 2021	578,461
Currency realignment	(1,224)
At December 31, 2021	577,237
Currency realignment	**(3,668)**
Arising on acquisition of a subsidiary (Note 43)	**25,105**
At December 31, 2022	**598,674**

Particulars regarding impairment testing of goodwill are disclosed in Note 20.

19. Intangible Assets

	Deferred development costs US$'000	Patents US$'000	Trademarks US$'000	Manufacturing know-how US$'000	Retailer and service relationships US$'000	Non compete agreement US$'000	Total US$'000
Cost							
At January 1, 2021	763,509	95,653	239,212	1,753	9,900	1,300	1,111,327
Currency realignment	(156)	—	—	—	—	—	(156)
Additions	296,179	14,059	—	—	—	—	310,238
Written off in the year	(34,939)	(200)	—	—	—	—	(35,139)
At December 31, 2021	1,024,593	109,512	239,212	1,753	9,900	1,300	1,386,270
Currency realignment	**(78)**	**(280)**	**—**	**—**	**—**	**—**	**(358)**
Additions	**388,266**	**15,401**	**1,209**	**—**	**—**	**—**	**404,876**
Arising on acquisition of a subsidiary (Note 43)	**—**	**2,015**	**—**	**—**	**—**	**—**	**2,015**
Written off in the year	**(37,958)**	**(309)**	**—**	**—**	**—**	**—**	**(38,267)**
At December 31, 2022	**1,374,823**	**126,339**	**240,421**	**1,753**	**9,900**	**1,300**	**1,754,536**
Amortization							
At January 1, 2021	369,365	59,797	14,497	746	2,107	1,141	447,653
Currency realignment	(21)	—	—	—	—	—	(21)
Provided for the year	89,616	4,829	275	130	660	159	95,669
Eliminated on write-off	(6,816)	—	—	—	—	—	(6,816)
At December 31, 2021	452,144	64,626	14,772	876	2,767	1,300	536,485
Currency realignment	**(61)**	**(68)**	**—**	**—**	**—**	**—**	**(129)**
Provided for the year	**112,065**	**6,468**	**37**	**130**	**1,725**	**—**	**120,425**
Eliminated on write-off	**(26,258)**	**—**	**—**	**—**	**—**	**—**	**(26,258)**
At December 31, 2022	**537,890**	**71,026**	**14,809**	**1,006**	**4,492**	**1,300**	**630,523**
Carrying amounts							
At December 31, 2022	**836,933**	**55,313**	**225,612**	**747**	**5,408**	**—**	**1,124,013**
At December 31, 2021	572,449	44,886	224,440	877	7,133	—	849,785

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

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

Included in trademarks of the Group, US$224,440,000 (2021: US$224,440,000) are trademarks considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 20.

19. Intangible Assets (continued)

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

Deferred development costs	20% – 33⅓%
Patents	10% – 25%
Trademarks with finite useful lives	6⅔% – 10%
Manufacturing know-how	10%
Retailer and service relationships	5% – 6⅔%
Non compete agreement	6⅔%

20. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives

As explained in Note 5, the Group uses the types of goods sold for preparing the operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 18 and 19, the majority of the amounts have been allocated to four major individual CGUs, including three units in the Power Equipment segment and one unit in the Floorcare & Cleaning segment. The carrying amounts of goodwill and trademarks as at December 31, 2022 allocated to these units are as follows:

	Goodwill		Trademarks	
	2022 US$'000	2021 US$'000	**2022 US$'000**	2021 US$'000
Power Equipment – MET	**466,705**	443,264	**126,607**	126,607
Power Equipment – TTI OPE	**16,509**	16,509	**30,648**	30,648
Power Equipment – Drebo	**21,040**	22,010	**—**	—
Floorcare & Cleaning – RAM/Hoover/VAX	**75,748**	75,748	**67,179**	67,179
Others	**18,672**	19,706	**6**	6
	598,674	577,237	**224,440**	224,440

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

Power Equipment – MET ("MET")

The recoverable amounts of MET's goodwill and intangible assets have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 7.5% (2021: 7.5%) per annum.

Cash flow projections during the budget period for MET are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on MET's past performance, management's expectations of the market development, the success of the new products launched, managing the working capital and the continuance of costs controlling strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2021: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of MET's goodwill and intangible assets to exceed the estimated recoverable amounts.

Power Equipment – TTI OPE ("TTI OPE")

The recoverable amounts of TTI OPE's goodwill and intangible assets have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 9.0% (2021: 9.0%) per annum.

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

20. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives (continued)

Power Equipment – Drebo ("Drebo")

The recoverable amounts of Drebo's goodwill have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 9.5% (2021: 9.0%) per annum.

Cash flow projections during the budget period for Drebo are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimations are based on Drebo's past performance, management's expectations of the market development, the success of the new products launched and the continuance of costs controlling strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 3.0% (2021: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of Drebo's goodwill to exceed the estimated recoverable amount.

Floorcare & Cleaning – RAM/Hoover/VAX ("RAM/Hoover/VAX")

The recoverable amounts of RAM/Hoover/VAX's goodwill and intangible assets have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 12.5% (2021: 12.0%) per annum.

Cash flow projections during the budget period for RAM/Hoover/VAX are based on management's estimation of cash inflows/outflows including sales, gross margin, operating expenses, capital expenditures and working capital requirements. The assumptions and estimations are based on RAM/Hoover/VAX's past performance, management's expectations of the market development, managing the working capital and the continuance of costs controlling strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2021: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of RAM/Hoover/VAX's goodwill and intangibles to exceed the estimated aggregate recoverable amounts.

21. Interest in an Associate

	2022 **US$'000**	2021 US$'000
Cost of investment in an associate	**1,470**	1,470
Share of post-acquisition profits	**559**	556
Share of net assets	**2,029**	2,026

Summarized financial information in respect of an associate, Wuerth Master Power Tools Limited ("Wuerth"), is set out below. The summarized financial information below represents amounts shown in Wuerth's financial statements prepared in accordance with HKFRSs.

Wuerth is accounted for using equity method in the consolidated financial statements.

	2022 **US$'000**	2021 US$'000
Non-current assets	**1,944**	1,578
Current assets	**7,490**	9,391
Current liabilities	**5,293**	6,834
Net assets	**4,141**	4,135

	2022 **US$'000**	2021 US$'000
Profit for the year	**8**	9

21. Interest in an Associate (continued)

Reconciliation of the above summarized financial information to the carrying amount of the interest in Wuerth recognized in the consolidated financial statements:

	2022 US$'000	2021 US$'000
Net assets	**4,141**	4,135
Proportion of the Group's ownership interest	**49.0%**	49.0%
The Group's share of net assets	**2,029**	2,026
Carrying amount of the Group's interest	**2,029**	2,026

Particulars of an associate as at December 31, 2022 and 2021 are set out in Note 52.

The trade receivables from an associate are unsecured, non-interest bearing and are repayable on demand.

22. Financial Assets at FVTPL

	Notes	**2022 US$'000**	2021 US$'000
Club membership debentures	(a)	**4,899**	4,914
Unlisted equity securities	(b)	**4,800**	—
Listed equity securities	(c)	**13,466**	16,272
Other		**45**	45
		23,210	21,231
Analyzed for reporting purposes as:			
Current assets		**13,466**	16,272
Non-current assets		**9,744**	4,959
		23,210	21,231

Notes:

(a) As at December 31, 2022 and 2021, the club membership debentures measured at fair value with reference to recent transaction prices for similar comparables with similar characteristic.

(b) As at December 31, 2022, the unlisted equity securities represented the interests in private companies incorporated in the United States of America ("US"). The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in a private market.

(c) The Group's listed equity securities were carried at fair value using the market bid prices on the reporting date.

23. Finance lease receivables

The finance lease receivables represent the sublease arrangement entered by the Group as a lessor for land and building during the year. The term of finance lease entered into is approximately four years. The interest rate inherent in the lease is fixed at the contract date over the lease term.

	Minimum lease payments 2022 US$'000	Present value of minimum lease payments 2022 US$'000
Finance lease receivables comprise:		
Within one year	**2,746**	**2,589**
In the second year	**2,821**	**2,706**
In the third year	**2,899**	**2,828**
In the fourth year	**2,979**	**2,953**
	11,445	**11,076**
Less: Unearned finance income	**(369)**	**N/A**
Present value of minimum lease payment receivables	**11,076**	**11,076**
Analyzed as:		
Current		**2,589**
Non-current		**8,487**
		11,076

Interest rate implicit in the above finance lease was 1.6%.

The Group is not exposed to foreign currency risk as a result of the lease arrangement, as the finance lease is denominated in the respective functional currency of the group entity.

Details of impairment assessment are set out in Note 37.2.4.

24. Inventories

	2022 US$'000	2021 US$'000
Raw materials	**870,652**	602,312
Work in progress	**102,190**	61,129
Finished goods	**4,112,109**	4,186,351
	5,084,951	4,849,792

25. Right to Returned Goods Asset/Refund Liabilities from Right of Return

The right to returned goods asset represents the Group's right to recover products from customers where customers exercise their right of return under the Group's various returns policies. The Group uses its accumulated historical experience to estimate the dollar value of returns on a portfolio level based on the expected return level.

The refund liabilities relate to customers' right to return products within certain days of purchase. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognized for the sold products expected to be returned. The Group uses its accumulated historical experience to estimate the dollar value of returns on a portfolio level based on the expected return level.

26. Trade and Other Receivables

	2022 **US$'000**	2021 US$'000
Trade receivables	**1,559,646**	1,976,060
Less: Allowances for credit losses	**(58,387)**	(75,913)
	1,501,259	1,900,147
Other receivables	**138,304**	122,131
	1,639,563	2,022,278

As at January 1, 2021, all trade receivables amounted US$1,359,988,000 are derived from contracts with customers.

The ageing analysis of trade receivables, net of allowances for credit losses, presented on the basis of the revenue recognition date, which is usually the invoice date, at the end of the reporting period is as follows:

	2022 **US$'000**	2021 US$'000
0 to 60 days	**1,090,446**	1,795,436
61 to 120 days	**328,173**	22,583
121 days or above	**82,640**	82,128
Total trade receivables	**1,501,259**	1,900,147

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

As at December 31, 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$315,617,000 (2021: US$220,824,000) which are past due as at the reporting date. The past due over 90 days balances that are presumed in default in accordance with the Group's accounting policy of US$29,486,000 (2021: US$145,059,000) are not considered as in default as they are due from a number of independent customers that have a good payment track record with the Group.

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

In accordance with receivables purchase agreements, certain trade receivables have been factored to banks (the "Factored Trade Receivables"). As the Group still retained the risks associated in respect of default payments, the Group has continued to recognize the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of US$54,426,000 (2021: US$75,000,000) were recognized as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

27. Bills Receivable

All the Group's bills receivable at December 31, 2022 and 2021 are aged within 120 days based on invoice date.

28. Trade Receivables from an Associate

The trade receivables from an associate are aged within 120 days based on invoice date.

29. Derivative Financial Instruments

	2022 US$'000	2021 US$'000
Assets		
Acquisition right of certain property, plant and equipment	**8,002**	8,302
Foreign currency forward contracts – under hedge accounting	**49,146**	86,226
Foreign currency forward contracts – not under hedge accounting	**10,564**	7,328
Cross-currency interest rate swaps – under hedge accounting	**17,064**	—
	84,776	101,856

	2022 US$'000	2021 US$'000
Liabilities		
Foreign currency forward contracts – under hedge accounting	**50,474**	1,885
Cross-currency interest rate swaps – under hedge accounting	**—**	6,397
	50,474	8,282

Acquisition Right of Certain PP&E

As at December 31, 2022 and 2021, the Group owned a right to acquire certain PP&E which was acquired as part of the acquisition of the Oreck business from the Oreck Bankruptcy Estate. The right is expected to be exercised in 2032. The fair value of the PP&E was US$8,002,000 valued on September 30, 2022 (2021: US$8,302,000 valued on September 30, 2021) by Duff & Phelps, an independent valuer not related to the Group.

Foreign Currency Forward Contracts

The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Foreign Currency Forward Contracts under Hedge Accounting

At the end of the reporting period, the Group had the following foreign currency forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to future foreign currency sales. The terms of the foreign exchange contracts have been negotiated to match the terms of the respective designated hedged items.

29. Derivative Financial Instruments (continued)

Foreign Currency Forward Contracts under Hedge Accounting (continued)

Major terms of the foreign currency forward contracts under hedge accounting are as follows:

2022

Notional amounts in millions ("M")	**Maturity**
Sell AUD 575.5M, Buy US$	**January 30, 2023 to December 28, 2023**
Sell EUR 545M, Buy US$	**January 26, 2023 to December 28, 2023**
Sell US$ 44.9M, Buy HK$	**January 5, 2023 to February 16, 2023**
Sell US$ 877.6M, Buy RMB	**January 30, 2023 to December 29, 2023**
Sell US$ 103.8M, Buy EUR	**January 5, 2023 to December 21, 2023**
Sell GBP 59.1M, Buy US$	**January 6, 2023 to December 22, 2023**
Sell GBP 70.5M, Buy EUR	**January 12, 2023 to December 18, 2023**
Sell CHF 7M, Buy EUR	**January 12, 2023 to December 14, 2023**
Sell NOK 68M, Buy EUR	**January 12, 2023 to March 9, 2023**

2021

Notional amounts in M	Maturity
Sell AUD 488M, Buy US$	January 28, 2022 to December 29, 2022
Sell EUR 673.6M, Buy US$	January 27, 2022 to December 29, 2022
Sell US$954.8M, Buy RMB	January 27, 2022 to December 29, 2022
Sell US$101M, Buy EUR	January 5, 2022 to October 16, 2023
Sell GBP 89.5M, Buy US$	January 4, 2022 to December 22, 2022
Sell GBP 72M, Buy EUR	January 13, 2022 to December 15, 2022
Sell CHF 6.6M, Buy EUR	January 13, 2022 to December 15, 2022
Sell SEK 660M, Buy EUR	January 13, 2022 to December 15, 2022
Sell NOK 96M, Buy EUR	January 13, 2022 to April 13, 2022

As at December 31, 2022, a fair value loss of US$171,465,000 (December 31, 2021: fair value gain of US$175,263,000) has been recognized in other comprehensive income and accumulated in hedging reserve and is expected to be reclassified to profit or loss upon maturity.

During the year, a fair value gain of US$84,333,000 (2021: fair value loss of US$33,587,000) was reclassified from reserves to profit or loss upon maturity.

Major terms of the foreign currency forward contracts not under hedge accounting are as follows:

2022

Notional amounts in M	**Maturity**
Buy EUR 3M, Sell AUD	**January 23, 2023 to December 21, 2023**
Buy US$ 70.4M, Sell AUD	**January 20, 2023 to December 22, 2023**
Buy US$ 62.2M, Sell NZD	**January 24, 2023 to December 22, 2023**
Buy US$ 244.8M, Sell CAD	**January 31, 2023 to June 30, 2023**

2021

Notional amounts in M	Maturity
Buy EUR 3.2M, Sell AUD	January 20, 2022 to December 20, 2022
Buy US$65.5M, Sell AUD	January 20, 2022 to December 23, 2022
Buy US$60.1M, Sell NZD	January 20, 2022 to December 22, 2022
Buy US$402.9M, Sell CAD	January 31, 2022 to November 2, 2022

29. Derivative Financial Instruments (continued)

Cross-currency Interest Rate Swaps

The Group uses cross-currency interest rate swaps designated as effective hedging instrument to minimize its exposures to interest rate risk on US$ floating borrowings and foreign currency risk on the intercompany advances which affects the consolidated profit or loss.

The cross-currency interest rate swaps with notional amount of US$210,300,000 (2021: US$210,300,000) have fixed currency payments in EUR at exchange rate of EUR to US$ at 1.102 and 1.077 (2021: at 1.102 and 1.077), fixed interest payments monthly in EUR at 0.305% and 0.520% per annum (2021: 0.305% and 0.520% per annum) for periods up until October 2023, October 2024, April 2024 and April 2025 (2021: October 2023, October 2024, April 2024 and April 2025).

The floating rate index and the currency exposure of the cross-currency interest rate swaps match with the floating rate US$ bank borrowings and the currency exposure of the intercompany advances respectively.

During the year, a fair value gain of US$23,461,000 (December 31, 2021: fair value gain of US$21,880,000) has been recognized in other comprehensive income and accumulated in hedging reserve and is expected to be reclassified to profit or loss.

The fair value of the cross-currency interest rate swaps is determined by using the discounted cash flow method based on London Interbank Offered Rate ("LIBOR") yield curves and the forward exchange rates between US$ and EUR estimated at the end of the reporting period.

Major terms of the cross-currency interest rate swaps were as follows:

2022

Notional amounts	**Maturity**	**Receive floating***	**Pay fixed**
US$ 66,120,000	**October 16, 2023**	**LIBOR +0.85%**	**0.305%**
US$ 99,180,000	**October 9, 2024**	**LIBOR +0.85%**	**0.305%**
US$ 18,000,000	**April 23, 2024**	**LIBOR +0.85%**	**0.520%**
US$ 27,000,000	**April 23, 2025**	**LIBOR +0.85%**	**0.520%**

2021

Notional amounts	Maturity	Receive floating*	Pay fixed
US$66,120,000	October 16, 2023	LIBOR +0.85%	0.305%
US$99,180,000	October 9, 2024	LIBOR +0.85%	0.305%
US$18,000,000	April 23, 2024	LIBOR +0.85%	0.520%
US$27,000,000	April 23, 2025	LIBOR +0.85%	0.520%

* The receive floating would be changed from "LIBOR + 0.85%" to "Secured Overnight Financing Rate ("SOFR") + Credit Adjustment Spread + 0.85%" on rate switch date June 30, 2023.

30. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which ranged from 0.001% to 6.00% (2021: (1.25%) to 3.50%) per annum.

31. Trade and Other Payables

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

	2022 **US$'000**	2021 US$'000
0 to 60 days	**1,306,486**	1,267,129
61 to 120 days	**533,961**	672,558
121 days or above	**232,838**	92,789
Total trade payables	**2,073,285**	2,032,476
Other payables	**1,764,488**	2,007,823
Total trade and other payables	**3,837,773**	4,040,299
Non-current portion of other payables	**(60,346)**	(48,502)
	3,777,427	3,991,797

The credit period on the purchase of goods ranges from 30 days to 120 days (2021: 30 days to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

The other payables mainly represents accruals of various selling, general and administrative expenses of US$1,554,656,000 (2021: US$1,731,545,000). The non-current other payables mainly represents accruals of long-term incentive benefits offered to certain management executives of the Group.

32. Bills Payable

All the Group's bills payable at December 31, 2022 and 2021 are aged within 120 days based on invoice date.

33. Warranty Provision

	US$'000
At January 1, 2021	156,671
Currency realignment	(2,954)
Provision in the year	140,742
Utilization of provision	(111,694)
At December 31, 2021	182,765
Currency realignment	**(3,610)**
Provision in the year	**157,724**
Utilization of provision	**(131,529)**
At December 31, 2022	**205,350**

The warranty provision represents management's best estimate of the Group's service commitments arising from products sold, based on past claims and industry averages for defective products. It is expected that the majority of this expenditure will be utilized in the next financial year.

34. Lease Liabilities

	2022 US$'000	2021 US$'000
Amounts payable under lease liabilities:		
Within one year	**139,520**	115,194
In more than one year but not more than two years	**110,402**	106,211
In more than two years but not more than five years	**224,702**	181,084
More than five years	**230,457**	151,711
	705,081	554,200
Less: Amount due for settlement with 12 months shown under current liabilities	**(139,520)**	(115,194)
Amount due for settlement after 12 months shown under non-current liabilities	**565,561**	439,006

The weighted average incremental borrowing rates applied to lease liabilities ranged from 1.10% to 2.80% (2021: from 1.60% to 2.80%).

Lease obligations that are denominated in major currencies other than the functional currencies of the relevant group entities are set out below:

	EUR US$'000	**AUD US$'000**	**VND US$'000**	**GBP US$'000**
As at December 31, 2022	**35,387**	**18,811**	**49,654**	**22,340**
As at December 31, 2021	49,532	24,166	35,050	23,497

35. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 2.01% per annum (2021: 3.81% per annum) have maturity profiles of less than 120 days.

36. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from prior years.

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

Gearing Ratio

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

The gearing ratio at the year end was as follows:

	2022 US$'000	2021 US$'000
Bank balances, deposits and cash	**1,428,930**	1,874,401
Debt [(i)]	**(3,098,526)**	(3,207,844)
Net debt	**(1,669,596)**	(1,333,443)
Equity [(ii)]	**5,205,481**	4,722,518
Net debt to equity ratio	**32.07%**	28.24%

(i) Debt comprises discounted bills with recourse and unsecured borrowings but excludes bank advances from Factored Trade Receivables as detailed in Notes 35, 38 and 26 respectively.

(ii) Equity includes all capital and reserves attributable to the owners of the Company.

In addition, based on management recommendations, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

37. Financial Instruments

37.1 Categories of Financial Instruments

	2022 US$'000	2021 US$'000
Financial assets		
FVTPL		
Financial assets at FVTPL	**23,210**	21,231
	23,210	21,231
Derivative financial instruments		
Acquisition right of certain property, plant and equipment	**8,002**	8,302
Foreign currency forward contracts – under hedge accounting	**49,146**	86,226
Foreign currency forward contracts – not under hedge accounting	**10,564**	7,328
Cross-currency interest rate swaps – under hedge accounting	**17,064**	—
	84,776	101,856
Financial assets at amortized cost		
Trade and other receivables	**1,639,563**	2,022,278
Finance lease receivables	**11,076**	—
Bills receivable	**6,887**	7,643
Trade receivables from an associate	**5,026**	6,600
Bank balances, deposits and cash	**1,428,930**	1,874,401
	3,091,482	3,910,922
Financial liabilities		
Derivative financial instruments		
Foreign currency forward contracts – under hedge accounting	**50,474**	1,885
Cross-currency interest rate swaps – under hedge accounting	**—**	6,397
	50,474	8,282
Financial liabilities at amortized cost		
Trade and other payables	**3,837,773**	4,040,299
Bills payable	**20,267**	47,549
Discounted bills with recourse	**2,003**	1,857
Unsecured borrowings	**3,150,949**	3,280,987
	7,010,992	7,370,692

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies

The Group's corporate treasury function provides risk management advice to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These financial risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

37.2.1 FOREIGN CURRENCY RISK MANAGEMENT

Subsidiaries of the Group have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 21.2% (2021: 21.0%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 12.7% (2021: 13.0%) of purchases are denominated in the group entity's respective functional currency.

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

	Liabilities		Assets	
	2022	2021	**2022**	2021
	US$'000	US$'000	**US$'000**	US$'000
Foreign Currency				
EUR	**303,238**	413,646	**340,216**	672,148
US$	**5,400,972**	3,927,546	**1,884,521**	883,038

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

The Group requires its group entities to use foreign exchange forward contracts to reduce the currency exposure. The foreign exchange forward contracts must be in the same currency as the hedged item. On this basis, the Group has entered into forward contracts in relation to the foreign currency amounting to US$519,161,000 (2021: US$693,733,000). It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness (see Note 29 for details).

The Group also uses cross-currency interest rate swaps to reduce currency exposure to hedge against the debts which are effective to convert the foreign currency debts to the functional currency of the relevant group entity. The critical terms of these currency swaps are similar to those of hedged borrowings.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.1 FOREIGN CURRENCY RISK MANAGEMENT (continued)

Sensitivity Analysis

The following table details the Group's sensitivity to a 5% (2021: 5%) increase and decrease in the functional currency against foreign currency without considering the cross-currency interest rate swaps entered at end of the reporting period. 5% (2021: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and excludes the effect of cross-currency interest rate swaps held at the reporting date. A positive number below indicates an increase in profit for the year where functional currency weakens 5% (2021: 5%) against foreign currency. For a 5% (2021: 5%) strengthening of functional currency against the foreign currency, there would be an equal and opposite impact on the profit for the year and the amounts below would be negative.

	Impact of US$		Impact of EUR	
	2022	2021	**2022**	2021
	US$'000	US$'000	**US$'000**	US$'000
Profit for the year (i)	**(163,703)**	(141,571)	**1,721**	12,020

(i) This is mainly attributable to the net exposure on receivables, payables and unsecured borrowings denominated in US$ & EUR as foreign currency at the reporting date.

37.2.2 INTEREST RATE RISK MANAGEMENT

The Group's exposure to interest rates on financial assets and liabilities is detailed in the liquidity risk management section of this note. The Group is exposed to cash flow interest rate risk in relation to variable-rate borrowings (see Note 38 for details of these borrowings), discounted bills with recourse, finance lease receivables and bank balances and deposits. The Group's cash flow interest rate risk is mainly concentrated on Term SOFR and LIBOR arising from the Group's US$ and EUR denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk to be low. The management continuously monitors interest rate fluctuations and will consider further hedging the interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate unsecured borrowings (see Note 38 for details of these borrowings), finance lease receivables and lease liabilities.

During the year, the Group obtained new unsecured borrowings of US$4,839 million (2021: US$7,300 million) which are either at a fixed rate, Term SOFR or LIBOR based. The proceeds were used for refinancing the Group's borrowings.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.2 INTEREST RATE RISK MANAGEMENT (continued)

Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year without considering the cross-currency interest rate swaps entered at the end of the reporting period. A 50 basis points (2021: 50 basis points) increase or decrease in LIBOR or Term SOFR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2021: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2022 would decrease/increase by US$10,004,000 (2021: decrease/increase by US$11,828,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The Group's sensitivity to interest rates has decreased during the current period mainly due to the decrease in variable-rate debt instruments.

37.2.3 OTHER PRICE RISK

The Group is exposed to price risk mainly through its listed equity securities.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks of listed equity securities measured at fair value at the reporting date.

If the prices of the listed equity securities had been 10% higher, the profit for the year ended December 31, 2022 of the Group would have increase by US$1,347,000 (2021: increase by US$1,627,000) as a result of the changes in the fair values of the listed equity securities.

37.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT

As at December 31, 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group amounted to US$3,091,482,000 (2021: US$3,910,922,000). The Group's credit risk exposures are primarily attributable to trade and other receivables, bills receivables, trade receivables from an associate, finance lease receivables and bank balances, deposits and cash. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

Trade receivables arising from contracts with customers

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment using an ECL model on trade receivables collectively which are grouped based on shared credit risk characteristics by reference to the Group's internal credit ratings. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 31.6% (2021: 43.0%) and 49.1% (2021: 61.9%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively. In order to minimize the credit risk, the management of Group has delegated a team responsible for determination of credit limits and credit approvals.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT (continued)

Bank balances and deposits

The credit risks on bank balances and deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/ Other items
Minimal risk	The counterparty has minimal risk of default and does not have any past-due amounts.	Lifetime ECL – not credit-impaired	12m ECL
Low risk	The counterparty has a low risk of default and occasionally repays after due dates.	Lifetime ECL – not credit-impaired	12m ECL
Medium risk	The counterparty has a medium risk of default and occasionally repays after due dates.	Lifetime ECL – not credit-impaired	12m ECL
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources.	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

The tables below detail the credit risk exposure of the Group's financial assets, which are subject to ECL assessment:

				2022		2021	
	Notes	Internal credit rating	12m or lifetime ECL	**External credit rating**	**Gross carrying amount US$'000**	External credit rating	Gross carrying amount US$'000
Trade receivables	26	(Note 1)	Lifetime ECL (not credit-impaired)	**N/A**	**1,559,646**	N/A	1,976,060
Other receivables	26	(Note 2)	12m ECL	**N/A**	**138,304**	N/A	122,131
Bills receivable	27	N/A	12m ECL	**A To AA-**	**6,887**	A- To A+	7,643
Trade receivables from an associate	28	(Note 2)	12m ECL	**N/A**	**5,026**	N/A	6,600
Finance lease receivables	23	(Note 2)	12m ECL	**N/A**	**11,076**	N/A	—
Bank balances and deposits	30	N/A	12m ECL	**A To A+**	**1,428,930**	A To A+	1,874,401

Notes:

1. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a collective assessment grouped by internal credit rating.
2. Trade receivables from an associate and other receivables amounted to US$5,026,000 and US$138,304,000 (2021: US$6,600,000 and US$122,131,000) respectively have no fixed repayment terms. The Group has assessed these balances on a 12m ECL basis as there has been no significant increase in the credit risk since initial recognition.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT (continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operations. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively as at December 31, 2022.

	2022			2021		
	Average loss rate	**Gross carrying amount US$'000**	**Allowances for credit losses US$'000**	Average loss rate	Gross carrying amount US$'000	Allowances for credit losses US$'000
Internal credit rating						
Minimal risk	**Less than 1%**	**346,104**	**—**	Less than 1%	405,109	—
Low risk	**1-5%**	**1,164,637**	**34,766**	1-5%	1,516,371	58,848
Medium risk	**6-20%**	**22,582**	**2,525**	6-20%	29,485	3,007
High risk	**Over 20%**	**26,323**	**21,096**	Over 20%	25,095	14,058
		1,559,646	**58,387**		1,976,060	75,913

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended December 31, 2022, the Group provided US$58,387,000 (2021: US$75,913,000) for credit losses allowances for trade receivables.

The Group writes off trade receivables when there is information indicating that the debtors are in severe financial difficulties and there is no realistic prospect of recovery.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.4 CREDIT RISK MANAGEMENT AND IMPAIRMENT ASSESSMENT (continued)

The following table shows the movement in the lifetime ECL that has been recognized for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) US$'000
As at January 1, 2021	52,932
Currency realignment	(619)
Impairment losses reversed upon settlement in full of trade debtors with a gross carrying amount of US$978,274,000	(51,093)
Impairment losses recognized on new trade receivables with a gross carrying amount of US$1,570,951,000	75,913
Write-offs	(1,220)
As at December 31, 2021	75,913
Currency realignment	**(511)**
Impairment losses reversed upon settlement in full of trade debtors with a gross carrying amount of US$1,566,204,000	**(70,655)**
Impairment losses recognized on new trade receivables with a gross carrying amount of US$1,213,542,000	**58,387**
Write-offs	**(4,747)**
As at December 31, 2022	**58,387**

37.2.5 LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at December 31, 2022, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US$306 million (2021: US$323 million) and US$3,570 million (2021: US$2,248 million) respectively.

Liquidity Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities and derivative instruments. The tables have been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on agreed repayment dates. The table includes both interest and principal cash flows. To the extent that the interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and (outflows) on derivative instruments that settle on a net basis, and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the foreign currency exchange rates prevailing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities/settlement as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.5 LIQUIDITY RISK MANAGEMENT (continued)

Liquidity Tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand US$'000	1-3 months US$'000	4 months- 1 year US$'000	1-2 years US$'000	2+ years US$'000	Total undiscounted cash flows US$'000	Total carrying amount at December 31, 2022 US$'000
2022								
Non-derivative financial liabilities								
Trade and other payables	—	(2,546,096)	(712,597)	(518,734)	(45,447)	(14,899)	(3,837,773)	(3,837,773)
Bills payable	—	(2,435)	(7,672)	(10,160)	—	—	(20,267)	(20,267)
Lease liabilities	1.10% - 2.80%	(11,627)	(23,339)	(106,367)	(112,831)	(475,186)	(729,350)	(705,081)
Discounted bills with recourse	2.01%	—	(2,010)	—	—	—	(2,010)	(2,003)
Unsecured borrowings	0.31% - 5.14%	(1,097,300)	(391,972)	(474,959)	(310,149)	(944,917)	(3,219,297)	(3,150,949)
Refund liabilities from right of return	—	(10,840)	—	(6,737)	—	—	(17,577)	(17,577)
		(3,668,298)	(1,137,590)	(1,116,957)	(468,427)	(1,435,002)	(7,826,274)	(7,733,650)
2022								
Derivatives – net settlement								
Acquisition right of certain property, plant and equipment	—	—	—	—	—	8,002	8,002	8,002
Cross-currency interest rate swaps contracts	—	894	1,874	8,193	7,025	352	18,338	17,064
Foreign currency forward contracts – US$	—	—	1,488	1,628	—	—	3,116	3,116
		894	3,362	9,821	7,025	8,354	29,456	28,182
Derivatives – gross settlement								
Foreign currency forward contracts								
– inflow								
– HK$	—	33,820	11,246	—	—	—	45,066	45,066
– EUR	—	14,207	27,671	93,402	—	—	135,280	135,280
– RMB	—	136,480	250,006	456,715	—	—	843,201	843,201
– GBP	—	3,304	6,601	59,912	—	—	69,817	69,817
– US$	—	68,809	204,169	816,427	—	—	1,089,405	1,089,405
– AUD	—	7,226	24,072	42,377	—	—	73,675	73,675
– NZD	—	6,809	20,171	35,256	—	—	62,236	62,236
		270,655	543,936	1,504,089	—	—	2,318,680	2,318,680
– outflow								
– HK$	—	(33,776)	(11,225)	—	—	—	(45,001)	(45,001)
– EUR	—	(13,798)	(26,930)	(92,675)	—	—	(133,403)	(133,403)
– RMB	—	(139,385)	(259,486)	(479,873)	—	—	(878,744)	(878,744)
– GBP	—	(3,281)	(6,554)	(61,731)	—	—	(71,566)	(71,566)
– US$	—	(68,203)	(204,720)	(782,396)	—	—	(1,055,319)	(1,055,319)
– AUD	—	(6,680)	(22,208)	(39,788)	—	—	(68,676)	(68,676)
– NZD	—	(6,402)	(18,684)	(34,765)	—	—	(59,851)	(59,851)
		(271,525)	(549,807)	(1,491,228)	—	—	(2,312,560)	(2,312,560)
		(870)	(5,871)	12,861	—	—	6,120	6,120

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.5 LIQUIDITY RISK MANAGEMENT (continued)

Liquidity Tables (continued)

	Weighted average effective interest rate %	Less than 1 month/ on demand US$'000	1-3 months US$'000	4 months-1 year US$'000	1-2 years US$'000	2+ years US$'000	Total undiscounted cash flows US$'000	Total carrying amount at December 31, 2021 US$'000
2021								
Non-derivative financial liabilities								
Trade and other payables	—	(2,746,663)	(869,860)	(375,274)	(48,502)	—	(4,040,299)	(4,040,299)
Bills payable	—	(1,708)	(19,225)	(26,616)	—	—	(47,549)	(47,549)
Lease liabilities	1.60% — 2.80%	(9,600)	(19,268)	(87,821)	(108,548)	(347,438)	(572,675)	(554,200)
Discounted bills with recourse	3.81%	(723)	(1,142)	—	—	—	(1,865)	(1,857)
Unsecured borrowings	0.31% — 3.52%	(1,695,726)	(105,435)	(458,299)	(189,414)	(874,764)	(3,323,638)	(3,280,987)
Refund liabilities from right of return	—	(8,763)	—	(14,002)	(2,885)	—	(25,650)	(22,767)
		(4,463,183)	(1,014,930)	(962,012)	(349,349)	(1,222,202)	(8,011,676)	(7,947,659)
2021								
Derivatives – net settlement								
Acquisition right of certain property, plant and equipment	—	—	—	—	—	8,302	8,302	8,302
Cross-currency interest rate swaps contracts	—	103	227	1,683	(1,084)	(7,922)	(6,993)	(6,397)
Foreign currency forward contracts – US$	—	—	881	2,209	—	—	3,090	3,090
		103	1,108	3,892	(1,084)	380	4,399	4,995
Derivatives – gross settlement								
Foreign currency forward contracts								
– inflow								
– EUR	—	20,518	40,676	160,690	—	—	221,884	221,884
– RMB	—	182,971	298,083	494,375	—	—	975,429	975,429
– GBP	—	11,994	23,991	87,092	—	—	123,077	123,077
– US$	—	105,438	192,979	887,189	69,947	—	1,255,553	1,255,553
– AUD	—	6,286	11,569	51,278	—	—	69,133	69,133
– NZD	—	3,980	8,712	47,449	—	—	60,141	60,141
		331,187	576,010	1,728,073	69,947	—	2,705,217	2,705,217
– outflow								
– EUR	—	(20,738)	(41,105)	(161,632)	—	—	(223,475)	(223,475)
– RMB	—	(178,977)	(291,420)	(484,798)	—	—	(955,195)	(955,195)
– GBP	—	(12,123)	(24,290)	(84,722)	—	—	(121,135)	(121,135)
– US$	—	(98,965)	(180,967)	(842,565)	(69,300)	—	(1,191,797)	(1,191,797)
– AUD	—	(6,162)	(11,343)	(50,293)	—	—	(67,798)	(67,798)
– NZD	—	(3,804)	(8,325)	(45,109)	—	—	(57,238)	(57,238)
		(320,769)	(557,450)	(1,669,119)	(69,300)	—	(2,616,638)	(2,616,638)
		10,418	18,560	58,954	647	—	88,579	88,579

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

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.5 LIQUIDITY RISK MANAGEMENT (continued)

Liquidity Tables (continued)

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

37.2.6 INTEREST RATE BENCHMARK REFORM

Several of the Group's financial liabilities and derivative financial instruments, the interest of which are indexed to benchmark rates will be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

As at December 31, 2022, all LIBOR settings have been either ceased to be provided by any administrator or no longer be representative, except for US$ settings (other than the 1-week and 2-month settings) which will be ceased immediately after June 30, 2023.

Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

Litigation risk

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. If such a case arises, the Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.6 INTEREST RATE BENCHMARK REFORM (continued)

LIBOR (continued)

Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, new contracts entered into by the Group are linked to interest rates which are not subject to reform to the extent feasible. Otherwise, the Group ensured the relevant contracts include detailed fallback clauses clearly referencing the alternative benchmark rate and the specific triggering event on which the clause is activated.

The Group is exposed to the impact of interest rate changes, primarily through its floating rate borrowings that require it to make interest payments based on LIBOR. The Group uses cross-currency interest rate swaps to reduce its market risk from changes in interest rates.

During the year, no bank loan linked to US$ LIBOR has been transitioned to SOFR and Term SOFR. The Group accounted for the changes using the practical expedient in HKFRS 9 which allows the Group to change the basis for determining the contractual cash flows prospectively by revising the effective interest rate.

The Group plans to transition the majority of its remaining LIBOR linked contracts to risk-free rates through amendments to fallback clauses in its floating rate credit facilities and debt instruments which would change the basis for determining the interest rate cash flows from LIBOR to a risk-free rate at an agreed point in time. Those bank loan linked to US$ LIBOR will be transitioned to SOFR and Term SOFR.

Interest rate benchmark transition for non-derivative financial liabilities

The following table shows the total amounts of outstanding US$ LIBOR referenced borrowings and the progress in completing the transition to alternative benchmark rates. The amounts of financial liabilities are shown at their carrying amounts.

As at December 31, 2022

	Principal US$'000	**Weighted average term (years)**	**Transition progress**
Term loans	**310,215**	**1.32**	**Expected to amend fallback clauses prior to cessation of publication of LIBOR.**
Revolving and trade loan	**670,000**	**0.08**	**Expected to amend fallback clauses prior to cessation of publication of LIBOR.**
Total	**980,215**		

As at December 31, 2021

	Principal US$'000	Weighted average term (years)	Transition progress
Term loans	450,970	2.09	Expected to amend fallback clauses prior to cessation of publication of LIBOR.
Revolving and trade loan	2,060,110	0.11	Expected to amend fallback clauses prior to cessation of publication of LIBOR.
Total	2,511,080		

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

37.2.6 INTEREST RATE BENCHMARK REFORM (continued)

LIBOR (continued)

Interest rate benchmark transition for derivatives

As at December 31, 2022, the Group had an outstanding notional balance of US$210,300,000 (2021: US$210,300,000) of US$ LIBOR referenced cross-currency interest rate swaps which were in a cash flow hedge with the Group's variable-rate US$ unsecured borrowings.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators regarding the transition away from LIBOR. In response to the announcements, the Group has set up an LIBOR transition programme comprised of the following work streams: tax, treasury, legal, accounting and systems. The aim of the programme is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. None of the Group's current LIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different LIBORs, which the Group is monitoring closely and will look to implement these when appropriate.

For the Group's cross-currency interest rate swaps, the International Swaps and Derivatives Association's ("ISDA") fall back clauses were made available in the first quarter of 2021 and the Group is discussing with its banks with the aim to implement this language into its ISDA agreements within 2022.

The Group will continue to apply the amendments to HKFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends. The Group has assumed that this uncertainty will not end until the Group's LIBOR contracts are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall back clauses which have yet to be added to the Group's contracts and the negotiation with lenders is underway.

Below are details of the hedging instruments and the related hedged items that have been or will be subject to transition to alternative benchmark interest rates, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

As at December 31, 2022

Hedge type	**Instrument type**	**Maturing in**	**Nominal amount US$'000**	**Hedged item**	**Transition progress**
Cash flow hedge	**Cross-currency interest rate swaps**	**October 2023, October 2024, April 2024 and April 2025**	**210,300**	**Floating rate US$ bank borrowings and the currency exposure of the intercompany advances**	**To transition derivatives via ISDA protocol**

As at December 31, 2021

Hedge type	Instrument type	Maturing in	Nominal amount US$'000	Hedged item	Transition progress
Cash flow hedge	Cross-currency interest rate swaps	October 2023, October 2024, April 2024 and April 2025	210,300	Floating rate US$ bank borrowings and the currency exposure of the intercompany advances	To transition derivatives via ISDA protocol

37. Financial Instruments (continued)

37.3 Fair Value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contract;
- the fair value of cross-currency interest rate swaps is measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between US$ and EUR, which is observable at the end of the reporting period;
- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices or latest purchase/transaction prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

37. Financial Instruments (continued)

37.3 Fair Value (continued)

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Financial assets/ financial liabilities	Fair value as at 2022	Fair value as at 2021	Fair value hierarchy	Valuation techniques and key inputs
1)	Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	**Acquisition right of certain property, plant and equipment: US$8,002,000**	Acquisition right of certain property, plant and equipment: US$8,302,000	Level 2	Measured at the fair value of the land and buildings associated with the acquisition right which is based on a valuation by third 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$59,710,000; and Liabilities – US$50,474,000**	Assets – US$93,554,000; and Liabilities – US$1,885,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates and yield curves 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$13,466,000**	Listed shares: US$16,272,000	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$4,899,000**	Club membership debentures: US$4,914,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
		Unlisted equity securities: US$4,800,000	Unlisted equity securities: Nil	Level 2	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.
5)	Cross-currency interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	**Assets – US$17,064,000; and Liabilities – Nil**	Assets – Nil; and Liabilities – US$6,397,000	Level 2	Measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between US$ and EUR, which is observable at the end of the reporting period.

37. Financial Instruments (continued)

37.3 Fair Value (continued)

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Level 1 US$'000	Level 2 US$'000	Total US$'000
2022			
Financial assets			
Acquisition right of certain property, plant and equipment	**—**	**8,002**	**8,002**
Foreign currency forward contracts	**—**	**59,710**	**59,710**
Cross-currency interest rate swaps	**—**	**17,064**	**17,064**
Financial assets at FVTPL	**13,466**	**9,744**	**23,210**
Total	**13,466**	**94,520**	**107,986**
Financial liabilities			
Foreign currency forward contracts	**—**	**(50,474)**	**(50,474)**
Total	**—**	**(50,474)**	**(50,474)**
2021			
Financial assets			
Acquisition right of certain property, plant and equipment	—	8,302	8,302
Foreign currency forward contracts	—	93,554	93,554
Financial assets at FVTPL	16,272	4,959	21,231
Total	16,272	106,815	123,087
Financial liabilities			
Foreign currency forward contracts	—	(1,885)	(1,885)
Cross-currency interest rate swaps	—	(6,397)	(6,397)
Total	—	(8,282)	(8,282)

37. Financial Instruments (continued)

37.4 Transfers of financial assets

The following were the Group's financial assets as at December 31, 2022 that were transferred to banks by discounting or factoring those trade and bills receivables on a full recourse basis. As the Group retained substantially all of the significant risks and rewards relating to these receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as discounted bills with recourse (see Note 35) and unsecured borrowings – due within one year (see Note 38). These financial assets are carried at amortized cost in the Group's consolidated statement of financial position.

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

	2022 **US$'000**	2021 US$'000
Carrying amount of transferred assets	**56,429**	76,857
Carrying amount of associated liabilities	**(56,429)**	(76,857)
Net position	**—**	—

The directors of the Company consider that the carrying amounts of the discounted bills and unsecured borrowings approximate their fair values.

38. Unsecured Borrowings

	2022 **US$'000**	2021 US$'000
Bank advance from Factored Trade Receivables	**54,426**	75,000
Bank loans	**2,835,760**	2,991,475
Medium term notes	**260,763**	214,512
Total borrowings	**3,150,949**	3,280,987

The borrowings of the Group are repayable as follows:

	2022 **US$'000**	2021 US$'000
Fixed-rate		
Within one year	**79,931**	21,000
In more than one year but not more than two years	**124,796**	79,856
In more than two years but not more than five years	**591,916**	423,860
More than five years	**207,458**	214,512
Variable-rate		
Within one year	**1,873,016**	2,231,636
In more than one year but not more than two years	**177,125**	105,998
In more than two years but not more than five years	**96,707**	204,125
	3,150,949	3,280,987
Less: Amount due within one year shown under current liabilities	**(1,952,947)**	(2,252,636)
Amount due after one year	**1,198,002**	1,028,351

38. Unsecured Borrowings (continued)

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

	2022	2021
Effective interest rate:		
Fixed-rate borrowings	**0.73% to 3.66%**	0.73% to 3.52%
Variable-rate borrowings	**0.31% to 5.14%**	0.31% to 2.91%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	EUR US$'000
As at December 31, 2022	**53,305**
As at December 31, 2021	87,258

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

39. Share Capital

	2022 Number of shares	2021 Number of shares	**2022 US$'000**	2021 US$'000
Ordinary shares				
Issued and fully paid:				
At the beginning of the year	**1,834,484,441**	1,832,620,441	**683,395**	673,141
Issue of shares upon exercise of share options	**213,500**	1,864,000	**1,315**	10,254
At the end of the year	**1,834,697,941**	1,834,484,441	**684,710**	683,395

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

40. Reserves

	Shares held for share award scheme US$'000	Employee share-based compensation reserve US$'000	Hedging reserve US$'000	Retained profits US$'000	Total US$'000
The Company					
At January 1, 2021	(42,086)	17,411	(64,490)	23,572,235	23,483,070
Loss for the year	—	—	—	(72,591)	(72,591)
Fair value gain on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	131,393	—	131,393
Total comprehensive income (loss) for the year	—	—	131,393	(72,591)	58,802
Shares issued on exercise of options	—	(2,046)	—	—	(2,046)
Vesting of awarded shares	17,597	(17,597)	—	—	—
Shares for share award scheme	(81,251)	—	—	—	(81,251)
Recognition of equity-settled share-based payments	—	33,573	—	—	33,573
Final dividend – 2020	—	—	—	(193,488)	(193,488)
Interim dividend – 2021	—	—	—	(200,627)	(200,627)
At December 31, 2021	(105,740)	31,341	66,903	23,105,529	23,098,033
Profit for the year	**—**	**—**	**—**	**192,922**	**192,922**
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	**—**	**—**	**(74,220)**	**—**	**(74,220)**
Total comprehensive (loss) income for the year	**—**	**—**	**(74,220)**	**192,922**	**118,702**
Shares issued on exercise of options	**—**	**(258)**	**—**	**—**	**(258)**
Vesting of awarded shares	**21,651**	**(21,651)**	**—**	**—**	**—**
Shares for share award scheme	**(9,796)**	**—**	**—**	**—**	**(9,796)**
Recognition of equity-settled share-based payments	**—**	**47,346**	**—**	**—**	**47,346**
Final dividend – 2021	**—**	**—**	**—**	**(236,104)**	**(236,104)**
Interim dividend – 2022	**—**	**—**	**—**	**(224,317)**	**(224,317)**
At December 31, 2022	**(93,885)**	**56,778**	**(7,317)**	**22,838,030**	**22,793,606**

As at December 31, 2022, the Company's reserves available for distribution to shareholders comprised the retained profits of US$22,838,030,000 (2021: US$23,105,529,000).

41. Retirement Benefit Obligations

Defined Contribution Plans:

The Group operating in Hong Kong have participated in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Schemes Ordinance since December 2000. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the MPF Schemes with a maximum amount of HK$18,000 (2021: HK$18,000) per employee per annum, which contribution is matched by the employee.

The employees of the Group's subsidiaries in the People's Republic of China ("PRC") are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group's overseas subsidiaries operate a number of defined contribution schemes. Contributions to the defined contribution schemes applicable to each year are made at a certain percentage of the employees' payroll.

The total expense recognized in profit or loss of US$29,854,000 (2021: US$25,474,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined Benefits Plans:

The Group operates several defined benefit plans for qualifying employees of its subsidiaries in Germany and the US, of which these plans cover substantially all remaining employees that are not covered by defined contribution plans. The defined benefit plans are administered by separate funds that are legally separated from the Group. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund. The major defined benefit plans are as follows:

	2022 **US$'000**	2021 US$'000
Pension plan obligations (Note i)	**46,107**	74,474
Life and medical insurance plan (Note ii)	**900**	1,051
Others	**664**	614
	47,671	76,139

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes an unfunded plan that pays retirement benefits based on the term of service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the qualifying employees are entitled to retirement benefits varying between 10% and 20% of final salary (based on the average of the last three years) on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out on January 1, 2023, by BDO AG Wirtschaftsprufungsgesellschaft, an independent valuer not related to the Group.

Note ii: Life and medical insurance plan

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on December 16, 2022 by Willis Towers Watson, an independent valuer not related to the Group.

41. Retirement Benefit Obligations (continued)

Defined Benefits Plans: (continued)

The plans in Germany and the US expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit.
Interest rate risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is reinsured by an external insurance company.

The main actuarial assumptions used were as follows:

	Pension plan		Life & medical insurance plan	
	2022	2021	**2022**	2021
Discount rate	**3.80%**	0.55%	**4.25%**	2.00%
Expected rate of salary increases	**2.00%**	2.00%	**N/A**	N/A
Future pension increases	**2.00%**	2.00%	**N/A**	N/A
Medical cost trend rates	**N/A**	N/A	**5.00%**	5.00%

The effect of an increase of one percentage point in the assumed medical cost trend rate on the aggregate of the current service cost and interest cost; and the accumulated post-employment benefit obligations are as follows:

	Pension plan		Life & medical insurance plan	
	2022	2021	**2022**	2021
	US$'000	US$'000	**US$'000**	US$'000
Current service cost and interest cost	**N/A**	N/A	**2**	1
Accumulated post-employment benefit obligations for medical costs	**N/A**	N/A	**44**	61

41. Retirement Benefit Obligations (continued)

Defined Benefits Plans: (continued)

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

	Pension plan		Life & medical Insurance plan	
	2022 US$'000	2021 US$'000	**2022 US$'000**	2021 US$'000
Service cost:				
Current service cost	**463**	479	**—**	—
Net interest expense on defined benefit liabilities	**382**	374	**20**	21
Components of defined benefit costs recognized in profit or loss	**845**	853	**20**	21
Remeasurement on the net defined benefit liability:				
Actuarial gains arising from changes in financial assumptions	**(21,855)**	(7,257)	**(152)**	(202)
Components of defined benefit costs recognized in other comprehensive income	**(21,855)**	(7,257)	**(152)**	(202)
Total	**(21,010)**	(6,404)	**(132)**	(181)

The charge for the year has been included in staff costs.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the major defined benefit plans is as follows:

	Pension plan		Life & medical insurance plan	
	2022 US$'000	2021 US$'000	**2022 US$'000**	2021 US$'000
Present value of unfunded obligations	**46,107**	74,474	**900**	1,051

Movements in the present value of the defined benefit obligations in the current year in respect of major defined benefit plans were as follows:

	Pension plan		Life & medical insurance plan	
	2022 US$'000	2021 US$'000	**2022 US$'000**	2021 US$'000
At January 1	**74,474**	90,505	**1,051**	1,245
Exchange realignment	**(4,013)**	(5,857)	**—**	—
Current service cost	**463**	479	**—**	—
Actuarial gains	**(21,855)**	(7,257)	**(152)**	(202)
Interest cost	**382**	374	**20**	21
Benefit paid	**(3,344)**	(3,770)	**(19)**	(13)
At December 31	**46,107**	74,474	**900**	1,051

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

42. Deferred Tax Assets (Liabilities)

The following are the major deferred tax assets and liabilities recognized and movements thereon during the current and prior year:

	Accelerated tax depreciation US$'000	Warranty provision US$'000	Employee related provision US$'000	Tax losses US$'000	Inventory provision US$'000	Others US$'000	Total US$'000
At January 1, 2021	(54,347)	21,646	39,452	25,362	1,015	27,451	60,579
Currency realignment	68	(429)	(410)	(57)	(190)	(1,459)	(2,477)
Credit to hedging reserve	—	—	—	—	—	(1,351)	(1,351)
(Charge) credit to profit or loss	(28,052)	4,770	35,259	(7,589)	(2,405)	23,806	25,789
Change in tax rates	(1)	13	67	81	19	278	457
Charge to other comprehensive income	—	—	380	—	—	—	380
At December 31, 2021	(82,332)	26,000	74,748	17,797	(1,561)	48,725	83,377
Currency realignment	**39**	**(457)**	**(465)**	**(113)**	**(439)**	**(1,542)**	**(2,977)**
Charge to hedging reserve	**—**	**—**	**—**	**—**	**—**	**304**	**304**
(Charge) credit to profit or loss	**(24,043)**	**5,712**	**(7,608)**	**35,098**	**(45,882)**	**23,907**	**(12,816)**
Change in tax rates	**—**	**—**	**—**	**(21)**	**—**	**—**	**(21)**
Acquisition of a subsidiary (Note 43)	**(380)**	**—**	**7**	**—**	**—**	**(3)**	**(376)**
Credit to other comprehensive income	**—**	**—**	**(2,631)**	**—**	**—**	**—**	**(2,631)**
At December 31, 2022	**(106,716)**	**31,255**	**64,051**	**52,761**	**(47,882)**	**71,391**	**64,860**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2022 US$'000	2021 US$'000
Deferred tax assets	**81,082**	97,436
Deferred tax liabilities	**(16,222)**	(14,059)
	64,860	83,377

At the end of the reporting period, the Group has unused tax losses of US$2,537 million (2021: US$2,031 million) available for offset against future taxable profits. Of the US$2,537 million of unused losses approximately US$447 million expire over the next 6 to 15 years with the remaining loss carryforwards having no useful life limitation. No deferred tax asset has been recognized in respect of tax losses of US$2,323 million (2021: US$1,946 million) due to the lack of probable future taxable profits.

In respect of all unrepatriated foreign earnings, the Group has provided deferred taxes of US$15 million (2021: US$13 million) as these unrepatriated foreign earnings are not considered permanently reinvested.

43. Acquisition of a subsidiary

In January 2022, the Group acquired 100% equity interest in C4 Carbides Limited ("C4") from independent third parties for a cash consideration of approximately US$39,589,000. C4's business was acquired so as to continue the expansion of the Group's power equipment business. C4 is engaged in the manufacture and sale of saw blades and is included in the Power Equipment segment.

	Fair value US$'000
Net Assets Acquired	
Property, plant and equipment	**3,200**
Right of use assets	**1,712**
Intangible assets	**2,015**
Inventories	**4,797**
Trade and other receivables	**7,639**
Bank balances and cash	**2,529**
Trade and other payables	**(5,034)**
Lease liabilities	**(1,876)**
Tax payable	**(122)**
Deferred tax liabilities	**(376)**
Goodwill arising on acquisition of C4	**25,105**
Total consideration	**39,589**
Net cash outflow arising on acquisition:	
Total consideration	**39,589**
Less: Bank balances and cash acquired	**(2,529)**
Net outflow of cash and cash equivalents in respect of the acquisition of C4	**37,060**

Intangible assets of US$2,015,000 and goodwill of US$25,105,000 arose on the acquisition of C4's business from patents and the anticipated profitability arising from new product synergies and cost savings within the Power Equipment segment.

The fair value and contractual amounts of trade and other receivables at the date of acquisition amounted to US$7,639,000. All amount are expected to be collected.

The acquisition-related costs are insignificant. They have been excluded from the consideration transferred and have been recognized as an expense in the current year.

The business acquired contributed approximately US$16,876,000 to the Group's revenue, and approximately US$419,000 decrease in the Group's profit before taxation for the period between the date of acquisition and the reporting date as at December 31, 2022.

44. Guarantees

The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at December 31, 2022 amounted to US$802,996,000 (2021: US$670,896,000).

45. Share Options

Share Option Schemes

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

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

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

(i) employees; or
(ii) Directors; or
(iii) secondees; or
(iv) any shareholders of any member of the Group or invested entity or controlling shareholders or any holders of any securities issued by any member of the Group; or
(v) business partners; or
(vi) suppliers; or
(vii) customers; or
(viii) advisers of the Group.

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

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

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

45. Share Options (continued)

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

2022

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors									
Mr Horst Julius Pudwill	22.12.2020	E	47,000	—	(23,500)	—	23,500	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Stephan Horst Pudwill	20.3.2014	D	750,000	—	—	—	750,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	1,000,000	—	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Mr Kin Wah Chan	17.3.2017	D	200,000	—	—	—	200,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	1,000,000	—	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Mr Chi Chung Chan	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	1,000,000	—	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Camille Jojo	14.3.2018	E	50,000	—	—	—	50,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031

45. Share Options (continued)

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

2022

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors									
Mr Peter David Sullivan	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Robert Hinman Getz	15.5.2020	E	75,000	—	—	—	75,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	32,000	—	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Ms. Virginia Davis Wilmerding	19.08.2021	E	29,500	—	—	—	29,500	167.200	19.08.2022 – 19.08.2031
Total for directors			16,504,500	—	(173,500)	—	16,331,000		
Employees	17.3.2017	D	110,000	—	(40,000)	—	70,000	32.100	17.3.2017 – 16.3.2027
	19.6.2017	E	100,000	—	—	—	100,000	36.300	19.6.2018 – 18.6.2027
	14.3.2018	E	150,000	—	—	—	150,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	194,000	—	—	—	194,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	94,000	—	—	—	94,000	105.500	22.12.2021 – 21.12.2030
Total for employees			648,000	—	(40,000)	—	608,000		
Total for all categories			17,152,500	—	(213,500)	—	16,939,000		
Exercisable at the end of the year							12,291,250		

45. Share Options (continued)

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

2021

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors									
Mr Horst Julius Pudwill	20.5.2019	E	97,000	—	(97,000)	—	—	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Stephan Horst Pudwill	20.3.2014	D	750,000	—	—	—	750,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	—	—	250,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	1,000,000	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Mr Kin Wah Chan	11.9.2015	D	250,000	—	(250,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	(300,000)	—	200,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	1,000,000	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Mr Chi Chung Chan	20.3.2014	D	200,000	—	(200,000)	—	—	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	250,000	—	(250,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	500,000	—	—	—	500,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	250,000	—	—	—	250,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	500,000	—	—	—	500,000	51.080	20.5.2020 – 19.5.2029
	15.5.2020	E	500,000	—	—	—	500,000	65.250	15.5.2021 – 14.5.2030
	22.12.2020	E	2,000,000	—	—	—	2,000,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	1,000,000	—	—	1,000,000	154.900	30.12.2022 – 29.12.2031
Prof Roy Chi Ping Chung GBS BBS JP	11.9.2015	D	150,000	—	—	—	150,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	—	—	150,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 – 29.12.2031
Mr Camille Jojo	14.3.2018	E	100,000	—	(50,000)	—	50,000	47.900	14.3.2019 – 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 – 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 – 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 – 29.12.2031

45. Share Options (continued)

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

2021

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Directors									
Mr Peter David Sullivan	11.9.2015	D	150,000	—	(150,000)	—	—	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	150,000	—	(150,000)	—	—	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	100,000	—	(100,000)	—	—	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	(97,000)	—	—	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 - 29.12.2031
Mr Johannes-Gerhard Hesse	19.6.2017	E	135,000	—	—	—	135,000	36.300	19.6.2018 - 18.6.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 - 29.12.2031
Mr Robert Hinman Getz	15.5.2020	E	75,000	—	—	—	75,000	65.250	15.5.2021 - 14.5.2030
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
	30.12.2021	E	—	32,000	—	—	32,000	154.900	30.12.2022 - 29.12.2031
Ms. Virginia Davis Wilmerding (appointed on April 9, 2021)	19.08.2021	E	—	29,500	—	—	29,500	167.200	19.08.2022 - 19.08.2031
Mr Christopher Patrick Langley OBE (retired after the conclusion of the annual general meeting of the Company held on May 14, 2021)	17.3.2017	D	130,000	—	(20,000)	—	110,000	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
Mr Vincent Ting Kau Cheung (passed away on July 31, 2021)	14.3.2018	E	50,000	—	—	—	50,000	47.900	14.3.2019 - 13.3.2028
	20.5.2019	E	97,000	—	—	—	97,000	51.080	20.5.2020 - 19.5.2029
	22.12.2020	E	47,000	—	—	—	47,000	105.500	22.12.2021 - 21.12.2030
Total for directors			15,495,000	3,221,500	(1,664,000)	—	17,052,500		
Employees	23.3.2017	D	100,000	—	(100,000)	—	—	32.150	23.3.2018 - 22.3.2027
	19.6.2017	E	100,000	—	—	—	100,000	36.300	19.6.2018 - 18.6.2027
	14.3.2018	E	100,000	—	(100,000)	—	—	47.900	14.3.2019 - 13.3.2028
Total for employees			300,000	—	(200,000)	—	100,000		
Total for all categories			15,795,000	3,221,500	(1,864,000)	—	17,152,500		
Exercisable at the end of the year							8,690,500		

45. Share Options (continued)

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

Date of grant	Exercise price HK$	Expected life of share options	Expected volatility based on historical volatility of share prices	Yields of Hong Kong Government Bonds	Expected annual dividend yield
For the year ended December 31, 2021					
19.8.2021	167.20	3 years	38%	0.254%	1.5%
30.12.2021	154.90	3 years	38%	0.553%	1.5%

The share options are vested in parts over 1 to 3 years from the date of grant.

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

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

The weighted average closing price of the Company's shares immediately before the various dates on which the share options were granted during 2021 was HK$152.31.

The closing price of the Company's shares immediately before the various dates on which the share options were granted ranged from HK$152.20 to HK$163.70 in 2021.

The weighted average closing prices of the Company's shares immediately before various dates during 2022 and 2021 on which the share options was exercised were HK$87.98 (2021: HK$152.40) respectively.

The Group recognized a total expense of US$15,366,000 (2021: US$13,935,000) for the year ended December 31, 2022 in relation to share options granted by the Company.

The fair value of the share options granted in 2021 measured at various dates on which the share options were granted was ranged from HK$36.67 to HK$39.49. The weighted average fair value of the share options granted in 2021 was HK$36.70 per option.

The Company had 16,939,000 share options outstanding (2021: 17,152,500), which represented approximately 0.92% (2021: 0.94%) of the issued share capital of the Company as at December 31, 2022. No option (2021: 3,221,500) was granted, no option (2021: Nil) was cancelled and no share options (2021: Nil) was lapsed during the year.

Total securities available for issue under Scheme D are 117,281,565 shares, which represented approximately 6.39% of the issued shares of the Company as at December 31, 2022. Total securities available for issue under Scheme E are 168,012,694 shares, which represented approximately 9.16% of the issued shares of the Company as at December 31, 2022.

46. Share Award Scheme

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

The share award scheme of the Company was adopted by the Board of Directors on January 9, 2008 and renewed on January 17, 2018. The Board may, from time to time, at their absolute discretion select any eligible person for participation in the scheme as a selected grantee and determine the number of shares to be awarded or make reference to a nominal amount. The Board of Directors are required to pay the trustee the purchase price and the related expenses. The trustee must either purchase shares from the market or subscribe for new shares. The trustee must hold the shares until they are vested in accordance with the scheme rules. When the selected grantee has satisfied all vesting conditions specified by the Board of Directors at the time of making the award and becomes entitled to the shares forming the subject of the award, the trustee will transfer the relevant vested shares together with the income derived therefrom (net of accrued interest) to the selected grantee.

An award of shares automatically lapses when, (i) a selected grantee who is an employee ceases to be an employee; or (ii) the subsidiary by which a selected grantee is employed ceases to be a subsidiary of the Company (or of a member of the Group); or (iii) a selected grantee who is a director of the Company or a subsidiary ceases to be a director of the same; or (iv) an order for the winding-up of the Company is made or a resolution is passed (otherwise than for certain purposes) for the voluntary winding-up of the Company, and, in any such case, the award, unless the Board otherwise agrees, automatically lapses forthwith and all the awarded shares and related income of such award do not vest on the relevant vesting date but become returned shares for the purpose of the scheme.

Recognition of share-based payment expenses under the share award scheme during the year was US$31,980,000 (2021: US$19,638,000). During the year ended December 31, 2022, 1,784,500 shares (2021: 2,391,500 shares) were transferred to the awardees upon vesting.

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

	Number	
	2022	2021
At January 1	**4,591,000**	3,452,000
Awarded (Note (a))	**3,011,000**	3,530,500
Vested	**(1,784,500)**	(2,391,500)
At December 31 (Note (b))	**5,817,500**	4,591,000

Notes:

(a) All the awarded shares were purchased from the market with the average price of HK$134.48.

(b) At the end of the year, the average fair value per share is HK$100.52 (2021: HK$75.82). The average fair value of the awarded shares is based on the average purchase cost.

(ii) The remaining vesting periods of the awarded shares outstanding are as follows:

	Number of awarded shares	
	2022	2021
Less than 1 year	**1,425,000**	966,000
More than 1 year	**4,392,500**	3,625,000
	5,817,500	4,591,000

47. Capital Commitments

	2022 **US$'000**	2021 US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment and equity interest in a subsidiary contracted for but not provided in the consolidated financial statements	**328,364**	235,174

48. Related Party Transactions

During the year, the Group entered into the following transactions with its associate, which did not constitute connected transactions under Chapter 14A of the Listing Rules:

	2022 **US$'000**	2021 US$'000
Sales income	**75,211**	56,956
Service income	**2,453**	1,464
Purchases	**—**	1,847

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

	2022 **US$'000**	2021 US$'000
Short-term benefits	**112,981**	113,825
Post-employment benefits	**1,131**	1,542
Share-based payments	**38,173**	33,517
	152,285	148,884

Details of the balances and transactions with related parties are set out in the consolidated statements of financial position and Notes 21 and 28.

49. Reconciliation of Liabilities Arising from Financing Activities

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

	Dividend payable	Unsecured borrowings Note 38	Discounted bills with recourse Note 35	Lease liabilities Note 34	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At January 1, 2021	—	1,325,434	1,436	374,407	1,701,277
Currency realignment	—	(3,776)	—	(4,271)	(8,047)
Financing cash flows	(394,115)	1,959,329	421	(101,736)	1,463,899
New leases entered	—	—	—	294,154	294,154
Early termination of leases	—	—	—	(8,354)	(8,354)
Interest expenses	—	31,656	—	10,352	42,008
Interest paid	—	(31,656)	—	(10,352)	(42,008)
Dividends declared	394,115	—	—	—	394,115
At December 31, 2021	—	3,280,987	1,857	554,200	3,837,044
Currency realignment	**—**	**(13,850)**	**—**	**(7,503)**	**(21,353)**
Financing cash flows	**(460,421)**	**(116,188)**	**146**	**(137,333)**	**(713,796)**
New leases entered	**—**	**—**	**—**	**295,821**	**295,821**
Early termination of leases	**—**	**—**	**—**	**(1,980)**	**(1,980)**
Interest expenses	**—**	**58,810**	**—**	**11,058**	**69,868**
Interest paid	**—**	**(58,810)**	**—**	**(11,058)**	**(69,868)**
Dividends declared	**460,421**	**—**	**—**	**—**	**460,421**
Acquisition of a subsidiary	**—**	**—**	**—**	**1,876**	**1,876**
At December 31, 2022	**—**	**3,150,949**	**2,003**	**705,081**	**3,858,033**

50. Statement of Financial Position of the Company

As at December 31, 2022

	2022 US$'000	2021 US$'000
Non-current assets		
Property, plant and equipment	**3,012**	3,888
Right of use assets	**2,838**	1,988
Intangible assets	**11**	18
Investments in subsidiaries	**28,141,334**	26,500,976
Loans to subsidiaries	**12,716**	12,822
Investment in an associate	**—**	1,470
Financial assets at FVTPL	**3,635**	3,647
Deposits	**90,000**	—
	28,253,546	26,524,809
Current assets		
Deposits and prepayments	**57,995**	25,226
Financial assets at FVTPL	**13,466**	16,272
Tax recoverable	**7,612**	7,612
Derivative financial instruments	**39,481**	73,300
Amounts due from subsidiaries	**662,539**	682,938
Bank balances, deposits and cash	**303,439**	773,663
	1,084,532	1,579,011
Current liabilities		
Trade and other payables	**193,388**	170,147
Derivative financial instruments	**46,798**	6,397
Lease liabilities	**1,477**	893
Amounts due to subsidiaries	**3,229,332**	1,484,310
Unsecured borrowings – due within one year	**1,172,221**	1,631,147
	4,643,216	3,292,894
Net current liabilities	**(3,558,684)**	(1,713,883)
Total assets less current liabilities	**24,694,862**	24,810,926

50. Statement of Financial Position of the Company (continued)

As at December 31, 2022

	Note	2022 US$'000	2021 US$'000
Capital and Reserves			
Share capital		**684,710**	683,395
Reserves	40	**22,793,606**	23,098,033
Total equity		**23,478,316**	23,781,428
Non-current Liabilities			
Lease liabilities		**1,390**	1,147
Unsecured borrowings – due after one year		**1,198,002**	1,028,351
Other payables		**17,154**	—
Total equity and non-current liabilities		**24,694,862**	24,810,926

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 1, 2023 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

51. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2022 and December 31, 2021 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company				Principal activities
			2022		2021		
			Directly %	**Indirectly %**	Directly %	Indirectly %	
DreBo Werkzeugfabrik GmbH *	Germany	EUR1,000,000	—	**100**	—	100	Trading and manufacture of power equipment products
TTI Outdoor Power Equipment, Inc.	US	US$10	—	**100**	—	100	Trading of outdoor power equipment products
Hart Consumer Products, Inc.	US	US$10	—	**100**	—	100	Trading of power equipment and outdoor power equipment products
Milwaukee Electric Tool Corporation	US	US$50,000,000	—	**100**	—	100	Trading and manufacture of power equipment products
TTI Consumer Power Tools, Inc.	US	US$10	—	**100**	—	100	Trading of power equipment products
Royal Appliance Mfg. Co.	US	US$1	—	**100**	—	100	Trading and manufacture of floorcare products
Techtronic Cordless GP	US	US$200	—	**100**	—	100	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries (Dongguan) Co. Ltd.#	PRC	US$47,000,000	—	**100**	—	100	Manufacture of power equipment, floorcare and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NTD5,000,000	**100**	—	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP4,000,000	—	**100**	—	100	Trading of power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AUD25,575,762	—	**100**	—	100	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR25,600	—	**100**	—	100	Trading of power equipment products
Techtronic Industries ELC GmbH*	Germany	EUR25,000	—	**100**	—	100	Trading of power equipment products and outdoor power equipment products
Techtronic Industries France SAS	France	EUR14,919,832	—	**100**	—	100	Trading of power equipment products
Techtronic Industries GmbH	Germany	EUR20,452,500	—	**100**	—	100	Trading and manufacture of power equipment products
Techtronic Industries Korea LLC	Korea	KRW3,400,000,000	—	**100**	100	—	Trading of power equipment products

51. Particulars of Principal Subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company				Principal activities
			2022		2021		
			Directly %	**Indirectly %**	Directly %	Indirectly %	
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN50,000 (Serie I) MXN596,964,358 (Serie II)	**100**	**—**	—	100	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries Co. Mexico, S. De R.L. de C.V.	Mexico	MXN678,954,230 (2021: MXN878,896,230)	**100**	**—**	99.99	0.01	Manufacture of power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZD4,165,600	**—**	**100**	100	—	Trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries North America, Inc.	US	US$10	**—**	**100**	100	—	Investment holding
Techtronic Industries Vietnam Manufacturing Co Ltd	Vietnam	VND406,954,000,000	**—**	**100**	100	—	Manufacture of power equipment and outdoor power equipment products
Techtronic Product Development Limited	Hong Kong	HK$2	**—**	**100**	100	—	Engage in research and development activities
Techtronic Trading Limited	Hong Kong	HK$2	**—**	**100**	100	—	Trading of power equipment, floorcare and outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HK$6,086,955	**100**	**—**	100	—	Investment holding
Techtronic Industries Company Pte. Ltd.	Singapore	US$38,000,101	**—**	**100**	—	100	Investment holding
TTI Singapore SPV Pte. Ltd.	Singapore	US$5,544,032,272	**100**	**—**	100	—	Investment holding
Vax Limited	United Kingdom	GBP30,000 (Ordinary A shares) GBP2,500 (Ordinary B shares)	**—**	**100**	—	100	Trading of household electrical and floorcare products

* Exempt from the obligation to publish local financial statements.

\# A wholly foreign owned enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

51. Particulars of Principal Subsidiaries (continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarized as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2022	2021
Manufacture of power equipment, floorcare and outdoor power equipment products	Europe, PRC, US and others	**9**	6
Trading of power equipment, floorcare and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	**39**	38
Investment holding	Australia, BVI, Europe, Hong Kong, US	**22**	22
Dormant	BVI, Europe, Hong Kong, US	**22**	19

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

52. Particulars of an Associate

Particulars of an associate are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Group		Principal activities
			2022 **%**	2021 %	
Wuerth Master Power Tools Limited	Hong Kong	US$3,000,000	**49.0**	49.0	Manufacture and sale of power equipment

Financial Summary

Results

	Year ended December 31				
	2018 US$'000	2019 US$'000	2020 US$'000	2021 US$'000	**2022** **US$'000**
Revenue	7,021,182	7,666,721	9,811,941	13,203,161	**13,253,917**
Profit before taxation	594,610	661,286	861,254	1,181,825	**1,156,897**
Taxation charge	(42,070)	(46,290)	(60,258)	(82,724)	**(79,747)**
Profit for the year	552,540	614,996	800,996	1,099,101	**1,077,150**
Attributable to:					
Owners of the Company	552,463	614,900	800,760	1,099,003	**1,077,150**
Non-controlling interests	77	96	236	98	**—**
Profit for the year	552,540	614,996	800,996	1,099,101	**1,077,150**
Basic earnings per share (US cents)	30.16	33.67	43.80	60.04	**58.86**

Assets and Liabilities

	As at December 31				
	2018 US$'000	2019 US$'000	2020 US$'000	2021 US$'000	**2022** **US$'000**
Total assets	6,348,862	7,698,051	9,390,402	13,007,545	**13,315,598**
Total liabilities	3,291,521	4,303,740	5,487,495	8,285,027	**8,110,117**
	3,057,341	3,394,311	3,902,907	4,722,518	**5,205,481**
Equity attributable to Owners of the Company	3,057,771	3,394,645	3,903,005	4,722,518	**5,205,481**
Non-controlling interests	(430)	(334)	(98)	—	**—**
	3,057,341	3,394,311	3,902,907	4,722,518	**5,205,481**

Corporate Information

Board of Directors

Group Executive Directors

Mr Horst Julius Pudwill
Chairman

Mr Stephan Horst Pudwill
Vice Chairman

Mr Joseph Galli Jr
Chief Executive Officer

Mr Patrick Kin Wah Chan
Mr Frank Chi Chung Chan

Non-executive Directors

Prof Roy Chi Ping Chung GBS BBS JP
Mr Camille Jojo

Independent Non-executive Directors

Mr Peter David Sullivan
Mr Johannes-Gerhard Hesse
Mr Robert Hinman Getz
Ms Virginia Davis Wilmerding
Ms Caroline Christina Kracht

Financial Calendar 2023

March 1	: Announcement of 2022 annual results
May 9	: Last day to register for the entitlement to attend and vote at Annual General Meeting
May 10-12	: Book closure period for the entitlement to attend and vote at Annual General Meeting
May 12	: Annual General Meeting
May 18	: Last day to register for 2022 final dividend
May 19	: Book closure period for 2022 final dividend
June 30	: Six months interim period end
July 7	: Final dividend payment
December 31	: Financial year end

Investor Relations Contact

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Website

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Earnings results, annual/interim reports are available online.

Listing Information

The Stock Exchange of Hong Kong Limited
Ordinary Shares (stock code: 669)
ADR Level 1 Programme (symbol: TTNDY)

Share Registrar and Transfer Office

Tricor Secretaries Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong
Tel: (852) 2980 1888

ADR Depositary

BNY Mellon

Principal Bankers

Bank of America, N.A.
Bank of China Group
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
Citibank N.A.
MUFG Bank, Ltd.
Mizuho Bank, Ltd., Hong Kong Branch

Solicitors

Vincent T.K. Cheung, Yap & Co.

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Company Secretary

Ms Veronica Ka Po Ng

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