Independent Auditor’s Report

Deloitte.

TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED

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.

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 136 to 222, which comprise the consolidated statement of financial position as at December 31, 2019, 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, 2019, 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 judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Capitalization of Deferred Development Costs

We identified the capitalization of costs as internally-generated intangible assets as a key audit matter which requires estimations and assumptions about the expected future economic benefits to be generated by the products resulting from these development activities. The Group conducts a significant level of development activities and has to apply judgement in identifying those projects meeting the criteria for capitalization under the requirements of the accounting standards, the expected life of the products and, to capture accurate time and cost information for those projects.

As disclosed in Note 10 to the consolidated financial statements, as at December 31, 2019 the carrying value of deferred development costs was US$388 million with the additions and amortization charge during the year being US$152 million and US$98 million respectively.

Recognition of income and deferred tax

We identified the recognition of income 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 asset, 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 to the consolidated financial statements, as at December 31, 2019, the Group has recognized US$46 million of income and deferred tax expense in the consolidated statement of profit or loss and other comprehensive income.

How our Audit Addressed the Key Audit Matter

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

- Obtaining an understanding of management’s process and controls over the capitalization of deferred development costs;
- Evaluating the nature of the type of development expenses incurred that are capitalized into intangible assets;
- Assessing the reasonableness of the capitalization based on our knowledge of the Group’s business strategy, historical track record and sales forecasts prepared by management; and
- Evaluating the appropriateness of expenses capitalized, on a sample basis, by agreeing the material costs, overheads and engineers’ hours incurred to external invoices and internal timesheets and payroll records.

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;
- In understanding and evaluating management’s estimates and judgements, we considered 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;
- We used 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, determining if an audit of the consolidated financial statements is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 the relevant legal, regulatory and ethical requirements that apply to us.

Our responsibilities in conducting our audit of the consolidated financial statements in accordance with those requirements are stated in Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements (paragraphs 100 to 110 of Hong Kong Standards on Auditing) and we are responsible for the manner in which those responsibilities are discharged.

We express our opinion on the consolidated financial statements based on the audit evidence we are required to obtain. The audit evidence we obtain in our audit provides a reasonable basis for our opinion.

We also communicate with those charged with governance about other matters as required or permitted by law, including significant deficiencies in internal control, fraud, going concern and potential conflicts of interest.

We communicate with the audit committee about any difficulties encountered in the course of the audit, including matters addressed in our communications with those charged with governance.

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

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

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