

# Independent Auditor's Report

# Deloitte.

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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 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 ("HKSA") 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 20 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.

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### 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. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, 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 Stephen David Smart.

### Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong  
March 4, 2020