

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The notes (the “Notes”) to be issued under the Programme (as defined below) have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United States to non-U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)) in offshore transactions in compliance with Regulation S.

This announcement and the listing document referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on The Hong Kong Stock Exchange Limited (the “Stock Exchange”) on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.



TECHTRONIC INDUSTRIES CO. LTD.

創科實業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 669)

PUBLICATION OF OFFERING CIRCULAR

**U.S.\$500,000,000
Medium Term Note Programme
(the “Programme”)**

Arrangers

Citigroup

HSBC

Dealers

ANZ **BOC International** **Citigroup** **HSBC** **BofA Securities**

Mizuho Securities **MUFG** **Standard Chartered Bank** **UBS**

This announcement is issued by Techtronic Industries Company Limited (the “Issuer”) pursuant to Rule 37.39A of the Listing Rules.

Please refer to the offering circular dated 21 May 2021 (the “Offering Circular”) appended herein in relation to the Programme. As disclosed in the Offering Circular, the Notes will be intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on the Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Issuer, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

By order of the Board
Techtronic Industries Company Limited
Horst Julius Pudwill
Chairman

Hong Kong, 24 May 2021

As at the date of this announcement, the Board comprises five Group Executive Directors, namely Mr. Horst Julius Pudwill (Chairman), Mr. Stephan Horst Pudwill (Vice Chairman), Mr. Joseph Galli Jr. (Chief Executive Officer), Mr. Patrick Kin Wah Chan and Mr. Frank Chi Chung Chan, two Non-executive Directors, namely, Prof. Roy Chi Ping Chung GBS BBS JP and Mr. Camille Jojo, and five Independent Non-executive Directors, namely, Mr. Peter David Sullivan, Mr. Vincent Ting Kau Cheung, Mr. Johannes-Gerhard Hesse, Mr. Robert Hinman Getz and Ms. Virginia Davis Wilmerding.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF THE NOTES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be outside the United States in reliance on Regulation S under the Securities Act. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you will be deemed to have represented to us that (1) you and any customers you represent are persons outside of the United States and that the electronic mail address that you gave us and to which the Offering Circular has been delivered is not located in the United States and (2) you consent to delivery of the Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of that Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited (each, an "**Arranger**" and together, "**Arrangers**"), Australia and New Zealand Banking Group Limited, BOCI Asia Limited, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, MUFG Securities EMEA plc, Standard Chartered Bank, and UBS AG Hong Kong Branch (together with the Arrangers, the "**Dealers**") any person who controls any Arranger or Dealer, any director, officer, employee or agent of the Issuer or the Arrangers or any Dealer, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



TECHTRONIC INDUSTRIES COMPANY LIMITED
(創科實業有限公司)
(Incorporated in Hong Kong with limited liability)
(Stock Code: 669)

U.S.\$500,000,000
Medium Term Note Programme

Under the U.S.\$500,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Techtronic Industries Company Limited (創科實業有限公司) (the "**Issuer**" or the "**Company**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**").

Notes may be issued in bearer or registered form. The aggregate nominal amount of the Notes outstanding will not at any time exceed U.S.\$500,000,000 (or its equivalent in other currencies, subject to any duly authorised increase). The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" or any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**") and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of the Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**SEHK**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only during the 12-month period after the date of this Offering Circular on the SEHK. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the SEHK on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The SEHK has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this Offering Circular. Listing of the Programme and the Notes on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined under "Terms and Conditions of the Notes" and each term therein, a "**Condition**") of the Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SEHK, will be delivered to the SEHK, on or before the date of issue of the Notes of such Series. This Offering Circular may not be used to consummate sales of the Notes, unless accompanied by a Pricing Supplement.

The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK or any other stock exchange.

Each Series (as defined in "Summary of the Programme") of the Notes in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note (each a "**Temporary Global Note**") or a permanent global note (each a "**Permanent Global Note**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in Permanent Global Notes (together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Pricing Supplement, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Series, upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under "Summary of Provisions Relating to the Notes while in Global Form".

The Notes of each Series to be issued in registered form ("**Registered Notes**") and which are sold in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Notes**") will initially be represented by a permanent registered global note certificate (each a "**Global Note Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), with a common depository on behalf of Euroclear and/or Clearstream, Luxembourg or (b) in the case of a Series intended to be cleared through the Central Money Markets Unit Service (the "**CMU Service**"), operated by the Hong Kong Monetary Authority (the "**HKMA**"), with a sub-custodian for the CMU Service, and (c) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg and/or the CMU Service, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes are described in "Summary of Provisions Relating to the Notes while in Global Form".

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States. Accordingly, the Notes may be offered and sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Any Series of the Notes may be subject to additional selling restrictions. The applicable Pricing Supplement in respect of such Series of the Notes will specify any such restrictions. See "Subscription and Sale" and the applicable Pricing Supplement. Bearer Notes are subject to U.S. tax requirements.

IMPORTANT — EEA RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT — UK RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

EU MiFID II product governance / target market — The Pricing Supplement in respect of any Notes may include a legend entitled "EU MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**EU MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the EU MiFID Product Governance Rules.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance / target market — The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE — The Pricing Supplement in respect of any Notes may include a legend entitled "Singapore Securities and Futures Act Product Classification" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**"). The Issuer will make a determination and provide the appropriate written notification to "relevant persons" in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a) and 309B(1)(c) of the SFA.

Notes issued under the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. See "Risk Factors" beginning on page 8 for a discussion of factors that you should consider carefully before investing in the Notes.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Arrangers		HSBC	
Citigroup			
Dealers		HSBC	
ANZ	BOC International	Citigroup	HSBC
Mizuho Securities	MUFG	Standard Chartered Bank	BofA Securities
			UBS

The date of this Offering Circular is 21 May 2021

Techtronic Industries Company Limited (創科實業有限公司) (the "**Issuer**", the "**Company**" or "**TTI**"), having made all reasonable enquiries, confirms that to its best knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained herein relating to the Issuer, the Group and the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Issuer, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (iii) the statements of intention, opinion and belief or expectation contained in this Offering Circular with regard to the Issuer and the Group are honestly made or held.

Each Series (as defined herein) of the Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the Pricing Supplement specific to such Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of the Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited (each, an "**Arranger**" and together, the "**Arrangers**") and the Dealers (as defined below) to inform themselves about and to observe any such restrictions. None of the Issuer, the Arrangers or the Dealers represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers, which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, the PRC, Hong Kong, Japan, Singapore and Taiwan, and to persons connected therewith. See "*Subscription and Sale*".

The Notes may only be offered or sold outside the United States in offshore transactions in reliance on Regulation S. Any Series of the Notes may be subject to additional selling restrictions. Any additional restrictions on the sale or transfer of any Series of the Notes will be specified in the applicable Pricing Supplement for such Notes.

This Offering Circular is to be read in conjunction with all documents, which are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Issuer, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of the Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, any Arranger or any Dealer.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Arrangers, the Dealers, the Agents or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of the Notes outstanding at any one time under the Programme will not exceed U.S.\$500,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement), provided that, the maximum aggregate principal amount of the Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

In connection with the issue of any Series of Notes, the Dealer or Dealers (if any) named as stabilisation managers (the "Stabilisation Manager(s)") (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

None of the Arrangers, the Dealers, the Trustee (as defined below) or any Agents (as defined below) has separately verified the information contained in this Offering Circular. None of the Arrangers, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Arrangers, the Dealers, the Trustee, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Notes or the issue and offering of the Notes. The Arrangers, the Dealers, the Trustee and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of the Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisors as to the risks and investment considerations arising from an investment in an issue of the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular

circumstances. None of the Arrangers, the Dealers, the Trustee, the Agents or any of their respective affiliates, employees, directors or advisors undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Arrangers, the Dealers, the Trustee or the Agents.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigation, as it deems necessary. None of the Arrangers, the Dealers, the Trustee or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee, the Agents or any of them.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "U.S.\$", "USD" and to "U.S. dollars" are to United States dollars; all references to "HK\$" and to "HKD" are to Hong Kong dollars; all references to "RMB" or "Renminbi" are to the lawful currency of the PRC; all references to "sterling" and to "£" are to the lawful currency of the United Kingdom; all references to "EUR" is to the lawful currency of member states of the European Union that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended from time to time; all references to "United States" or "U.S." are to the United States of America; references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China and; all references to "PRC" or "China" are to the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual financial statements and any interim financial statements (whether audited or unaudited) published subsequently to such annual financial statements of the Issuer from time to time on the SEHK and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Any unaudited financial statements should not be relied upon to provide the same quality of information associated with information that has been subject to an audit nor taken as an indication of the expected financial condition and results of operations of the Issuer for the relevant full financial year. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition, results of operations and results.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the office of the Trustee at 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong, and at the specified offices of the Paying Agents and the principal office in Hong Kong of the Principal Paying Agent (as defined under "*Summary of the Programme*") (or such other Paying Agent for the time being in Hong Kong) set out at the end of this Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

The financial information as at and for the years ended 31 December 2018, 2019 and 2020 included in this Offering Circular has been derived from the Group's audited consolidated financial statements.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular may constitute "*forward-looking statements*". The words including "*believe*", "*expect*", "*plan*", "*anticipate*", "*schedule*", "*estimate*", "*aim*", "*intend*", "*project*", "*seek to*", "*predict*", "*future*", "*goal*" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer or the Group and the plans and objectives of the management of the Issuer and the Group for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results or performance of the Issuer or the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's and the Group's present and future business strategies of the Issuer and the Group and the environment in which the Issuer or the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY OF THE PROGRAMME.....	1
SUMMARY OF FINANCIAL INFORMATION	6
RISK FACTORS	8
FORM OF THE NOTES.....	41
USE OF PROCEEDS	45
TERMS AND CONDITIONS OF THE NOTES	46
FORM OF PRICING SUPPLEMENT	85
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM.....	95
CAPITALISATION AND INDEBTEDNESS	98
CORPORATE STRUCTURE	99
BUSINESS.....	100
DIRECTORS AND MANAGEMENT	118
SUBSTANTIAL SHAREHOLDERS AND DIRECTORS' INTERESTS	124
RELATED PARTY TRANSACTIONS.....	129
TAXATION.....	130
CLEARANCE AND SETTLEMENT	132
SUBSCRIPTION AND SALE	134
GENERAL INFORMATION	144
INDEX TO FINANCIAL STATEMENTS	F-1

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	Techtronic Industries Company Limited (創科實業有限公司).
Programme Size	Up to U.S.\$500,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "Subscription and Sale")) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Arrangers	Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited.
Dealers	Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited, Australia and New Zealand Banking Group Limited, BOCI Asia Limited, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, MUFG Securities EMEA plc, Standard Chartered Bank, and UBS AG Hong Kong Branch and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series of the Notes.
Principal Paying Agent, Paying Agent	Citibank, N.A., London Branch (for Notes cleared through Euroclear/Clearstream, Luxembourg).
Registrar	Citigroup Global Markets Europe AG (formerly known as Citigroup Global Markets Deutschland AG) (for Notes cleared through Euroclear/Clearstream, Luxembourg).
Transfer Agent	Citibank, N.A., London Branch (for Notes cleared through Euroclear/Clearstream, Luxembourg).
CMU Lodging and Paying Agent	Citicorp International Limited.
Trustee	Citicorp International Limited.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a " Series ") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a " Tranche ") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be

completed in the Pricing Supplement.

Clearing Systems..... Euroclear, Clearstream, Luxembourg, the CMU Service and such other clearing system as shall be agreed between the Issuer, the Trustee, the Agents and the relevant Dealer (each of Euroclear, Clearstream, Luxembourg and the CMU Service, a "**Clearing System**"). See "*Clearing and Settlement*".

Form of the Notes Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. Each Series of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement, which, in each case, may be deposited on the issue date with a common depository for Euroclear, Clearstream, Luxembourg or any other agreed clearing system compatible with Euroclear and Clearstream, Luxembourg or a sub-custodian for the CMU Service. A Temporary Global Note will be exchangeable, in whole or in part, as described therein, for interests in a Permanent Global Note as described under "*Form of the Notes*". A Permanent Global Note may be exchanged, in whole but not in part, for Definitive Notes only upon the occurrence of an Exchange Event as described under "*Form of the Notes*". Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures or the time being of Euroclear, Clearstream, Luxembourg, the CMU Service and/or any other agreed clearing system, as appropriate.

Bearer Notes will be issued in compliance with applicable U.S. tax rules. Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**D Rules**") unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**C Rules**") or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstance will be referred to in the applicable Pricing Supplement. Bearer Notes that are issued in compliance with the D Rules must be initially represented by a Temporary Global Note.

Each Series of Registered Notes will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Global Note Certificate (as defined in the "*Form of the Notes*"), which will be deposited on or about its issue date with a Common Depository for, and registered in the name of a nominee of, Euroclear and/or Clearstream, Luxembourg for the accounts of Euroclear and/or Clearstream, Luxembourg or a sub-custodian for the CMU Service operated by the HKMA, as appropriate. With respect to all offers or sales by a Dealer of an unsold allotment or subscription, beneficial interests in a Global Note Certificate of such Series may be held only

through Euroclear, Clearstream, Luxembourg for the accounts of Euroclear and Clearstream, Luxembourg or the CMU Service, as appropriate. Global Note Certificates will be exchangeable for Definitive Notes only upon the occurrence of an Exchange Event as described in "*Form of the Notes*".

Application will be made to have Global Notes or Global Note Certificates of any Series accepted for clearance and settlement through the facilities of Euroclear, Clearstream, Luxembourg and/or the CMU Service, as appropriate.

Currencies Notes may be denominated in any currency or currencies, agreed between the Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of the Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Denominations Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Status of the Notes The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. See "*Terms and of the — Status*".

Issue Price Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.

Maturities Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Finance Services and Markets Act 2000 ("**FSMA**") by the Issuer.

Redemption Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the

	relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
Optional Redemption	If specified in the relevant Pricing Supplement, Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) as described in Condition 10(c) (<i>Redemption at the option of the Issuer</i>) and/or the Noteholders to the extent (if at all) specified in the Condition 10(e) (<i>Redemption at the option of the Noteholders</i>).
Tax Redemption	Except as described in " <i>Optional Redemption</i> " above, early redemption of the Notes will only be permitted for tax reasons as described in Condition 10(b) (<i>Redemption for tax reasons</i>).
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Negative Pledge	The Notes will contain a negative pledge as further described in Condition 5 (<i>Negative Pledge</i>).
Cross Default	The Notes will contain a cross default provision as further described in Condition 14 (<i>Events of Default</i>).
Withholding Tax	All payments in respect of the Notes will be made free and clear of withholding taxes of Hong Kong, unless the withholding is required by law. In that event, the Issuer will (subject to certain exceptions as described in Condition 13 (<i>Taxation</i>)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes, had no such withholding been required.
Listing and Trading	Application has been made to the SEHK for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the SEHK. Notes listed on the SEHK will be traded on the SEHK in a board lot size of at least HK\$500,000 (or its equivalent in other currencies). However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
Governing Law	The Notes, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes

will be governed by, and shall be construed in accordance with, English law.

Rating Notes issued under the Programme may be rated or unrated, as specified in the applicable Pricing Supplement.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Selling Restrictions For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the United Kingdom, the PRC, Hong Kong, Japan, Singapore and Taiwan, see "*Subscription and Sale*" below.

In connection with the offering and sale of a particular Series of the Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement. Bearer Notes will be issued in compliance the D Rules unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with the C Rules or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstance will be referred to in the applicable Pricing Supplement; Bearer Notes with a term of 365 days or less (taking into account unilateral extensions and rollovers) will be issued other than in compliance with the D Rules or the C Rules and will be referred to in the applicable Pricing Supplement as a transaction to which the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") is not applicable.

Initial Delivery of the Notes On or before the issue date for each Series, the Global Note representing Bearer Notes or the Global Note Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the CMU Service and deposited on or about the issue date or any other clearing system or may be delivered outside any clearing system *provided that* the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Principal Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub custodian for, such clearing systems.

Legal Entity Identifier 549300HZW2SBE758OK89

SUMMARY OF FINANCIAL INFORMATION

The summary consolidated financial statements as of and for the years ended 31 December 2018, 2019 and 2020 have been derived from the Group's audited consolidated financial statements for the years ended 31 December 2018, 2019 and 2020 included elsewhere in this Offering Circular.

The summary financial data below should be read in conjunction with the audited consolidated financial statements and related notes thereto and the reviewed consolidated financial statements and related notes thereto included elsewhere or incorporated by reference in this Offering Circular. The Group's historical results for any prior periods are not necessarily indicative of results to be expected for any future period.

Summary Consolidated Statement of Profit or Loss

	Year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	(U.S.\$ in millions)		
Revenue	7,021.2	7,666.7	9,811.9
Cost of sales	(4,406.6)	(4,774.0)	(6,058.8)
Gross profit	2,614.6	2,892.7	3,753.1
Other income	7.0	10.5	11.2
Interest income	25.2	40.2	36.8
Selling, distribution, advertising and warranty expenses	(1,103.4)	(1,195.1)	(1,573.1)
Administrative expenses	(708.1)	(805.0)	(1,006.3)
Research and development costs	(202.6)	(229.8)	(316.6)
Finance costs	(38.0)	(52.3)	(44.2)
Profit before share of results of associates and taxation	594.7	661.2	860.9
Share of results of associates	-	0.1	0.4
Profit before taxation	594.7	661.3	861.3
Taxation charge	(42.1)	(46.3)	(60.3)
Profit for the year	552.6	615.0	801.0
Profit for the year attributable to:			
Owners of the Company	552.5	614.9	800.8
Non-controlling interests	0.1	0.1	0.2

Summary Consolidated Statement of Financial Position

	As of 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	(U.S.\$ in millions)		
Non-current assets	2,123.9	2,674.2	3,050.4
Current assets	4,225.0	5,023.8	6,340.0
Current liabilities	2,616.0	3,217.7	4,081.4
Net current assets	1,609.0	1,806.1	2,258.6
Total assets less current liabilities	3,732.9	4,480.3	5,309.0
Equity	3,057.3	3,394.3	3,902.9
Non-current liabilities	675.6	1,086.0	1,406.1
Total equity and non-current liabilities	3,732.9	4,480.3	5,309.0

Summary Consolidated Statement of Cash Flows

	Year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	(U.S.\$ in millions)		
Net cash from operating activities	793.7	724.3	1,159.1
Net cash used in investment activities	(423.8)	(568.5)	(580.3)
Net cash (used in)/from financing activities	(106.0)	162.8	(498.1)
Net increase in cash and cash equivalents	263.9	318.6	80.7
Cash and cash equivalents at beginning of year	863.5	1,103.9	1,411.8
Effect of foreign exchange rate changes	(23.5)	(10.7)	41.4
Cash and cash equivalents at end of year	1,103.9	1,411.8	1,533.9

Other Financial Data

	Year ended 31 December		
	2018	2019	2020
	(U.S.\$ in millions, except for ratios)		
Net Cash/(Debt) ⁽¹⁾⁽²⁾	139.1	(15.6)	217.0
Interest Expense	38.0	52.3	44.2
Ratios:			
Gearing ratio (%) ⁽³⁾	(4.5)	(0.5)	(5.6)

Notes:

- (1) Net cash/(debt) is calculated as bank balances, deposits and cash minus total debt.
- (2) Total debt comprises obligations under finance leases (before IFRS 16 adoption in 2018), discounted bills with recourse, unsecured borrowings and bank overdrafts but excluding bank advances from factored trade receivables which are without recourse in nature.
- (3) Gearing ratio is calculated by dividing total net borrowings (excluding bank advances from factored trade receivables which are without recourse in nature) by equity attributable to owners of the Company.

RISK FACTORS

Any investment in the Notes involves a high degree of risk. You should consider carefully the following information about the risks described below, together with the other information contained in this Offering Circular, before making an investment decision. If any of the following risks actually occurs, the Group's business, financial condition, results of operations or prospects could be materially and adversely affected. Additional risks or uncertainties not presently known to the Group, or that it currently deems immaterial, may also impair its business operations. There can be no assurance that any of the events discussed in the risk factors below will not occur and if such events do occur, you may lose all or part of your original investment in the Notes.

RISKS RELATING TO THE GROUP'S BUSINESS

Changes in customer preferences, the inability to maintain mutually beneficial relationships with large customers, inventory reductions by customers, and the inability to penetrate new channels of distribution could adversely affect the Group's business.

The Group has certain significant customers, particularly home centers and major retailers. For the years ended 31 December 2018, 2019 and 2020 the Group's largest customer comprised 45.5%, 46.8% and 48.9% of revenue, respectively, and the Group's top five customers comprised 54.2%, 55.7% and 58.3% of revenue, respectively. The loss or material reduction of business, the lack of success of sales initiatives, or changes in customer preferences or loyalties, for the Group's products related to any such significant customer could have a material adverse impact on the Group's results of operations and cash flows. In addition, the Group's major customers are volume purchasers, a few of which are much larger than the Group, and have strong bargaining power with the Group as they account for such a significant portion of the Group's sales. This limits the Group's ability to recover cost increases through higher selling prices and has considerable influence on the other aspects of its operations as well. For example, for business reasons of their own, the Group's key customers may decide to reduce inventory levels of its products, leading to shortages of the Group's products in their stores despite demand. The Group cannot provide assurances that it will be able to retain any of its key customers or that these customers will place orders with it in the future at the same levels as in the past. The Group plans its manufacturing volumes, inventory levels and transportation logistics based on orders with its key customers. If the Group's customers change their marketing and inventory plans and purchasing patterns, the Group may be unable to react to such changes and fulfill their demands in a timely manner, if at all, and may be forced to carry significant volumes of unsold inventory. The trend toward consolidation in the retail sector may also affect the Group's customer relations and its product distribution model. The Group's customers may also choose to discontinue or change the target market of their private labels for which it designs and manufactures products, or may decide to use other sources altogether for the design and manufacture of products under their private labels.

In addition, the business of the Group's key customers, and therefore their demand for its products, may decline as a result of a disruption in its business relations or a general worsening of economic conditions in its customers' key markets, particularly the home improvement and residential construction markets. The Group's customers may experience liquidity fluctuations or a decline in access to credit as a result of any downturn in these and their other key markets. If any of the Group's key customers terminate their purchase or supply agreements with it or significantly change, reduce, delay or cancel the products ordered from it, or if it is unable to collect fully the Group's accounts receivables from a key customer in a timely manner or at all, the Group's sales may decline significantly and its business, financial condition and results of operations may be materially and adversely affected.

Low demand for new products and the inability to develop and introduce new products at favorable margins could adversely impact the Group's performance and prospects for future growth.

The Group's growth and success depend on its ability to develop and introduce new products in a timely manner at favorable margins. Rapid innovation shortens product life-cycles as products are replaced by those more

technologically advanced and with a newer product design. Once a new design or technology becomes available, the demand for and price of products made with older technologies or designs declines rapidly. Any delay in the development of reliable products with advanced features may lead to a decline in brand recognition and market penetration. Product innovation and development are thus critical factors in improving margins and enabling net sales growth in all of the Group's product lines.

The uncertainties associated with developing and introducing new products, such as fluctuating market demand, cost and the time it takes may impede the successful development and introduction of new products on a consistent basis. The Group develops new products based in part on its market research and also in collaboration with its key customers based on assumptions concerning consumer needs and preferences as well as in reaction to the products being developed by its competitors. Such assumptions include price points, tool performance, weight and appearance, all of which may not be in line with actual consumer preferences. Consumer preferences may also change in line with trends in other markets, for example, how customer demand for better environmental performance is currently partially driving product development. Furthermore, market acceptance of the Group's new products and the level of sales generated from these new products are affected by the Group's and the Group's key customers' investment in advertising campaigns and product promotions, any of which may not attract the kind or number of consumers for which the products are intended. Consumer loyalties may also shift due to factors affecting the Group's key competitors' market position or other circumstances beyond its control. If the Group's assumptions concerning current and future customer preferences and the products being developed by its competitors are incorrect or it fails to identify and respond to market trends, the Group may be unable to sell its products at favorable margins, if at all.

Introduction of new technology may result in higher costs to the Group than that of the technology replaced. That increase in costs, which may continue indefinitely or if and until increased demand and greater availability in the sources of the new technology drive its cost down, could adversely affect the Group's results of operations. Market acceptance of the new products introduced in recent years and scheduled for introduction in 2020 and beyond may not meet sales expectations due to various factors, such as the failure to accurately predict market demand, end-user preferences, and evolving industry standards. Moreover, the ultimate success and profitability of the new products may depend on the Group's ability to resolve technical and technological challenges in a timely and cost-effective manner, and to achieve manufacturing efficiencies. The Group's investments in productive capacity and commitments to fund advertising and product promotions in connection with these new products could erode profits if those expectations are not met. The Group cannot provide assurances that its research and development ("R&D") efforts will be successful or that the technologies it chooses to invest in will lead to products that are well received by its customers. The Group may see limited or no returns on its R&D investment. If the Group is unsuccessful in developing new products and production processes in the future or if projects are discontinued for technical, economic, commercial, regulatory or any other reasons, the Group's competitive position and operating results will be harmed. The same holds true if other companies develop alternative technologies and solutions that meet customer preferences better than the Group's products.

The Group's major markets are affected by seasonal fluctuations.

The Group has experienced in the past and expects to continue to experience seasonal fluctuations in demand for its products. Consumer spending on floorcare and power tools generally increases in the third and fourth quarters of the year, while consumer spending on outdoor products increases in the spring. In general, the Group operates at a higher capacity utilization level during the third and fourth quarters of the year. If the Group is unable to increase its manufacturing capacity to meet seasonal demand, it may lose potential sales and its contract customers may seek other manufacturing sources to meet their needs. If the Group is unable to manage its manufacturing capacity during a seasonal or market-related downturn in demand, it may be unable to control costs. The Group's inability to react to changes in seasonal or cyclical demand on a timely basis may have a material adverse effect on its business, financial condition and results of operations.

The Group faces active global competition and if it does not compete effectively, its business may suffer.

The Group faces active competition and resulting pricing pressures. The Group's products compete on the basis of, among other things, its reputation for product quality, its well-known brands, price, innovation and customer service capabilities. The Group competes with both larger and smaller companies that offer the same or similar products and services or that produce different products appropriate for the same uses. To remain profitable and defend its market share, the Group must maintain a competitive cost structure, develop new products and services, lead product innovation, respond to competitor innovations and enhance its existing products in a timely manner. The Group may not be able to compete effectively on all of these fronts and with all of its competitors, and the failure to do so could have a material adverse effect on its sales and profit margins.

The Group is actively involved in creating a powerful, streamlined, fast-paced and comprehensive product development system. In the event the Group is not successful in effectively applying its R&D and speed-to-market strategies, its future earnings and ability to compete could be adversely affected.

In addition, the Group may have to reduce prices on its products and services, or make other concessions, to stay competitive and retain market share. Price reductions taken by the Group in response to customer and competitive pressures, as well as price reductions and promotional actions taken to drive demand that may not result in anticipated sales levels, could also negatively impact its business. If the Group is forced to reduce its prices as a result of competitive pressures in the markets, it may be unable to pass any increases in the prices of raw materials and components on to the Group's customers. Such price reductions taken by the Group may not generate the anticipated revenues and it may be unable to reduce its total costs in line with the revenues, which may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's results of operations could be negatively impacted by its ability to obtain raw materials, component parts, freight, energy, labor and sourced finished goods in a timely and cost-effective manner and inflationary or deflationary economic conditions.

The Group's products are manufactured using both ferrous and non-ferrous metals including, but not limited to, steel, zinc, copper, brass, aluminum and nickel. Additionally, the Group uses other commodity-based materials for components and packaging including, but not limited to, plastics, resins, wood and corrugated products. The Group's cost base also reflects significant elements for freight, energy and labor. The Group also sources certain finished goods directly from vendors. Any significant increases in the Group's cost of raw materials may increase its cost of sales and negatively affect its profit margin and, more generally, its business, financial condition, results of operations and prospects.

Furthermore, the Group typically does not enter into long-term contracts with its suppliers or sourcing partners. Most raw materials and sourced goods are obtained on a "purchase order" basis; however, in limited cases where the Group has supply contracts with fixed prices, the Group may be required to purchase raw materials at above-market prices, which could adversely impact gross margins. In addition, in some instances the Group maintains single-source or limited-source sourcing relationships, either because multiple sources are not available or the relationship is advantageous due to performance, quality, support, delivery, capacity or price considerations. Factors including supply interruptions of production materials resulting from shortages, labour strikes and disputes or supplier insolvencies or other factors, could have a negative effect on the Group's profitability. The Group does not enter into hedging arrangements with respect to the price of the raw materials used to produce its products but indirectly through fixed price long-term contracts.

Furthermore, if the Group is unable to mitigate any inflationary increases through various customer pricing actions and cost reduction initiatives, its profitability may be adversely affected. In the event there is deflation, the Group may experience pressure from its customers to reduce prices, and there can be no assurance that the Group would be able to reduce its cost base (through negotiations with suppliers or other measures) to offset any such price concessions which could adversely impact results of operations and cash flows.

As a result of inflationary or deflationary economic conditions, the Group believes it is possible that a limited number of suppliers may either cease operations or require additional financial assistance from the Group in order to fulfill their obligations. In a limited number of circumstances, the magnitude of the Group's purchases of certain items is of such significance that a change in established supply relationships with suppliers or increase in the costs of purchased raw materials, component parts or finished goods could result in manufacturing interruptions, delays, inefficiencies or an inability to market products. Changes in value-added tax rebates currently available to the Group or to its suppliers could also increase the costs of the Group's manufactured products as well as purchased products and components and could adversely affect the Group's results.

The prices or availability of raw materials, energy or other production factors vary with market conditions and may be highly volatile. There have been in the past, and may be in the future, periods during which the Group may not be able to pass raw material price increases on to customers.

The Group's manufacturing operations in the PRC and other countries are subject to increasing costs due to inflation and other changes.

As measured by production capacity, the majority of the Group's manufacturing operations are currently located at its manufacturing and R&D complex in Dongguan, the PRC. Furthermore, many of its important suppliers and subcontractors are located in the PRC. While the PRC economy has experienced rapid growth, such economic growth can lead to growth in the money supply and rising inflation. General inflation has also led to an increase in labor, transportation and commodity costs. In order to control inflation in the past, the PRC government had imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending to slow economic growth. If these measures are unsuccessful and commodity, utility and supply costs increase at a higher rate than the Group's prices, particularly if combined with adverse changes in foreign currency exchange rates, it may not realize the expected cost efficiencies of moving its manufacturing operations to the PRC.

In addition, the Group cannot provide assurances that the current preferential tax treatments and the current level of any enterprise income tax enjoyed by its subsidiaries in the PRC or the programs aimed at increasing manufacturing in the PRC, such as toll processing and other programs, will continue. Any discontinuation of any such preferential tax treatments or other programs currently available to it and any increase in the enterprise income tax may decrease the Group's net income.

Similar economic trends may occur in the other countries in which the Group has manufacturing and R&D facilities. If the Group is unable to realize the expected cost efficiencies of relocating a large percentage of its manufacturing and R&D operations to the PRC or to other low-cost countries, its business, financial condition and results of operations may be materially and adversely affected.

The Group's business depends on third-party suppliers.

The Group's production activities depend on delivery of raw materials and components in a timely manner from a number of different suppliers. From time to time, the Group's suppliers may extend lead times and may fail to deliver raw materials or components required for production as scheduled. Even if only one supplier is unable to deliver on schedule or the products supplied do not meet the Group's specifications, the entire production process may be delayed. As a result, the Group may be unable to fulfill its customer's orders or may have to delay the sales commencement date of new products, resulting in decreases in sales.

Furthermore, if the Group's suppliers experience financial or other difficulties or if worldwide demand for the raw materials and components they provide increases significantly, the availability of these raw materials and components could be limited. It could be difficult, costly and time-consuming to obtain alternative sources for these raw materials or components, or to change product design to make use of alternative raw materials and components. Difficulties in transitioning from an existing supplier to a new supplier could create delays in the

availability of raw materials and components which would have a significant adverse impact on the Group's ability to fulfill orders for its products. If the Group is unable to obtain a sufficient supply of raw materials and components, or if it experiences any interruption in the supply of raw materials and components, its product shipments could be reduced or delayed. Any or all such disruptions in supply may affect its ability to meet scheduled product deliveries, damage the Group's reputation in the market and cause it to lose market share.

In addition, some of the Group's raw materials and components are specifically designed for use in its manufacturing and assembly processes. They are generally obtained from a limited number of qualified suppliers for whom the Group provides the engineering design and specifications. The Group cannot provide assurances that its efforts to control quality will be successful or that in the event the Group must change suppliers it will be able to obtain satisfactory alternative sources of supply. The Group also sources a large percentage of its raw materials and components from suppliers located within the PRC. If the Group's PRC-based suppliers experience increased costs due to changes in PRC labor laws or other regulations or increases in the PRC commodity and raw material costs, the Group may find it difficult and costly to change its supply chain to include suppliers in other countries or regions. If the Group's suppliers fail to satisfy its pricing or quality requirements, it may lose sales or be subject to increased raw materials and components costs.

The occurrence of any of the above could have a material adverse effect on the Group's business, financial condition and results of operations.

Customer consolidation could have a material adverse effect on the Group's business.

A significant portion of the Group's products are sold through home centers and mass merchant distribution channels in the U.S. and Europe. A consolidation of retailers in both North America and abroad has occurred over time and the increasing size and importance of individual customers creates risk of exposure to potential volume loss. A loss of the larger home centers as customers would have a material adverse effect on the Group's business until either such customers were replaced or the Group made the necessary adjustments to compensate for the loss of business.

If the Group does not continue to develop and maintain consumer-meaningful brands, its operating results may suffer.

The Group's ability to compete successfully also depends increasingly on its ability to develop and maintain consumer-meaningful brands so that its retailers and other customers will continue to purchase the Group's products in order to meet consumer demand. Consumer-meaningful brands allow the Group to realize economies of scale in its operations. The development and maintenance of such brands require significant investment in brand-building and marketing initiatives. While the Group plans to continue increasing its expenditure for advertising and other brand-building and marketing initiatives over the long term, the initiatives may not deliver the anticipated results. Further, the results of such initiatives may not cover the costs of the increased investment. If the Group is unsuccessful in promoting its brands or fails to maintain its brand position among its targeted consumer groups, market perception and consumer acceptance of its brands may erode. Because the Group's brands are primarily sold through its home center and mass market customers, the marketing of the Group's brands may be part of a centralized marketing campaign conducted by the brand's primary sellers, over which the Group has no control. The failure of one of the Group's brands in its primary market segment or the poor performance of any marketing campaign could significantly impair the Group's sales of products under such brand and have a material adverse effect on the business, financial condition and results of operations of the Group.

The Group's brands are important assets of its businesses and violation of its trademark rights by imitators, or the failure of its licensees or vendors to comply with the Group's product quality, manufacturing requirements, marketing standards, and other requirements could negatively impact revenues and brand reputation. The Group's business depends in part on its ability to protect its intellectual property rights and operating without infringing on the rights of third parties.

The Group's trademarks enjoy a reputation for quality and value and are important to its success and competitive position. Unauthorized use of the Group's trademark rights may not only erode sales of the Group's products, but may also cause significant damage to its brand name and reputation, interfere with its ability to effectively represent the Group to its customers, contractors, suppliers and/or licensees, and increase litigation costs. Similarly, failure by licensees or vendors to adhere to the Group's standards of quality and other contractual requirements could result in loss of revenue, increased litigation, and/or damage to the Group's reputation and business. There can be no assurance that the Group's on-going effort to protect its brand and trademark rights and ensure compliance with its licensing and vendor agreements will prevent all violations.

The Group also relies on patents, copyrights, contractual rights, trade secret protection rights and other intellectual property rights to protect its proprietary technologies and products. The Group may in the future have difficulty obtaining patents, copyrights, registered trademarks and other intellectual property rights, and the patents, copyrights and registered trademarks the Group receives may be insufficient to provide it with meaningful protection or commercial advantage. The Group also licenses its intellectual property rights to third parties and cannot provide assurance that the Group has sufficient protections in place for such intellectual property rights. Furthermore, the Group cannot provide assurance that any patent, copyright, registered trademark or other intellectual property right owned by, or licensed to, the Group will be enforceable or will not be invalidated, circumvented or otherwise challenged in the countries where the Group operates. If the Group is unable to protect the proprietary technology and intellectual property involved, the Group may be unable to compete in the market, and the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group's design and technology and manufacturing processes, are complex and involve the integration of many different elements. The Group's success therefore also depends on operating without infringing the proprietary rights of others. The Group may be unaware of the intellectual property rights of competitors or other third parties or unfamiliar with the laws governing those rights in other countries in which the Group's products are or may be sold. As the number of patents, copyrights and other intellectual property rights in its industry increases, the Group may face more frequent intellectual property infringement claims. The Group may in the future receive notices from competitors or other third parties alleging that the Group's products or manufacturing processes infringe on the intellectual property rights of third parties. If the Group is unable to defend against third party claims of infringement, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group's success relies on key executives, product design and development engineers, its sales force and other personnel.

The success of the Group's efforts to grow its business depends on the contributions and abilities of key executives, experienced product design and development engineers, its sales force and other personnel, including the ability of its sales force to adapt to any changes made in the sales organization and achieve adequate customer coverage. The Group must therefore continue to recruit, retain and motivate management, sales and other personnel sufficiently to maintain its current business and support its projected growth. A shortage of these key employees might jeopardize the Group's ability to implement its growth strategy. If the Group loses the services of any of its key executives or senior managers and cannot replace them in a timely manner, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group must recruit engineers with expertise in cutting-edge technologies in order to realize its strategy to improve its market position by continuing to introduce new products and advanced manufacturing processes. The Group therefore depends on the continued service of, and its ability to attract, retain and motivate experienced R&D engineers, especially during periods of rapid growth. Competition for such qualified personnel is intense and, in particular, excellent and experienced engineers are in short supply in the PRC. The Group additionally face competition for such personnel from competitors in its industry. If the Group is unable to attract or retain experienced R&D and engineering personnel or skilled labor, and is unable to replace such personnel as necessary, its business, financial condition and results of operations may be materially and adversely affected.

The Group's manufacturing capabilities depend on labor supply and middle management.

The Group has manufacturing facilities in the PRC, Vietnam, the United States, Europe and Mexico. While the Group's assembly line requires certain manual workers, its labor costs may increase if the labor supply was to decrease or if the job availability rate was to increase sharply as a result of a sudden increase in manufacturers in the regions in which its facilities are located. In addition, new labor laws, employee benefit systems or labor taxes may be put into place by local governments that affect the Group's labor costs. The Group therefore cannot provide assurances that it will be able to hire unskilled labor at the same cost as in the past.

Consistent product quality is partly a result of middle management supervision, including quality control supervisors and line supervisors. The availability of skilled middle management capable of directing the manufacture of the Group's products and of adapting quickly to the demands of new production processes used to manufacture new products varies considerably in many of the regions in which the Group locates its manufacturing facilities, including the PRC. In those countries in which competition for middle management is intense, the Group may encounter increased costs in recruitment, training and retention. If the Group is unable to retain or attract middle management at a reasonable cost, or at all, the Group may encounter delays or slowdowns in its manufacturing schedule and deterioration in its product quality. As a result, its business, financial condition and results of operations may be materially and adversely affected.

The Group has operations in a number of different countries and jurisdictions, including in the PRC, which are subject to political, economic and other risks inherent in international and cross-border operations.

The Group has operating activities and generates revenue in a number of different countries and jurisdictions with international and cross-border operations, including in the PRC. As a result, the Group is subject to political, economic and other risks inherent in operating in certain countries, such as:

- the difficulty of enforcing agreements and protecting assets through legal systems in certain countries, particularly in emerging markets;
- managing widespread operations and enforcing internal policies and procedures such as compliance with U.S. and foreign anti-bribery and anti-corruption regulations;
- trade protection measures and import or export licensing requirements;
- the application of certain labor regulations in those countries and jurisdictions;
- compliance with a wide variety of laws and regulations in those countries and jurisdictions;
- changes in the general political and economic conditions in the countries where the Group operates, particularly in emerging markets;
- the threat of nationalization and expropriation;

- increased costs and risks of doing business in a wide variety of jurisdictions;
- government controls limiting importation of goods;
- government controls limiting payments to suppliers for imported goods;
- limitations on repatriation of earnings; and
- exposure to wage, price and capital controls.

The ongoing trade dispute between the PRC and the United States and the increase in tariffs that the United States imposed on PRC imports have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. In January 2020, United States and PRC signed a phase one trade deal upon which tariffs of 15% that had been imposed on certain List 4 products from September 2019 were reduced to 7.5% and the tariffs to be imposed on the remainder of List 4 products were delayed indefinitely. The tariffs have remained as of the date of this Offering Circular which make Chinese goods more expensive and have led U.S. companies to shift some purchases to other countries such as Vietnam and Mexico. The United Kingdom and the European Union signed the trade deal relating to the withdrawal of the United Kingdom from the European Union (“**Brexit**”) on 30 December 2020 and the United Kingdom completed its separation from the European Union with effect from 1 January 2021. While the United Kingdom and European Union have reached the trade deal, the long-term effect of Brexit remains uncertain, and Brexit has created, and may continue to create, negative economic impact and increase volatility in the global markets. These could include further a fall in the value of the key trading currencies such as the Euro and/or greater volatility of markets in general due to the increased uncertainty. Global economic fluctuations have significant impacts on the global economy and on the Group. First, a rise in global trade protectionism will negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and aggressive quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, financial market volatility and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Group's business, financial condition and results of operations.

Inflationary pressures have also started to increase as the rebound in global commodity prices and weak domestic currencies have led businesses to pass on the increased input costs to consumers through higher selling prices. To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence globally, the Group's business and results of operations could likewise be significantly and adversely affected.

Changes in the political or economic environments in the countries in which the Group operates could have a material adverse effect on its financial condition, results of operations or cash flows.

The Group's business may be affected by the occurrence of contagious diseases, such as COVID-19

The outbreak of the coronavirus disease 2019 (“**COVID-19**”), which was declared a “pandemic” by the World Health Organisation in March 2020, and its continued spread worldwide has introduced uncertainty and volatility in global markets. The outbreak has resulted in restrictions on travel, public transport and prolonged closures of workplaces which has had and may continue to have a material adverse effect on the global economy and cause interruptions to the Group's business. Ensuring the safety of employees, end users and workers in response to the COVID-19 pandemic by implementing safe working conditions and product delivery procedures is the Group's emphasis. In 2020, the emphasis on health, safety and wellbeing played an even greater role due to the COVID-19 pandemic.

In 2020, the Group's health and safety efforts were focused on managing the COVID-19 pandemic. The Group's efforts included implementing innovative ways to distribute information about the COVID-19 pandemic and communicate protocols on health concerns and travel, as well as conducting contact tracing. The

Group's business units set up committees and crisis management teams that regularly met and implemented preventive measures such as body temperature checks, mask wearing, social distancing, installing plastic barriers for safety, placing hand sanitizing stations in work areas and maintaining healthy indoor air quality and adequate ventilation. The Group also provided masks and gloves to manufacturing, distribution, sales and other employees, and increased daily cleaning protocols for all offices and manufacturing sites and closed facilities when necessary.

Furthermore, the COVID-19 pandemic and the resultant restrictions and closures as mentioned above may impact demand, supply and efficient functioning of financial markets. Although COVID-19 has not materially affected the Group's business and operations adversely for the year ended 31 December 2020, there is no assurance that, going forward, these factors will not result in disruptions to the Group's operations, supply chains on which the Group's business may rely and the movement of goods across borders and potentially dampen demand of the Group's products and services. The Group's responsible sourcing strategy is therefore built around preparing for future impacts and recognize that it is imperative to act promptly to ensure the Group's business continuity.

The continued impacts of COVID-19 or any future outbreak of a contagious disease may have an adverse impact on the business, financial condition or results of operations of the Group.

The Group's business is subject to risks associated with sourcing and manufacturing overseas and international operations.

The Group purchases from different countries and jurisdictions large quantities of finished goods, component parts and raw materials. Substantially all of its cross-border trade operations are subject to customs requirements and to tariffs and quotas set by governments through mutual agreements, bilateral actions or, in some cases, unilateral action. In addition, the countries in which the Group's products and materials are manufactured or traded may from time to time impose additional quotas, duties, tariffs or other restrictions on its cross-border trading activities (including restrictions on manufacturing operations) or adversely modify existing restrictions. Cross-border trading is also subject to unpredictable foreign currency variation which may increase the Group's cost of goods sold. Adverse changes in these cross-border trading costs and restrictions, or the Group's suppliers' failure to comply with customs regulations or similar laws, could harm the Group's business.

The Group's operations are also subject to the effects of international trade agreements and regulations such as the North American Free Trade Agreement, and the activities and regulations of the World Trade Organization. Trade agreements generally have positive effects on trade liberalization, sourcing flexibility and cost of goods by reducing or eliminating the duties and/or quotas assessed on products manufactured in a particular country. However trade agreements can also impose requirements that adversely affect the Group's business, such as setting quotas on products that may be imported from a particular country into key markets including the U.S. or the European Union, or making it easier for other companies to compete, by eliminating restrictions on products from countries where the Group's competitors source products.

The Group's ability to purchase products from different countries and jurisdictions in a timely and cost-effective manner may also be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes, severe weather or increased homeland security requirements in the U.S. and other countries. These issues could delay cross-border trading of products or require the Group to locate alternative ports or warehousing providers to avoid disruption to customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on the Group's business and financial condition.

The Group conducts its international operations in Asia, Europe, Australia and New Zealand, and the Americas, and the Group continues to consider additional opportunities to make foreign acquisitions and construct new foreign facilities. As a result of its international operations, the Group is affected by economic and political conditions in foreign countries, including the imposition of government controls, political and economic

instability, trade restrictions, changes in tariffs, laws and policies affecting trade and investment, the lack of development of local infrastructure, labour unrest and difficulties in staffing, coordinating communications among and managing international operations, fluctuations in currency exchange rates, earnings expatriation restrictions, difficulties in obtaining export licenses, and misappropriation of intellectual property.

The Group may be unable to react in a cost-effective manner to changes in global transportation patterns resulting from higher fuel prices or other disruptions in international shipping patterns.

The Group relies on transportation timetables in order to reduce the inventory carrying costs of its finished goods and in order to respond quickly to changes in customer demand. The Group and its suppliers also require reliable and timely transportation in order to avoid carrying a large inventory of raw materials or half-finished components. Timeliness in transportation also affects the Group's manufacturing and assembly lines and the delivery of its products to its customers. Changes in the price of oil have affected components of the Group's cost of sales in the past, and the price of oil may increase again. Shipping companies have reacted by passing increased fuel prices to their customers as well as by slowing their shipping times in order to save fuel. Trucking companies have also increased their prices and slowed their shipping schedules. Changes in transportation costs and schedules may therefore require the Group to change the way it organizes its supply chain and product distribution plans. In addition, global shipping routes and land transportation routes are vulnerable to the threat of social or political instability and international hostilities, including war, as well as natural disasters, work stoppages and longshoreman strikes. If the Group's efforts to spread the costs, manage inventory levels for key products, work around disruptions in transportation routes or otherwise reduce the effects of changes in global transportation patterns are inefficient or costly, its business, financial condition or results of operations may be materially and adversely affected.

The Group's success depends on its ability to improve productivity and streamline operations to control or reduce costs.

The Group is committed to continuous productivity improvement and evaluating opportunities to reduce fixed costs, simplify or improve processes, and eliminate excess capacity. The Group is continuously seeking opportunities to streamline its processes, though there can be no assurance that the savings of these actions will not be mitigated by various factors, including economic weakness, competitive pressures, and decisions to increase costs in areas such as sales promotion or R&D above levels that were otherwise assumed. Failure to achieve or delays in achieving projected levels of efficiencies and cost savings from such measures, or unanticipated inefficiencies resulting from manufacturing and administrative reorganization actions in progress or contemplated, would adversely affect the Group's results. The Group's rapid growth has and is expected to continue to place a strain on its administrative and operational infrastructure, in particular on its internal accounting and financial reporting processes and systems. Over the past years, the Group's expansion has required it to expand its management personnel numbers and increase the complexity of its management structure. There can be no assurance that the new personnel and management structure will enable the Group to successfully execute its strategy or that it will be able to integrate the new personnel and new structure in a timely manner and without incurring unexpected costs and inefficiencies. The Group will continue to require additional resources to manage relationships with new customers in new geographic areas, as well as other third parties, including contracted suppliers, equipment providers and consultants, as its operations expand. The Group's ability to manage its operations and growth will require it to continue to improve its operational, financial and management controls and reporting systems and procedures. If the Group is unable to manage its growth and execute its business strategy effectively, its business, financial condition or results of operations may be materially and adversely affected.

The performance of the Group may suffer from business disruptions associated with information technology, system implementations, or catastrophic losses affecting distribution centers and other infrastructure.

The Group relies heavily on computer systems to manage and operate its businesses, and record and process transactions. Computer systems are important to production planning, customer service and order fulfillment among other business-critical processes. Consistent and efficient operation of the computer hardware and software systems is imperative to the successful sales and earnings performance of the various businesses in many countries.

Despite efforts to prevent such situations, insurance policies and loss control and risk management practices that partially mitigate these risks, the Group's systems may be affected by damage or interruption from, among other causes, power outages, computer viruses, or security breaches. Computer hardware and storage equipment that is integral to efficient operations, such as e-mail, telephone and other functionality, is concentrated in certain physical locations in the various continents in which the Group operates.

The Group may need to upgrade, convert or integrate its information systems from time to time. There can be no assurances that expected expense synergies will be achieved or that there will not be delays to the expected timing of such synergies. It is possible the costs to complete the system conversions may exceed current expectations, and that significant costs may be incurred that will require immediate expense recognition as opposed to capitalization. The risk of disruption to key operations is increased when complex system changes are undertaken. If systems fail to function effectively, or become damaged, operational delays may ensue and the Group may be forced to make significant expenditures to remedy such issues. Any significant disruption in the Group's computer operations could have a material adverse impact on its business and results.

The Group's operations are significantly dependent on infrastructure which is concentrated in various geographic locations, notably the manufacturing and R&D complex in Dongguan, the PRC. If any of these were to experience a catastrophic loss, such as a fire, earthquake, hurricane, or flood, it could disrupt operations, delay production, shipments and revenue and result in large expenses to repair or replace the facility. The Group maintains business interruption insurance, but it may not fully protect the Group against all adverse effects that could result from significant disruptions. There can be no assurance that the Group will be able to maintain such insurance or other insurance on acceptable terms, if at all, at all times in the future or that claims will not exceed, or fall outside of, its insurance coverage, or its provisions for uninsured or uncovered losses will be sufficient to cover out ultimate loss or expenditure. If the Group incurs losses in excess of the insurance coverage, the Group's business, financial condition and results of operations may be materially and adversely affected.

Unforeseen events, including war, terrorism and other international conflicts and public health issues (such as any prolonged recurrence of avian influenza, SARS, swine flu, COVID-19 or other adverse public health developments), natural disasters, whether occurring in the United States or abroad, could disrupt the Group's operations, disrupt the operations of its suppliers or customers, or result in political or economic instability. These events could reduce demand for its products and make it difficult or impossible for the Group to manufacture its products, deliver products to customers, or to receive materials from suppliers.

Uncertainty about the financial stability of several countries in the European Union (EU), the risk that those countries may default on their sovereign debt and related stresses on the European economy could have a significant adverse effect on the Group's business, results of operations and financial condition.

For the year ended 31 December 2020, the Group generated approximately 14.1% of its revenue from Europe. Each of the Group's segments generate sales from the European marketplace, with the sales activity being somewhat concentrated within France, the Nordic region, Germany and the UK. While the Group believes any downturn in the European marketplace would be offset to some degree by sales growth in emerging markets and

relative stability in North America, the Group's future growth, profitability and financial liquidity could be affected, in several ways, including but not limited to the following:

- depressed consumer and business confidence may decrease demand for products and services;
- customers may implement cost-reduction initiatives or delay purchases to address inventory levels;
- significant declines of foreign currency values in countries where the Group operates could impact both the revenue growth and overall profitability in those geographies;
- a devaluation of or a break-up of the Euro could have an effect on the credit worthiness (as well as the availability of funds) of customers impacting the collectability of receivables;
- a devaluation of or break of the Euro could have an adverse effect on the value of financial assets of the Group in the affected countries; and
- the impact of an event (individual country default or break up of the Euro) could have an adverse impact on the global credit markets and global liquidity potentially impacting the Group's ability to access these credit markets and to raise capital.

Despite recent stabilisation of the sovereign debt of several countries of the Eurozone, not all uncertainties regarding the stability and overall standing of the European Monetary Union have disappeared. Concerns that the Eurozone sovereign debt crisis could worsen again may lead to the reintroduction of national currencies in one or more Eurozone countries or, in more extreme circumstances, to the dissolution of the Eurozone. The withdrawal or risk of withdrawal of one or more countries from the Eurozone and/or the entire dissolution or the risk of the entire dissolution of the Eurozone could have major negative effects on both existing contractual relations and the fulfilment of obligations by the Group and/or the Group's customers, which could have a material adverse effect on the Group's business, results of operations and financial position.

The Group is exposed to market risk from changes in foreign currency exchange rates which could negatively impact profitability.

The Group manufactures and sells its products in many countries throughout the world. As a result, there is exposure to foreign currency risk as the Group enters into transactions and makes investments denominated in multiple currencies. For example, changes in currency exchange rates may affect the relative prices at which the Group and its competitors sell products in the same market and the cost of products and services the Group requires for its operations. The Group's predominant exposures are in U.S., European, Hong Kong and the PRC currencies. The Group is subject to risks arising from the translation of balance sheets and income statements of the Group members to U.S. dollar as well as risk arising from the export of products and sales outside the country of manufacture. With respect to the effects on translated earnings, if the U.S. dollar strengthens relative to local currencies, the Group's earnings could be negatively impacted. The translational and transactional impacts will vary over time and may be more material in the future. Although the Group utilizes risk management tools, including hedging, as it deems appropriate, to mitigate a portion of potential market fluctuations in foreign currencies, there can be no assurance that such measures will result in all market fluctuation exposure being eliminated.

The Group manufactures and sources many products from China and other Asian low-cost countries for sale or resale in other regions. To the extent the RMB or other currencies appreciate, the Group may experience cost increases on such operations or purchases. The Group may not be successful at implementing customer pricing or other actions in an effort to mitigate the related cost increases and thus its profitability may be adversely impacted.

The Group has incurred, and may incur in the future, significant indebtedness, or issue additional equity securities, in connection with mergers or acquisitions which may impact the manner in which it conducts business or the Group's access to external sources of liquidity. The potential issuance of such securities may limit the Group's ability to implement elements of its growth strategy and may have a dilutive effect on earnings.

After the offering of the Notes, the Group will have a substantial amount of indebtedness and may incur substantial additional indebtedness in the future. The Group's substantial indebtedness may have important consequences to the holders of the Notes. For example, it may:

- limit the Group's ability to satisfy its obligations under the Notes and other indebtedness;
- increase the Group's vulnerability to adverse general economic and industry conditions;
- require the Group to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of its cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit the Group's flexibility in planning for or reacting to changes in its businesses and the industry in which it operates;
- place the Group at a competitive disadvantage compared to its competitors that have less indebtedness;
- limit, along with the financial and other restrictive covenants of the Group's indebtedness, among other things, its ability to borrow additional funds; or
- increase the cost of additional financing.

The Group's ability to generate sufficient cash to satisfy its outstanding and future indebtedness will depend upon its future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond its control. The Group may not generate sufficient cash flow to meet its anticipated operating expenses and to service its indebtedness as they become due. If the Group is unable to service its indebtedness, it will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing its indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

The restrictions in the Notes and the Group's other financing arrangements may negatively affect its ability to react to changes in market conditions, take advantage of business opportunities the Group believes to be desirable, obtain future financing, fund needed capital expenditures, or withstand a continuing or future downturn in its business. Any of these factors may materially and adversely affect the Group's ability to satisfy its obligations under the Notes and its other indebtedness.

The Group is exposed to counterparty risk in its hedging arrangements.

From time to time, the Group enters into arrangements with financial institutions to hedge exposure to fluctuations in currency and interest rates, including foreign currency forward contracts and interest rate swap agreements. The failure of one or more counterparties to the Group's hedging arrangements to fulfill their obligations could adversely affect the Group's results of operations.

Tight capital and credit markets could adversely affect the Group by limiting the Group's ability to borrow or otherwise access liquidity.

The Group's long-term growth plans are dependent on, among other things, the availability of funding to support corporate initiatives and complete appropriate acquisitions and the ability to increase sales of existing product lines. While the Group has not encountered financing difficulties to date, the capital and credit markets experienced extreme volatility and disruption in recent years. Market conditions could make it more difficult for the Group to borrow or otherwise obtain the cash required for significant new corporate initiatives and acquisitions. In addition, there could be a number of follow-on effects from such a credit crisis on the Group's businesses, including insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of the Group's products and services and/or customer insolvencies.

The Group's acquisitions may result in certain risks for its business and operations.

The Group's business strategy involves acquisitions and investments in its core businesses or establishing new businesses. As at 31 December 2019 and 2020, the Group owned a right to acquire certain property, plant and equipment 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. In October 2018, the Group acquired 100% equity interest in Imperial Blades LLC, which is engaged in manufacture and sale of oscillating saw blades and accessories. In September 2018, the Group acquired 49% equity interest in Wuerth Master Power Tools Limited, which is engaged in the manufacture and sale of power equipment.

Acquisitions involve a number of risks, including:

- the possibility that the acquired companies will not be successfully integrated or that anticipated cost savings, synergies, or other benefits will not be realized,
- the acquired businesses will lose market acceptance or profitability,
- the diversion of Group management's attention and other resources,
- the incurrence of unexpected liabilities, and
- the loss of key personnel and clients or customers of acquired companies.

In addition, the success of the Group's long-term growth and repositioning strategy will depend in part on its ability to:

- identify suitable future acquisition candidates,
- obtain the necessary financing,
- combine operations,
- integrate departments, systems and procedures, and
- obtain cost savings and other efficiencies from the acquisitions.

Failure to effectively integrate or manage future acquisitions may adversely affect the Group's existing businesses and harm its operational results due to large write-offs, contingent liabilities, substantial depreciation, adverse tax or other consequences. The Group is still in the process of integrating the businesses and operations of recent acquisitions. The Group cannot ensure that such integrations will be successfully completed or that all of the planned synergies will be realized. In addition, certain of the acquisition agreements by which the Group

has acquired brands or companies require the former owners to indemnify it against certain liabilities related to the operation of each of their companies before the Group acquired it. In most of these agreements, however, the liability of the former owners is limited, and certain former owners may not be able to meet their indemnification responsibilities. The Group cannot provide assurances that these indemnification provisions will fully protect it, and as a result the Group may face unexpected liabilities which may have a material adverse effect on its business, financial condition and results of operations.

Circumstances associated with the Group's divestitures and product line exits could adversely affect the Group's results of operations and financial condition.

The Group continues to evaluate the performance and strategic fit of its businesses and products and may decide to sell or discontinue a business or product based on such an evaluation. A decision to divest or discontinue a business or product may result in asset impairments, including those related to goodwill and other intangible assets, and losses upon disposition, both of which could have an adverse effect on the Group's results of operations and financial condition. In addition, the Group may encounter difficulty in finding buyers or executing alternative exit strategies at acceptable prices and terms and in a timely manner. In addition, prospective buyers may have difficulty obtaining financing. Divestitures and business discontinuations could involve additional risks, including the following:

- difficulties in the separation of operations, services, products and personnel;
- the diversion of management's attention from other business concerns;
- the retention of certain current or future liabilities in order to induce a buyer to complete a divestiture;
- the disruption of the Group's business; and
- the potential loss of key employees.

The Group may not be successful in managing these or any other significant risks that it may encounter in divesting or discontinuing a business or exiting product lines, which could have a material adverse effect on its business.

Expansion of the Group's activity in emerging markets may result in risks due to differences in business practices and cultures.

The Group's growth plans include efforts to increase revenue from emerging markets through both organic sales and acquisitions. Local business practices in these regions may not comply with US laws, local laws or other laws applicable to the Group. When investigating potential acquisitions, the Group seeks to identify historical practices of target companies that would create liability or other exposures for the Group if they were to continue post-completion or as a successor to the target. Where such practices are discovered, the Group assesses the risk to determine whether it is prepared to proceed with the transaction. In assessing the risk, the Group looks at, among other factors, the nature of the violation, the potential liability, including any fines or penalties that might be incurred, the ability to avoid, minimize or obtain indemnity for the risks, and the likelihood that the Group would be able to ensure that any such practices are discontinued following completion of the acquisition through implementation of its own policies and procedures. Due diligence and risk assessment are, however, imperfect processes, and it is possible that the Group will not discover problematic practices until after completion, or that the Group will underestimate the risks associated with historical activities. Should that occur, the Group may incur fees, fines, penalties, injury to its reputation or other damage that could negatively impact the Group's earnings.

Changes in taxation on the Group's business may materially and adversely affect its business, financial condition and results of operations.

The Group's business and operations are subject to the tax laws and regulations of the countries and markets in which it is organised and in which it operates. Changes in tax laws, tax regulations or interpretations of these laws or regulations may have a material adverse effect on the Group's business, financial condition and results of operations. These changes also could materially reduce the sales of some of the Group's products. The Group cannot predict whether any tax laws or regulations impacting corporate taxes or insurance products will be enacted, what the specific terms of any such laws or regulations will be or whether, if at all, any laws or regulations would have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's failure to continue to successfully avoid, manage, defend, litigate and accrue for claims and litigation could negatively impact its results of operations or cash flows.

The Group is exposed to and becomes involved in various litigation matters arising out of the ordinary routine conduct of its business, including, from time to time, actual or threatened litigation relating to such items as commercial transactions, product liability, workers compensation, the Group's distributors and franchisees, intellectual property claims and regulatory actions.

In addition, the Group is subject to environmental laws in each jurisdiction in which business is conducted. Some of the Group's products incorporate substances that are regulated in some jurisdictions in which it conducts manufacturing operations. The Group could be subject to liability if it does not comply with these regulations. In addition, the Group may be held responsible for remedial investigations and clean-up costs resulting from the discharge of hazardous substances into the environment, including sites that have never been owned or operated by the Group but at which it has been identified as a potentially responsible party under federal and state environmental laws and regulations. Changes in environmental and other laws and regulations in jurisdictions where it conducts business could adversely affect the Group's operations due to increased costs of compliance and potential liability for non-compliance.

The Group manufactures products, configures and installs security systems and performs various services that create exposure to product and professional liability claims and litigation. If such products, systems and services are not properly manufactured, configured, installed, designed or delivered, personal injuries, property damage or business interruption could result, which could subject the Group to claims for damages. The costs associated with defending product liability claims and payment of damages could be substantial. The Group's reputation could also be adversely affected by such claims, whether or not successful. Furthermore, defective products could result in loss of sales or loss of customers and would consequently have a materially adverse effect on the Group's reputation and market perception which in turn could have a significant adverse effect on the Group's sales and results of operations and its financial position.

Potential damages claimed by customers, delayed deliveries, or the Group's failure to comply with quality requirements could negatively affect the market acceptance of other products of the Group and its market reputation in various market segments. The realisation of any of these risks could have a material adverse effect on the Group's business, financial position and results of operations.

There can be no assurance that the Group will be able to continue to successfully avoid, manage and defend such matters. In addition, given the inherent uncertainties in evaluating certain exposures, actual costs to be incurred in future periods may vary from the Group's estimates for such contingent liabilities. The Group cannot provide assurance that its reserve set aside and/or product liability insurance it purchased with third-party carriers will be sufficient to cover these or other liabilities and costs. If the Group is unable to defend itself against material product liability or warranty claims, its business, financial condition and results of operations may be materially and adversely affected.

The Group's products could be recalled.

The U.S. Consumer Product Safety Commission or other applicable regulatory bodies may require the recall, repair or replacement of the Group's products if those products are found not to be in compliance with applicable standards or regulations. A recall could increase costs and adversely impact the Group's reputation and result in large quantities of finished products not being able to be sold.

Failure to accurately forecast demand may result in excess or insufficient inventory levels.

Incorrect forecasting of demand in the future could result in the Group experiencing an excess or a shortage of inventory. The long lead times between ordering and delivery and the need to commit for seasonal products a long time in advance make it more difficult to accurately match the demand for such items. If orders do not match actual demand, the Group could have higher or lower than anticipated stock levels and this could lead to higher interest charges or less interest income, price reductions or write downs of slow moving or excess stock resulting in lower profits.

The Group's ability to track the ultimate retail sales by its retail outlets, and consequently their respective inventory levels, is limited. The Group's current policy requests its home center and mass market customers to provide it with weekly or monthly inventory and sales reports. The purpose of tracking inventory levels is mainly to gather sufficient information and data regarding the market acceptance of the Group's products so that it can reflect the consumers' preferences in the design of its products in the next season. The tracking of inventory level also provides useful information such as the market recognition of the Group's products in a particular region so that it can realign its marketing strategy if needed. However, the implementation of the policy requires the cooperation of the retail outlets in accurately and timely reporting and submitting the relevant data to the Group, and the Group may not be able to ensure the accuracy of the data provided by the retail outlets or identify or prevent any excessive inventory build-up at these retail outlets. If the Group is unable to track its sales and use the data to manage inventory and reflect consumer preferences in its product design, its business, financial condition and results of operations may be materially and adversely affected.

The Group is exposed to credit risk on its accounts receivable.

The Group's outstanding trade receivables are not generally covered by collateral or credit insurance. While the Group has procedures to monitor and limit exposure to credit risk on its trade and non-trade receivables, there can be no assurance such procedures will effectively limit its credit risk and avoid losses, which could have an adverse effect on the Group's financial condition and operating results. The Group's customers may also face difficulties in borrowing or otherwise obtaining the cash to support their own activities. If the Group or its customers are unable to borrow or otherwise obtain cash on favorable terms, or at all, its business, financial condition and results of operations may be materially and adversely affected.

If the Group were required to write down all or part of its goodwill, indefinite-lived trade names, or other definite-lived intangible assets, its net income and net worth could be materially adversely affected.

The Group has U.S.\$578.5 million of goodwill and U.S.\$224.4 million of indefinite-lived trade names as at 31 December 2020. The Group is required to periodically, at least annually, determine if its goodwill or indefinite-lived trade names have become impaired, in which case it would write down the impaired portion of the intangible asset. The definite-lived intangible assets, including customer relationships, are amortized over their estimated useful lives; such assets are also evaluated for impairment when appropriate. Impairment of intangible assets may be triggered by developments outside of the Group's control, such as worsening economic conditions, technological change, intensified competition or other factors resulting in deleterious consequences. If the Group was required to write down all or part of its intangible assets, its business, financial condition and results of operations may be materially and adversely affected.

If the investments in employee benefit plans do not perform as expected, the Group may have to contribute additional amounts to these plans, which would otherwise be available to cover operating expenses or other business purposes.

The Group sponsors pension and other post-retirement defined benefit and contribution plans. The Group's defined benefit and contribution plan assets are currently invested in equity securities, government and corporate bonds and other fixed income securities, money market instruments and insurance contracts. The Group's funding policy is generally to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with applicable law which require, among other things, that the Group make cash contributions to under-funded pension plans.

There can be no assurance that the value of the defined benefit plan assets, or the investment returns on those plan assets, will be sufficient in the future. It is therefore possible that the Group may be required to make higher cash contributions to the plans in future years which would reduce the cash available for other business purposes, and that the Group will have to recognize a significant pension liability adjustment which would decrease the net assets of the Group and result in higher expense in future years. The fair value of these assets as at 31 December 2020 was nil.

RISKS RELATING TO THE GROUP'S INDUSTRY

Unfavourable economic and political conditions in the markets in which the Group operates may adversely affect the Group's sales.

The Group's business is dependent on the strength of the retail, commercial and industrial sectors and general global economic conditions, particularly within Europe, the United States, Asia and emerging countries. A significant deterioration of global economic conditions, such as a temporary or continued economic slowdown, recessions or sustained loss of consumer confidence and consumer demand, could trigger a decline (including decreasing production and reduction of capacity) in industries and markets in which the Group operates (which may react with even more volatility than in the case of a downturn of overall global or regional economic conditions) and therefore have a material adverse effect on the Group's business, results of operations and financial position. The Group could also be negatively impacted by economic crises in specific countries or regions, including the deterioration in the creditworthiness of, or a default by, the issuers of sovereign debt. Such events could negatively impact the Group's overall liquidity and/or create significant credit risks relative to its local customers and depository institutions. The Group's business and prospects depend heavily on the performance of the home improvement, residential construction and infrastructure construction markets, particularly in the United States and Europe. In 2020, approximately 78.0% and 14.1% of the Group's revenue was attributed to sales in North America and Europe, respectively. As a result, the Group's profitability may be materially and adversely affected as a result of the cyclical nature of economic conditions in such major markets. Significant factors that impact the home improvement and residential construction markets include the inventory levels of unsold new and existing homes, general and regional economic conditions, consumer confidence and credit, terms and availability of mortgage financing, affordability of homes, interest rates, energy costs and, on a more localized basis, weather conditions and natural disasters.

Demand for some of the Group's products may decline if the U.S. markets deteriorate or there is any prolonged downturn in the U.S. markets. If the infrastructure construction market is affected by such economic conditions, demand for the Group's professional and high-end tools may decline. Demand may also decline if the home improvement and infrastructure construction markets in Europe and Australasia or in other regions where the Group operates deteriorate. In addition, the general weakness in the Group's major markets in the United States and Europe, both of which are heavily dependent on consumer confidence and credit, may further erode the credit-worthiness of certain customers resulting in increased write-offs of customer receivables. If demand for the Group's products in its major markets declines, the Group's business, financial condition and results of operations may be materially and adversely affected.

In addition, the Group may be adversely affected by political, geopolitical, economic or social developments in any of the countries in which the Group operates. The Group's operations are also subject to a variety of other risks and uncertainties related to trading in numerous foreign countries, including political or economic upheaval and the imposition of any import, export, investment or currency restrictions, including tariffs and import or export quotas or any restrictions on the repatriation of earnings and capital. The materialisation of such risks or uncertainties could have a material adverse effect on the Group's business, results of operations and financial position.

RISKS RELATED TO GOVERNMENT REGULATIONS

The Group is subject to regulatory and other risks associated with international and cross-border operations.

The Group's sales are made to customers primarily in the United States and Europe, but also in Canada, Australasia, Latin America, Asia and the Middle East. The Group sources its supplies of raw materials and components from suppliers within the PRC and in Korea, Japan and other Asian countries, and it locates its manufacturing facilities in the PRC, Vietnam, the United States, Europe and Mexico.

As a result of its worldwide operations, the Group is subject to a wide variety of international laws, regulations and controls and various non-binding treaties and guidelines and exposed to a variety of international and cross-border risks, any or all of which may have a material adverse effect on its business, financial condition and results of operations, including:

- adverse changes in international laws and agreements, especially those affecting trade and investment;
- the instability of governments, including the threat of war,
- terrorist attacks or inter-regional authority;
- sanctions against certain countries or organizations, or prohibitions on certain activities;
- pandemics, such as the avian flu, which may have cross-border effects; and
- foreign currency exchange and transfer restrictions.

Among these risks, the Group faces particular risks relating to international trade agreements and regulations such as the North American Free Trade Agreement and the activities and regulations of the World Trade Organization. The Group cannot provide assurances that the reduction or elimination of certain duties or trade quotas implemented by these trade agreements will continue. These trade agreements may also impose additional requirements, such as setting quotas on products that may be imported from a particular country into key markets such as those of the U.S. or the E.U. Any increased costs resulting from compliance with these trade agreements may have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, any or all of these risks are also faced by the Group's suppliers, many of which supply internationally, and the shipping and warehousing providers that ship the Group's supplies to its manufacturing facilities and its products to market. As a result, even if international or cross-border events occur in regions in which the Group does not operate, such events may still affect its supply and distribution networks and may have a material adverse effect on its business, financial condition and results of operations.

The Group is subject to import and export regulations.

In importing or exporting supplies or finished goods among the different countries in which the Group does business, it is subject to customs requirements and to tariffs and quotas set by governments through mutual agreements, bilateral actions or, in some cases, unilateral action (e.g., anti-dumping and counter-veiling tariffs). Additional quotas, duties, tariffs or other restrictions on imports and exports, including restrictions on manufacturing operations, may be imposed from time to time and compliance may be costly. Adverse changes in import and export laws and regulations or the Group's failure or the failure of the Group's suppliers to comply with customs regulations or similar laws may expose it to increased costs and delay the transportation of its products to market. As most of the Group's sales are made in the United States, its success depends particularly on various U.S. import laws and export control and economic sanctions laws, which may affect its transactions with its customers, business partners and other persons, including in certain cases dealings with or between the Group's employees and subsidiaries. The Group also has manufacturing operations located in several countries and are subject to diverse raw material and component import controls and product export controls. In certain countries, economic sanctions regulations may prohibit the export of certain products, services and technologies, or the Group may be required to obtain an export license prior to the export of the controlled item. Compliance with the various import and export laws that apply to its business can restrict the Group's access to, and increase the cost of obtaining, certain products and at times can interrupt its supply of imported inventory price or exchange controls could limit its operations in certain countries and make the repatriation of profits difficult.

The Group is subject to national and local environmental and health and safety directives, laws and regulations.

The Group's manufacturing operations are subject to numerous national and local environmental, health and safety directives, laws and regulations, including those pertaining to the storage, handling, treatment, transportation and disposal of hazardous and toxic materials, the construction and operation of its facilities and standards relating to the discharge of pollutants to air, soil and water. For example, the Group must package and transport its lithium-ion batteries and products containing such batteries in accordance with relevant international and national laws and regulations, including the UN Model Regulations on the Transport of Dangerous Goods and similar regulations published by the International Civil Aviation Organization and the Air Transport Association, as well as US and Canadian regulations governing the import and transport of dangerous goods. The Group has experienced instances where certain government agencies have raised questions regarding potential noncompliance with such laws and regulations in the past, and it may experience such instances in the future. In addition, risks of substantial costs and liabilities, including those related to the investigation and remediation of past or present contamination, are inherent in the Group's ongoing operations and in its ownership or occupation of industrial properties, and may arise specifically from its planned closure of certain of its manufacturing facilities. Claims for damages to property or injury to persons resulting from environmental, health or safety impacts of the Group's operations or past contamination, could suspend its operations, result in the imposition of fines, penalties or liens, or give rise to civil or criminal liability. Compliance with these regulations may also require the Group to alter its manufacturing processes and its supply sourcing. In addition, some environmental directives specifically regulate environmental impacts associated with electrical and electronic equipment, such as the Waste Electrical and Electronic Equipment (the "WEEE") directive in the European Union that imposes responsibility on manufacturers and importers of electrical and electronic equipment for the cost of recycling, treatment and disposal of such equipment after its useful life. The Group cannot provide assurances that its policies and procedures to ensure compliance with these directives will be sufficient. The Group cannot provide assurances that it will not incur health and safety or environmental losses beyond the limits, or outside the coverage, of any insurance or that its provisions for health and safety and environmental remediation or related costs will be sufficient to cover the ultimate loss or expenditure. Furthermore, over time, environmental and health and safety laws and regulations and the enforcement thereof may become increasingly stringent and the Group may incur material costs associated with compliance with new laws and regulations. Any or all of the above factors and risks may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's manufacturing operations are located in several different countries, each with their own regulatory regime.

The Group's manufacturing and R&D operations are located in several countries, including the PRC, the United States, Germany and Vietnam. The Group expect that manufacturing in, and sourcing its supplies from, the PRC will represent a substantial portion of its total production capacity. The PRC has complex regulatory regimes governing manufacturing. The regulatory regime of the PRC, in particular, differs from those found in most developed countries, particularly in the level of government involvement. Although the PRC government has for the past two decades implemented economic reforms that affect the regulatory regimes applied to manufacturing and other facilities, many of these reforms are experimental or unprecedented and may have unexpected results affecting the Group's manufacturing operations and supply sources in the PRC. The PRC government has also expressed an intention to take measures to maintain economic growth at a sustainable level including certain restrictions on bank loans, any of which may affect the operating liquidity of the Group's, or the Group's suppliers', manufacturing and other facilities. In each of the countries in which the Group locates its manufacturing or other facilities, it will continue to be exposed to unexpected changes in regulatory requirements, potentially adverse tax and regulatory consequences, currency exchange restrictions, tariffs and other trade barriers, political instability and the threat that its operations or property could be subject to nationalization or expropriation. Any or all of the above factors and risks may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group has a large labor force and its labor costs may be increased due to changes in applicable labor laws.

The Group's manufacturing and R&D facilities are located in the PRC, the United States and Germany, and the Group employs approximately 48,028 people as of 31 December 2020. The labor laws and protections given to employees differ in each of the jurisdictions in which the Group operates and such laws and protections are subject to change. The trend toward increasing employee protection in each of the countries in which the Group locates its manufacturing operations may increase its labor costs. With the Group's large work force, it is also exposed to the risk of work stoppages and union and other potential labor disputes. If such labor disputes are resolved in favor of its employees, the Group may be required to change its employment and compensation policies. The Group also cannot provide assurances that its present employment policies are or will remain in compliance with all applicable laws and regulations and that it will not be required to pay associated penalties. If the Group is exposed to penalties for non-compliance with applicable labor laws and regulations or if it is unable to maintain its relations with its employees, the Group's business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO NOTES ISSUED UNDER THE PROGRAMME

Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors shall pay attention to any modification, waivers and substitution.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series. The Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to (a) any modification (except certain modifications, including increasing quorum requirements relating to meetings) of the Conditions or the Trust Deed which is not materially prejudicial to the interests of the Noteholders or (b) any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg, or lodged with a sub-custodian for the CMU Service (each of Euroclear, Clearstream, Luxembourg and the CMU Service). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders or, in the case of the CMU Service, to the persons for whose account(s) interests in such Global Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the Group in a relevant CMU Instrument Position Report or any other notification by the CMU Service.

A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

The Issuer may be unable to redeem the Notes.

On certain dates, including the occurrence of any early redemption event specified in the relevant Pricing Supplement or otherwise and at maturity of the Notes, the Issuer, may, and at maturity, will, be required to redeem all of the Notes. If such an event were to occur, the Issuer, may not have sufficient cash on hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's

failure to repay, repurchase or redeem tendered Notes would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Group.

The Notes are unsecured obligations.

As the Notes are unsecured obligations, the repayment of the Notes may be adversely affected if, as the Issuer:

- (i) the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- (ii) there is a default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or
- (iii) there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets may not be sufficient to pay amounts due on the Notes.

The Trustee may request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including without limitation giving of notice to the Issuer pursuant to Condition 14 of the Terms and Conditions of the Notes and taking enforcement steps pursuant to Condition 19 of the Terms and Conditions of the Notes, the Trustee may, at its sole discretion, request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of the Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed or the Terms and Conditions of the Notes and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

The Notes will be structurally subordinated to all obligations of the Issuer's existing and future subsidiaries and consolidated affiliated entities.

The Notes will not be guaranteed by any of the Issuer's existing or future subsidiaries and consolidated affiliated entities, who together hold substantially all of the Issuer's operating assets and conduct substantially all of the Issuer's business. The Issuer's subsidiaries and consolidated affiliated entities will have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. The Notes will be structurally subordinated to all indebtedness and other obligations of the Issuer's subsidiaries and consolidated affiliated entities such that in the event of insolvency, liquidation, reorganisation, dissolution or other winding up of any of the Issuer's subsidiary or consolidated affiliated entity, all of that subsidiary's or consolidated affiliated entity's creditors (including trade creditors) would be entitled to payment in full out of that subsidiary's or consolidated affiliated entity's assets before the Issuer would be entitled to any payment.

In addition, the Trust Deed governing the Notes will not contain any limitation on the amount of any additional indebtedness or other liabilities, such as trade payables, that may be incurred by these subsidiaries and consolidated affiliated entities.

The terms of the Notes provide only limited protection against significant corporate events that could adversely impact your investment in the Notes.

While the terms of the Notes contain terms intended to provide protection to noteholders upon the occurrence of certain events involving significant corporate transactions and the Issuer's creditworthiness, these terms are

limited and may not be sufficient to protect your investment in the Notes. See "*Terms and Conditions of the Notes*".

The Trust Deed for the Notes also does not:

- require the Issuer to maintain any financial ratios or specific levels of net worth, revenue, income, cash flows or liquidity;
- limit the Issuer's ability to incur indebtedness that is equal in right of payment to the Notes;
- restrict the Issuer's subsidiaries' or consolidated affiliated entities' ability to issue unsecured securities;
- or otherwise incur unsecured indebtedness that would be senior to the Issuer's equity interests in the Group's subsidiaries or consolidated affiliated entities and therefore rank effectively senior to the Notes;
- limit the ability of the Issuer's subsidiaries or consolidated affiliated entities to service indebtedness;
- restrict the Issuer's ability to repurchase or prepay any other of the Issuer's securities or other indebtedness; or
- restrict the Issuer's ability to make investments or to repurchase or pay dividends or make other payments in respect of the Issuer's shares or other securities ranking junior to the Notes.

As a result of the foregoing, when evaluating the terms of the Notes, you should be aware that the terms of the Notes do not restrict the Issuer's ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events that could have an adverse impact on your investment in the Notes.

The Notes do not restrict the Group's ability to incur additional debt or to take other actions that could negatively impact holders of the Notes.

Subject to the negative pledge covenant (see "*Terms and Conditions of the Notes — Negative Pledge*"), the Group is not restricted under the Terms and Conditions from incurring additional debt, including secured debt, or from repurchasing the Notes. In addition, the covenants applicable to the Notes do not require the Group to achieve or maintain any minimum financial results relating to the Group's financial position or results of operations. The Group's ability to recapitalise, incur additional debt and take other actions that are not limited by the Terms and Conditions could diminish the Group's ability to make payments on the Notes and amortising bonds when due.

Considerations related to a particular issue of the Notes.

A wide range of the Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a

significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) the payment of principal or interest may occur at a different time or in a different currency than expected; and
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Certain benchmark rates, including LIBOR and EURIBOR, may be discontinued or reformed in the future - including phasing-out of LIBOR after 31 December 2021 or 30 June 2023

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and the Hong Kong inter-bank offered rate ("**HIBOR**") and other interest rate or other types of rates and indices which are

deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**EU Benchmarks Regulation**") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. Regulation (EU) No. 2016/1011 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the UK. The EU Benchmarks Regulation or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to LIBOR, EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmarks Regulation or UK Benchmarks Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, the UK Financial Conduct Authority announced on 27 July 2017 that it would no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and confirmed on 5 March 2021 that most LIBOR benchmark tenors would cease or cease to be representative benchmarks from 31 December 2021 or (in the case of certain tenors of USD LIBOR only) from 30 June 2023. On 5 March 2021, the administrator for LIBOR (the ICE Benchmark Administration or IBA) similarly announced that it would cease the publication of the relevant LIBOR settings on 31 December 2021 or 30 June 2023, unless the FCA exercises its proposed new powers (which are included in the current UK Financial Services Bill as proposed amendments to the UK Benchmarks Regulation) to require the IBA to continue publishing such LIBOR settings using a changed methodology (also known as a "synthetic" basis). Such announcements indicate that LIBOR will not continue in its current form and the UK Financial Conduct Authority announcement of 5 March 2021 indicated that it is currently contemplating that any "synthetic" basis, if adopted, would be limited to a small number of currencies and settings. In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its working group on Sterling risk-free rates had been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("**SONIA**") over the next four years across sterling bond, loan and derivative markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("**€STR**") as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

The elimination of LIBOR, EURIBOR, HIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(j) (*Benchmark Replacement*) or Condition 7A (*Interest - Floating Rate Notes Referencing SOFR*)) or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR, HIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark

may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The "Terms and Conditions of the Notes" provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, unlawful or unrepresentative, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms or possible cessation or reform of certain reference rates in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes

Investors should be aware that the market continues to develop in relation to the Secured Overnight Financing Rate ("**SOFR**") as a reference rate in the capital markets and its adoption as an alternative to U.S. Dollar LIBOR. In particular, market participants and relevant working groups are exploring alternative reference rates based on SOFR, including term SOFR reference rates (which seek to measure the market's forward expectation of an average SOFR rate over a designated term). The continued development of SOFR rates as an interest reference rate for the Eurobond markets, as well as continued development of SOFR based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of the Notes.

The use of SOFR as a reference rate for Eurobonds continues to develop both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing SOFR. In particular, investors should be aware that several different SOFR methodologies have been used in SOFR linked notes issued to date and no assurance can be given that any particular methodology, including the compounding formula in the terms and conditions of the Notes, will gain widespread market acceptance.

The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out in the Terms and Conditions as applicable to the Notes. Furthermore, the Issuer may in future issue Notes referencing SOFR that differ materially in terms of interest determination when compared with the Notes. In addition, the manner of adoption or application of SOFR reference rates in the Eurobond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Noteholders should carefully consider how any mismatch between the adoption of SOFR reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SOFR.

SOFR differs from LIBOR in a number of material respects and has a limited history

SOFR differs from LIBOR in a number of material respects, including that SOFR is a backwards-looking, compounded, risk-free overnight rate, whereas LIBOR is expressed on the basis of a forward-looking term and includes a risk-element based on inter-bank lending. As such, investors should be aware that LIBOR and SOFR may behave materially differently as interest reference rates for the Notes. Furthermore, SOFR is a secured rate that represents overnight secured funding transactions, and therefore will perform differently over time to LIBOR which is an unsecured rate. For example, since publication of SOFR began on April 3, 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmarks or other market rates.

Publication of SOFR in their current form began in April 2018 and it therefore has a limited history. The future performance of SOFR may therefore be difficult to predict based on the limited historical performance. The level of SOFR during the term of the Notes may bear little or no relation to the historical level of SOFR. Prior observed patterns, if any, in the behaviour of market variables and their relation to SOFR such as correlations, may change in the future.

Furthermore, the Interest Rate is only capable of being determined at the end of the relevant Reference Period and immediately prior to the relevant Interest Payment Date. It may be difficult for Noteholders to estimate reliably the amount of interest which will be payable on the Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which factors could adversely impact the liquidity of the Notes. Further, in contrast to LIBOR-based Notes, if the Notes become due and payable as a result of an Event of Default under Condition 14 (Events of Default), or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Interest Rate payable in respect of the Notes shall be determined by reference to a shortened period ending immediately prior to the date on which the Notes become due and payable.

The administrator of SOFR may make changes that could change the value of SOFR or discontinue SOFR

The New York Federal Reserve (or a successor), as administrator of SOFR, may make methodological or other changes that could change the value of SOFR, including changes related to the method by which SOFR is calculated, eligibility criteria applicable to the transactions used to calculate SOFR, or timing related to the publication of SOFR. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SOFR (in which case a fallback method of determining the interest rate on the Notes will apply). The administrator has no obligation to consider the interests of Noteholders when calculating, adjusting, converting, revising or discontinuing SOFR.

RISKS RELATING TO RENMINBI DENOMINATED NOTES

A description of risks which may be relevant to an investor in Notes denominated in Renminbi ("**Renminbi Notes**") is set out below.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Notes.

Renminbi is not freely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC Government.

Although the People's Bank of China ("PBoC") has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC Government will liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC Government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBoC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Banks**") in a number of financial centres and cities, including but not limited to Hong Kong, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC, although PBoC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The PBoC has in recent years implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that

may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Notes unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Notes in that foreign currency will decline.

Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes.

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary or common safekeeper, as the case may be, for Clearstream Banking S.A. and Euroclear Bank SA/NV or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the Renminbi Notes are represented by global certificates lodged with a sub-custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations or (iv) by transfer through the Cross-Border Interbank Payment System in accordance with relevant rules and regulations, if so specified in the Pricing Supplement. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Gains on the transfer of the Renminbi Notes may become subject to income taxes under the PRC tax laws.

Under the *PRC Enterprise Income Tax Law*, the *PRC Individual Income Tax Law* and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. The *PRC Enterprise Income Tax Law* levies EIT at the rate of 20 per cent. of the PRC-sourced gains derived by such non-PRC resident enterprise from the transfer of Renminbi Notes but its implementation rules have reduced the EIT rate to 10 per cent. The *PRC Individual Income Tax Law* levies IIT at a rate of 20 per cent. of the PRC-sourced gains derived by such non-PRC resident individual Holder from the transfer of Renminbi Notes.

However, uncertainty remains as to whether the gain realised from the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders would be treated as income derived from sources within the PRC and thus become subject to EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the *PRC Enterprise Income Tax Law*, the *PRC Individual Income Tax Law* and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, Holders who are residents of Hong Kong, including enterprise Holders and individual Holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if enterprise or individual resident Holders which are non-PRC residents are required to pay PRC income tax on gains derived from the transfer of Renminbi Notes, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such non-PRC enterprise or individual Holders of Renminbi Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in Renminbi Notes may be materially and adversely affected.

RISKS RELATING TO THE MARKET FOR THE NOTES GENERALLY

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of the Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Issuer's financial condition. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application will be made for the Notes issued under the Programme to be listed on the SEHK or other stock exchanges, there is no assurance that such application will be accepted, that any particular Tranche of the Notes will be so listed or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of the Notes. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

If any Notes are assigned credit ratings, such ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will not be revised or withdrawn by the rating agencies in the future if, in their judgement, the circumstances so warrant. The Group has no obligation to inform holders of the Notes of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may adversely affect the market price of the Notes.

Bearer Notes where denominations involve integral multiples: definitive Bearer Notes.

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Bearer Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bearer Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of the Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If definitive Bearer Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

There may be less publicly available information about the Group than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the Group's financial statements are prepared and presented in accordance with HKFRS, which differs in certain respects from IFRS.

It may be difficult to effect service of process upon the Group or to enforce against it in the PRC and Hong Kong any judgments obtained from non-PRC or non-Hong Kong courts.

The Issuer is incorporated in Hong Kong. A substantial proportion of the Group's manufacturing assets are located within the PRC. It may not be possible for investors to effect service of process upon the Group inside the PRC or Hong Kong or to enforce against it in the PRC or Hong Kong any judgments obtained from non-PRC or non-Hong Kong courts. While United States court civil judgments for a monetary sum in respect of private law liabilities are, in principle, enforceable in Hong Kong if certain criteria are satisfied (relating to matters including jurisdiction, finality, due process and the absence of fraud), those criteria are often not satisfied and even where they are, arguable, satisfied, the procedure for demonstrating this often proves costly, time-consuming and uncertain. Where the United States court judgment is based on the civil liability provisions of the United States federal securities laws, the defendant will often have scope for raising a further objection to the effect that such liabilities are, in substance, public or penal in nature and, as such, unenforceable in Hong Kong.

RISKS RELATING TO FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that are the Group's management's present expectations of future events and are subject to certain factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to the Group's business discussed above, other factors could cause actual results to differ materially from those described in the various forward-looking statements contained in this Offering Circular. These factors include, but are not limited to, the following:

- general economic, business and political conditions;
- adverse trends in regulatory, legislative and judicial developments;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- changes in interest rates;
- declines in consumer confidence;
- changes in competitive conditions; and
- conditions in the financial markets.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, revenues could decrease, costs (including capital costs) could increase, investments could be delayed and anticipated improvements in performance might not be fully realized.

The Group cautions you not to place undue reliance on the forward-looking statements, which speak only as of the date of this Offering Circular. Except as required by law, the Group is not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements attributable, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to the Group or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

FORM OF THE NOTES

Bearer Notes

Each Series of the Notes to be issued in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Series of the Notes with a depository or a common depository for Euroclear as operator of the Euroclear System and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether the "C Rules" or the "D Rules" are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the C Rules nor the D Rules are applicable.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether rules in substantially the same form as United States Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**C Rules**") or rules in substantially the same form as United States Treasury Regulation §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) or are in registered form for U.S. federal income tax purposes, that neither the C Rules nor the D Rules are applicable. Notes issued in compliance with the D Rules must be initially issued in the form of a Temporary Global Note. Whilst any Bearer Note issued under the D Rules is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification generally to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the relevant Paying Agent (or in the case of Bearer Notes held through the CMU Service, received by the CMU Lodging and Paying Agent from CMU Members).

Bearer Notes issued in compliance with the D Rules will be issued through the CMU Service only if the CMU Members and the CMU Lodging and Paying Agent have procedures in place for the certification of non-U.S. beneficial ownership as required under the D Rules.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of the Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, from the date (the "**Exchange Date**") which is 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note after the Exchange Date unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of Temporary Global Notes cannot be collected without such certification of non-U.S. beneficial ownership, as described above.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and
- (ii) in the case that the D Rules are applicable, receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership as described above,

within 7 days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of the Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the C Rules are applicable or that neither the C Rules nor the D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of the Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the D Rules are applicable, then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes on or after the Exchange Date for the relevant Tranche of the Notes upon, certification as to non-U.S. beneficial ownership as described above. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note and in the case where the D Rules are applicable, certification as to non-U.S. beneficial ownership, as described above, to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange. Any exchange shall be in the Specified Denominations.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of the Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be issued in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement; or
- (iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following event occurs:
 - (a) Euroclear or Clearstream, Luxembourg, the CMU Service or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
 - (b) any of the circumstances described in Condition 14 (Events of Default) occurs in respect of any Note of the relevant Tranche.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal

to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange. Any exchange shall be in the Specified Denominations.

Notes issued as Permanent Global Notes may not be issued using the D Rules.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Registered Notes

Each Tranche of the Notes in registered form ("**Registered Notes**") will be represented by either:

- (i) individual Note Certificates in registered form ("**Individual Note Certificates**"); or
- (ii) one or more unrestricted global note certificates ("**Global Note Certificate(s)**") in the case of Registered Notes sold outside the United States in reliance on Regulation S ("**Unrestricted Notes**"),

in each case as specified in the relevant Pricing Supplement.

Each Note represented by a Global Note Certificate will be registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg, a sub-custodian for the CMU Service and/or any other relevant clearing system, and the relevant Global Note Certificate will be deposited on or about the issue date with the common depository or sub-custodian.

If the relevant Pricing Supplement specifies the form of the Notes as being "Individual Note Certificates", then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Note Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of the Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more Global Note Certificates, each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement; or
- (iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then:
 - (a) in the case of any Global Note Certificate held by or on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other clearing system, if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous

period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and

- (b) in any case, if any of the circumstances described in Condition 14 (Events of Default) occurs in respect of any Note of the relevant Tranche.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding).

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of the Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the Issuer for refinancing existing indebtedness and for general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. Introduction

- (a) **Programme:** Techtronic Industries Company Limited (創科實業有限公司) (the "**Issuer**") has established a Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.\$500,000,000 in aggregate principal amount of notes (the "**Notes**").
- (b) **Pricing Supplement:** Notes issued under the Programme are issued in series (each, a "**Series**") and each Series may comprise one or more tranches (each, a "**Tranche**") of Notes. The terms and conditions applicable to any particular Tranche of Notes are set out in the relevant pricing supplement (the "**Pricing Supplement**") which supplements, amends and/or replaces these terms and conditions (the "**Conditions**"). In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.
- (c) **Trust Deed:** The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated 5 June 2017 as amended and restated by an amended and restated trust deed dated 21 May 2021 (as amended and/or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citicorp International Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).
- (d) **Agency Agreement:** The Notes are the subject of an issue and paying agency agreement dated 9 June 2015 as amended and restated by an amended and restated issue and paying agency agreement dated 5 June 2017 (as amended and/or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as principal paying agent and transfer agent (the "**Principal Paying Agent**" and the "**Transfer Agent**" respectively, which expression includes any successor principal paying agent and successor or additional transfer agent appointed from time to time in connection with the Notes), Citigroup Global Markets Deutschland AG (now known as Citigroup Global Markets Europe AG) as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citicorp International Limited as CMU lodging and paying agent (the "**CMU Lodging and Paying Agent**", which expression includes any successor CMU lodging and paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent and the CMU Lodging and Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. In these Conditions references to the "**Agents**" are to the Principal Paying Agent, the CMU Lodging and Paying Agent, the Registrar, the Paying Agents and the Transfer Agent and any reference to an "**Agent**" is to any one of them.
- (e) **The Notes:** The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Bearer Notes will not be sold in the United States or to U.S. persons. All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agent.
- (f) **Summaries:** Certain provisions of these Conditions are summaries of the Trust Deed (as defined below) and the Agency Agreement and are subject to their detailed provisions. Noteholders and the holders of

the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours with reasonable prior written notification at the Specified Offices of the Paying Agents.

2. Interpretation

(a) **Definitions:** In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**", means (other than in respect of Notes for which the Reference Rate is specified as SOFR in the relevant Pricing Supplement) any day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in London and Hong Kong and, other than in Condition 3(g) (*Registration and delivery of Note Certificates*) and Condition 14 (*Events of Default*):

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (ii) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and
- (iii) for the purposes of Notes denominated in Renminbi only, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day save in respect of Notes for which the Reference Rate is SOFR, for which the final Interest Payment Date will not be postponed and interest on that payment will not accrue during the period from and after the scheduled final Interest Payment Date;

- (iii) **"Preceding Business Day Convention"** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) **"FRN Convention", "Floating Rate Convention" or "Eurodollar Convention"** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred *provided*, however, that:
 - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) **"No Adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"Calculation Agent" means the Principal Paying Agent or such other Person, in each case as specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"Calculation Amount" has the meaning given in the relevant Pricing Supplement;

"CMU Service" means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

"Code" means the US Internal Revenue Code of 1986;

"Coupon Sheet" means, in respect of a Note, a coupon sheet relating to the Note;

"Day Count Fraction" means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (i) if **"Actual/Actual (ICMA)"** is so specified, means:
 - (A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) where the Calculation Period is longer than one Regular Period, the sum of:
 - (1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of

days in such Regular Period and (b) the number of Regular Periods in any year; and

- (2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;
- (ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and "**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and "D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

- (vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**Extraordinary Resolution**" has the meaning ascribed to it in the Trust Deed;

"Final Redemption Amount" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"First Interest Payment Date" means the date specified in the relevant Pricing Supplement;

"Fixed Coupon Amount" has the meaning given in the relevant Pricing Supplement;

"Group" means the Issuer and its Subsidiaries, taken as a whole;

"Guarantee" means, in relation to any indebtedness of any Person, any obligation of another Person to pay such indebtedness including (without limitation):

- (a) any obligation to purchase such indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such indebtedness; and
- (d) any other agreement to be responsible for such indebtedness;

"Holder", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Title to Registered Notes*);

"Hong Kong" means the Hong Kong Special Administrative Region of the PRC;

"Interest Amount" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"Interest Commencement Date" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"Interest Determination Date" has the meaning given in the relevant Pricing Supplement;

"Interest Payment Date" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"Interest Period" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"ISDA Definitions" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)

as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the relevant Pricing Supplement;

"**Issue Date**" has the meaning given in the relevant Pricing Supplement;

"**Margin**" has the meaning given in the relevant Pricing Supplement;

"**Material Subsidiaries**" means a Subsidiary of the Issuer whose revenue (calculated on the same basis as the revenue of the Group after intercompany eliminations) represents 15 per cent. or more of the revenue, of the Group calculated on a consolidated basis after intercompany eliminations and a report by the Issuer's auditors that a Subsidiary is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Trustee and the Noteholders;

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Title to Registered Notes*);

"**Officer**" means the chairman of the board of directors, the chief executive officer, the president, the chief financial officer, any vice president or director, the treasurer or the secretary of the Issuer, or a person duly authorised to act on behalf of the Issuer;

"**Officers' Certificate**" means a certificate signed by two Officers of the Issuer, one of whom is the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer, or by an Officer and either an assistant treasurer or an assistant secretary of the Issuer;

"**Opinion of Counsel**" means an opinion (in form and substance reasonably acceptable to the Trustee) of independent legal advisers of recognised international standing that is reasonably acceptable to the Trustee;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Pricing Supplement;

"**Payment Business Day**" means:

- (i) if the currency of payment is euro, any day which is:
 - (A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and (b) a day on which commercial banks are open for general business

(including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

- (B) in the case of payment by transfer to an account, (a) a TARGET Settlement Day and (b) a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (ii) if the currency of payment is not euro, any day which is:
- (A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and
 - (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"PRC" means, for the purpose of these Conditions, the People's Republic of China excluding Hong Kong, Macau and Taiwan;

"Principal Financial Centre" means, in relation to any currency, the principal financial centre for that currency *provided*, however, *that*:

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;
- (ii) in relation to Australian dollars, it means Sydney and in relation to New Zealand dollars, it means Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent or, in each case, the principal financial centre as is specified in the applicable Pricing Supplement; and
- (iii) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

"Put Option Notice" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Put Option Receipt" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Rate of Interest" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"Redemption Amount" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"Reference Banks" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Issuer in the market that is most closely connected with the Reference Rate and notified in writing to the Trustee and the Calculation Agent;

"Reference Price" has the meaning given in the relevant Pricing Supplement;

"Reference Rate" means EURIBOR, LIBOR, SOFR or any other applicable benchmarks as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement. Other than in the case of U.S. dollar-denominated floating rate Notes or a Note for which the "Reference Rate" is specified in the relevant Pricing Supplement as being SOFR, the term Reference Rate shall, following the occurrence of a Benchmark Event under Condition 7(j) (*Benchmark Discontinuation*), include any Successor Rate or Alternative Rate and shall, if a Benchmark Event should occur subsequently in respect of any such Successor Rate or Alternative Rate, also include any further Successor Rate or further Alternative Rate;

"Regular Period" means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"Relevant Date" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"Relevant Financial Centre" has the meaning given in the relevant Pricing Supplement;

"Relevant Indebtedness" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock, certificates or other securities or similar instruments which for the time being are, or are capable of being or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

"Relevant Screen Page" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"Relevant Time" has the meaning given in the relevant Pricing Supplement;

"Reserved Matter" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"Specified Currency" has the meaning given in the relevant Pricing Supplement;

"Specified Denomination(s)" has the meaning given in the relevant Pricing Supplement;

"Specified Office" has the meaning given in the Agency Agreement;

"Specified Period" has the meaning given in the relevant Pricing Supplement;

"Subsidiary" means, in relation to any company or corporation, a company or corporation:

- (a) which is controlled, directly or indirectly, by the first mentioned company or corporation;
- (b) more than half the issued equity share capital of which is beneficially owned, directly or indirectly, by the first mentioned company or corporation;
- (c) the financial statements of which are, in accordance with applicable law and generally accepted accounting standards, required to be consolidated with that first mentioned company or corporation; or
- (d) which is a Subsidiary of another Subsidiary of the first mentioned company or corporation,

and for this purpose, a company or corporation shall be treated as being controlled by another if that other company or corporation is able to direct its affairs and/or to control the composition of its board of directors or equivalent body;

"Talon" means a talon for further Coupons;

"TARGET Settlement Day" means any day on which TARGET2 is open for the settlement of payments in euro;

"TARGET2" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"Treaty" means the Treaty establishing the European Communities, as amended; and

"Zero Coupon Note" means a Note specified as such in the relevant Pricing Supplement.

- (b) **Interpretation:** In these Conditions:
- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
 - (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
 - (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
 - (iv) any reference to principal shall be deemed to include the Redemption Amount, any Additional Amounts (as defined in Condition 13 (*Taxation*)), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
 - (v) any reference to interest shall be deemed to include any Additional Amounts and any other amount in the nature of interest payable pursuant to these Conditions;
 - (vi) references to Notes being "**outstanding**" shall be construed in accordance with the Trust Deed;
 - (vii) if an expression is stated in Condition 2(a) (*Interpretation—Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Notes; and
 - (viii) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form, Denomination, Title and Transfer**

- (a) **Bearer Notes:** Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

Bearer Notes issued in compliance with United States Treasury Regulation § 1.163-5(c)(2)(i)(D) or any successor provision for purposes of Section 4701 of the US Internal Revenue Code ("TEFRA D") must be initially represented by a Temporary Global Note exchangeable for interests in a Permanent Global Note or definitive Bearer Notes upon certification of non-U.S. beneficial ownership in accordance with the TEFRA D rules.

- (b) **Title to Bearer Notes:** Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.
- (c) **Registered Notes:** Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement. Registered Notes are not exchangeable to Bearer Notes or vice versa.
- (d) **Title to Registered Notes:** The relevant Registrar will maintain a register outside the United Kingdom in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note

Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**"). In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

- (e) **Ownership:** The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.
- (f) **Transfers of Registered Notes:** Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) **Registration and delivery of Note Certificates:** Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (h) **No charge:** The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the relevant Registrar or any Transfer Agent but against such indemnity by the transferor as such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) **Closed periods:** Noteholders may not require transfers to be registered:
 - (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;
 - (ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 10(b) (*Redemption for tax reasons*) or Condition 10(c) (*Redemption at the option of the Issuer*); and
 - (iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 10(e) (*Redemption at the option of the Noteholders*).

- (j) **Regulations concerning transfers and registration:** All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed by the relevant Registrar to any Noteholder (at the cost and expense of such Noteholder) who requests in writing a copy of such regulations.

4. Status

The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall, and shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or guarantee of Relevant Indebtedness without (i) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

6. Fixed Rate Note Provisions

- (a) **Application:** This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date up to and including the Maturity Date, subject as provided in Conditions 11 (*Payments — Bearer Notes*) and 12 (*Payments — Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) **Fixed Coupon Amount:** Unless specified in the relevant Pricing Supplement, the amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) **Calculation of interest amount:** The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any

currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note Provisions

- (a) **Application:** This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 11 (*Payments — Bearer Notes*) and 12 (*Payments — Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) **Screen Rate Determination:** If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be (other than in respect of Notes for which SOFR is specified as the Reference Rate in the relevant Pricing Supplement) determined by the Calculation Agent on the following basis:
- (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
 - (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
 - (A) one rate shall be determined as if the relevant period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the relevant period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;
 - (iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations;

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Issuer, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided*, however, *that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period; and

(vi) notwithstanding the foregoing, if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:

(A) the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question as determined by the Calculation Agent.

(B) and the Relevant Screen Page is not available or, if sub-paragraph (v)(A)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if subparagraph (v)(A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request the principal Hong Kong office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with

such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent. If all four Reference Banks provide the Calculation Agent with such offered quotations, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations;

- (C) if subparagraph (v)(B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in CNH for a period equal to that which would have been used for the Reference Rate by leading banks in the Hong Kong inter-bank market. If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest shall be (i) the offered rate for deposits in CNH for a period equal to that which would have been used for the Reference Rate by a bank, or (ii) the arithmetic mean of the offered rates for deposits in CNH for a period equal to that which would have been used for the Reference Rate by two or more banks, in each case as informed to the Calculation Agent by such bank or banks (which shall be such bank or banks being in the opinion of the Issuer suitable for such purpose) as being quoted by each such bank at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date to leading banks in the Hong Kong inter-bank market, *provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period); and
- (D) in no event shall the Rate of Interest be less than zero per cent. per annum.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (d) **ISDA Determination:** If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;

- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement; and
- (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
 - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (e) **Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) **Calculation of Interest Amount:** The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (g) **Calculation of other amounts:** If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.
- (h) **Publication:** The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee and Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount

(on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period, unless the Trustee requires otherwise. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

- (i) **Notifications etc:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

- (j) **Benchmark Discontinuation:**

This Condition 7(j) (*Benchmark Discontinuation*) shall not apply to Notes for which the Reference Rate is specified in the relevant Pricing Supplement as being "SOFR", in respect of which the provisions of Condition 7A (*Interest - Floating Rate Notes referencing SOFR*) and benchmark discontinuation provisions of Condition 7A(c) will apply.

If a Benchmark Event occurs in relation to the Reference Rate when the Rate of Interest (or any component part thereof) for any Interest Period remains to be determined by reference to such Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with this Condition 7(j)) and, in either case, an Adjustment Spread, if any (in accordance with Condition 7(j)(cc)) and any Benchmark Amendments (in accordance with Condition 7(j)(dd)).

In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Agents or the Noteholders for any determination made by it pursuant to this Condition 7(j) and the Trustee will not be liable for any loss, liability, cost, charge or expense which may arise as a result thereof.

- (aa) If (i) the Issuer is unable to appoint an Independent Adviser or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 7(j) prior to the relevant Interest Determination Date, the Reference Rate applicable to the immediate following Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Interest Period. For the avoidance of doubt, any adjustment pursuant to this Condition 7(j)(aa) (*Benchmark Discontinuation*) shall apply to the immediately following Interest Period only. Any subsequent Interest Period may be subject to the subsequent operation of this Condition 7(j).
- (bb) If the Independent Adviser determines in its discretion that:
 - (A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 7(j)(cc)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 7(j) in the event of a further Benchmark Event affecting the Successor Rate; or
 - (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 7(j)(cc)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the

subsequent operation of this Condition 7(j) in the event of a further Benchmark Event affecting the Alternative Rate.

- (cc) If the Independent Adviser determines in its discretion (A) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall apply to the Successor Rate or the Alternative Rate (as the case may be).
- (dd) If any relevant Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 7(j) and the Independent Adviser determines in its discretion (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, following consultation with the Calculation Agent (or the person specified in the applicable Pricing Supplement as the party responsible for calculating the Rate of Interest and the Interest Amount(s)), subject to giving notice thereof in accordance with Condition 7(j)(ee), without any requirement for the consent or approval of relevant Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice (and for the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, consent to and effect such consequential amendments to the Trust Deed and these Conditions as may be required in order to give effect to this Condition 7(j)).
- (ee) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 7(j) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 21 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.
- (ff) No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer:
 - (A) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Rate and, (z) where applicable, any relevant Adjustment Spread and/or the specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 7(j); and
 - (B) certifying that the relevant Benchmark Amendments are necessary to ensure the proper operation of such relevant Successor Rate, Alternative Rate and/or Adjustment Spread.
- (gg) The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of such Successor Rate or Alternative Rate and such Adjustment Spread (if any) and such Benchmark Amendments (if any)) be binding on the Issuer, the Trustee and Principal Paying Agent, the Calculation Agent, the other Paying Agents and the Noteholders.
- (hh) As used in this Condition 7(j):

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is required to be applied to the relevant Successor Rate or the relevant Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (A) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

- (B) (if no such recommendation has been made, or in the case of an Alternative Rate), the Independent Adviser, determines is customarily applied to the relevant Successor Rate or Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Reference Rate; or
- (C) (if no such recommendation has been made, or in the case of an Alternative Rate) the Independent Adviser determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or
- (D) (if the Independent Adviser determines that no such industry standard is recognised or acknowledged) the Independent Adviser determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Rate (as the case may be).

"Alternative Rate" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with this Condition 7(i) is customary in market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) in the Specified Currency.

"Benchmark Event" means:

- (A) the relevant Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (B) a public statement by the administrator of the relevant Reference Rate that (in circumstances where no successor administrator has been or will be appointed that will continue publication of such Reference Rate) it has ceased publishing such Reference Rate permanently or indefinitely or that it will cease to do so by a specified future date (the "**Specified Future Date**"); or
- (C) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will, by a specified future date (the "**Specified Future Date**"), be permanently or indefinitely discontinued; or
- (D) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that such Reference Rate will, by a specified future date (the "**Specified Future Date**"), be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Notes; or
- (E) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that, in the view of such supervisor, (i) such Reference Rate is no longer representative of an underlying market or (ii) the methodology to calculate such Reference Rate has materially changed; or
- (F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (as applicable) (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable).

Notwithstanding the sub-paragraphs above, where the relevant Benchmark Event is a public statement within sub-paragraphs (B), (C) or (D) above and the Specified Future Date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed occur until the date falling six months prior to such Specified Future Date.

"Benchmark Amendments" has the meaning given to it in Condition 7(i)(dd).

"Independent Adviser" means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense under Condition 7(i).

"Relevant Nominating Body" means, in respect of a benchmark or screen rate (as applicable):

- (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"Successor Rate" means a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

7A. Interest – Floating Rate Notes Referencing SOFR

- (a) This Condition 7A is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and the "Reference Rate" is specified in the relevant Pricing Supplement as being "SOFR".
- (b) Where "SOFR" is specified as the Reference Rate in the Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be the relevant Benchmark plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent. In no event will the Rate of Interest for any Interest Period be less than the Minimum Rate of Interest.

For the purposes of this Condition 7A(b):

"Benchmark" means (x) Simple SOFR or (y) Compounded SOFR, which is a compounded average of daily SOFR, as determined for each Interest Period in accordance with the specific formula and other provisions set out in this Condition 7A. (*Interest – Floating Rate Notes referencing SOFR*).

Daily SOFR rates will not be published in respect of any day that is not a U.S. Government Securities Business Day, such as a Saturday, Sunday or holiday. For this reason, in determining Compounded SOFR in accordance with the specific formula and other provisions set forth herein, the daily SOFR rate for any U.S. Government Securities Business Day that immediately precedes one or more days that are not U.S. Government Securities Business Days in the Observation Period will be multiplied by the number of calendar days from and including such U.S. Government Securities Business Day to, but excluding, the following U.S. Government Securities Business Day.

If the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of Compounded SOFR (or the daily SOFR used in the calculation hereof) prior to the relevant SOFR Determination Time, then the provisions under Condition 7A(c) below will apply.

"Interest Period" means each period from, and including, an Interest Payment Date (or, in the case of the first Interest Period, the Interest Commencement Date) to, but excluding, the next Interest Payment Date (or, in the case of the final Interest Period, the Maturity Date or, if the Issuer elects to redeem the Notes on any earlier redemption date, the relevant redemption date);

"Interest Payment Determination Dates" means the date falling "p" U.S. Government Securities Business Days before each Interest Payment Date where "p" has the value ascribed to it in the relevant Pricing Supplement;

"U.S. Government Securities Business Day" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;

"Business Day" means any weekday that is a U.S. Government Securities Business Day and is not a legal holiday in New York and each (if any) Additional Business Centre(s) and is not a date on which banking institutions in those cities are authorised or required by law or regulation to be closed;

"Observation Period" in respect of each Interest Period means the period from, and including, the date falling "p" U.S. Government Securities Business Days preceding the first date in such Interest Period to, but excluding, the date falling "p" U.S. Government Securities Business Days preceding the Interest Payment Date for such Interest Period;

"SOFR" with respect to any U.S. Government Securities Business Day, means:

- (i) the Secured Overnight Financing Rate published for such U.S. Government Securities Business Day as such rate appears on the SOFR Administrator's Website at 3:00 p.m. (New York time) on the immediately following U.S. Government Securities Business Day (the **"SOFR Determination Time"**); or
- (ii) if the rate specified in (i) above does not so appear, the Secured Overnight Financing Rate as published in respect of the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the SOFR Administrator's Website;

"SOFR Administrator" means the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate);

"SOFR Administrator's Website" means the website of the Federal Reserve Bank of New York, or any successor source; and

"Compounded SOFR" with respect to any Interest Period, means the rate of return of a daily compound interest investment computed in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards to 0.00001):

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{\text{SOFR}_i \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

where:

"d_o", for any Observation Period, is the number of U.S. Government Securities Business Days in the relevant Observation Period;

"i" is a series of whole numbers from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from, and including, the first U.S. Government Securities Business Day in the relevant Observation Period;

"**SOFR_i**," for any U.S. Government Securities Business Day "i" in the relevant Observation Period, is equal to SOFR in respect of that day "i";

"**ni**," for any U.S. Government Securities Business Day "i" in the relevant Observation Period, is the number of calendar days from, and including, such U.S. Government Securities Business Day "i" to, but excluding, the following U.S. Government Securities Business Day ("**i+1**"); and

"**d**" is the number of calendar days in the relevant Observation Period.

"**Simple SOFR**" with respect to any Interest Period, means the arithmetic mean of the SOFR reference rates for each day during such Interest Period, as determined by the Calculation Agent.

- (c) If the Issuer determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. In connection with the implementation of a Benchmark Replacement, the Issuer will have the right to make Benchmark Replacement Conforming Changes from time to time, without any requirement for the consent or approval of the Noteholders.

Any determination, decision or election that may be made by the Issuer pursuant to this section, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection:

- (i) will be conclusive and binding absent manifest error;
- (ii) will be made in the sole discretion of the Issuer; and
- (iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

For the purposes of this Condition 7A(c):

"**Benchmark**" means, initially, Simple SOFR or Compounded SOFR (as the case may be), as such terms are defined above; provided that if the Issuer determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to Simple SOFR or Compounded SOFR (as the case may be) (or the published daily SOFR used in the calculation thereof) or the then-current Benchmark, then "Benchmark" shall mean the applicable Benchmark Replacement.

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

- (i) the sum of: (A) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark and (B) the Benchmark Replacement Adjustment;
- (ii) the sum of: (A) the ISDA Fallback Rate and (B) the Benchmark Replacement Adjustment; or
- (iii) the sum of: (A) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-

denominated floating rate notes at such time and (B) the Benchmark Replacement Adjustment;

"Benchmark Replacement Adjustment" means the first alternative set forth in the order below that can be determined by the issuer or its designee as of the Benchmark Replacement Date:

- (i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
- (ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or
- (iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary);

"Benchmark Replacement Date" means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

- (i) in the case of clause (i) or (ii) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or
- (ii) in the case of clause (iii) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

- (i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

- (ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"ISDA Definitions" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or (if specified in the relevant Pricing Supplement) the 2021 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time or any successor definitional booklet for interest rate derivatives published from time to time;

"ISDA Fallback Adjustment" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"ISDA Fallback Rate" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"Reference Time" with respect to any determination of the Benchmark means (i) if the Benchmark is Compounded SOFR, the SOFR Determination Time, and (ii) if the Benchmark is not Compounded SOFR, the time determined by the Issuer after giving effect to the Benchmark Replacement Conforming Changes;

"Relevant Governmental Body" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"Unadjusted Benchmark Replacement" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

- (d) Any Benchmark Replacement, Benchmark Replacement Adjustment and the specific terms of any Benchmark Replacement Conforming Changes, determined under this Condition 7A will be notified promptly by the Issuer to the Fiscal Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 21 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date on which such changes take effect.

No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised signatories of the Issuer:

- (A) confirming (x) that a Benchmark Transition Event has occurred, (y) the relevant Benchmark Replacement and, (z) where applicable, any Benchmark Replacement Adjustment and/or the

specific terms of any relevant Benchmark Replacement Conforming Changes, in each case as determined in accordance with the provisions of this Condition 7(B); and

- (B) certifying that the relevant Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of such Benchmark Replacement and/or Benchmark Replacement Adjustment.

7B. Interest – Floating Rate Notes Referencing SOFR Compounded Index

Where "Index Determination" is specified in the Pricing Supplement as being applicable, the Rate of Interest for each Interest Period will be the compounded daily reference rate for the relevant Interest Period, calculated in accordance with the following formula:

$$\frac{(SOFR\ Compounded\ Index\ End}{SOFR\ Compounded\ Index\ Start} - 1) \times \frac{Numerator}{d}$$

to the Relevant Decimal Place, plus or minus the Margin (if any), all as determined and calculated by the Fiscal Agent or the Calculation Agent, as applicable, where:

"**SOFR Compounded Index**" means the Compounded Daily SOFR rate as published at 15:00 (New York time) by Federal Reserve Bank of New York (or a successor administrator of SOFR) on the website of the Federal Reserve Bank of New York, or any successor source;

"**End**" means the SOFR Compounded Index value on the day falling the Relevant Number of Index Days prior to the Interest Payment Date for such Interest Period, or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period);

"**Start**" means the SOFR Compounded Index value on the day falling the Relevant Number of Index Days prior to the first day of the relevant Interest Period;

"**d**" is the number of calendar days from (and including) the day on which the SOFR Compounded Index Start is determined to (but excluding) the day on which the SOFR Compounded Index End is determined;

"**Numerator**" means 360, or as otherwise specified in the Pricing Supplement;

"**Relevant Decimal Place**" shall, unless otherwise specified in the Pricing Supplement, be the seventh decimal place, in each case rounded up or down, if necessary (with 0.000005 or, as the case may be, 0.00000005 being rounded upwards); and

"**Relevant Number**" is as specified in the applicable Pricing Supplement, but, unless otherwise specified, shall be two.

"**Index Days**" means U.S. Government Securities Business Days;

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

Provided that a Benchmark Event has not occurred in respect of the SOFR Compounded Index, if, with respect to any Interest Period, the relevant rate is not published for the SOFR Compounded Index either on the relevant Start or End date, then the Calculation Agent shall calculate the rate of interest for that

Interest Period as if Index Determination was not specified in the applicable Pricing Supplement and as if Compounded Daily SOFR (as defined in Condition 7A) had been specified instead in the Pricing Supplement and where "p" for the purposes of that definition in Condition 7A shall be deemed to be the same as the Relevant Number specified in the Pricing Supplement. For the avoidance of doubt, if a Benchmark Event has occurred in respect of the SOFR Compounded Index, the provisions of Condition 7(j) (*Benchmark Discontinuation*) shall apply.

8. Zero Coupon Note Provisions

- (a) **Application:** This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) **Late payment on Zero Coupon Notes:** If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Dual Currency Note Provisions

- (a) **Application:** This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) **Rate of Interest:** If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. Redemption and Purchase

- (a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, each Note will be redeemed at its Final Redemption Amount on the Maturity Date, subject as provided in Conditions 11 (*Payments — Bearer Notes*) and 12 (*Payments — Registered Notes*).
- (b) **Redemption for tax reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part:
 - (i) at any time (if the Floating Rate Note Provisions are not specified in the relevant Pricing Supplement as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if immediately before giving such notice, (1) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 13 (*Taxation*) as a result of

any change in, or amendment to, the laws or regulations of the Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided*, however, that no such notice of redemption shall be given earlier than:

- (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee (X) an Officers' Certificate of the Issuer stating that the circumstances in (1) and (2) prevail and setting out the details of such circumstances and (Y) an Opinion of Counsel to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

The Trustee shall be entitled without further enquiry to accept and rely upon such Officers' Certificate and Opinion of Counsel as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Noteholders, Receipts and Coupons.

- (c) ***Redemption at the option of the Issuer:*** If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued and unpaid interest (if any) to such date).
- (d) ***Partial redemption:*** If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) ***Redemption at the option of the Noteholders:*** If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such

Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; *provided*, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10 (e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes. For as long as Bearer Notes issued under TEFRA D are represented by a temporary Global Note, a holder's Put Option will be available only to the extent that the certifications required under TEFRA D with respect to non-U.S. beneficial ownership has been received by the Issuer or Agent.

- (f) **No other redemption:** The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs 10(a) to 10(e) above.
- (g) **Early redemption of Zero Coupon Notes:** Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

- (h) **Purchase:** The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith.
- (i) **Cancellation:** All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. Payments—Bearer Notes

- (a) **Principal:** Payments of principal and premium shall be made only against presentation and (*provided that* payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained

by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

- (b) **Interest:** Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) **Payments in New York City:** Payments of principal, interest or premium may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the principal, premium and interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such principal, premium and interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) **Payments subject to fiscal laws:** All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but (except as described in (ii) below) subject to the provisions of Condition 13 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any intergovernmental agreement with respect thereto, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Deductions for unmatured Coupons:** If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be,

the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons.

- (f) ***Unmatured Coupons void:*** If the relevant Pricing Supplement specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption and Purchase — Redemption for tax reasons*), Condition 10(c) (*Redemption and Purchase — Redemption at the option of the Issuer*), Condition 10(e) (*Redemption and Purchase — Redemption at the option of the Noteholders*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) ***Payments on business days:*** If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) ***Payments other than in respect of matured Coupons:*** Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) ***Partial payments:*** If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) ***Exchange of Talons:*** On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments—Registered Notes

- (a) ***Principal:*** Payments of principal and premium shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) ***Interest:*** Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth

day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

- (c) **Payments subject to fiscal laws:** All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but (except as described in (ii) below) subject to the provisions of Condition 13 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any intergovernmental agreement with respect thereto or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) **Payments on business days:** Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal, premium and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.
- (e) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) **Record date:** Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

13. Taxation

- (a) All payments of principal, premium and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would

have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note or Coupon:

- (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its or a beneficial owner having or having had some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
 - (ii) held by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon (where presentation is required) to another Paying Agent; or
 - (iii) where the relevant Note or Coupon or Note Certificate is presented (where presentation is required) or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such Additional Amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or
 - (iv) where such withholding or deduction is imposed on a payment received by or on behalf of a holder of a Note, Receipt or Coupon who would be able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim; or
 - (v) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge; or
 - (vi) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Section 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any intergovernmental agreement with respect thereto or any law implementing an intergovernmental approach thereto.
- (b) If the Issuer or a successor is organised or becomes at any time tax resident in any jurisdiction other than Hong Kong, references in these Conditions to Hong Kong shall be construed as references to Hong Kong and/or such other jurisdiction.

14. Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction by the Noteholders), give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Termination Amount together (if applicable) with accrued interest (if any) without further action or formality:

- (a) **Non payment:** the Issuer (i) fails to pay any amount of principal or interest in respect of the Notes within five (5) Business Days of the due date of payment thereof;
- (b) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Agency Agreement or Trust Deed and such default

remains unremedied for thirty (30) days after written notice thereof has been delivered to the Issuer by the Trustee; or

(c) **Cross default of Issuer or Subsidiary:**

- (i) any indebtedness of the Issuer or any of its Material Subsidiaries for borrowed money is not paid when due or (as the case may be) within any originally applicable grace period;
- (ii) any such indebtedness for borrowed money becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary; or
- (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any indebtedness for borrowed money;

provided that the amount of indebtedness for borrowed money referred to in sub paragraph (i) and/or sub paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub paragraph (iii) above individually or in the aggregate exceeds U.S.\$30,000,000 (or its equivalent in any other currency or currencies on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which a calculation is made under this Condition 14(c));

- (d) **Unsatisfied judgment:** one or more final and non-appealable judgment(s) or order(s) for payment is rendered against the Issuer or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of thirty (30) days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) **Security enforced, appointment of officer:** (i) a secured party takes possession, or (ii) a receiver, manager, administrator, liquidator or other similar officer is appointed (or application for any such appointment is made) in relation to the Issuer, any Material Subsidiary or the whole or any material part of the undertaking, assets or revenues of the Issuer or any Material Subsidiary and, in the case of (ii), such appointment is not discharged within thirty (30) days; or
- (f) **Insolvency, etc:** (i) the Issuer or any Material Subsidiary becomes insolvent or is unable to pay its debts as they fall due, or (ii) the Issuer or any Material Subsidiary takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it; or
- (g) **Winding up, etc:** an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any Material Subsidiary (otherwise than, in the case of a Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent) *provided that* this paragraph (g) shall not apply to the extent such order is frivolous or vexatious and is discharged, stayed or dismissed within thirty (30) days of commencement; or
- (h) **Expropriation:** the authority or ability of the Issuer to conduct its business is wholly or substantially curtailed by any seizure, expropriation, nationalisation, intervention, restriction or other action by or on behalf of any governmental, regulatory or other authority or other person in relation to the Issuer or any of its assets; or
- (i) **Analogous event:** any event occurs which under the laws of Hong Kong has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (h) (*Expropriation*) above; or
- (j) **Cessation of business:** the Issuer or any Material Subsidiary suspends or ceases to, or threatens to suspend or cease to, carry on all or substantially all of its business (otherwise than, in the case of a

Material Subsidiary of the Issuer only, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

- (k) **Authorisation and consents:** any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with its obligations under and in respect of the Notes and the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons and the Trust Deed admissible in evidence in the courts of Hong Kong and England and Wales is not taken, fulfilled or done; or
- (l) **Unlawfulness:** it is or becomes unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed.

15. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the relevant Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or pre-funded and/or provided with security to its satisfaction, as well as relieved from responsibility in certain circumstances and to be paid its fees, costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, registrar or calculation agent and additional or successor paying agents; *provided*, however, that:

- (i) the Issuer shall at all times maintain a principal paying agent and a registrar; and
- (ii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and
- (iii) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU Service; and
- (iv) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. Meetings of Noteholders; Modification and Waiver

- (a) ***Meetings of Noteholders:*** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or any modifications to the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing more than 75 per cent. or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders of not less than 90 per cent. of the aggregate principal amount outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) ***Modification and waiver:*** The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, but shall not be obliged to, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver or modification shall be binding on the Noteholders and unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

- (c) **Directions from Noteholders:** Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.
- (d) **Certificates and Reports:** The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

19. Enforcement

The Trustee may at any time, at its absolute discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (ii) it has been indemnified and/or pre-funded and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

20. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, and in accordance with the Trust Deed, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes; *provided that* in order for additional Registered Notes to be consolidated and form a single Series with outstanding Registered Notes of the relevant Series and in the case that the additional Registered Notes are issued as Restricted Notes, the additional Registered Notes must be

fungible with the outstanding Registered Notes of such Series for U.S. federal income tax purposes; and provided further that, in the case of Bearer Notes that are issued under the "TEFRA D" rules and are initially represented by interests in a Temporary Global Note exchangeable for interests in a Permanent Global Note or definitive Bearer Notes, such consolidation may occur only following certification of non-U.S. beneficial ownership and exchange of interests in the Temporary Global Note for interests in the Permanent Global Note or definitive Bearer Notes in accordance with the TEFRA D rules.

21. Notices

- (a) **Bearer Notes:** Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) **Registered Notes:** Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

22. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

23. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in

or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

24. **Governing Law and Jurisdiction**

- (a) **Governing law:** The Notes, the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.
- (b) **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of its nullity.
- (c) **Appropriate forum:** The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) **Rights of the Trustee and Noteholders to take proceedings outside England:** Condition 24(b) (*English courts*) is for the benefit of the Trustee and the Noteholders only. As a result, nothing in this Condition 24 prevents the Trustee or any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Trustee or Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) **Process agent:** The Issuer has irrevocably appointed Techtronic Industries (UK) Ltd. at its registered office located at 3 Globeside Business Park, Fieldhouse Lane, Marlow, Buckinghamshire, England, SL7 1HZ Attention: Corporate Secretary to receive service of process in any Proceedings in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall forthwith appoint a new agent for service of process in England and notify the Noteholders in accordance with Condition 21 (*Notices*) of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Series of the Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[PRIIPs REGULATION — PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[UK PRIIPs REGULATION — PROHIBITION OF SALES TO UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the [Directive (EU) 2016/97 (the "Insurance Distribution Directive")][Insurance Distribution Directive], where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by [Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**")][the PRIIPs Regulation] as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[MIFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[UK MiFIR product governance / Professional investors and ECPS only target market — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK**

MiFIR Product Governance Rules") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "SEHK") ("**Professional Investors**") only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the SEHK on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

[Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products"/[capital markets products other than "prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]

Pricing Supplement dated [●]

Techtronic Industries Company Limited (創科實業有限公司)

**Issue of [Aggregate Nominal Amount of Series] [Title of Notes] under the U.S.\$500,000,000
Medium Term Note Programme**

The document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated 21 May 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [and the supplemental Offering Circular dated [date]].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]

- | | |
|---|---|
| 1. Issuer: | Techtronic Industries Company Limited
(創科實業有限公司) |
| 2. [(i) Series Number:] | [●] |
| [(ii) Tranche Number:] | [●] |
| [(iii) Date on which the Notes become fungible:] | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on [[●]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 25 below [which is expected to occur on or about [●]].] |
| 3. Specified Currency or Currencies: | [●] |
| 4. Aggregate Nominal Amount: | [●] |
| [(i) [Series]: | [●] |
| [(ii) Tranche:] | [●] |
| 5. (i) Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| (ii) Net Proceeds | [●] [(Required only for listed issues)] |
| 6. (i) Specified Denominations ^{1, 2, 3} : | [●] |
| (ii) Calculation Amount: | [●] |
| 7. (i) Issue Date: | [●] |
| (ii) Interest Commencement Date: | [Specify/Issue Date/Not Applicable] |
| 8. Maturity Date: | [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant |

¹ Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

² If the specified denomination is expressed to be EUR50,000 (or EUR100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR100,000, and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. In relation to any issue of the Notes which are a "Global Note/Global Note Certificate exchangeable for Definitive Notes/Individual Note Certificates" in circumstances other than "in the limited circumstances specified in the Permanent Global Notes/Global Note Certificate", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

³ Notes to be listed on the SEHK are required to be traded with board lot size of at least HK\$500,000 (or equivalent in other currencies)

month and year]⁴[If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.]

9. Interest Basis: [[●] per cent. Fixed Rate] [[Specify reference rate] +/- [●] per cent. Floating Rate] [Zero Coupon] [Other (Specify)] (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par] [Dual Currency] [Partly Paid] [Other (Specify)]
11. Change of Interest or Redemption/ Payment Basis: [Specify details of any provision for convertibility of the Notes into another interest or redemption/payment basis]
12. Put/Call Options: [Put Option] [Call Option] [(further particulars specified below)]
13. Date [Board] approval for issuance of Notes obtained [●] (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)
14. Listing: [Hong Kong/Other (specify)/None] (For Notes to be listed on the SEHK, insert the expected effective listing date of the Notes)
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [●] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly/other (specify)] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount⁵
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest

⁴ Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

⁵ [or Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest RMB0.01 (RMB0.005 being rounded upwards) in the case of Renminbi-denominated Fixed Rate Notes and to the nearest HK\$0.01 (HK\$0.005 being rounded upwards) in the case of Hong Kong dollar denominated Fixed Rate Notes.]

		Payment Date falling [in/on] [●]
(v)	Day Count Fraction:	[Actual/Actual (ICMA) or Actual/Actual (ISDA) or Actual/365 (Fixed) or Actual/360 or 30/360 or 30E/360 or Eurobond Basis or 30E/360 (ISDA) or <i>[specify other]</i>]
(vi)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/ <i>give details</i>]
17.	Floating Rate Note Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(i)	Interest Period(s):	[●]
(ii)	Specified Period:	[●]
(iii)	Specified Interest Payment Dates:	[●] (<i>Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"</i>)
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[FRN Convention/Floating Rate Convention/Eurodollar Convention/Following Business Day Convention/Modified Following Business Day Convention/Modified Business Day Convention/Preceding Business Day Convention/ <i>other (give details)</i>]
(vi)	Additional Business Centre(s):	[Not Applicable/ <i>give details</i>]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ <i>other (give details)</i>]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Principal Paying Agent]):	[[<i>Name</i>] shall be the Calculation Agent (<i>no need to specify if the Principal Paying Agent is to perform this function</i>)]
(ix)	Screen Rate Determination:	
	• Reference Rate:	[For example, LIBOR, EURIBOR or CNH HIBOR or SOFR]
	• Index Determination	[Applicable/Not Applicable]
	• SOFR Compounded Index	[Applicable/Not Applicable]
	• Simple SOFR	[Applicable/Not Applicable]
	• Relevant Decimal Place	[Not Applicable/[●] (unless otherwise specified in the Pricing Supplement, be the seventh decimal place in the case of the SOFR Compounded Index)]
	• Relevant Number of Index Days	[Not Applicable/[●] (unless otherwise specified in the Pricing Supplement, shall be two in the case of the SOFR Compounded Index)]

	• Interest Determination Date(s):	[●]
	• Relevant Screen Page:	[For example, Reuters LIBOR 01/EURIBOR 01]
	• Relevant Time:	[For example, 11.00 a.m. London time/Brussels time]
	• Relevant Financial Centre:	[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]
	• Reference Banks:	[●]
(x)	ISDA Determination:	
	• Floating Rate Option:	[●]
	• Designated Maturity:	[●]
	• Reset Date:	[●]
	2021 ISDA Definitions	[Applicable/Not Applicable]
(xi)	Linear interpolation:	[Not Applicable/Applicable — the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
(xii)	Margin(s):	[+/-][●] per cent. per annum
(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
(xv)	Day Count Fraction:	[●]
(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Accrual Yield:	[●] per cent. per annum
(ii)	Reference Price:	[●]
(iii)	Day Count Fraction:	[Actual/Actual (ICMA) or Actual/Actual (ISDA) or Actual/365 (Fixed) or Actual/360 or 30/360 or 30E/360 or Eurobond Basis or 30E/360 (ISDA) or [specify other]
(iv)	Any other formula/basis of determining amount payable:	[Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(f)]
19.	Dual Currency Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Rate of Exchange/method of calculating Rate of Exchange:	[give details]
(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest	[●]

due:

- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
- (iv) Interest Determination Date(s): [●]
- (v) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

20. Call Option [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Optional Redemption Date(s) (Call): [●]
- (ii) Optional Redemption Amount (Call) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount [●] per Calculation Amount
- (iv) Notice period: [●]

21. Put Option [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Optional Redemption Date(s) (Put): [●]
- (ii) Optional Redemption Amount (Put) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) Notice period: [●]

22. Final Redemption Amount of each Note [●] per Calculation Amount

23. Early Redemption Amount (Tax)/Early Termination Amount [Not Applicable]

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): *(If each of the Early Redemption Amount (Tax) and the Early Termination Amount is the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)*

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of the Notes: **Bearer Notes:**⁶
[Temporary Global Note exchangeable for a Permanent Global Note on [●] days' notice/ in the limited circumstances specified in the Permanent

⁶ Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.

Global Note]⁷[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]⁸[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/in the limited circumstances specified in the Permanent Global Note]⁹

Registered Notes:

[Global Note Certificate exchangeable for Individual Note Certificates on [●] days, notice/in the limited circumstances described in the Global Note Certificate]

25. Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details.] *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraph 17(vi) relates]*
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]: [Not Applicable/give details]
28. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
29. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
30. Consolidation provisions: The provisions in Condition 20 (*Further Issues*) [annexed to this Pricing Supplement] apply]
31. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/give names]
(ii) Stabilisation Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name and address of Dealer: [Not Applicable/give name and address]

⁷ if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days' notice.

⁸ if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "[EUR50,000]/[EUR100,000] and integral multiples of [EUR1,000] in excess thereof up to and including [EUR99,000]/[EUR199,000]", the Temporary Global Note shall not be exchangeable on [●] days' notice.

⁹ if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days' notice.

34. Total commission and concession: [●] per cent. of the Aggregate Principal Amount
35. U.S. Selling Restrictions: Reg. S Category [1/2] (*In the case of Bearer Notes*) — [C RULES/ D RULES/TEFRA not applicable]¹⁰
36. Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)
37. Prohibition of Sales to UK Retail Investors [Applicable/Not Applicable]
If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.

38. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

39. ISIN Code: [●]
40. Common Code: [●]
41. Legal Entity Identifier: 549300HZW2SBE758OK89
42. CMU Instrument Number: [●]
43. Any clearing system(s) other than Euroclear/Clearstream, Luxembourg and the relevant identification number(s): [CMU Service/Not Applicable/give name(s) and number(s)]
44. Delivery: Delivery [against/free of] payment
45. Additional Paying Agent(s) (if any): [●]

GENERAL

46. [Ratings: The Notes to be issued have been rated:
[[●]: [●]];
[[●]: [●]]; [and]
(each a "Rating Agency").]

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[STABILISING

¹⁰ TEFRA not applicable may only be used for Registered Notes, or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU Service must be issued in compliance with the C Rules, unless at the time of issuance the CMU Service and the CMU Lodging and Paying Agent have procedures in place so as to enable compliance with the certification requirements under the D Rules.

In connection with this issue, [insert name of Stabilisation Manager] (the “**Stabilisation Manager**”) (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the SEHK of the Notes described herein pursuant to the U.S.\$500,000,000 Medium Term Note Programme of the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Techtronic Industries Company Limited (創科實業有限公司)

By:

Name:

Title:

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Series of the Notes represented by a Global Note, references in the Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service, will be that depositary, common depositary or, as the case may be, sub-custodian.

In relation to any Series of the Notes represented by one or more Global Note Certificates, references in the Conditions of the Notes to "Noteholder" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which in the case of any Global Note Certificate which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

If a Global Note or a Global Registered Note is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Registered Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU Service as entitled to receive payments in respect of the Notes represented by such Global Note or Global Registered Note and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU Service in respect of each amount so paid. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of the Notes represented by such Global Note or Global Registered Note must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Registered Note.

Transfers of Interests in Global Notes and Global Note Certificates

Transfers of interests in Global Notes and Global Note Certificates within Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Registrar, the Dealers or the Agents will have any responsibility or liability for any aspect of the records of any Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made

on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of the Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

On or after the issue date for any Series, transfers of the Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Registrar, the Dealers, the Trustee or the Agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of the Notes will not be eligible for clearing and settlement through such clearing systems.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: in the case of a Global Note or a Global Note Certificate, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "Record Date") where "Clearing System Business Day" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption at the option of the Noteholders*) the bearer of a Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of the Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 21 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 21 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's debt and capitalisation as of 31 December 2020:

This table should be read in conjunction with "Use of Proceeds", the "Summary Consolidated Financial and Other Data" and the consolidated financial information included elsewhere in this Offering Circular.

	As of 31 December 2020 <hr style="border-top: 1px solid black;"/> (U.S.\$ in millions)
Bank balances, deposit & cash	1,533.9 <hr style="border-top: 3px double black;"/>
Current liabilities:	
Discounted bills with recourse	1.4
Unsecured borrowings — due within one year	385.2
Less: bank advances from factored trade received without recourse in nature.....	(10.0) <hr style="border-top: 1px solid black;"/>
Non-current liabilities:	
Unsecured borrowings — due after one year	940.2 <hr style="border-top: 1px solid black;"/>
Total debt	1,316.8 <hr style="border-top: 3px double black;"/>
Capital and reserves	
Share capital	673.1
Reserves	3,229.9 <hr style="border-top: 1px solid black;"/>
Equity attributable to Owners of the Company	3,903.0
Non-controlling interests	(0.1) <hr style="border-top: 1px solid black;"/>
Total equity	3,902.9 <hr style="border-top: 1px solid black;"/>
Total capitalisation⁽¹⁾	5,219.7 <hr style="border-top: 3px double black;"/>

Except as otherwise disclosed above, there has been no material adverse change in the Group's consolidated capitalisation or indebtedness since 31 December 2020.

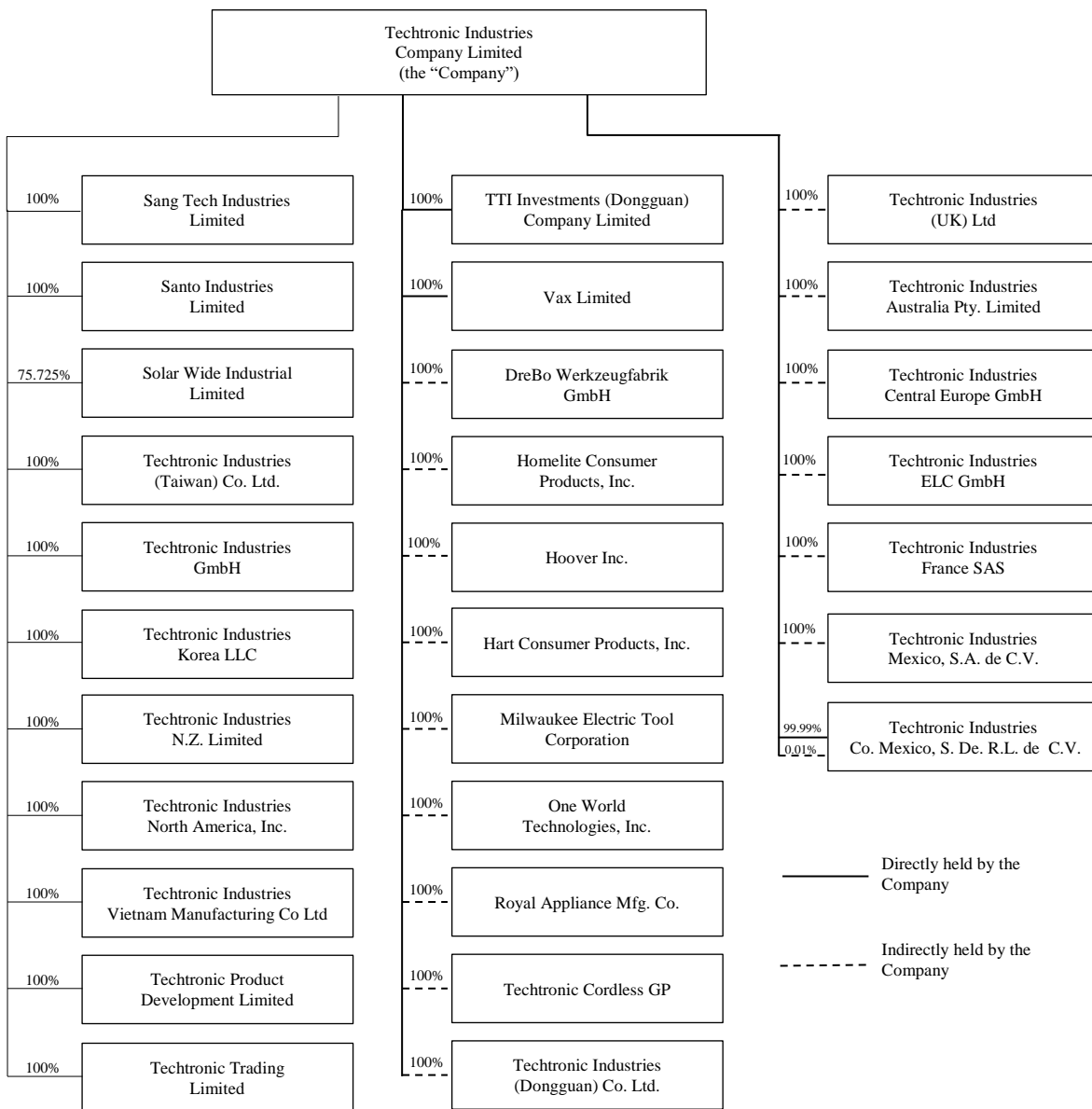
Note:

(1) Total capitalisation represents the sum of total debt and total equity.

CORPORATE STRUCTURE

Techtronic Industries Company Limited (創科實業有限公司) was incorporated in Hong Kong on 24 May 1985 with limited liability, with registered number 151812. The Company's head office, principal place of business and registered office in Hong Kong is 28F & 29F, Tower 2, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong. The Company's ordinary shares have been listed on the SEHK since 1990 and are currently listed under stock code 669. The Company has maintained an ADR Level 1 Program (TTNDY) with BNY Mellon since 1994. The Group's website is www.ttigroup.com. Information contained on the Group's website does not constitute part of this Offering Memorandum.

The following diagram illustrates the Group's principal corporate and share ownership structure as of 31 December 2020.



BUSINESS

The Company is a fast-growing world leader in Power Tools, Accessories, Hand Tools, Outdoor Power Equipment, and Floorcare for Do-It-Yourself (DIY), professional and industrial users in the home improvement, repair, maintenance, construction and infrastructure industries. TTI 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 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 2020 worldwide sales of US\$9.8 billion and over 48,000 employees.

The Group's operations are classified into two divisions: Power Equipment and Floorcare.

The following table sets forth the percentage contribution of each business division as part of the Group's consolidated revenue for the years ended 31 December 2018, 2019 and 2020.

	For the year ended 31 December		
	2018	2019	2020
Power Equipment	85.6%	88.6%	89.0%
Floorcare.....	14.4%	11.4%	11.0%

The following table sets forth the breakdown by geography of the Group's consolidated revenue for the years ended 31 December 2018, 2019 and 2020.

	For the year ended 31 December		
	2018	2019	2020
North America	76.5%	77.1%	78.0%
Europe	15.3%	15.1%	14.1%
Rest of the World	8.2%	7.8%	7.9%

Notes to trademarks:

All trademarks listed other than AEG, RYOBI, Dewalt, Shark, Bosch, Makita, Skil, Hitachi, Bissell, Eureka and Dyson are owned by the Group.

AEG is a registered trademark of AB Electrolux (publ.), and is used under license.

RYOBI is a registered trademark of Ryobi Limited, and is used under license.

DeWalt is a registered trademark of the Black & Decker Corporation

Shark is a registered trademark of Shark Industries AG.

Bosch is a registered trademark of Robert Bosch GmbH.

Makita is a registered trademark of Makita Corporation.

Skil is a registered trademark of Robert Bosch Tool Corporation.

Hitachi is a registered trademark of Hitachi, Ltd.

Bissell is a registered trademark of Bissell Homecare, Inc.

Eureka is a registered trademark of Midea America Corp.

Dyson is a registered trademark of Dyson Technology Limited.

Competitive Strengths

Strong portfolio of brands and innovative products

The Group has developed one of the most comprehensive portfolios of well-recognized branded products in the industry. The Group's portfolio serves a broad range of customers through different distribution channels. In each of its business segments, the Group follows a multi-brand strategy that allows it to distinguish itself among each of the Group's key customer groups of Do-It-Yourselfer (DIY), professional and industrial users. This strategy allows the Group to address all key segments and access new vertical areas of business within the target markets while maintaining strong brand identity, delivering brand expansions through related business and entry into new related product categories while avoiding brand dilution. The Group's management believes that its comprehensive brand portfolio is key to the success of its expansion into new and under-represented geographic markets and enhances the Group's competitiveness relative to its competitors.

With the successful integration of the VAX, RYOBI, HOMELITE, DIRT DEVIL, MILWAUKEE, AEG, HOOVER, STILETTO, ORECK, EMPIRE, IMPERIAL BLADES and HART brands, the Group's management believes it offers well-known products in both the consumer and the professional markets. The HOOVER brand is one of the oldest and iconic brands in floorcare and remains one of the world's most reputable and globally recognized brands. The MILWAUKEE and AEG brands are two of the leading global brand names in the industrial and professional power tools and accessories segment. The Group's management believes both brands are well positioned in the industrial and professional market and that they are associated with high quality, durability, innovative designs and advanced technology. In addition, the Group's investments in brand promotion and marketing campaigns have increased worldwide awareness of, and thereby increased demand for, the RYOBI brand which has become a leading global brand in the DIY power tool and outdoor products segment. Additionally, the RYOBI products have been recognized as providing "professional features at affordable prices" according to Total Research Corporation of Princeton, New Jersey.

In Europe and other markets outside of North America, the Group's management believes that the popularity and distribution reach of its power equipment and floorcare division has laid the groundwork for its brands to become leaders in the segments they serve. The Group has developed a distribution network to continue its expansion into strategically targeted markets. The Group is focusing its targeted geographic expansion into well established regions with strong growth rates in infrastructure, construction and increasing economic wealth.

Market leader in cordless technology

MILWAUKEE, the Group's flagship brand, was the first power tool manufacturer to introduce lithium-ion batteries as direct upgrades for nickel cadmium cordless power tools dating back to 2005.

The Group continues to drive the development of the switch from corded to cordless products around the world by investment in battery, motor and electronics technologies to capture the leadership position across multiple cordless platforms. TTI's powerful brands offer go-to products to consumers and professionals with innovative design that are disrupting existing markets while creating new opportunities in a growing number of vertical disciplines in the industry. The Group's advanced technology improvements in power, run time, and durability are now delivering cordless innovation that will tackle heavy duty infrastructure projects. TTI is among the industry players that are at the vanguard of the migration to cordless generating growth opportunities.

The success of the Group's lithium-ion battery systems also drive its growing accessories business, including battery after-market sales and replacement battery sales, which remains an important contributor to the Group's turnover and profit. The Group believes its cordless expertise will continue to allow it to gain further market share from its competitors and provide the Group with a strong platform for its expansion in new or under-represented geographic markets.

Leader in innovative design and product development

The Group believes that the success of its products has been driven by its innovative designs that result from its focus on and investment in R&D and the cross-utilization of its core technologies of batteries, electronic and motors and patented intellectual property. For example, the Group has leveraged its R&D on battery and cordless products to launch its market leading lithium-ion battery cordless products. The Group believes that it has a proven record in identifying and responding to market trends as well as applying new technologies to its products. Over the next few years, the Group intends to outpace its major competitors in introducing new and innovative products to the market using its broadening battery platforms, expanding its battery technologies across all product categories that require power and expanded its ranges of accessories, hand tools and storage products. At the higher end of its brands, it is delivering products that command higher margins and consistently improving margins across all product offerings and divisions through new product introductions. In addition, as a result of its R&D efforts, the Group believes that it has developed a comprehensive intellectual property portfolio.

The Group's R&D centers are located in the United States, the PRC, Hong Kong, UK and Germany. It has designed each of its R&D facilities to feature what it believes to be rapid prototyping capabilities that increase its speed to market relative to its competitors. The close proximity of the Group's R&D centers to its marketing divisions enables the Group to quickly analyze the effects of changes in design in cooperation with its business units.

Additionally, the Group has established a global network of "Innovation Centers" staffed with product design and development engineers focused on new product development. The Group increased its R&D spending in 2020 by 37.8% to drive a greater flow of new products to market and have seen the success of its investment with gross margin improved to 38.3% in 2020 as compared to 37.7% in 2019 as a result of new product introduction, product mix, category expansion, improvements in operational efficiency and supply chain productivity.

Powerful global sales and distribution network and strategic customer relationships

The Group has established what it considers to be a powerful global sales and distribution network through significant and strong relationships with its biggest customers, including The Home Depot, B&Q (Kingfisher Plc), Leroy Merlin and Bunnings.

The Home Depot, one of the Group's largest customers, is the largest home improvement retailer in North America. The Group has a long term supply agreement with The Home Depot for the exclusive distribution of the RYOBI brand power tools. The Group's RYOBI and HOMELITE outdoor power equipment products are also sold in North America exclusively through The Home Depot retail stores. The Group believes that its exclusive arrangements with The Home Depot will continue to underpin the growth of the RYOBI, MILWAUKEE and HOMELITE brands because it is able to leverage off of The Home Depot's substantial marketing and promotion programs. In turn, the Group believes that its market-leading position in the power tool market makes it an important sales and marketing partner of The Home Depot.

MILWAUKEE maintains a leadership presence in its main market in the industrial tool channels and is sold throughout North America, in Europe and in Australia as well as having a growing presence throughout Asia, in particular, Korea, China, Taiwan and is continuing to develop well throughout South East Asia.

In the United Kingdom, RYOBI and HOMELITE power tools and outdoor power equipment are sold through B&Q, the United Kingdom's largest home improvement retailer. In Australasia, products under the AEG brand are sold exclusively through the Bunnings chain of home improvement centers. The Group believes that its customer base and close customer relationships have provided a concrete foundation for it to expand its existing business and develop more advanced products. In addition, it has also maintained what it believes to be a reputable OEM customer base.

The Group believes that its broadly distributed and dedicated sales force is crucial to its success. The Group currently has sales offices in the United States, Europe, Asia and Australasia. In the United States, the Group has a dedicated team called "Team TTI" responsible for visiting each branch of The Home Depot, on an average of every two weeks per store, to check the displays of its products and assist the local branch managers with the sales and marketing efforts of the Group's products.

Operational Excellence and diverse manufacturing presence

An important element of the Group's strategic approach to continuous operational improvement is the Group's diversified global manufacturing network. With multiple manufacturing operations in Europe, Asia, and the United States and the Group's global supply chain, the Group has focused manufacturing capabilities that harness cost efficiencies with the flexibility to handle the Group's high level of growth while adapting to an ever changing market. TTI has made significant investments in the expansion of the Group's distribution, manufacturing and R&D capabilities in North America and added a new manufacturing complex in Vietnam to support the rapid growth. Continuing the Group's productivity trend, global headcount for the entire Group increased by 44.8% in 2020. The Group remains committed to delivering world class on-time fill rates with superior quality products while maintaining competitive cost. In addition to higher quality at better cost the Group also promotes environmental, social and governance requirements.

Long-standing relationships with suppliers

The vast majority of the Group's major suppliers are located in close proximity to its manufacturing facilities in the PRC. Because the Group's PRC facilities produce the majority of its products, the close proximity of its suppliers and its increased scale over the last few years provide it with substantial procurement benefits compared to most of its competitors. The Group has developed long-standing relationships with its key suppliers while maintaining a multi-sourcing strategy. Based on the Group's knowledge of and close cooperation with its key suppliers, the Group provides its suppliers with product specifications that fit their manufacturing capabilities, allowing its suppliers to manufacture in a more cost efficient manner. The close proximity of the Group's suppliers to its manufacturing facilities allows the Group to comply with the just-in-time inventory requirements of its customers and allow it to react quickly to changes in market demand.

Strong management team and employee base

The Group's senior management team, including its Group Executive Directors and senior managers, have extensive experience in design, manufacturing, sales and marketing as well as financial management in the power equipment and floorcare appliances industry. Mr. Horst Julius Pudwill, Group Chairman and Co-Founder, has more than 30 years of industry experience. Mr. Stephan Horst Pudwill, Group Executive Director and Vice Chairman, previously held managerial positions at Daimler Chrysler AG and is now mainly responsible for managing and identifying synergistic business opportunities within the Group. Mr. Joseph Galli Jr, Chief Executive Officer and Group Executive Director, has more than 30 years of experience in the power tools and accessories industry and spent over 19 years at Black & Decker. During his tenure at Black & Decker, he was responsible for highly successful launch of the "DeWalt[®]" brand heavy duty power tools in 1992. Mr. Patrick Kin Wah Chan, Group Executive Director, has nearly 30 years of industry experience and is now in charge of the manufacturing operations of the Group. Mr. Frank Chi Chung Chan, Chief Financial Officer, Qualified Accountant and Group Executive Director, has over 30 years of experience in corporate affairs and financial management. The Group continues to recruit key executives, including presidents and chief financial officers for its operations in each of its major markets and product divisions. The Group believes that its management team's combined experience in the development of new products, power equipment and floorcare appliances industries, prudent financial management as well as broad experience in R&D, financial management and information technology management has been essential to its rapid growth in recent years, and will be critical in implementing its key strategies in the future.

Strategies

The Group's disciplined focus on its key strategic drivers is reflected in its financial performance and shows that the Group's strategy is working. These strategic drivers, namely, having recognizable brands, developing innovative products, building a strong company culture through exceptional people, and pursuing operational excellence, are described in further detail below.

Continue to develop new products using innovative techniques and processes

Developing innovative and higher margin products will continue to be the Group's focus and a key growth driver of its business. The Group intends to leverage its proven track record in innovative design and quality, its investment in design and research personnel and facilities, its close working relationships with its customers and suppliers and its low-cost manufacturing facilities to continue to enhance and expand its range of products while constantly increasing its margins. The Group will focus its new product development on: (i) development of innovative features that will keep the Group ahead of its competitors, (ii) improvement in quality while reducing overall costs and (iii) the replacement of matured product designs. In particular, the Group intends to continue to focus on developing new cordless power tools technology, with a particular focus on lithium-ion battery products.

The Group's new product development system is a rigorous process that aims to ensure the development of high-quality and innovative products and technologies such as the MILWAUKEE FUEL line and the use of lithium ion cordless technology in power tools, outdoor products and floorcare. To further the goals of new product development, the Group invested heavily in product development in 2020, with R&D expenditures up 37.8% from 2019 to U.S.\$316.6 million representing 3.2% of sales and investment in product design and development in 2018, 2019 and 2020 amounted at around 2.9%, 3.0% and 3.2%, respectively, of turnover.

Continue and expand the Group's close relationships with key customers

The Group intends to continue to leverage its relationships with key customers to increase its brand loyalty with these customers. In parallel, the Group plans to expand its relationships with new home improvement retailers outside of North America and grow its relationships with its OEM and ODM customers by jointly developing engineering solutions to meet their requirements. One of the key factors in the Group's relationships with its customers has been the reputation for quality and value that its products enjoy, and the Group intends to continue to enhance this reputation by, among other things, establishing regional centers to improve after sales service and support for its products.

Increase focus on innovation and commitment to the end-user

The Group is investing strategically in its engineering capabilities to integrate advanced technologies into current and future products. The Group works closely with its end-users to understand their needs, lifestyles, habits and frustrations in search of product solutions. As a result, the Group is able to convert end-user feedback into demonstrative solutions with its innovative, high-performance products. The Group intends to continue such innovation and development through the development of new technology applications through R&D efforts across all product categories.

Shortening speed to market in key geographies

The Group has created a streamlined, fast-paced and comprehensive product development process. The Group intends to change its industries through innovation and is delivering on that by bringing a broad range of breakthrough, value-added, margin-enhancing products to market.

The Group has a number of brand-focused innovation centers in key markets dedicated to research, design, engineering technology and developing new products. In addition, the Group is qualified to certify its new

products in-house rather than sending them to certification centers, shortening the time to market. As a result, any new product or technology developments that the Group makes can be brought to end-users in these key markets in a shorter period of time than if the R&D processes were conducted in a centralized location. The Group intends to continue to focus on streamlining its processes from initial design to retail, with the aim of targeting geographic expansion and providing end-users with new products in a more efficient manner than the Group's competitors.

Expand into new or under-represented geographic markets

The Group intends to continue to leverage its core competencies to expand into new or under-represented geographic markets. In addition to the United States, the Group has established regional business units in Europe, the Middle East, Canada and Australasia. The Group has also strategically expanded into Mexico and Latin America, Eastern Europe and Asia. The Group believes that the growth of the infrastructure construction market will be a catalyst for its geographic expansion. The leaders of its new regional units, whom the Group hired because of their prior experience in their respective regions, are responsible for streamlining existing operations, developing strategic partnerships and expanding into under-represented markets in their geographic regions. The Group believes that the foundations are now in place for its development and expansion in such regions, all of which offer strong growth potential.

Enhance operational and organizational efficiency and productivity

To plan for its business growth, the Group intends to maintain a low-cost manufacturing base by strategically maintaining its facilities in China. In addition, the Group will focus on its strategy to ensure cost-effective manufacturing by raising the proportion of materials and components sourced in Asia. The Group will continue to look for improvements in cost efficiency and production quality, such as the use of flexible assembly lines and small-scale automation, with which it is able to optimize its mix of labor and selective automation to improve productivity and efficiency.

Enhance brand development and recognition through marketing campaigns

The Group intends to continue to strengthen the leading positions of its strategic brands through new product launches and targeted marketing. The Group will work closely with end-users in search of product solutions and invest strategically in R&D and engineering capabilities to integrate the Group's advanced technologies into new products. The Group's brand focused innovation centers in key markets will be dedicated to research, design, engineering technologies, and developing new products. The Group will also continue to expand into strategic under-represented geographic markets, seizing opportunities to drive the strategic deployment of the Group's brands.

Continue to hire and develop exceptional employees and management

While the Group has assembled an outstanding team of people, has business unit leaders that are industry veterans with exceptional track records and has a passion for serving its customers, the Group aims to continue to develop its employees worldwide in order to support its growth goals. The Group has implemented a disciplined operating cycle consisting of a series of annual, semi-annual and quarterly reviews of its operations. The Group holds strategic planning, organization review and budget meetings annually and holds semi-annual Global Product Summits, which are brain-storming sessions with its business managers and product design and development engineers. The Group has programs such as the Leadership Development Program which recruits high-potential graduates from top universities and focuses on training, mentoring and promoting them within the organization. The Group also provides other in-house job training to its employees and continues to offer competitive remuneration packages, discretionary share options and bonuses to eligible employees. The Group believes that such development and training of employees develops a universal culture of empowerment and creativity that motivates people to achieve their goals and reach their potential quickly. The Group expects that

these highly-trained employees will, in turn, directly contribute to the Group's business, outperforming the competition and achieving positive financial results.

Business Divisions

Power Equipment

The Power Equipment, Accessories, Storage and Hand Tools is the Group's largest division and consists of the manufacturing and marketing of power tools, outdoor products, accessories, hand tools and storage solutions. For the year ended 31 December 2020, sales in the business division rose by 28.5% to U.S.\$8.7 billion, and reported growth in all geographic markets and, in particular, reported strong results in the Industrial division. For the year ended 31 December 2019, sales in the business division rose by 13.0% to U.S.\$6.8 billion, and reported growth in all geographic markets, and, in particular, reported strong performance in the Industrial division. For the year ended 31 December 2018, sales in the business division rose by 17.0% to U.S.\$6.0 billion, and reported growth in all geographic markets, and, in particular, reported strong performance in the Industrial division. For the years ended 31 December 2018, 2019 and 2020, the Power Equipment business accounted for 85.6%, 88.6% and 89.0%, respectively, of the Group's consolidated revenue.

The Group's Power Equipment, Accessories, Storage and Hand Tools division is sub-divided into three separate customer segments: Industrial, Professional, and Do-It-Yourself (DIY), each of which is described in further detail below.

Industrial

MILWAUKEE, an industry-leading manufacturer of heavy-duty power tools, accessories, hand tools and storage solutions for professional users worldwide, is the Group's flagship and fastest growing brand globally. Since its founding in 1924, MILWAUKEE has led the industry in both durability and performance. MILWAUKEE continues to focus on providing innovative, trade-specific solutions. From the introduction of the Hole-Shooter in 1924, the first lightweight, portable, one-handed 1/4" capacity drill, MILWAUKEE established a tradition of producing innovative heavy-duty electric power tools designed specifically to meet the needs of professional users. The right-angle drill, self-contained portable electric hacksaw, the SAWZALL Reciprocating Saw, the HOLE-HAWG High-Torque Drill and the SUPER SAWZALL Reciprocating Saw are some of the other landmark products MILWAUKEE has produced throughout its 95-year history. MILWAUKEE currently produces more than 500 tools and 3,500 accessories which exceed its competitors in power tool manufacturing.

MILWAUKEE is the core brand in the Group's Industrial business division and has been one of the pioneers in cordless technology and innovation, being the first power tool manufacturer to incorporate lithium-ion battery technology in its cordless power tools with the introduction of MILWAUKEE's V28 lithium-ion battery technology and line of cordless tools in 2005. As MILWAUKEE lithium-ion battery technology continued to improve, the company launched a family of powerful performance M18 lithium-ion tools and a family of compact M12 lithium-ion tools focused on disruptive innovation to plumbing, electrical, HVAC and MRO trades.

The MILWAUKEE M18 Cordless System is the fast-growing 18V cordless tool lineup in the industry and represents the combination of professional grade power, extreme performance, and superior durability. Powered by REDLITHIUM battery technology for unmatched run-time, and coupled with patented technologies, innovative motors, and advanced electronics, M18 changes the game. Dedicated to improving productivity for the professional trades, MILWAUKEE M18 Cordless System offers more than 200 performance-driven solutions so users can perform an entire day's work on one battery system.

The MILWAUKEE M12 Cordless System is one of the largest sub-compact systems on the market, delivering industry-leading durability and power in a size that outperforms the competition in the tightest places.

MILWAUKEE M12 Cordless System offers more than 125 professional cordless solutions focused on providing tool belt portability, without sacrificing power and speed.

MILWAUKEE also launched the MILWAUKEE FUEL products with M18 and M12 cordless systems compatibility for trade professionals such as the commercial plumbers, commercial electricians and datacom electricians in vertical industries from industrial construction, maintenance and infrastructure projects in 2012. All M18 and M12 FUEL products feature the three MILWAUKEE-exclusive innovations, POWERSTATE Brushless Motor, REDLITHIUM Battery Pack and REDLINK PLUS Intelligence Hardware and Software, that deliver strong power, lasting run-time and durability on the jobsite. M18 FUEL products are delivering outstanding corded performance without the cord. The motors on MILWAUKEE M18 FUEL tools are powerful, intelligent and energy efficient. REDLINK PLUS electronics manage an array of power requirements across 213 M18 tools using one common battery. MILWAUKEE built, the M18 battery delivers cleaner, more consistent power which lasts longer and delivers more run-time in the harshest jobsite conditions.

The MILWAUKEE and Industrial business generated an increase in worldwide sales of 25.8% in 2020 when compared with 2019. The focus on cordless innovation produces a volume of disruptive products across targeted product categories in markets the Group serves. The MILWAUKEE business continues to significantly outperform the global market by pushing the boundaries of cordless solutions catered to the professional users in a growing number of product categories and industries.

The Group's strategy is to position the MILWAUKEE brand to compete with the highest quality, durable and reliable professional tools available in the market.

Power Tools

The Group's MILWAUKEE Professional business continued to convert users from traditional power sources including corded, pneumatic, hydraulic and petrol tools to the Group's lithium cordless battery technology. Leading the way is the MILWAUKEE M18 system with 213 tools on the platform, the M12 system with 125 tools and the MX FUEL range with 10 products.

The MILWAUKEE M18 platform continued to launch a series of best in class additions. For example, in the cordless nailing category, the Group's new M18 FUEL Framing Nailers and Staplers all deliver powerful performance, eliminating compressors, hoses and gas cartridges. In addition to expanding into new product categories, the Group introduced the Group's next generation M18 FUEL SAWZALL Reciprocating Saw.

The Group also expanded the MILWAUKEE M12 subcompact cordless platform with a series of innovative tools. One of most successful innovative new products for the company was the exciting M12 FUEL HATCHET 6" Pruning Saw that is widely accepted in the professional landscaping industry.

High Output and Personal Lighting

The MILWAUKEE HIGH OUTPUT Lighting program is another example of penetrating a traditional market with cordless technology. With recent introductions into the personal lighting and temporary lighting markets, MILWAUKEE offers a comprehensive work lighting portfolio in the industry.

Accessories

The Group's MILWAUKEE high-performance cordless tools are increasingly powerful and technologically advanced. The MILWAUKEE Accessory business is focused on developing accessories engineered to optimize the performance on cordless tools.

The growth in the accessories business was fueled by the launch of the third generation of SHOCKWAVE driving accessories which are engineered to be a durable and fitting driver bits on the market. Investments in the Imperial Blades operations coupled with the introduction of product innovations drove the expansion of the

high-growth oscillating category. The MILWAUKEE Carbide Cutting technology advancements are delivering user demand and resulting in substantial category growth.

Hand Tools and Storage

The Group acquired the STILETTO brand and businesses in June 2007. The acquisition marked the Group's first entrance into the hand tool market in the United States.

Since 1901, Stiletto Tools has been the "Standard of the West", supplying tools that built homes and businesses of early California and manufactured agricultural implements that fed those pioneers. STILETTO tool sets the standard with premium titanium hand tools and hammers that are 45% lighter than steel while providing the same striking force and strength as well as producing ten times less recoil shock. The Group while continuing its strong focus on growth and expansion in its hand tool business also entered into the level and measurement business through the acquisition of the North America-based EMPIRE level business. This has enabled the Group to become a fully integrated solutions provider in layout and measurement product categories. EMPIRE is a leading brand in U.S. manufacturer of levels, squares, layout tools and safety and utility tapes. In 2016, EMPIRE introduced the new ULTRAVIEW LED and digital box levels. EMPIRE continues to provide users within the construction trades with innovative products and user-focused technology. The expansion of ULTRAVIEW LED technology into the torpedo level category gives users a lightweight pocketable solution for everyday work in poorly lit conditions. The new line of digital levels includes the industry-first features such as auto-calibration and inspect mode.

The MILWAUKEE PACKOUT storage system continues to expand to meet the professional's growing tool storage, transportation, and organizational needs. New innovations to the system of over 36 interchangeable products include the PACKOUT Customizable Work Surface, PACKOUT 16QT Cooler, M18 PACKOUT Light/Charger and PACKOUT 2-Wheeled Cart.

Outdoor Products

MILWAUKEE has continued to expand its product line with recent entrance into the outdoor product category specifically targeting performance-driven and trade-focused solutions for landscaping professionals and trade professionals. These tools have the power to outperform competitive 18V and higher voltage solutions, and are fully compatible with more than 200 solutions on the M18 System.

Professional

The Group's professional tool division centers around the AEG brand. Since being founded, AEG Power Tools has been leading the way in new product development. By introducing the first transportable drilling machines in 1898, portable power tools were born. Over more than 100 years, the AEG brand is still offering professional users with innovative solutions. The Group continues to broaden the AEG brand range of cordless tools.

DIY

The Group's DIY business consists of RYOBI brand and HOMELITE outdoor tools. RYOBI brand is the Group's core brand in its DIY business division. RYOBI brand specializes in making pro-featured power equipment affordable. RYOBI brand is the priority choice for most DIY homeowners, woodworkers, hobbyists, craftspeople and garden enthusiasts. The Group's power tools and outdoor products manufactured are reputable for the increase and expansion of user's capabilities.

RYOBI brand offers an extensive award winning and innovative line of consumer focused products and accessories for the worldwide market. The RYOBI 18V ONE+ System features over 130 unique products, giving versatility and wide selection for tasks. With cordless lithium-ion technology, RYOBI can power all types of projects from drilling, driving, cutting, and fastening, to lighting, plumbing, cooling, and rocking, to

trimming, edging, mowing, and clearing and so forth. The RYOBI power tool product range is anchored by the 18-volt ONE+ System ranging from drills, drivers, saws, trimmers, sanders and outdoor products. The RYOBI cordless outdoor products gives power and performance to every homeowner with a full range of 18-volt ONE+ System and 40-volt gas-like power string trimmers, hedge trimmers, blowers, chainsaws and lawn mowers.

HOMELITE Outdoor Tools combine value and reliability in every piece of electric and petrol powered lawn care equipment. HOMELITE products offer quality motor components along with other advanced features making weekend lawn care more efficient.

For over nine decades, homeowners have been looking to HOMELITE to deliver quality outdoor tools at the best value. From mowers to hedge trimmers, generators to pressure washers, HOMELITE offers a full product range for yard work within budget.

DIY Power Tools

RYOBI is one of the top DIY Tool brands in the world featuring 123 tools, 44 outdoor products, and 15 cleaning products in the ONE+ battery system alone. In 2020, the RYOBI business delivered double-digit growth driven by a stream of new product launches featuring the next generation RYOBI ONE+ HP brushless series. The subcompact design and exceptional performance of these HP brushless tools have enhanced the entire global RYOBI DIY platform. With 18 new ONE+ HP and 7 new 40V HP products launching in early 2021, the Group's RYOBI HP new product pipeline is extremely exciting. The Group will continue to invest heavily in expanding the Group's global DIY leadership position with these high-end HP brushless products and expect that it will catalyze growth in the DIY arena for years to come.

DIY Outdoor Products

The RYOBI Outdoor business delivered another year of outstanding results, led by the Group's global leadership of cordless mowers and cordless handheld outdoor equipment. The Group's range of 19 cordless RYOBI mowers is leading the revolution from the legacy petrol market to the Group's environmentally friendly lithium cordless technology. In 2020, the Group began building a state-of-the-art manufacturing operation in the USA to produce cordless mowers and support the extensive growth of the RYOBI Outdoor cordless platforms. The RYOBI 40V system now contains 52 innovative products that deliver petrol-like power, from the quiet WHISPER series blowers, to string trimmers, hedge trimmers, chain saws, sprayers, edgers, and many more.

The Group believes that RYOBI is the leading brand in lithium-ion cordless, portable gas powered and electric powered outdoor tools.

Floorcare

The Group is a global leader in Floorcare with their iconic HOOVER, VAX, ORECK and DIRT DEVIL brands. The Group is dedicated to creating and advancing innovative cordless cleaning products and carpet washing products for the home and the commercial user. The strategic multi-brand approach, high-speed product development capabilities and cordless technology are essential to succeed in the floorcare industry.

The Group's Floorcare business accounted for 11.0% of TTI total sales in 2020, with sales increasing 23.6% to US\$1.1 billion, while generating US\$24.6 million of operating profit, up 138.0% from 2019 and accounted for 11.4% of TTI total sales in 2019, with sales declining by 13.5% to US\$0.9 billion, while generating US\$10.0 million of operating profit, up 12.8% from 2018. For the years ended 31 December 2018, 2019 and 2020, the Floorcare business accounted for 14.4%, 11.4% and 11.0%, respectively, of the Group's consolidated revenue. These results reflect the Group's disciplined efforts to transition the Group's floorcare business from legacy products to the Group's key strategic categories of cordless and carpet washing. In addition, the Group's exit from underperforming geographies and expansion of in-house manufacturing contributed to the Group's strong performance.

The Group delivered double-digit growth in carpet washing led by the success of the Group's HOOVER POWERDASH, HOOVER SMARTWASH and VAX PLATINUM carpet cleaning product lines. The Group's success in carpet washing is also driving excellent sales growth in the Group's after-market carpet cleaning formula ranges.

In 2020, the Group's cordless ONEPWR system gained encouraging traction in both the HOOVER and VAX brands. The ONEPWR cordless family now includes 13 products on the same universal battery platform.

The Global Floorcare business is now well positioned to deliver consistently improving sales and financial performance in the future.

The Group acquired the HOOVER brand and business in January 2007. Since 1908, consumers and businesses have trusted HOOVER brand to provide reliable, innovative cleaning solutions. The HOOVER brand offers a comprehensive line of products for general and special-purpose vacuuming, including full-size uprights and canisters, deep cleaners and hard-floor cleaners. The Group owns the exclusive rights to the HOOVER trademark in all of North America and South America, most of the Middle East, Africa and most of Asia. HOOVER offers a comprehensive line of products for general and special-purpose vacuuming, including full-size uprights and canisters, deep cleaners and hard-floor cleaners. The HOOVER business includes designing, developing, manufacturing, repairing and refurbishing such appliances and providing replacement parts and accessories for such appliances.

The Group acquired the ROYAL and DIRT DEVIL floorcare appliances brands and businesses in 2003 and had been one of the OEM/ODM suppliers of Royal's floorcare appliances products since 1995. ROYAL's history dates back to 1937 with the introduction of the first hand-held vacuum cleaner, the Royal Prince. The next major innovation from Royal was in 1984 with the DIRT DEVIL Hand Vac. The DIRT DEVIL Hand Vac sparked the popularity of the DIRT DEVIL brand, offering quality products with a range of unique features designed to make cleaning easier and faster.

The Group acquired the VAX brand and business in 1999. VAX has created a range of patented products, utilizing technology the Group developed to offer a wide range of household cleaning tasks. Durable, innovative and quality products are critical to VAX's product development strategy. VAX products have developed a reputation for reliability and effectiveness and the VAX brand is a recognized leader in the field of carpet washing. In recent years, the VAX brand has extended its product range into both the dry vacuum market and specialist sectors. VAX operates globally with major operations in the United Kingdom and Australasia.

The Group acquired the ORECK brand in 2013. ORECK produces and sells vacuums, steam mops, floor machines, air purifiers and cleaning products for use in both hotels and homes throughout the United States, Canada and parts of Europe. ORECK continues to focus on superior cleaning with sleek, powerful product designs, engineered to deliver the best possible clean. With an expanded focus on cordless cleaning and breakthrough features, the ORECK brand remains the lead in premium design and experience and will expand its focus into other cleaning categories with the introduction of a new cordless upright product. The Group believes this significant portfolio transition to cordless, together with a focus in carpet washers, will continue to deliver sales growth and margin improvements in this division.

Research and Development

The Group considers its R&D activities critical to the continuing success of its business and has always placed an emphasis on R&D as a means of developing innovative products, enhancing technological resources, consolidating technological developments and improving the competitiveness of its key products. The Group has a global network of "Innovation Centers" staffed with experienced product design and development engineers and operates various technology research and end-user research facilities in North America, Europe and the PRC. The Group's R&D center in the United Kingdom focuses on its VAX brand and the R&D center

in Germany focuses on its AEG brand and products specific for the European market under MILWAUKEE and RYOBI brands. Both centers leverage on its R&D efforts in North America.

The Group's R&D organization is structured in three layers: (i) development of new technology at its Advanced Technology and Engineering Expert Groups, working in parallel with (ii) the Group's concept development efforts at its Concept Centers, and resulting in (iii) the development of new products at the Group's New Product Development ("NPD") centers:

- The Group has an Advanced Technology and Engineer Group for each of its brands. The Group's Advanced Technology and Engineering Expert Groups are responsible for developing new technology for its products, including technologies relating to motors, batteries, electronics and materials, with the goal of developing new technologies which better meet the needs of its customers.
- Working in parallel to its Advanced Technology and Engineering Expert Groups, the Group has a Concept Center in each of its R&D centers in Wisconsin, North Carolina and South Carolina, United States. The Group also has a Concept Center in Hong Kong, which serves as a strategic link between its Concept Centers in North America and its manufacturing facilities in the PRC. The Group's Concept Centers serve as incubators for new concepts and innovations which address the changing needs and preferences of its end customers. The Group's Concept Centers take into account market feedback from its product management teams on market trends and customer needs and preferences, and are responsible for the development and commercialization of technology development to translate new concepts into tangible, customer level product designs.
- As a result of the effort at each of its advanced technology and concept centers, the Group develops new products at its NPD centers both in the market and in the PRC. The Group's NPD centers, in collaboration with its customers, focus on developing and implementing product solutions based on detailed product plans. The Group maintains a rigorous management approach at its NPD centers and, as a result, has a track record of developing very successful products on time, within budget and delivering target results to the Group.

The Group's greatest asset is its pool of talented people who create innovative products that add value to the lives of its consumers. They have the requisite management skills to manage the Group's R&D efforts and the ability to maintain strong relationships with the Group's customers around the world. The number of staff members engaged in R&D within the Group accounted for approximately 7.1% of its total workforce as of 31 December 2020.

The Group's global floorcare R&D centers are located at the site of its North Carolina, Charlotte, North America and Droitwich, UK headquarters for its floorcare appliances division and allows the Group to consolidate its global R&D activities for its floorcare appliances products, thereby supporting a robust new product design and development pipeline. For its power equipment products segment, the Group has a R&D center in Milwaukee, Wisconsin, for its MILWAUKEE brand. The Group has a R&D center in South Carolina, United States, responsible for R&D for the development of branded products including RYOBI and HOMELITE. The Group also has a R&D center in Germany which primarily focuses on the research and development of its AEG branded products and products specific for the European market under MILWAUKEE and RYOBI brands. The Group's Concept Center in Hong Kong and the Asian Innovation Center in the PRC serve as a supporting link for its R&D efforts globally. As a result of such global R&D setup, the Group manages to take advantage of various time zones and has been able to develop products around the clock and bring new products to the market faster than its competitors.

The Group continues to invest in its R&D efforts and is committed to leading technology standardization and securing intellectual property rights. The Group's aggregate R&D expenditure was U.S.\$202.6 million, U.S.\$229.8 million and U.S.\$316.6 million for the years ended 31 December 2018, 2019 and 2020, respectively, accounting for approximately 2.9%, 3.0% and 3.2%, of its total revenue for the same periods, respectively.

Sales and Marketing

The Group markets its products to its customers worldwide. The Group's sales and marketing strategy focuses on further strengthening its close relationships with key customers, maintaining its position as an integral partner with its major customers and expanding its relationships with home improvement customers in North America, Europe and other markets. The Group believes that a dedicated sales force and strong distribution channels are two key components of success. As of 31 December 2020, the Group has sales offices globally organized by key sales regions: the United States, Canada, Latin America, Europe, the Middle East, Australasia and Asia.

The Group's internal sales staff are organized into sales teams and located in close proximity to its customers so as to bring dedicated expertise and knowledge to its customers. The Group's global functions include divisional marketing, channel management, alliance and partnership management and global support operations. Each of these global functions is subject to quarterly operating reviews as part of its operating cycle.

In order to fully serve its customers, the Group assigns an account and establishes a team dedicated specifically to each of its major customers. The account manager responsible for a specific customer works closely with both the customer and the Group's employees, including staff from its R&D teams and product design and development engineers from its manufacturing facilities, in order to develop products tailored to meet that customer's specific need. The Group believes that its model of maintaining close contacts between its staff, its customers and its end-users allows for a more meaningful understanding of market trends and leads to the innovative products that further strengthen its relationships with its customers. Furthermore, in the United States, the Group has a dedicated team called "Team TTI" responsible for visiting each branch of The Home Depot, on an average of every two weeks per store, to check the displays of its products and assist the local branch managers with the sales and marketing efforts of its products.

Competition

The power tools and outdoor product industries are highly competitive. See "*Risk Factors — Risks Related to Group's Business — The Group faces active global competition.*" The Group's business model is to position itself as a vertically integrated provider primarily of branded power tools, outdoor products and floorcare appliances, although it also manufactures in an OEM capacity for the house brands of major retailers and home centers. In power tools and outdoor products, the Group considers its major competitors to be DeWalt, Shark, Bosch, Makita, Skil and Hitachi. The Group's major competitors in floorcare appliances are Bissell, Eureka and Dyson. In addition, the Group faces competition from other OEM manufacturers.

The Group competes on the basis of what it believes to be the principal competitive factors in its industry, including its reputation for product quality, emphasis on product innovation and development, the breadth of its product lines, its speed to market, its well-known brands and its strong customer relationships and after sales services.

To its knowledge, all of the Group's competitors have manufacturing facilities in low-cost countries such as the PRC. Although some of its competitors have greater manufacturing, financial, R&D or marketing resources or geographical reach than it does, the Group maintains its competitive position and seeks to gain market share from its competitors by providing innovative products, maintaining high quality standards and managing its brand strategy to offer different products to different consumer categories.

Major Customers

The Group categorizes its customers into three categories: (1) home centers, (2) mass market retailers and (3) distributors and dealers. The Group's home centers customers include The Home Depot, B&Q and Bunnings, and its mass market retailer customers include Wal-Mart, K-mart, Amazon and customers for whom it

manufactures on a "private label" or OEM/ODM basis. The Group's distributor and dealer customers comprise of independent distributors and dealers of its products on a smaller scale and on a project basis, respectively.

During the years ended 31 December 2018, 2019 and 2020, the Group's largest customer contributed revenue of approximately U.S.\$3,194.7 million, U.S.\$3,586.3 million and U.S.\$4,793.6 million, respectively, representing approximately 45.5%, 46.8% and 48.9% of total Group revenue for those periods. Of those amounts, approximately U.S.\$3,143.5 million, U.S.\$3,530.7 million and U.S.\$4,742.5 million, for the years ended 31 December 2018, 2019 and 2020, respectively, was generated by the Power Equipment division and U.S.\$51.2 million, U.S.\$55.6 million and U.S.\$51.1 million was generated by the Floorcare and Appliances segment for the same periods. The Group has no other customer contributing more than 10% of total revenue.

Employees

As of 31 December 2020, the Group had approximately 48,028 full time employees globally.

Management believes that the relationship and co-operation between the Group's management and its employees is good and there have not been any major labour disputes.

Share Option Plan

A share option scheme ("**Scheme E**") was adopted pursuant to a resolution passed on 19 May 2017 for recognition of the contribution by eligible persons to the development and growth of the Group. This scheme will expire on 18 May 2027. Under Scheme E, the Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, 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 decided 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 SEHK for the five trading days immediately preceding the date of offer; or such other limits that may be imposed by the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") from time to time.

The maximum number of shares in respect of which share options may be granted under Scheme E is not permitted to exceed 30.0% of the issued share capital of the Company from time to time or 10.0% of shares in issue as at the adoption date of Scheme E.

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 or second anniversary of the date of grant of the share option to the tenth anniversary of the date of grant.

The share option scheme ("**Scheme D**") adopted pursuant to a resolution passed on 29 May 2007 for recognition of the contribution by eligible persons to the development and growth of the Group expired on 28 May 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. The scheme rules of both Scheme D and Scheme E are substantially identical.

Insurance

The Group maintains various insurance policies, including:

- business interruption insurance;
- property damage all risk insurance on its fixed assets, equipment and inventory;
- directors' and officers' liability insurance;
- marine cargo insurance;
- cyber security insurance;
- third-party liability insurance to cover claims in respect of personal injury or property damage arising from accidents; and
- product liability insurance.

The Group's business interruption insurance and property damage insurance covers its operations globally, and its product liability insurance applies to all of its products. The Group's marine and cargo insurance insures against losses of shipments in connection with its distribution to certain destinations and applies to all its shipments made worldwide.

The Group maintains product liability insurance up to such value that it considers customary and sufficient for its industry and its products. To mitigate the Group's product liability risk, it places significant emphasis on quality assurance. As of 31 December 2020, the Group has not received any material product liability or third party liability claims from its customers or any other third parties, and has not experienced any material business interruptions since it commenced its operations. The Group believes that it has sufficient insurance coverage for its assets and products, and its insurance coverage is in line with industry practice. The Group has not experienced any material business interruptions since it commenced its operations.

Legal Proceedings

The Group is involved in certain disputes and legal actions arising in the ordinary course of its business. While it is not feasible to predict or determine the outcome of these proceedings based on a review with legal counsel, the Group believes that none of these disputes and legal actions is expected to have a material impact on its consolidated financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties, and an adverse result in these matters may arise from time to time that may harm the Group's business.

Government Regulations

In the ordinary course of business, the Group's operations are subject to various laws and regulations in the jurisdictions in which it operates. The Group is subject to evolving and increasingly stringent health and safety, transportation and environmental laws and regulations governing its operations and products. The laws and regulations applicable to its operations address, among other things, the maintenance of safe conditions in the workplace, safety standards with respect to its products (including the types and amounts of materials or elements used or present in its products), and permitted levels of emissions of hazardous materials from its facilities. In addition, all of the Group's lithium-ion batteries products must be packaged and transported in accordance with the relevant domestic and international regulations governing the transport of dangerous goods.

The Group imposes safety and anti-pollution measures as well as regular internal safety and environmental inspections at all stages of the production process to minimize the possibility of work-related accidents and injuries, occupational illness and environmental contamination. The Group believes that its operations are in substantial compliance with the terms of all applicable health and safety, transport and environmental laws and regulations as currently interpreted. There are no existing or potential material claims against the Group, and it is presently not in receipt of any written notification of material non-compliance and is not aware of any current investigation by governmental authorities of its potential material non-compliance with such regulations. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies or stricter or different interpretations of existing laws, could require additional expenditures by the Group that may be material. See "*Risk Factors — Risks Related to Government Regulations*".

Health, Safety and Transport Regulation

The Group is subject to health and safety laws and regulations in a number of jurisdictions in which it operates. For example, in the United States the Group must comply with the Occupational Safety and Health Act of 1970, as amended, as well as laws and regulations enforced by the Environmental Protection Agency. In the PRC, the Group is subject to various workplace safety regulatory requirements. In Europe, the Group is subject to the laws of the European Union as well as certain local regulations. Its products must meet safety standards in the jurisdictions in which they are sold and/or used, including standards promulgated under the Consumer Products Safety Act in the United States and local product safety acts of the member states incorporating the machinery directive including relevant harmonized standards in the European Union. In addition, since lithium is deemed a dangerous substance under the relevant regulations, the Group must package and transport its lithium-ion batteries and products containing such batteries in accordance with relevant international and national laws and regulations, including the United Nations Model Regulations on the Transport of Dangerous Goods and similar regulations published by the International Civil Aviation Organization and International Air Transport Association, as well as the United States Department of Transportation Hazardous Material Regulations.

Environmental Regulation

The Group is subject to extensive air, water and other environmental laws and regulations in a number of jurisdictions in which it operates. For example, in the United States the Group must comply with the Clean Air Act, the Clean Water Act and the Hazardous Materials Transportation Act. In Europe, the Group is subject to various environmental initiatives promulgated by the European Union. In the PRC, the Group is subject to environmental regulations such as Law of Prevention and Treatment of Environmental Pollution by Solid Wastes (固體廢物污染環境防治法).

The laws, regulations and regulatory authorities mentioned above are illustrative rather than exhaustive. Government agencies that are charged with monitoring these laws and regulations generally have the right to inspect the Group's facilities at any time.

Principal Subsidiaries

The principal directly and indirectly wholly owned subsidiaries of the Group are as follows:

DreBo Werkzeugfabrik GmbH.....	Incorporated in Germany, mainly engaged in the trading and manufacturing of power equipment products
Homelite Consumer Products, Inc.	Incorporated in the United States, mainly engaged in the trading of outdoor power equipment products
Hoover Inc.	Incorporated in the United States, mainly engaged in the trading and manufacturing of floorcare products
Hart Consumer Products, Inc.	Incorporated in the United States, mainly engaged in trading of power equipment and outdoor power equipment products
Milwaukee Electric Tool Corporation	Incorporated in the United States, mainly engaged in trading and manufacturing of power equipment products
One World Technologies, Inc.	Incorporated in the United States, mainly engaged in trading of power equipment products
Royal Appliance Mfg. Co.	Incorporated in the United States, mainly engaged in trading and manufacturing of floorcare products
Sang Tech Industries Limited.....	Incorporated in Hong Kong, mainly engaged in manufacturing of plastic parts
Santo Industries Limited.....	Incorporated in Hong Kong, mainly engaged in manufacturing of metallic parts
Solar Wide Industrial Limited	Incorporated in Hong Kong, mainly engaged in manufacturing of electronic products
Techtronic Cordless GP.....	Incorporated in the United States, mainly engaged in trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries (Dongguan) Co. Ltd.	Incorporated in the PRC, mainly engaged in manufacturing of power equipment, floorcare and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Incorporated in Taiwan, mainly engaged in providing inspection services
Techtronic Industries (UK) Ltd	Incorporated in the United Kingdom, mainly engaged in trading of power equipment products
Techtronic Industries Australia Pty. Limited.....	Incorporated in Australia, mainly engaged in trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries Central Europe GmbH	Incorporated in Germany, mainly engaged in trading of power equipment products
Techtronic Industries ELC GmbH.....	Incorporated in Germany, mainly engaged in trading of power equipment products and outdoor power

	equipment products
Techtronic Industries France SAS	Incorporated in France, mainly engaged in trading of power equipment products
Techtronic Industries GmbH	Incorporated in Germany, mainly engaged in trading and manufacturing of power equipment products
Techtronic Industries Korea LLC	Incorporated in Korea, mainly engaged in trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Incorporated in Mexico, mainly engaged in trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries Co. Mexico, S. De R.L. de C.V.	Incorporated in Mexico, mainly engaged in manufacturing of power equipment products
Techtronic Industries N.Z. Limited	Incorporated in New Zealand, mainly engaged in trading of power equipment, floorcare and outdoor power equipment products
Techtronic Industries North America, Inc.	Incorporated in the United States, mainly engaged in holding investment
Techtronic Industries Vietnam Manufacturing Co Ltd	Incorporated in Vietnam, mainly engaged in manufacturing of power equipment and outdoor power equipment products
Techtronic Product Development Limited	Incorporated in Hong Kong, mainly engaged in research and development activities
Techtronic Trading Limited.....	Incorporated in Hong Kong, mainly engaged in trading of power equipment, floorcare and outdoor power equipment products
TTI Investments (Dongguan) Company Limited.....	Incorporated in Hong Kong, mainly engaged in holding investment
Vax Limited.....	Incorporated in the United Kingdom, mainly engaged in trading of household electrical and floorcare products

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. As of 31 December 2020, the Company had other subsidiaries that were not material to the Group.

DIRECTORS AND MANAGEMENT

Directors

The Group's Board currently consists of twelve Directors, comprising five Group Executive Directors, two Non-executive Directors and five Independent Non-executive Directors. The following table sets out the name, age and position of the Group's Directors as of the date of this Offering Circular:

Name	Age	Position
Horst Julius Pudwill	76	Group Executive Director/Chairman
Stephan Horst Pudwill.....	44	Group Executive Director/Vice Chairman
Joseph Galli Jr	63	Group Executive Director/Chief Executive Officer
Patrick Kin Wah Chan.....	61	Group Executive Director/Operations Director
Frank Chi Chung Chan.....	67	Group Executive Director/Group Chief Financial Officer
Roy Chi Ping Chung GBS BBS JP	68	Non-executive Director
Camille Jojo.....	65	Non-executive Director
Peter David Sullivan.....	73	Independent Non-executive Director
Vincent Ting Kau Cheung.....	79	Independent Non-executive Director
Johannes-Gerhard Hesse	62	Independent Non-executive Director
Robert Hinman Getz.....	59	Independent Non-executive Director
Virginia Davis Wilmerding	51	Independent Non-executive Director

Executive Directors

Mr. Horst Julius Pudwill, aged 76, is Chairman of the Company, 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.

Mr. Stephan Horst Pudwill, aged 44, 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 1 October 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.

Mr. Joseph Galli Jr, aged 63, joined the Group in 2006 as the Chief Executive Officer of Techtronic Appliances and was appointed as Chief Executive Officer and Executive Director of the Company effective 1 February 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 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.

Mr. Patrick Kin Wah Chan, aged 61, 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.

Mr. Frank Chi Chung Chan, aged 67, 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 SEHK.

Non-executive Directors

Prof. Roy Chi Ping Chung GBS BBS JP, aged 68, is a Co-founder of the Company. Prof. Chung, previously the Group Managing Director since 1985, was appointed as the Group Vice Chairman and Executive Director of the Company on 18 April 2007. He has been re-designated to Non-executive Director of the Company with effect from 1 July 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) Medal and the Bronze Bauhinia Star (BBS) Medal by the Hong Kong SAR Government on 30 June 2017 and 1 July 2011 respectively. He was also appointed as Justice of Peace by the Hong Kong SAR Government on 1 July 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 is highly dedicated to the advancement of industry. He 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 5 July 2013. In addition, Prof. Chung holds positions in a number of Hong Kong SAR Government advisory committees and is an active member of many social committees and associations. Prof. Chung 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, Fujikon Industrial Holdings Limited and Vitasoy International Holdings Limited.

Mr. Camille Jojo, aged 65, was appointed as a Non-executive Director with effect from 30 October 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

Mr. Peter David Sullivan BS, aged 73, was appointed as Independent Non-executive Director effective 1 February 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 resigned 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 1 May 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).

Mr. Vincent Ting Kau Cheung, aged 79, was appointed as a Director in 1991 and was re-designated as an Independent Non-executive Director on 30 March 2012.

Mr. Cheung is a graduate in law from University College London and has been a practising solicitor since 1970. He is qualified to practice law in Hong Kong and England and Wales and he is now a Consultant of Vincent T.K. Cheung, Yap & Co. He is also a Fellow of University College London and a Commandeur de l'Ordre du Mérite Agricole of France.

Mr. Johannes-Gerhard Hesse (commonly known as Hans-Gerd Hesse), aged 62, was appointed as an Independent Non-executive Director of the Company with effect from 1 October 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. He lives in Germany and holds a Hong Kong permanent resident status.

Mr. Robert Hinman Getz, aged 59, was appointed as an Independent Non-executive Director of the Company with effect from 1 January 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:NASDAQ), 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.

Ms. Virginia Davis Wilmerding (also known as Ginny Wilmerding), aged 51, was appointed as an Independent Non-executive Director of the Company on 9 April 2021. She holds a 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 Finsbury Glover Hering ("**Finsbury**"), a global critical issues and strategic financial communications consultancy, working across Greater China and Asia. 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 Finsbury, 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 of almost 12 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 heads of the ESG and governance practice. Other corporate experience includes business development and joint venture operational roles for Hutchison Whampoa and Lucent Technologies in Hong Kong 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.

Ms. Wilmerding is a founding steering committee member of the 30% Club Hong Kong and has been a Board Trustee of Princeton in Asia (“PiA”) since 1997. She is now chairing PiA’s Asia Advisory Council and serving on its executive, nominating and development committees. Ms. Wilmerding has completed 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, and in 2006 she published a business advice book for women (John Wiley & Sons).

Board Committees

Audit Committee

The Audit Committee is chaired by Mr. Peter David Sullivan with other members being Mr. Vincent Ting Kau Cheung, Mr. Johannes-Gerhard Hesse, Mr. Camille Jojo and Mr Robert Hinman Getz. All members except Mr. Camille Jojo are Independent Non-executive Directors. Majority of the members of the Audit Committee have professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

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 integrity of the financial statements of the Company and take 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 selection, oversight and remuneration of the Company’s external auditors, the assessment of the independence and qualifications of the external auditors, the oversight of the performance of the Company’s external auditors and the maintenance of an appropriate relationship with 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. Vincent Ting Kau Cheung and Mr. Johannes-Gerhard Hesse. All members except Mr. Horst Julius Pudwill are Independent Non-executive Directors.

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. To effectively discharge its function, the Board should have a balance of skills and experience appropriate for the requirements of the business of the Group. When considering suitable candidates for Directors, the Nomination Committee considers factors including, but not limited to, ethics, integrity, professional knowledge, industry experience, personal skills and as well as the ability to contribute sufficient time and attention to the Board in their recommendations.

Remuneration Committee

The Remuneration Committee is composed of a majority of Independent Non-executive Directors and is chaired by Mr. Vincent Ting Kau Cheung with the other members being Mr. Peter David Sullivan and Mr. Camille Jojo.

The responsibilities of the Remuneration Committee include, but not limited to, developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the Group and the remuneration of Directors and senior management of the Group, and determining their remuneration packages, on the basis of their merit, competence and qualifications, and having regard to individual performance, the Company's operating results and return to shareholders, and comparable market statistics. The Remuneration Committee makes recommendations to the Board on the remuneration packages of Executive Directors and senior management, including, without limitation, base salaries, benefits in kind, compensation payments and

bonuses, and consults the Chairman and/or Chief Executive Officer for the proposals of other Executive Directors' remuneration packages. The Remuneration Committee also makes recommendations to the Board on the remuneration of Non-executive Directors and Independent Non-executive Directors. The Remuneration Committee reports directly to the Board on its decisions or recommendations and with access to sufficient resources and professional advice if necessary.

Compensation of Directors and Senior Management

The aggregate amount of compensation (including fees, basic salaries and allowances, contributions to retirement benefits schemes, bonus paid and share-based payments) paid or payable to the Group's Directors for each of the years ended 31 December 2018, 2019 and 2020 was U.S.\$41.5 million, U.S.\$49.2 million and U.S.\$64.3 million, respectively.

For the year ended 31 December 2020, a total of 7,951,000 options were granted to Executive Directors, Non-executive Directors and Independent Non-executive Directors, 3,393,000 awarded shares were granted to Executive Directors, Non-executive Directors and Independent Non-executive Directors. For the year ended 31 December 2019, a total of 2,179,000 options were granted to Executive Directors, Non-executive Directors and Independent Non-executive Directors, 460,000 awarded shares were granted to Executive Director and Non-executive Director and no awarded shares were granted to Independent Non-executive Directors. For the year ended 31 December 2018, a total of 1,450,000 options were granted to Executive Directors, Non-executive Directors and Independent Non-executive Directors, 1,174,500 awarded shares were granted to Executive Directors and Non-executive Director and no awarded shares were granted to Independent Non-executive Directors.

During the years ended 31 December 2018, 2019 and 2020 and other than as set out above, no remuneration was paid by the Group to or receivable by its Directors as an inducement to join or upon joining the Group.

No compensation was paid by the Group to or receivable by its Directors or past Directors for the loss of office as a Director or for loss of any other office in connection with the management of the Group's affairs.

None of the Group's Directors waived any compensation.

The remuneration of members of the Group's senior management team is determined by the Remuneration Committee and is reviewed on an annual basis taking into consideration their merit, qualifications, and competence, and having regard to the Group's operating results, individual performance, and comparable market statistics.

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2020, three of those were directors of the Company. Of the five individuals with the highest emoluments (including basic salaries and allowances, contributions to retirement benefits schemes, bonus paid, other benefits and share-based payments) in the Group for the year ended 31 December 2019, four of those were directors of the Company. Of the five individuals with the highest emoluments (including basic salaries and allowances, contributions to retirement benefits schemes, bonus paid, other benefits and share-based payments) in the Group for the year ended 31 December 2018, four of those were directors of the Company. Their aggregate compensation has been included in the aggregate compensation of all the Directors above. The emoluments of the remaining individual(s) with the highest emoluments in the Group (i.e. non-director individuals) during the years ended 31 December 2018, 2019 and 2020 were U.S.\$5.0 million, U.S.\$5.1 million and U.S.\$14.4 million, respectively. No compensation was paid/payable by us to such employees for the years ended 31 December 2018, 2019 and 2020 for loss of office in connection with the management of the Group's affairs.

Except as disclosed above, no other payments have been paid or payable by the Group or any of its subsidiaries to its Directors, with respect to the years ended 31 December 2018, 2019 and 2020.

SUBSTANTIAL SHAREHOLDERS AND DIRECTORS' INTERESTS

Substantial Shareholders' Interests

As at 31 December 2020, 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 Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (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
Artisan Partners Asset Management Inc. ⁽¹⁾	94,073,945	(L)	5.13%
JPMorgan Chase & Co. ⁽²⁾	146,684,919	(L)	8.00%
	2,877,100	(S)	0.16%
	44,214,794	(LP)	2.41%
The Bank of New York Mellon Corporation ⁽³⁾	109,614,700	(L)	5.98%
	32,484,810	(S)	1.77%
	72,595,741	(LP)	3.96%

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

Notes:

(1) The following is a breakdown of the interest in shares in the Company held by Artisan Partners Asset Management Inc.:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
Artisan Partners Asset Management Inc.	(1a)	—	—	94,073,945	(L)	5.13%
Artisan Partners Holdings LP	(1b)	—	—	94,073,945	(L)	5.13%
Artisan Investments GP LLC	(1b)	—	—	94,073,945	(L)	5.13%
Artisan Partners Limited Partnership	(1b)	94,073,945	(L)	—	—	5.13%

Remarks:

(1a) Artisan Partners Asset Management Inc. is listed on The New York Stock Exchange. The capacity of Artisan Partners Asset Management Inc. in holding the 94,073,945 shares of long position was as controlled corporation.

(1b) Artisan Partners Holdings LP, Artisan Investments GP LLC and Artisan Partners Limited Partnership were all directly or indirectly owned by Artisan Partners Asset Management Inc. and by virtue of the SFO, Artisan Partners Asset Management Inc. was deemed to be interested in the shares held by these subsidiaries.

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

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
JPMorgan Chase & Co.	(2a)	—	—	146,684,919	(L)	8.00%
		—	—	2,877,100	(S)	0.16%
		—	—	44,214,794	(LP)	2.41%
JPMorgan Asset Management (Taiwan) Limited	(2b)	465,000	(L)	—	—	0.03%
J.P. Morgan AG	(2b)	3,000	(L)	—	—	0.00%
J.P. Morgan Securities LLC	(2b)	965,038	(L)	—	—	0.05%
		243,000	(S)	—	—	0.01%
JPMORGAN CHASE BANK, N.A. – LONDON BRANCH	(2b)	44,214,794	(L)	—	—	2.41%
J.P. Morgan Prime Inc.	(2b)	2,000	(L)	—	—	0.00%
		2,000	(S)	—	—	0.00%
JPMORGAN ASSET MANAGEMENT (UK) LIMITED	(2b)	4,567,000	(L)	—	—	0.25%
J.P. Morgan Investment Management Inc.	(2b)	70,828,000	(L)	—	—	3.86%
JPMorgan Asset Management (Japan) Limited	(2b)	755,272	(L)	—	—	0.04%
J.P. Morgan Trust Company of Delaware	(2b)	76,340	(L)	—	—	0.00%
JPMorgan Chase Bank, National Association	(2b)	6,705,576	(L)	—	—	0.37%
JPMorgan Asset Management (Asia Pacific) Limited	(2b)	13,149,000	(L)	—	—	0.72%
J.P. MORGAN SECURITIES PLC	(2b)	4,953,899	(L)	—	—	0.27%
		2,632,100	(S)	—	—	0.14%
JPMorgan Asset Management (Asia) Inc.	(2b)	—	—	14,369,272	(L)	0.78%
JPMorgan Asset Management Holdings Inc.	(2b)	—	—	89,764,272	(L)	4.90%
JPMorgan Chase Holdings LLC	(2b)	—	—	90,807,650	(L)	4.96%
		—	—	245,000	(S)	0.01%
J.P. Morgan International Finance Limited	(2b)	—	—	4,956,899	(L)	0.27%
		—	—	2,632,100	(S)	0.14%
JPMorgan Chase Bank, National Association	(2b)	—	—	49,171,693	(L)	2.68%
		—	—	2,632,100	(S)	0.14%
J.P. Morgan Broker-Dealer Holdings Inc.	(2b)	—	—	967,038	(L)	0.05%
		—	—	245,000	(S)	0.01%
J.P. Morgan Securities LLC	(2b)	—	—	2,000	(L)	0.00%
		—	—	2,000	(S)	0.00%
JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	(2b)	—	—	4,567,000	(L)	0.25%
J.P. Morgan Equity Holdings, Inc.	(2b)	—	—	76,340	(L)	0.00%
J.P. MORGAN CAPITAL HOLDINGS LIMITED	(2b)	—	—	4,953,899	(L)	0.27%
		—	—	2,632,100	(S)	0.14%

Remarks:

(2a) JPMorgan Chase & Co. is listed on New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 146,684,919 shares of long position, 2,877,100 shares of short position and 44,214,794 shares of lending pool respectively was as controlled corporation.

(2b) JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan AG, J.P. Morgan Securities LLC, JPMORGAN CHASE BANK, N.A. – LONDON BRANCH, J.P. Morgan Prime Inc., JPMORGAN ASSET MANAGEMENT (UK) LIMITED,

J.P. Morgan Investment Management 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 Broker-Dealer Holdings Inc., J.P. Morgan Securities LLC, 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.

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

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S/LP)*	Deemed interests	(L/S/LP)*	
The Bank of New York Mellon Corporation	(3a)	—	—	109,614,700	(L)	5.98%
		—	—	32,484,810	(S)	1.77%
		—	—	72,595,741	(LP)	3.96%
The Bank of New York Mellon	(3b)	109,562,340	(L)	—	—	5.98%
		32,484,810	(S)	—	—	1.77%
BNY Mellon, National Association	(3b)	51,395	(L)	—	—	0.00%
B.N.Y. Holdings (Delaware) Corporation	(3b)	—	—	965	(L)	0.00%
BNY Mellon Trust of Delaware	(3b)	965	(L)	—	—	0.00%

Remarks:

- (3a) 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 109,614,700 shares of long position, 32,484,810 shares of short position and 72,595,741 shares of lending pool respectively was as controlled corporation.

- (3b) 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 31 December 2020.

Directors' Interests

As at 31 December 2020, 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 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 SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to 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	150,778,500 ⁽²⁾	144,000	367,842,294	20.07%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	216,159,794 ⁽³⁾	—		
Mr. Stephan Horst Pudwill	Beneficial owner	5,109,500 ⁽⁴⁾	4,750,000	43,867,000	2.39%
	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	525,000 ⁽⁷⁾	4,000,000	4,525,000	0.25%
Mr. Chi Chung Chan	Beneficial owner	700,000 ⁽⁸⁾	4,200,000	4,900,000	0.27%
Prof. Roy Chi Ping Chung GBS BBS JP	Beneficial owner	49,015,948 ⁽⁹⁾	544,000	86,634,978	4.73%
	Interests of controlled corporation	37,075,030 ⁽¹⁰⁾	—		
Mr. Camille Jojo	Beneficial owner	160,000 ⁽¹¹⁾	244,000	404,000	0.02%
Mr. Christopher Patrick Langley OBE	Beneficial owner	210,000 ⁽¹²⁾	374,000	584,000	0.03%
Mr. Peter David Sullivan	Beneficial owner	10,000 ⁽¹³⁾	544,000	554,000	0.03%
Mr. Vincent Ting Kau Cheung	Beneficial owner	4,250,000 ⁽¹⁴⁾	194,000	4,444,000	0.24%
Mr. Johannes-Gerhard Hesse	Beneficial owner	10,000 ⁽¹⁵⁾	379,000	389,000	0.02%
Mr. Robert Hinman Getz	Beneficial owner	55,674 ⁽¹⁶⁾	122,000	177,674	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. These share options are physically settled and unlisted.

- (2) These included Mr. Horst Julius Pudwill's interests in 950,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (3) These shares were held by the following companies in which Mr. Horst Julius Pudwill has a beneficial interest:

	Number of shares
Sunning Inc.	179,084,764
Cordless Industries Company Limited*	37,075,030
	<u>216,159,794</u>

- (4) These included Mr. Stephan Horst Pudwill's interests in 75,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (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 1,257,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020; 4,000,000 awarded shares which agreed to be granted to Mr. Galli in the year between 2021 to 2024 in four equal tranches (i.e. 1,000,000 awarded shares each year) provided the Company meets certain performance criteria; and the agreement for the 1,000,000 shares, 1,000,000 shares and 5,000,000 shares might be granted subject to, inter alia, the achievement of performance criteria for the year of 2020, the year of 2021 and the years between 2022 to 2026 respectively.
- (7) These included Mr. Kin Wah Chan's interests in 75,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (8) These included Mr. Chi Chung Chan's interests in 75,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (9) These included Prof. Roy Chi Ping Chung GBS BBS JP's interests in 10,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (10) 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.
- (11) These included Mr. Camille Jojo's interests in 110,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (12) These included Mr. Christopher Patrick Langley OBE's interests in 10,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (13) These included Mr. Peter David Sullivan's interests in 10,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (14) These included Mr. Vincent Ting Kau Cheung's interests in 10,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (15) These included Mr. Johannes-Gerhard Hesse's interests in 10,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.
- (16) These included Mr. Robert Hinman Getz's interests in 10,000 awarded shares which remained unvested under the share award schemes of the Company as of 31 December 2020.

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 31 December 2020.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between the Group's consolidated subsidiaries and its Directors, executive officers and substantial shareholders and, in each case, the companies with whom associates are affiliated.

The Company and its subsidiaries from time to time engage in transactions with associates of the Company in the ordinary course of their business. It is the Company's policy to conduct these transactions on normal commercial terms and on an arm's-length basis.

Transactions with Associates

During the years ended 31 December 2018, 2019 and 2020, the Group entered into related party transactions with its associates as follows.

	Year ended 31 December		
	2018	2019	2020
	(U.S.\$ in millions)		
Interest income	-	0.2	0.0
Sales income	5.1	50.0	40.6
Purchases	5.1	3.1	0.5

Remuneration of Directors and Other Key Management

The Company's Directors and management receive compensation including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contribution to pension plans for their services to the Company.

	Year ended 31 December		
	2018	2019	2020
	(U.S.\$ in millions)		
Short-term benefits	61.2	76.7	97.9
Post-employment benefits	0.9	1.9	1.3
Share-based benefits	4.8	6.5	17.5
Total	66.9	85.1	116.7

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on laws and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of the Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes issued outside Hong Kong in any circumstances or, if issued in Hong Kong, provided either:

- (i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap.117) of Hong Kong (the "**SDO**")).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes.

Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes provided that either:

- (i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the value of the consideration. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

The U.S. Internal Revenue Code of 1986 ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg or the CMU Service (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for its customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU Service

The CMU Service is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Notes**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU Service is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Cap. 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant

CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU Service will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Transfers of the Notes Represented by Global Notes Certificate

Transfers of any interests in Notes represented by a Global Note Certificate within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

On or after the Issue Date for any Series, transfers of the Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Notes among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by Clearstream, Luxembourg or Euroclear, the CMU Service or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Notes Certificate or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

The Dealers have, in an amended and restated dealer agreement dated 21 May 2021 (the "**Dealer Agreement**"), agreed with the Issuer a basis upon which they or any of them may from time to time agree to severally, and not jointly, subscribe the Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". The Issuer will pay each relevant Dealer a commission as agreed between them in respect of the Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Notes at an issue price (the "**Issue Price**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer has agreed to reimburse the Arrangers certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers certain of their activities in connection with the Programme. The commissions in respect of an issue of the Notes on a syndicated basis may be stated in the relevant Pricing Supplement. The Dealers and the Issuer may also, in relation to any Tranche of Notes, agree to pay private banks or other selling agents a commission in order to facilitate the offering of the Notes.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In connection with the issue of any Series of Notes, the Dealer or Dealers (if any) named as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

In connection with each Series of the Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or their respective subsidiaries or affiliates at the same time as the offer and sale of each Series of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Series of the Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Series of the Notes).

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit

derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes. Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of that Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

Selling Restrictions

United States of America

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, the Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment except in accordance with Rule 903 of Regulation S under the Securities Act.

In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, the Notes have not been and will not be registered under the Securities Act and may not be offered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act. The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

The issue of Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

Dealer's compliance with United States securities laws

In relation to each Tranche of the Notes:

Offers/sales only in accordance with Regulation S: each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that it has offered and sold the Notes, and will offer and sell the Notes as part of their distribution, at any time and only in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that

- (A) neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes; and
- (B) it and its affiliates have complied and will comply with Regulation S under the Securities Act; and
 - (a) *Prescribed form of confirmation:* each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that, at or prior to confirmation of sale, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration which purchases Notes from it a confirmation or notice in substantially the following form:

"The Securities covered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**") and may not be offered or sold within the United States, as part of their distribution at any time, except pursuant to an exemption from the registration requirements of the Securities Act. Terms used above have the meanings given to them by Regulation S";
 - (b) *Completion of distribution:* each Dealer, which has purchased Notes of such Tranche in accordance with the related subscription agreement, shall determine and certify to the Principal Paying Agent or the Issuer the completion of the distribution of the Notes of such Tranche purchased by it. In the case of a subscription agreement between the Issuer and more than one Dealer, the Principal Paying Agent or the Issuer shall notify each relevant Dealer when all relevant Dealers have certified as provided in this paragraph. In order to facilitate compliance by each Dealer with the foregoing, the Issuer undertakes that, prior to such certification with respect to such Tranche, it will notify each Dealer in writing of each acceptance by the Issuer of an offer to purchase and of any issuance of, Notes or other debt obligations of the Issuer which are denominated in the same currency or composite currency and which have substantially the same interest rate and maturity date as the Notes of such Tranche; and
 - (c) *No Solicitation:* Each Dealer has represented, warranted and undertaken to the Issuer that neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has solicited or will solicit any offer to buy or offer to sell the Notes by any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act) in the United States.

Dealers compliance with the United States tax laws

Where the relevant Pricing Supplement for Bearer Notes specifies that the D Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of the D Rules. Where the relevant Pricing Supplement for Bearer Notes specifies that the C Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of C Rules. Where the relevant Pricing Supplement specifies that is not applicable, the Notes will not be issued in accordance with the provisions of either the D Rules or the C Rules.

The D Rules

Where the D Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of the Notes, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that:

- (a) *Restrictions on offers etc.*: except to the extent permitted under the D Rules:
 - (i) *No offers etc. to United States or United States persons*: it has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a United States person; and
 - (ii) *No delivery of Definitive Notes in the United States*: it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period,
- (b) *Internal compliance procedures*: it has, and throughout the restricted period will have, in effect procedures reasonably *designed* to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) *Additional provision if Dealer is a United States person*: if it is a United States person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of rules in substantially the same form as United States Treasury Regulation §1.163-5(c)(2)(i)(D)(6) for purposes of Section 4701 of the U.S. Internal Revenue Code;
- (d) *Affiliates*: with respect to each affiliate of such Dealer that acquires Notes from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that it will obtain from such affiliate for the benefit of the Issuer the representations, warranties and undertakings contained in paragraph (a) (*Restrictions on offers, etc.*), paragraph (b) (*Internal procedures*) and paragraph (c) (*Additional provision if Dealer is a United States person*) and paragraph (d) (*Affiliates*); and
- (e) *Contracts*: with respect to each person, other than the Dealer's affiliate, with whom such Dealer enters into a written contract, as defined in United States Treasury Regulation §1.163-5(c)(2)(i)(D)(4) or any successor regulation in substantially the same form, such Dealer has undertaken, and each further Dealer appointed under the Program will be required to undertake to the Issuer that it will obtain from such person for the benefit of the Issuer the representations, warranties and undertakings contained in paragraph (a) (*Restrictions on offers, etc.*), paragraph (b) (*Internal procedures*) and paragraph (c) (*Additional provision if United States person*). Notes issued pursuant to the D Rules and any Coupons and Talons appertaining thereto will bear the following legend:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATION PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The C Rules

Where the C Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of the Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to Issuer that, in connection with the original issuance of the Notes:

- (a) *No offers etc. in United States*: it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and
- (b) *No communications with United States*: it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of the Notes.

Interpretation

Terms used in the paragraph "*Dealers' compliance with United States securities laws*" have the meanings given to them by Regulation S under the Securities Act. Terms used in the paragraphs "*The D Rules*" and "*The C Rules*" have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the C Rules and the D Rules.

European Economic Area

Prohibition of Sales to EEA Retail Investors and Public Offer Selling Restriction under the Prospectus Regulation

Unless the relevant Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
- (b) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area (each a "**Relevant State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto (or are the subject of the offering contemplated by a supplemental offering circular, as the case may be) to the public in that Relevant State except that it may make an offer of such Notes to the public in that Relevant State:

- (a) *Approved prospectus*: if the Pricing Supplement or supplemental offering circular in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the EU

Prospectus Regulation in that Relevant State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, provided that any such prospectus (which is not a supplemental offering circular) has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the EU Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;
- (c) *Fewer than 150 offerees*: at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) *Other exempt offers*: at any time in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation.

provided that no such offer of the Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of the Notes to the public**" in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, and the expression "**EU Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Prohibition of Sales to UK Retail Investors

Unless the relevant Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing

Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (a) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Article 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- (c) at any time to fewer than 150 persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "an offer of Notes to the public" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other regulatory restrictions

In relation to each Tranche of Notes, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (a) *No deposit-taking*: in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

- (b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered or sold directly or indirectly in the People's Republic of China (the "**PRC**") (which, for the sole purpose herein, does not include Hong Kong, Macau or Taiwan). This Offering Circular, the Notes and any material or information contained or incorporated by reference herein relating to the Notes have not been, and will not be, submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("**CSRC**") or other relevant governmental and regulatory authorities in the PRC pursuant to relevant laws and regulations and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Notes in the PRC.

The Notes may only be invested by PRC investors that are authorised to engage in the investment in the Notes of the type being offered or sold. PRC investors are responsible for informing themselves about and observing all legal and regulatory restrictions, obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, any which may be required from the People's Bank of China, the State Administration of Foreign Exchange, CSRC, the China Banking and Insurance Regulatory Commission and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or overseas investment regulations.

Hong Kong

In relation to each Series of the Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the SFO, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMPO)**") or which do not constitute an offer to the public within the meaning of the C(WUMPO); and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and

each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time (the "SFA") pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Taiwan

The Notes have not been and will not be registered or filed with, or approved by the Financial Supervisory Commission of Taiwan and/or other regulatory authority or agency of Taiwan pursuant to relevant securities laws and regulations of Taiwan and may not be issued, offered or sold in Taiwan through a public offering or in circumstance which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission and/or other regulatory authority or agency of Taiwan. No person or entity in Taiwan has been authorised to offer or sell the Notes in Taiwan. The Notes may be made available outside Taiwan for purchase outside Taiwan by Taiwan resident investors, but may not be offered or sold in Taiwan.

General

These selling restrictions may be modified by the agreement of each of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of the Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. Listing

Application has been made to the SEHK for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the SEHK. The issue price of the Notes listed on the SEHK will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the SEHK are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

2. Authorisation

The establishment of the Programme and the issue of the Notes thereunder were authorised by a resolution of the board of directors of the Issuer passed on 13 May 2021. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

3. Auditor

The Issuer's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, as stated in its report appearing herein.

4. Documents on Display

For so long as Notes may be issued pursuant to this Offering Circular, copies of the following documents may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of the Trustee at 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong, and the specified office of the Principal Paying Agent at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland, for so long as the Notes are capable of being issued under the Programme:

- (i) the articles of association of the Issuer;
- (ii) the audited consolidated financial statements of the Issuer for the years ended 31 December 2018, 2019 and 2020;
- (iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited) published subsequently to such audited annual financial statements, of the Issuer;
- (iv) each Pricing Supplement;
- (v) a copy of this Offering Circular together with any supplement to this Offering Circular;
- (vi) the Trust Deed (which contain the forms of the Notes in global and definitive form);
- (vii) the Agency Agreement; and
- (viii) the Programme Manual.

5. Clearing of the Notes

The Notes may be accepted for clearance through Euroclear, Clearstream, Luxembourg and CMU Service. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

6. Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group since 31 December 2020 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2020.

7. Litigation

The Group is involved in various legal proceedings on a day to day basis. However, as at the date of this Offering Circular, save as disclosed in this Offering Circular, neither the Group nor its subsidiaries are involved in any legal proceedings which are material in the context of the issue of the Notes.

8. Legal Entity Identifier

Techtronic Industries Company Limited's legal entity identifier is 549300HZW2SBE758OK89.

INDEX TO FINANCIAL STATEMENTS

	Page
Audited Consolidated Financial Statements	
Independent Auditors' Report for the year ended 31 December 2020 and 2019	F-2
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020 and 2019.....	F-6
Consolidated Statement of Financial Position for the year ended 31 December 2020 and 2019	F-7
Consolidated Statement of Changes in Equity for the year ended 31 December 2020 and 2019	F-9
Consolidated Statement of Cash Flows for the year ended 31 December 2020 and 2019	F-10
Notes to the Consolidated Financial Statements for the year ended 31 December 2020 and 2019	F-12
Independent Auditors' Report for the year ended 31 December 2019 and 2018	F-94
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019 and 2018.....	F-98
Consolidated Statement of Financial Position for the year ended 31 December 2019 and 2018	F-99
Consolidated Statement of Changes in Equity for the year ended 31 December 2019 and 2018	F-101
Consolidated Statement of Cash Flows for the year ended 31 December 2019 and 2018	F-102
Notes to the Consolidated Financial Statements for the year ended 31 December 2019 and 2018	F-104

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 159 to 246, which comprise the consolidated statement of financial position as at December 31, 2020, 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, 2020, 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

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, and the expected life of the products.

As disclosed in Note 19 to the consolidated financial statements, as at December 31, 2020 the carrying value of deferred development costs was US\$394 million with the additions and amortization charge during the year being US\$146 million and US\$102 million respectively.

Recognition of income and deferred tax

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 41 to the consolidated financial statements, as at December 31, 2020, the Group has recognized US\$60 million of income tax expense in the consolidated statement of profit or loss and other comprehensive income and US\$75 million deferred tax assets in the consolidated statement of financial position, respectively.

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 relevant controls over the capitalization of deferred development costs;
- Evaluating the nature 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 cost incurred to external invoices and internal records.

Our procedures in relation to management's assessment about the recognition of income and deferred tax included:

- Obtaining an understanding of management's process and relevant controls regarding the tax exposures and estimating the provision for income tax and deferred tax assets to be recognized;
- Understanding and evaluating management's estimates and judgements by considering 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. 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 HKSA's 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 HKSA's, 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, actions taken to eliminate threats or safeguards applied.

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 3, 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2020

	Notes	2020 US\$'000	2019 US\$'000
Revenue	6	9,811,941	7,666,721
Cost of sales		(6,058,859)	(4,774,065)
Gross profit		3,753,082	2,892,656
Other income	7	11,164	10,542
Interest income	8	36,787	40,215
Selling, distribution and advertising expenses		(1,573,048)	(1,195,138)
Administrative expenses		(1,006,327)	(804,989)
Research and development costs		(316,614)	(229,796)
Finance costs	9	(44,222)	(52,323)
Profit before share of results of associates and taxation		860,822	661,167
Share of results of associates		432	119
Profit before taxation		861,254	661,286
Taxation charge	10	(60,258)	(46,290)
Profit for the year	11	800,996	614,996
Other comprehensive (loss) income:			
Item that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		(6,718)	(8,361)
Items that may be reclassified subsequently to profit or loss, net of related income tax:			
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting		(90,897)	(10,856)
Exchange differences on translation of foreign operations		63,537	(8,071)
Other comprehensive loss for the year		(34,078)	(27,288)
Total comprehensive income for the year		766,918	587,708
Profit for the year attributable to:			
Owners of the Company		800,760	614,900
Non-controlling interests		236	96
		800,996	614,996
Total comprehensive income attributable to:			
Owners of the Company		766,682	587,612
Non-controlling interests		236	96
		766,918	587,708
Earnings per share (US cents)	15		
Basic		43.80	33.67
Diluted		43.63	33.55

Consolidated Statement of Financial Position

As at December 31, 2020

	Notes	2020 US\$'000	2019 US\$'000
Non-current assets			
Property, plant and equipment	16	1,332,960	1,086,559
Right of use assets	17	383,718	247,144
Goodwill	18	578,461	580,866
Intangible assets	19	663,674	666,705
Interests in associates	21	2,021	3,243
Financial assets at fair value through profit or loss	22	6,535	5,796
Derivative financial instruments	28	8,494	8,929
Deferred tax assets	41	74,501	74,947
		3,050,364	2,674,189
Current assets			
Inventories	23	3,223,748	2,112,931
Right to returned goods asset	24	9,266	15,342
Trade and other receivables	25	1,367,286	1,228,573
Deposits and prepayments		139,677	169,076
Bills receivable	26	7,660	6,076
Tax recoverable		27,181	23,887
Trade receivables from associates	27	4,240	6,494
Derivative financial instruments	28	9,341	25,065
Financial assets at fair value through profit or loss	22	17,763	24,597
Bank balances, deposits and cash	29	1,533,876	1,411,821
		6,340,038	5,023,862
Current liabilities			
Trade and other payables	30	3,247,808	2,177,417
Bills payable	31	61,791	46,170
Warranty provision	32	156,671	115,210
Tax payable		32,336	19,596
Derivative financial instruments	28	96,135	17,493
Lease liabilities	33	73,331	63,878
Discounted bills with recourse	34	1,436	9,089
Unsecured borrowings – due within one year	37	385,214	732,380
Refund liabilities from right of return	24	26,713	36,474
		4,081,435	3,217,707
Net current assets		2,258,603	1,806,155
Total assets less current liabilities		5,308,967	4,480,344

Consolidated Statement of Financial Position

As at December 31, 2020

	Notes	2020 US\$'000	2019 US\$'000
Capital and Reserves			
Share capital	38	673,141	662,379
Reserves		3,229,864	2,732,266
Equity attributable to Owners of the Company		3,903,005	3,394,645
Non-controlling interests		(98)	(334)
Total equity		3,902,907	3,394,311
Non-current Liabilities			
Lease liabilities	33	301,076	174,490
Unsecured borrowings – due after one year	37	940,220	754,628
Retirement benefit obligations	40	92,318	107,967
Other payables	30	58,524	35,494
Deferred tax liabilities	41	13,922	13,454
		1,406,060	1,086,033
Total equity and non-current liabilities		5,308,967	4,480,344

The consolidated financial statements on pages 159 to 246 were approved and authorized for issue by the Board of Directors on March 3, 2021 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, 2020

	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, 2019	654,991	(25,115)	(143,231)	11,032	(20,532)	21,448	2,540,425	3,039,018	(430)	3,038,588
Profit for the year	—	—	—	—	—	—	614,900	614,900	96	614,996
Remeasurement of defined benefit obligations	—	—	—	—	(9,076)	—	—	(9,076)	—	(9,076)
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	—	—	—	(12,106)	—	(12,106)	—	(12,106)
Deferred tax asset on remeasurement of defined benefit obligations	—	—	—	—	715	—	—	715	—	715
Deferred tax liability on hedging reserve	—	—	—	—	—	1,250	—	1,250	—	1,250
Exchange differences on translation of foreign operations	—	—	(8,071)	—	—	—	—	(8,071)	—	(8,071)
Other comprehensive loss for the year	—	—	(8,071)	—	(8,361)	(10,856)	—	(27,288)	—	(27,288)
Total comprehensive (loss) income for the year	—	—	(8,071)	—	(8,361)	(10,856)	614,900	587,612	96	587,708
Shares issued on exercise of options	7,388	—	—	(1,450)	—	—	—	5,938	—	5,938
Repurchase and cancellation of shares	—	—	—	—	—	—	(12,644)	(12,644)	—	(12,644)
Vesting of awarded shares	—	1,765	—	(1,765)	—	—	—	—	—	—
Shares for share award scheme	—	(8,477)	—	—	—	—	—	(8,477)	—	(8,477)
Recognition of share-based payments	—	—	—	6,792	—	—	—	6,792	—	6,792
Lapse of share options	—	—	—	(10)	—	—	10	—	—	—
Final dividend – 2018	—	—	—	—	—	—	(117,621)	(117,621)	—	(117,621)
Interim dividend – 2019	—	—	—	—	—	—	(105,973)	(105,973)	—	(105,973)
At December 31, 2019	662,379	(31,827)	(151,302)	14,599	(28,893)	10,592	2,919,097	3,394,645	(334)	3,394,311
Profit for the year	—	—	—	—	—	—	800,760	800,760	236	800,996
Remeasurement of defined benefit obligations	—	—	—	—	(3,213)	—	—	(3,213)	—	(3,213)
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	—	—	—	(91,219)	—	(91,219)	—	(91,219)
Termination of a defined benefit plan	—	—	—	—	15,991	—	(15,991)	—	—	—
Deferred tax asset on remeasurement of defined benefit obligations	—	—	—	—	(80)	—	—	(80)	—	(80)
Release of deferred tax upon termination of a defined benefit plan	—	—	—	—	(3,425)	—	—	(3,425)	—	(3,425)
Deferred tax liability on hedging reserve	—	—	—	—	—	322	—	322	—	322
Exchange differences on translation of foreign operations	—	—	63,537	—	—	—	—	63,537	—	63,537
Other comprehensive income (loss) for the year	—	—	63,537	—	9,273	(90,897)	(15,991)	(34,078)	—	(34,078)
Total comprehensive income (loss) for the year	—	—	63,537	—	9,273	(90,897)	784,769	766,682	236	766,918
Shares issued on exercise of options	10,762	—	—	(2,168)	—	—	—	8,594	—	8,594
Vesting of awarded shares	—	12,798	—	(12,798)	—	—	—	—	—	—
Shares for share award scheme	—	(23,057)	—	—	—	—	—	(23,057)	—	(23,057)
Recognition of share-based payments	—	—	—	17,778	—	—	—	17,778	—	17,778
Final dividend – 2019	—	—	—	—	—	—	(136,688)	(136,688)	—	(136,688)
Interim dividend – 2020	—	—	—	—	—	—	(124,949)	(124,949)	—	(124,949)
At December 31, 2020	673,141	(42,086)	(87,765)	17,411	(19,620)	(80,305)	3,442,229	3,903,005	(98)	3,902,907

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	2020 US\$'000	2019 US\$'000
Operating Activities		
Profit before taxation	861,254	661,286
Adjustments for:		
Amortization/write-off of intangible assets	161,217	113,101
Depreciation of right of use assets	77,038	67,719
Depreciation on property, plant and equipment	165,893	144,663
Share-based payments expense	17,778	6,792
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps	3,750	13,432
Fair value loss on listed equity securities	8,061	8,231
Fair value gain on club membership debentures	—	(145)
Fair value loss on acquisition right of certain property, plant and equipment	435	512
Finance costs	44,222	52,323
Gain on early termination of leases	(31)	(3,500)
Goodwill written off	3,861	—
Impairment loss on trade receivables under expected credit loss model	22,489	1,321
Interest income	(36,787)	(40,215)
Loss on disposal of property, plant and equipment	62,436	6,330
Share of results of associates	(432)	(119)
Write down of inventories	32,139	34,455
Operating cash flows before movements in working capital	1,423,323	1,066,186
Increase in inventories	(1,117,840)	(383,721)
Increase in trade and other receivables, deposits and prepayments	(120,690)	(147,290)
Decrease (increase) in right to returned goods assets	6,076	(1,337)
Increase in bills receivable	(1,584)	(1,019)
Decrease (increase) in trade receivables from associates	3,908	(3,701)
Increase in trade and other payables	1,098,206	257,994
(Decrease) increase in refund liabilities from right of return	(9,761)	3,207
Increase in bills payable	15,621	5,006
Increase in warranty provision	37,673	9,900
(Decrease) increase in retirement benefit obligations	(54,356)	14,411
Net payment for purchase of shares for share award scheme	(23,057)	(8,477)
Cash generated from operations	1,257,519	811,159
Interest paid	(44,222)	(52,323)
Hong Kong Profits Tax paid	(6,413)	(3,568)
Overseas tax paid	(53,757)	(35,072)
Hong Kong Profits Tax refunded	102	965
Overseas tax refunded	5,836	3,112
Net Cash from Operating Activities	1,159,065	724,273

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	2020 US\$'000	2019 US\$'000
Investing Activities		
Additions to intangible assets	(158,186)	(158,971)
Interest received	36,787	40,215
(Payment for) proceeds from early termination of leases	(38)	25
Proceeds from disposal of property, plant and equipment	2,078	7,154
Purchase of club membership debenture	(752)	—
Purchase of listed equity securities	(1,227)	—
Purchase of property, plant and equipment	(458,928)	(456,608)
Purchase of unlisted equity securities	—	(301)
Net Cash used in Investing Activities	(580,266)	(568,486)
Financing Activities		
Decrease in discounted bills with recourse	(7,653)	(234,271)
Dividends paid	(261,637)	(223,594)
New bank loans obtained	3,693,536	4,041,720
Proceeds from issue of shares	8,594	5,938
Repayment of bank loans	(3,855,110)	(3,350,154)
Repayment of lease liabilities	(75,823)	(64,230)
Payment on repurchase and cancellation of shares	—	(12,644)
Net Cash (used in) from Financing Activities	(498,093)	162,765
Net Increase in Cash and Cash Equivalents	80,706	318,552
Cash and Cash Equivalents at Beginning of the Year	1,411,821	1,103,880
Effect of Foreign Exchange Rate Changes	41,349	(10,611)
Cash and Cash Equivalents at End of the Year	1,533,876	1,411,821
Analysis of the Balances of Cash and Cash Equivalents		
Represented by:		
Bank balances, deposits and cash	1,533,876	1,411,821
	1,533,876	1,411,821

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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 *Amendments to References to the Conceptual Framework in HKFRS Standards* and 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 or after January 1, 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group’s financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impact on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

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

Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

The Group has floating rate debt, linked to London Interbank Offered Rate (“LIBOR”), which it cash flow hedges using cross-currency interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

The Group retained the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The application of the amendments has 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:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

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

² Effective for annual periods beginning on or after January 1, 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after June 1, 2020.

⁵ Effective for annual periods beginning on or after January 1, 2021.

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 HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;
- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at December 31, 2020, the Group had several LIBOR bank loans which will be subject to the interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change and the Group is in the process of assessing the impact of the application which may have a potential impact on the hedge accounting and related disclosures made in the consolidated financial statements of the Group resulting from the reform on application of the amendments.

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.
- 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.

Based on the Group’s outstanding liabilities as at December 31, 2020, the application of the amendments will not result in a reclassification of the Group’s liabilities.

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*.

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

Basis of Preparation of Consolidated Financial Statements (continued)

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.

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.

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

Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Business Combinations or Asset Acquisitions

Optional concentration test

Effective from January 1, 2020, 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

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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

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. Right of use assets ("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.

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

Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Business Combinations or Asset Acquisitions (continued)

Business Combinations (continued)

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 may be 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 considered 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.

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 (or groups of cash-generating units) 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 cash-generating unit (or groups of cash-generating units) 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 cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata based on the carrying amount of each asset in the unit (or groups of cash-generating units). 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 cash-generating unit or any of the cash-generating unit within the group of cash-generating units, 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 cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

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

Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Business Combinations or Asset Acquisitions (continued)

Interests in Associates

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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associates. Changes in net assets of the 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 an 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 assets, 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.

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 associates 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 the Group reduces its ownership interest in associates 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.

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.

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

Significant Accounting Policies (continued)

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 measured at their fair value at the acquisition date. The cost of these intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are reported 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. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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.

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

Significant Accounting Policies (continued)

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 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 of premises, plant and machinery and motor vehicles as disclosed 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.

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.

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)

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.

Property, Plant & Equipment (“PP&E”)

PP&E including buildings are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress. 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 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. 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 cash-generating unit to which the asset belongs.

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

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) 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 cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 cash-generating units. 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 cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 cash-generating unit or a group of cash-generating units) 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)

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*. 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, that at the date of initial application/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 applies.

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

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)

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

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, bills receivable, trade receivables from associates, bank balances, deposits and cash) and other items (financial guarantee contracts) 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.

(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.

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 (continued)

(i) Significant Increase in Credit Risk (continued)

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 foregoing, 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.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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 (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. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward-looking information that is available without undue cost or effort.

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.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

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.

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 (continued)

(v) Measurement and Recognition of ECL (continued)

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).

Except for financial guarantee contracts, 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.

Financial Liabilities and Equity

Financial liabilities 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 financial guarantee contract or a designated and effective hedging instrument.

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)

Financial Liabilities at FVTPL (continued)

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 recognised 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.

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.

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.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes 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.

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.

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance determined in accordance with HKFRS 9; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

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 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.

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

Significant Accounting Policies (continued)

Financial Instruments (continued)

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.

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.

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.

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

Significant Accounting Policies (continued)

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.

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 associates, 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.

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

Significant Accounting Policies (continued)

Taxation (continued)

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.

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 associates 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.

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

Significant Accounting Policies (continued)

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.

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".

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

Significant Accounting Policies (continued)

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. 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 reserves and will not be reclassified to profit or loss.

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 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.

Estimated Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of their recoverable amounts, which is the higher of the value in use and fair value less costs of disposal of the cash-generating units to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward version of discount rate, a material impairment loss or further impairment loss may arise. As at December 31, 2020, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$578,461,000 (2019: US\$580,866,000) and approximately US\$224,440,000 (2019: US\$227,640,000) respectively. Details of the recoverable amount calculation are disclosed in Note 20. 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.

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, 2020, the carrying amounts of deferred development costs of the Group are US\$394,144,000 (2019: US\$388,018,000). 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

As at December 31, 2020, deferred tax assets of US\$25,362,000 (2019: US\$28,165,000) in relation to unused tax losses and US\$39,452,000 (2019: US\$31,984,000) 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. During the year, deferred tax assets of approximately US\$6,703,000 (2019: US\$2,563,000) in relation to unused tax losses were utilized.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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”. 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 – sales of floorcare products and floorcare accessories under the HOOVER, DIRT DEVIL, VAX and ORECK brands plus OEM customers.

Information regarding the above segments is reported below.

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, 2020

	Power Equipment US\$'000	Floorcare US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	8,729,841	1,082,100	—	9,811,941
Inter-segment sales	—	4,018	(4,018)	—
Total segment revenue	8,729,841	1,086,118	(4,018)	9,811,941
Result				
Segment results	843,831	24,622	—	868,453
Interest income				36,787
Finance costs				(44,222)
Profit before tax				861,018

Inter-segment sales are charged at prevailing market rates.

5. Segment Information (continued)**Segment Revenue and Results** (continued)

For the year ended December 31, 2019

	Power Equipment US\$'000	Floorcare US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	6,791,514	875,207	—	7,666,721
Inter-segment sales	—	205	(205)	—
Total segment revenue	6,791,514	875,412	(205)	7,666,721

Inter-segment sales are charged at prevailing market rates.

Result				
Segment results	662,954	10,344	—	673,298
Interest income				40,215
Finance costs				(52,323)
Profit before tax				661,190

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 by each segment without the allocation of interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resources allocation and performance assessment.

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

Other Segment Information**For the year ended December 31, 2020**

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floorcare US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	55,070	7,366	62,436
Write down of inventories	29,974	2,165	32,139
Impairment loss on trade receivables under expected credit loss model	16,222	6,267	22,489
Write-off of intangible assets	43,320	5,481	48,801
Depreciation and amortization	308,564	46,783	355,347
Gain on early termination of leases	(31)	—	(31)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

5. Segment Information (continued)

Other Segment Information (continued)

For the year ended December 31, 2019

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floorcare US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	5,779	551	6,330
Write down of inventories	33,632	823	34,455
(Reversal of impairment loss) impairment loss on trade receivables under expected credit loss model	(1,876)	3,197	1,321
Write-off of intangible assets	3,882	182	4,064
Depreciation and amortization	269,489	51,930	321,419
Gain on early termination of leases	(3,500)	—	(3,500)

Revenue from Major Products

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

	2020 US\$'000	2019 US\$'000
Power Equipment	8,729,841	6,791,514
Floorcare	1,082,100	875,207
Total	9,811,941	7,666,721

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*	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
North America	7,650,370	5,909,781	1,764,007	1,456,518
Europe	1,382,707	1,160,614	173,873	172,451
Other countries	778,864	596,326	1,020,933	952,305
Total	9,811,941	7,666,721	2,958,813	2,581,274

* Non-current assets exclude interests in associates, financial assets at FVTPL, derivative financial instruments and deferred tax assets.

Information about Major Customer

During the years ended December 31, 2020 and 2019, the Group's largest customer contributed total revenue of US\$4,793,600,000 (2019: US\$3,586,339,000), of which US\$4,742,534,000 (2019: US\$3,530,735,000) was under the Power Equipment segment and US\$51,066,000 (2019: US\$55,604,000) was under the Floorcare segment. There is no other customer contributing more than 10% of total revenue.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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:

	2020 US\$'000	2019 US\$'000
Sales of goods	9,801,240	7,641,865
Commission and royalty income	10,701	24,856
	9,811,941	7,666,721

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 (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 that 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, 2020, 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 2020 and 2019 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

	2020 US\$'000	2019 US\$'000
Interest on:		
Bank borrowings	36,648	45,620
Lease liabilities	7,574	6,703
	44,222	52,323

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

10. Taxation Charge

	2020 US\$'000	2019 US\$'000
Current tax:		
Hong Kong Profits Tax	(260)	(1,309)
Over provision in prior years	995	596
	735	(713)
Overseas taxation	(58,505)	(32,279)
Under provision in prior years	(2,033)	(324)
	(60,538)	(32,603)
Deferred tax (Note 41):		
Current year	8,075	4,203
Deferred tax asset impairment	(8,521)	(16,653)
Change in tax rates	(9)	(524)
	(455)	(12,974)
	(60,258)	(46,290)

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:

	2020 US\$'000	2020 %	2019 US\$'000	2019 %
Profit before taxation	861,254		661,286	
Tax at Hong Kong Profits Tax rate	(142,107)	16.5%	(109,112)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	111,836	(13.0%)	128,326	(19.4%)
Tax effect of expenses not deductible for tax purposes	(42,289)	4.9%	(25,431)	3.8%
Tax effect of income not taxable for tax purposes	2,962	(0.3%)	2,175	(0.3%)
Utilization of deductible temporary differences previously not recognized	6,703	(0.8%)	2,563	(0.4%)
Tax effect of tax losses and deductible temporary differences not recognized	12,134	(1.4%)	(28,025)	4.2%
Deferred tax asset impairment	(8,521)	1.0%	(16,653)	2.5%
(Under) over provision in respect of prior years	(1,038)	0.1%	272	(0.0%)
Tax effect of changes in tax rates	(9)	0.0%	(524)	0.1%
Tax effect of share of results of associates	71	(0.0%)	119	(0.0%)
Taxation charge for the year	(60,258)	7.0%	(46,290)	7.0%

Details of deferred tax are set out in Note 41.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

11. Profit for the Year

	2020 US\$'000	2019 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	112,416	109,037
Auditors' remuneration	3,027	3,247
Cost of inventories recognized as an expense	6,058,859	4,774,065
Depreciation of right of use assets	77,038	67,719
Depreciation of property, plant and equipment	165,893	144,663
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps	3,750	13,432
Fair value loss on listed equity securities	8,061	8,231
Fair value gain on club membership debentures	—	(145)
Fair value loss on acquisition right of certain property, plant and equipment	435	512
Gain on early termination of leases	(31)	(3,500)
Impairment loss on trade receivables under expected credit loss model	22,489	1,321
Goodwill written off	3,861	—
Loss on disposal of property, plant and equipment	62,436	6,330
Net exchange loss (gain)	1,633	(3,128)
Operating lease expenses/expenses relating to short-term leases and low-value assets recognized in respect of:		
Motor vehicles	934	640
Plant and machinery	11,522	10,198
Premises	9,716	8,162
Other assets	510	601
Share of results of associates	(432)	(119)
Unconditional government grants	(657)	(322)
Write down of inventories	32,139	34,455
Write-off of intangible assets	48,801	4,064
Staff costs		
Directors' remuneration		
Fees	539	491
Other emoluments	63,754	48,663
	64,293	49,154
Other staff costs	1,293,422	1,097,733
Contributions to retirement benefits schemes (other than those included in the Directors' emoluments)		
Defined contribution plans	17,608	14,155
Defined benefit plans (Note 40)	808	1,660
	1,376,131	1,162,702

Staff costs disclosed above do not include an amount of US\$207,699,000 (2019: US\$174,477,000) of staff costs incurred relating to research and development activities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2019: twelve) directors, disclosed pursuant to the applicable Listing Rules and the CO, was as follows:

For the year ended December 31, 2020

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	12,412	3,795	17,880
Mr Stephan Horst Pudwill (Note i)	—	537	2	2,225	1,191	3,955
Mr Joseph Galli Jr (Note i)	—	1,753	383	19,100	7,211	28,447
Mr Kin Wah Chan (Note i)	—	870	2	2,645	1,191	4,708
Mr Chi Chung Chan (Note i)	—	867	—	4,750	1,191	6,808
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	816	81	974
Mr Camille Jojo (Note ii)	77	27	—	—	521	625
Mr Christopher Patrick Langley OBE (Note iii)	77	15	—	—	81	173
Mr Peter David Sullivan (Note iii)	77	37	—	—	81	195
Mr Vincent Ting Kau Cheung (Note iii)	77	40	—	—	81	198
Mr Johannes-Gerhard Hesse (Note iii)	77	27	—	—	81	185
Mr Robert Hinman Getz (Note iii)	77	7	—	—	61	145
Total	539	5,851	389	41,948	15,566	64,293

12. Directors' Emoluments (continued)

For the year ended December 31, 2019

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	15,066	1,186	17,925
Mr Stephan Horst Pudwill (Note i)	—	390	2	2,057	601	3,050
Mr Joseph Galli Jr (Note i)	—	1,633	180	14,100	648	16,561
Mr Kin Wah Chan (Note i)	—	826	2	2,345	601	3,774
Mr Chi Chung Chan (Note i)	—	823	—	4,585	601	6,009
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	—	135	212
Mr Camille Jojo (Note ii)	77	15	—	—	453	545
Mr Christopher Patrick Langley OBE (Note iii)	77	15	—	—	135	227
Mr Manfred Kuhlmann (Note iii)	29	13	—	—	61	103
Mr Peter David Sullivan (Note iii)	77	37	—	—	135	249
Mr Vincent Ting Kau Cheung (Note iii)	77	40	—	—	135	252
Mr Johannes-Gerhard Hesse (Note iii)	77	26	—	—	144	247
Total	491	5,489	186	38,153	4,835	49,154

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. Details of these benefits in kind are disclosed under the sections "Share Options" and "Share Award Scheme" in Notes 43 and 44 respectively.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2019: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining two (2019: one) individuals for the year ended December 31, 2020 were as follows:

	2020	2019
	US\$'000	US\$'000
Basic salaries and allowances	1,677	787
Contributions to retirement benefits schemes	152	74
Bonus	10,578	2,587
Other benefit	—	—
Share-based payments	1,948	1,635
	14,355	5,083

The emoluments of these two (2019: one) highest paid individuals for the year ended December 31, 2020 were within the following bands:

HK\$	No. of persons	
	2020	2019
39,000,001 to 39,500,000	—	1
51,000,001 to 51,500,000	1	—
60,000,001 to 60,500,000	1	—

During each of the two years ended December 31, 2020 and 2019, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

14. Dividends

	2020 US\$'000	2019 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2019: HK58.00 cents (approximately US7.46 cents) (2018: HK50.00 cents (approximately US6.44 cents) per share)	136,688	117,621
Interim dividend paid:		
2020: HK53.00 cents (approximately US6.82 cents) (2019: HK45.00 cents (approximately US5.79 cents)) per share	124,949	105,973
	261,637	223,594

The final dividend of HK82.00 cents (approximately US10.55 cents) per share with a total of approximately US\$193,404,000 in respect of the year ended December 31, 2020 (2019: final dividend of HK58.00 cents (approximately US7.46 cents) per share in respect of the year ended December 31, 2019) has been proposed by the directors 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:

	2020 US\$'000	2019 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	800,760	614,900
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,828,388,789	1,826,362,982
Effect of dilutive potential ordinary shares:		
Share options	4,816,658	5,004,102
Share award	1,980,218	1,155,989
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,835,185,665	1,832,523,073

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

16. Property, Plant and Equipment

	Freehold land and buildings (Note) US\$'000	Leasehold improvements US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Moulds and tooling US\$'000	Vessels US\$'000	Aircraft US\$'000	Construction in progress US\$'000	Total US\$'000
Cost										
At January 1, 2019	202,505	89,416	237,617	336,745	5,498	343,625	7,106	31,283	187,791	1,441,586
Currency realignment	1,080	302	(8,305)	1,316	197	(1,108)	—	—	(46)	(6,564)
Additions	31,687	3,989	16,212	31,554	409	4,626	—	312	367,819	456,608
Disposals	(307)	(3,786)	(19,494)	(7,104)	(440)	(28,892)	—	(3,900)	(3,882)	(67,805)
Reclassification	165,256	2,626	21,743	33,078	2,383	71,930	—	—	(297,016)	—
At December 31, 2019	400,221	92,547	247,773	395,589	8,047	390,181	7,106	27,695	254,666	1,823,825
Currency realignment	3,163	2,989	5,255	16,765	142	7,142	—	—	2,567	38,023
Additions	177	5,289	15,766	34,373	1,303	3,584	—	—	398,436	458,928
Disposals	(11,478)	(17,160)	(19,858)	(8,641)	(1,485)	(139,383)	—	—	(17,259)	(215,264)
Reclassification	67,597	6,766	36,791	43,623	657	99,119	—	—	(254,553)	—
At December 31, 2020	459,680	90,431	285,727	481,709	8,664	360,643	7,106	27,695	383,857	2,105,512
Depreciation and Impairment										
At January 1, 2019	34,350	44,617	160,137	183,611	3,802	221,591	3,023	234	—	651,365
Currency realignment	867	225	(6,021)	1,052	76	(640)	—	—	—	(4,441)
Provided for the year	9,026	7,509	22,579	33,611	1,050	67,789	1,198	1,901	—	144,663
Eliminated on disposals	(216)	(2,595)	(18,935)	(5,763)	(311)	(26,501)	—	—	—	(54,321)
At December 31, 2019	44,027	49,756	157,760	212,511	4,617	262,239	4,221	2,135	—	737,266
Currency realignment	1,282	1,532	3,795	7,681	87	5,766	—	—	—	20,143
Provided for the year	11,295	10,269	30,543	41,610	1,410	67,662	1,198	1,906	—	165,893
Eliminated on disposals	(4,110)	(12,316)	(13,530)	(8,364)	(1,084)	(111,346)	—	—	—	(150,750)
At December 31, 2020	52,494	49,241	178,568	253,438	5,030	224,321	5,419	4,041	—	772,552
Carrying amounts										
At December 31, 2020	407,186	41,190	107,159	228,271	3,634	136,322	1,687	23,654	383,857	1,332,960
At December 31, 2019	356,194	42,791	90,013	183,078	3,430	127,942	2,885	25,560	254,666	1,086,559

Note: Buildings with a carrying amount of US\$15,099,000 (2019: US\$16,655,000) are erected on leasehold land that is presented as ROU assets on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

16. Property, Plant and Equipment (continued)

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

Freehold land	Nil
Land and buildings	Over the shorter of lease term or useful life of fifteen to fifty years
Leasehold improvements	4% – 37 $\frac{1}{2}$ %
Office equipment, furniture and fixtures	10% – 33 $\frac{1}{3}$ %
Plant and machinery	9% – 25%
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:

	2020 US\$'000	2019 US\$'000
Properties situated outside Hong Kong are analyzed as follows:		
Freehold land	329,951	276,007
Leasehold land and buildings	15,099	16,655
	345,050	292,662
Land and buildings situated in Hong Kong	62,136	63,532
	407,186	356,194

The cost of the Group's PP&E includes amounts of US\$347,619,000 (2019: US\$342,522,000) in respect of fully depreciated PP&E that are still in use.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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, 2019	352,851	4,313	4,842	64,143	12,582	35,955	474,686
Currency realignment	(992)	32	51	(597)	—	(436)	(1,942)
Additions	52,426	4,075	1,716	30,899	—	—	89,116
Termination of leases	(74,091)	(1,206)	—	(13,028)	—	(34)	(88,359)
At December 31, 2019	330,194	7,214	6,609	81,417	12,582	35,485	473,501
Currency realignment	12,102	(9)	269	2,759	—	2,369	17,490
Additions	175,919	1,701	176	33,636	—	—	211,432
Early termination/end of leases	(21,957)	(596)	(601)	(12,954)	—	—	(36,108)
At December 31, 2020	496,258	8,310	6,453	104,858	12,582	37,854	666,315
Depreciation							
At January 1, 2019	142,136	1,785	1,912	29,180	7,445	7,480	189,938
Currency realignment	(842)	3	40	(521)	—	(96)	(1,416)
Provided for the year	43,668	1,392	1,149	19,537	1,258	715	67,719
Elimination on termination of leases	(16,903)	(879)	—	(12,102)	—	—	(29,884)
At December 31, 2019	168,059	2,301	3,101	36,094	8,703	8,099	226,357
Currency realignment	7,366	10	180	1,548	—	580	9,684
Provided for the year	48,979	1,756	1,576	22,753	1,258	716	77,038
Elimination on early termination/end of leases	(17,596)	(568)	(550)	(11,768)	—	—	(30,482)
At December 31, 2020	206,808	3,499	4,307	48,627	9,961	9,395	282,597
Carrying amounts							
At December 31, 2020	289,450	4,811	2,146	56,231	2,621	28,459	383,718
At December 31, 2019	162,135	4,913	3,508	45,323	3,879	27,386	247,144
					2020	2019	
					US\$'000	US\$'000	
Expense relating to short-term leases					12,911	11,844	
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets					9,771	7,757	
Total cash outflow for leases					106,079	90,534	

17. Right of Use Assets (continued)

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 18 years (2019: 18 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 and motor vehicles. As at December 31, 2020 and 2019, 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, 2020, the Group entered into new leases for certain PP&E that have not yet commenced, with average non-cancellable period that ranges from 1 to 6 years (2019: 1 to 10 years) with extension options, the total future undiscounted cash flows under which amounts to US\$7,294,000 (2019: US\$33,475,000) over the non-cancellable period.

Details of the lease maturity analysis of the lease liabilities are set out in Note 33.

18. Goodwill

	US\$'000
At January 1, 2019	581,215
Currency realignment	(349)
At December 31, 2019	580,866
Currency realignment	1,456
Written off during the year	(3,861)
At December 31, 2020	578,461

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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, 2019	916,548	99,814	242,412	1,753	16,400	1,300	1,278,227
Currency realignment	53	—	—	—	—	—	53
Additions	151,931	7,040	—	—	—	—	158,971
Written off in the year	(6,075)	(198)	—	—	—	—	(6,273)
At December 31, 2019	1,062,457	106,656	242,412	1,753	16,400	1,300	1,430,978
Currency realignment	108	—	—	—	—	—	108
Additions	145,707	12,479	—	—	—	—	158,186
Written off in the year	(444,763)	(23,482)	(3,200)	—	(6,500)	—	(477,945)
At December 31, 2020	763,509	95,653	239,212	1,753	9,900	1,300	1,111,327
Amortization							
At January 1, 2019	578,318	60,070	13,591	486	4,896	65	657,426
Currency realignment	19	—	—	—	—	—	19
Provided for the year	98,311	8,898	453	130	718	527	109,037
Eliminated on write-off	(2,209)	—	—	—	—	—	(2,209)
At December 31, 2019	674,439	68,968	14,044	616	5,614	592	764,273
Currency realignment	108	—	—	—	—	—	108
Provided for the year	102,116	8,504	453	130	664	549	112,416
Eliminated on write-off	(407,298)	(17,675)	—	—	(4,171)	—	(429,144)
At December 31, 2020	369,365	59,797	14,497	746	2,107	1,141	447,653
Carrying amounts							
At December 31, 2020	394,144	35,856	224,715	1,007	7,793	159	663,674
At December 31, 2019	388,018	37,688	228,368	1,137	10,786	708	666,705

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

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 (2019: US\$227,640,000) 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.

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% – 33 $\frac{1}{3}$ %
Patents	10% – 25%
Trademarks with finite useful lives	6 $\frac{2}{3}$ %
Manufacturing know-how	10%
Retailer and service relationships	5% – 6 $\frac{2}{3}$ %
Non compete agreement	6 $\frac{2}{3}$ %

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 cash-generating units (“CGUs”), including three units in the Power Equipment segment and one unit in the Floorcare segment. The carrying amounts of goodwill and trademarks as at December 31, 2020 allocated to these units are as follows:

	Goodwill		Trademarks	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Power Equipment – MET	443,264	443,264	126,607	126,607
Power Equipment – HCP	16,509	7,492	30,648	30,648
Power Equipment – Drebo	23,234	21,779	—	—
Power Equipment – Baja	—	9,017	—	3,200
Floorcare – RAM/Hoover/VAX	75,748	75,748	67,179	67,179
Others	19,706	23,566	6	6
	578,461	580,866	224,440	227,640

In line with operation changes made during the year, the goodwill and intangible assets included in the Power Equipment – Baja CGU were aggregated to this Power Equipment – HCP as at December 31, 2020.

During the year ended December 31, 2020, management of the Group wrote off goodwill of US\$3,861,000 and trademarks of US\$3,200,000 pertaining to amounts included in the Others CGU and Power Equipment Baja CGU respectively.

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 8.5% (2019: 10.0%) 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% (2019: 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 – HCP (“HCP”)

The recoverable amounts of HCP’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 10.0% (2019: 11.0%) per annum.

Cash flow projections during the budget period for HCP 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 HCP’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 HCP’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 9.0% (2019: 10.0%) 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% (2019: 1.0%) 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 – 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% (2019: 13.5%) 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% (2019: 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. Interests in Associates

	2020	2019
	US\$'000	US\$'000
Cost of investment in associates	1,470	1,470
Share of post-acquisition profits	551	119
Share of net assets	2,021	1,589
Amounts due from associates	—	1,654
	2,021	3,243

Summarized financial information in respect of 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.

21. Interests in Associates (continued)

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

	2020	2019
	US\$'000	US\$'000
Non-current assets	1,875	1,681
Current assets	7,034	7,484
Current liabilities	4,437	5,922
Non-current liabilities	347	—
Net assets	4,125	3,243
	2020	2019
	US\$'000	US\$'000
Revenue	45,095	44,386
Profit for the year	882	242

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

	2020	2019
	US\$'000	US\$'000
Net assets	4,125	3,243
Proportion of the Group's ownership interest	49.0%	49.0%
The Group's share of net assets	2,021	1,589
Carrying amount of the Group's interest	2,021	1,589

Particulars of the principal associates as at December 31, 2020 and 2019 are set out in Note 50.

The amounts due from associates are unsecured, non-interest bearing and are repayable on demand.

22. Financial Assets at FVTPL

	Notes	2020 US\$'000	2019 US\$'000
Club membership debentures	(a)	3,189	2,450
Unlisted equity securities	(b)	3,301	3,301
Listed equity securities	(c)	17,763	24,597
Other		45	45
		24,298	30,393
Analyzed for reporting purposes as:			
Current assets		17,763	24,597
Non-current assets		6,535	5,796
		24,298	30,393

Notes:

- (a) As at December 31, 2020 and 2019, 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, 2020 and 2019, the unlisted equity securities represented the interest in a private company 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. Inventories

	2020 US\$'000	2019 US\$'000
Raw materials	401,837	209,495
Work in progress	53,703	43,832
Finished goods	2,768,208	1,859,604
	3,223,748	2,112,931

24. 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.

25. Trade and Other Receivables

	2020 US\$'000	2019 US\$'000
Trade receivables	1,359,988	1,195,630
Less: Allowances for credit losses	(52,932)	(34,529)
	1,307,056	1,161,101
Other receivables	60,230	67,472
	1,367,286	1,228,573

As at January 1, 2019, all trade receivables amounted US\$1,140,923,000 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:

	2020 US\$'000	2019 US\$'000
0 to 60 days	1,016,581	966,306
61 to 120 days	232,640	137,389
121 days or above	57,835	57,406
Total trade receivables	1,307,056	1,161,101

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, 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$307,439,000 (2019: US\$334,794,000) which are past due as at the reporting date. The past due over 90 days balances that are presumed in default according with the Group's accounting policy of US\$254,508,000 (2019: US\$303,196,000) 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\$10,000,000 (2019: US\$68,700,000) were recognized as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

26. Bills Receivable

All the Group's bills receivable at December 31, 2020 and 2019 are aged within 120 days based on invoice date.

27. Trade Receivables from Associates

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

28. Derivative Financial Instruments

	2020 US\$'000	2019 US\$'000
Assets		
Acquisition right of certain property, plant and equipment	8,494	8,929
Foreign currency forward contracts – under hedge accounting	9,341	25,065
	17,835	33,994
Liabilities		
Foreign currency forward contracts – under hedge accounting	51,458	10,688
Foreign currency forward contracts – not under hedge accounting	16,400	4,380
Cross-currency interest rate swaps – under hedge accounting	28,277	2,425
	96,135	17,493

Acquisition Right of Certain PP&E

As at December 31, 2020 and 2019, 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\$8,494,000 valued on September 30, 2020 (2019: US\$8,929,000 valued on September 30, 2019) by Duff & Phelps, LLC., 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.

28. 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:

2020

Notional amounts in millions ("M")	Maturity
Sell AUD 537M, Buy US\$	January 28, 2021 to December 30, 2021
Sell EUR 780.2M, Buy US\$	January 11, 2021 to December 29, 2022
Sell GBP 90.8M, Buy US\$	January 8, 2021 to March 18, 2022
Sell US\$270.8M, Buy RMB	July 29, 2021 to December 30, 2021
Sell US\$16M, Buy EUR	January 5, 2021 to August 24, 2021
Sell GBP 18M, Buy EUR	January 14, 2021 to September 16, 2021
Sell CHF 4.4M, Buy EUR	January 14, 2021 to December 16, 2021
Sell SEK 333M, Buy EUR	January 14, 2021 to December 16, 2021

2019

Notional amounts in M	Maturity
Sell AUD 430M, Buy US\$	January 30, 2020 to December 30, 2020
Sell EUR 589M, Buy US\$	January 31, 2020 to December 30, 2021
Sell US\$354.3M, Buy RMB	January 31, 2020 to December 30, 2020
Sell US\$9M, Buy EUR	January 3, 2020 to May 22, 2020
Sell GBP 36.5M, Buy EUR	January 16, 2020 to December 10, 2020
Sell CHF 3M, Buy EUR	January 16, 2020 to December 10, 2020
Sell SEK 285M, Buy EUR	January 16, 2020 to December 10, 2020
Buy US\$95.9M, Sell GBP	January 3, 2020 to June 11, 2021

As at December 31, 2020, a fair value loss of US\$75,838,000 (December 31, 2019: fair value loss of US\$9,681,000) has been recognized in other comprehensive income and accumulated in hedging reserve and is expected to be reclassified to profit or loss.

During the year, a fair value gain of US\$12,896,000 (2019: fair value gain of US\$21,448,000) was reclassified from reserves to profit or loss.

28. Derivative Financial Instruments (continued)**Foreign Currency Forward Contracts not under Hedge Accounting**

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

2020

Notional amounts in M	Maturity
Buy EUR 4.8M, Sell AUD	January 13, 2021 to December 13, 2021
Buy US\$27M, Sell AUD	January 20, 2021 to December 20, 2021
Buy US\$33.5M, Sell NZD	January 20, 2021 to December 20, 2021
Buy US\$381.7M, Sell CAD	January 29, 2021 to October 8, 2021

2019

Notional amounts in M	Maturity
Buy EUR 4.8M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$21M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$35.9M, Sell NZD	January 17, 2020 to December 18, 2020
Buy US\$308.4M, Sell CAD	January 31, 2020 to August 21, 2020

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 (2019: US\$165,300,000) have fixed currency payments in EUR at exchange rate of EUR to US\$ at 1.102 and 1.077 (2019: at 1.102), fixed interest payments monthly in EUR at 0.305% and 0.520% per annum (2019: 0.305% per annum) for periods up until October 2023, October 2024, April 2024 and April 2025 (2019: October 2023 and October 2024).

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.

As at December 31, 2020, a fair value loss of US\$28,277,000 (December 31, 2019: fair value loss of US\$2,425,000) 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 swaps is determined by using the discounted cash flow method based on LIBOR yield curves and the forward exchange rates between US\$ and EUR estimated at the end of the reporting period.

The Group is exposed to the LIBOR within its hedge accounting relationships, which are subject to interest rate benchmark reform. As disclosed above, the hedged item is the 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 a 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 at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements within 2021.

28. Derivative Financial Instruments (continued)**Cross-currency Interest Rate Swaps** (continued)

For the Group's variable-rate US\$ unsecured borrowings, the Group has started discussions with the lenders to amend the US\$ LIBOR unsecured borrowings so that the reference benchmark interest rate will change to Secured Overnight Financing Rate. The Group aims to finalise this amendment within 2021.

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.

Major terms of the cross-currency interest rate swaps were as follows:

2020

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%

2019

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%

29. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which ranged from 0.001% to 1.75% (2019: 0.001% to 3.95%) per annum.

30. 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:

	2020 US\$'000	2019 US\$'000
0 to 60 days	1,315,379	908,313
61 to 120 days	389,775	217,144
121 days or above	17,988	5,829
Total trade payables	1,723,142	1,131,286
Other payables	1,583,190	1,081,625
Total trade and other payables	3,306,332	2,212,911
Non-current portion of other payables	(58,524)	(35,494)
	3,247,808	2,177,417

The credit period on the purchase of goods ranges from 30 days to 120 days (2019: 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\$1,385,793,000 (2019: US\$980,404,000) and non-trading nature payables to vendors US\$138,873,000 (2019: US\$65,727,000). The non-current other payables mainly represents accruals of long-term incentive benefit offered to certain management executives of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

31. Bills Payable

All the Group's bills payable at December 31, 2020 and 2019 are aged within 120 days based on invoice date.

32. Warranty Provision

	US\$'000
At January 1, 2019	105,215
Currency realignment	95
Provision in the year	127,237
Utilization of provision	(117,337)
At December 31, 2019	115,210
Currency realignment	3,788
Provision in the year	141,803
Utilization of provision	(104,130)
At December 31, 2020	156,671

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.

33. Lease Liabilities

	2020 US\$'000	2019 US\$'000
Amounts payable under lease liabilities:		
Within one year	73,331	63,878
In more than one year but not more than two years	69,439	53,152
In more than two years but not more than five years	111,206	82,080
More than five years	120,431	39,258
	374,407	238,368
Less: Amount due for settlement with 12 months shown under current liabilities	(73,331)	(63,878)
Amount due for settlement after 12 months shown under non-current liabilities	301,076	174,490

The weighted average incremental borrowing rates applied to lease liabilities ranged from 2.20% to 2.80% (2019: 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, 2020	32,706	24,388	23,686	16,922
As at December 31, 2019	30,372	20,417	8,589	17,765

34. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 3.88% per annum (2019: 2.93% per annum) have maturity profiles of less than 120 days.

35. 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 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:

	2020 US\$'000	2019 US\$'000
Bank balances, deposits and cash	1,533,876	1,411,821
Debt ⁽ⁱ⁾	(1,316,870)	(1,427,397)
Net cash (debt)	217,006	(15,576)
Equity ⁽ⁱⁱ⁾	3,903,005	3,394,645
Net debt to equity ratio	(5.56%)	0.46%

(i) Debt comprises discounted bills with recourse and unsecured borrowings but excludes bank advances from factored trade receivables as detailed in Notes 34, 37 and 25 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.

36. Financial Instruments

36.1 Categories of Financial Instruments

	2020 US\$'000	2019 US\$'000
Financial assets		
<i>FVTPL</i>		
Financial assets at FVTPL	24,298	30,393
	24,298	30,393
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	8,494	8,929
Foreign currency forward contracts – under hedge accounting	9,341	25,065
	17,835	33,994
<i>Financial assets at amortized cost</i>		
Trade and other receivables	1,367,286	1,228,573
Bills receivable	7,660	6,076
Trade receivables from associates	4,240	6,494
Bank balances, deposits and cash	1,533,876	1,411,821
	2,913,062	2,652,964
Financial liabilities		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts – under hedge accounting	51,458	10,688
Foreign currency forward contracts – not under hedge accounting	16,400	4,380
Cross-currency interest rate swaps – under hedge accounting	28,277	2,425
	96,135	17,493
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	3,306,332	2,212,911
Bills payable	61,791	46,170
Discounted bills with recourse	1,436	9,089
Unsecured borrowings	1,325,434	1,487,008
	4,694,993	3,755,178

36.2 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.

36. Financial Instruments (continued)**36.2 Financial Risk Management Objectives and Policies** (continued)**36.2.1 Foreign Currency Risk Management**

Subsidiaries of the Group have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 20.4% (2019: 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 14.4% (2019: 38.2%) 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	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Foreign Currency				
EUR	448,945	17,754	676,921	137,377
US\$	2,974,968	2,714,382	1,715,483	2,017,052

Note: For group entities with their functional currency as the US\$, monetary assets and monetary liabilities denominated in Hong Kong dollars have no material foreign currency risk exposure as the Hong Kong dollar is pegged with the US\$.

The Group requires its group entities to use foreign exchange forward contracts to reduce the currency exposure. The 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\$946,737,000 (2019: US\$660,461,000). 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 28 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.

Sensitivity Analysis

The following table details the Group's sensitivity to a 5% (2019: 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% (2019: 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% (2019: 5%) against foreign currency.

	Impact of US\$		Impact of EUR	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
(Loss) profit for the year ⁽ⁱ⁾	(58,567)	(32,426)	10,601	5,562

(i) This is mainly attributable to the net exposure on receivables, payables and bank borrowings denominated in US\$ & EUR as foreign currency at the reporting date.

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.2 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 borrowing (see Note 37 for details of these borrowings), discounted bills with recourse, bank balances and deposits. The Group's cash flow interest rate risk is mainly concentrated on 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 bank borrowings (see Note 37 for details of these borrowings) and lease liabilities.

During the year, the Group obtained new bank borrowings of US\$3,694 million (2019: US\$4,042 million) which are either at a fixed rate 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 with alternative nearly risk-free rates. The Group is closely monitoring the transition to new benchmark interest rates.

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 (2019: 50 basis points) increase or decrease in LIBOR 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 (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2020 would decrease/increase by US\$3,992,000 (2019: decrease/increase by US\$6,120,000). 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.

36.2.3 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, 2020 of the Group would increase by US\$1,776,000 (2019: increase by US\$2,460,000) as a result of the changes in the fair values of the listed equity securities.

36.2.4 Credit Risk Management and Impairment Assessment

As at December 31, 2020, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk of US\$2,913,062,000 (2019: US\$2,652,964,000), the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group is disclosed in Note 42. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

36. Financial Instruments (continued)**36.2 Financial Risk Management Objectives and Policies** (continued)**36.2.4 Credit Risk Management and Impairment Assessment** (continued)**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 upon application of HKFRS 9 based on a provision matrix. 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 35.0% (2019: 25.8%) and 53.6% (2019: 42.8%) 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.

Bank balances

The credit risks on bank balances 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
No risk	The counterparty has no 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 does not have any past-due amounts.	Lifetime ECL – not credit-impaired	12m ECL
Medium risk	Debtor 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

36. Financial Instruments (continued)**36.2 Financial Risk Management Objectives and Policies** (continued)**36.2.4 Credit Risk Management and Impairment Assessment** (continued)

The tables below detail the credit risk exposure of the Group's financial assets, which are subject to ECL assessment:

	Notes	Internal credit rating	12-month or lifetime ECL	2020		2019	
				External credit rating	Gross carrying amount US\$'000	External credit rating	Gross carrying amount US\$'000
Trade receivables	25	(Note 2)	Lifetime ECL (not credit-impaired)	N/A	1,359,988	N/A	1,195,630
Other receivables	25	(Note 1)	12m ECL	N/A	60,230	N/A	67,472
Bills receivable	26	N/A	12m ECL	A- To A	7,660	A- To A	6,076
Trade receivables from associates	27	(Note 1)	12m ECL	N/A	4,240	N/A	6,494
Bank balances, deposits and cash	29	N/A	12m ECL	A To A+	1,533,876	A To AA-	1,411,821
Financial guarantee contracts	42	(Note 3)	12m ECL	N/A	—	N/A	8,877

Notes:

- Trade receivables from associates and other receivables amounted to US\$4,240,000 and US\$60,230,000 (2019: US\$6,494,000 and US\$67,472,000) respectively have no fixed repayment terms. The Group has assessed these balances on a 12-month ECL basis as there has been no significant increase in the credit risk since initial recognition.
- 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 provision matrix grouped by internal credit rating.
- For financial guarantee contracts, the gross carrying amount in 2019 represented the maximum amount the Group had guaranteed under the respective contracts.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively as at December 31, 2020.

	2020			2019		
	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						
No risk	Less than 1%	380,494	—	Less than 1%	224,368	—
Low risk	1-5%	920,879	30,534	1-5%	904,009	12,777
Medium risk	6-20%	31,255	2,624	6-20%	42,682	4,498
High risk	Over 20%	27,360	19,774	Over 20%	24,571	17,254
		1,359,988	52,932		1,195,630	34,529

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, 2020, the Group provided US\$52,932,000 (2019: US\$34,529,000) 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.

36. Financial Instruments (continued)**36.2 Financial Risk Management Objectives and Policies** (continued)**36.2.4 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, 2019	51,760
Currency realignment	(290)
Impairment losses reversed upon settlement in full of trade debtors with a gross carrying amount of US\$1,122,661,000	(33,208)
Impairment losses recognized on new trade receivables with a gross carrying amount of US\$1,195,630,000	34,529
Write-offs	(18,262)
As at December 31, 2019	34,529
Currency realignment	(581)
Impairment losses reversed upon settlement in full of trade debtors with a gross carrying amount of US\$1,192,125,000	(30,443)
Impairment losses recognized on new trade receivables with a gross carrying amount of US\$1,359,988,000	52,932
Write-offs	(3,505)
As at December 31, 2020	52,932

36.2.5 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, 2020, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$351 million (2019: US\$345 million) and US\$2,220 million (2019: US\$1,506 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.

36. Financial Instruments (continued)**36.2 Financial Risk Management Objectives and Policies** (continued)**36.2.5 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, 2020 US\$'000
2020								
Non-derivative financial liabilities								
Trade and other payables	—	(2,300,469)	(792,033)	(155,306)	(58,524)	—	(3,306,332)	(3,306,332)
Bills payable	—	(968)	(31,401)	(29,422)	—	—	(61,791)	(61,791)
Lease liabilities	2.20% - 2.80%	(6,111)	(12,273)	(56,029)	(71,175)	(243,219)	(388,807)	(374,407)
Discounted bills with recourse	3.88%	(1,436)	—	—	—	—	(1,436)	(1,436)
Bank borrowings	0.31% - 3.52%	(219,614)	(44,140)	(123,346)	(250,416)	(721,110)	(1,358,626)	(1,325,434)
Refund liabilities from right of return	—	(18,493)	—	(8,219)	(1,202)	—	(27,914)	(26,713)
		(2,547,091)	(879,847)	(372,322)	(381,317)	(964,329)	(5,144,906)	(5,096,113)
2020								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	8,494	8,494	8,494
Cross-currency interest rate swaps contracts	—	102	201	887	1,270	(32,117)	(29,657)	(28,277)
Foreign currency forward contracts – US\$	—	(721)	(1,822)	(9,373)	—	—	(11,916)	(11,916)
	—	(619)	(1,621)	(8,486)	1,270	(23,623)	(33,079)	(31,699)
Derivatives – gross settlement								
Foreign currency forward contracts – inflow								
– EUR	—	30,161	16,873	44,614	—	—	91,648	91,648
– RMB	—	—	—	281,578	—	—	281,578	281,578
– GBP	—	9,516	18,482	71,366	19,440	—	118,804	118,804
– US\$	—	69,698	154,137	733,052	364,074	—	1,320,961	1,320,961
– AUD	—	2,722	5,447	24,505	—	—	32,674	32,674
– NZD	—	2,518	5,000	25,999	—	—	33,517	33,517
	—	114,615	199,939	1,181,114	383,514	—	1,879,182	1,879,182
– outflow								
– EUR	—	(30,793)	(16,941)	(44,598)	—	—	(92,332)	(92,332)
– RMB	—	—	—	(270,378)	—	—	(270,378)	(270,378)
– GBP	—	(9,785)	(18,978)	(74,707)	(20,603)	—	(124,073)	(124,073)
– US\$	—	(72,829)	(161,045)	(762,996)	(371,504)	—	(1,368,374)	(1,368,374)
– AUD	—	(2,887)	(5,775)	(25,873)	—	—	(34,535)	(34,535)
– NZD	—	(2,737)	(5,476)	(27,878)	—	—	(36,091)	(36,091)
	—	(119,031)	(208,215)	(1,206,430)	(392,107)	—	(1,925,783)	(1,925,783)
	—	(4,416)	(8,276)	(25,316)	(8,593)	—	(46,601)	(46,601)

36. Financial Instruments (continued)**36.2 Financial Risk Management Objectives and Policies** (continued)**36.2.5 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, 2019 US\$'000
2019								
Non-derivative financial liabilities								
Trade and other payables	—	(1,517,478)	(583,207)	(76,732)	(35,494)	—	(2,212,911)	(2,212,911)
Bills payable	—	(15,835)	(30,335)	—	—	—	(46,170)	(46,170)
Lease liabilities	2.80%	(5,323)	(10,696)	(48,915)	(54,640)	(128,133)	(247,707)	(238,368)
Discounted bills with recourse	2.93%	(7,233)	(1,866)	—	—	—	(9,099)	(9,089)
Bank borrowings	0.31% – 3.52%	(554,957)	(11,951)	(167,887)	(153,885)	(626,753)	(1,515,433)	(1,487,008)
Refund liabilities from right of return	—	(25,640)	—	(10,834)	—	—	(36,474)	(36,474)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(2,135,343)	(638,055)	(304,368)	(244,019)	(754,886)	(4,076,671)	(4,030,020)
2019								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	8,929	8,929	8,929
Cross-currency interest rate swaps contracts	—	308	600	2,571	3,333	(9,745)	(2,933)	(2,425)
Foreign currency forward contracts – US\$	—	—	(727)	(2,938)	—	—	(3,665)	(3,665)
	—	308	(127)	(367)	3,333	(816)	2,331	2,839
Derivatives – gross settlement								
Foreign currency forward contracts – inflow								
– EUR	—	8,318	16,233	63,054	—	—	87,605	87,605
– RMB	—	—	94,794	267,196	—	—	361,990	361,990
– GBP	—	5,000	9,987	51,117	29,168	—	95,272	95,272
– US\$	—	24,207	125,575	570,623	268,944	—	989,349	989,349
– AUD	—	2,155	4,307	19,347	—	—	25,809	25,809
– NZD	—	14,163	7,003	15,402	—	—	36,568	36,568
	—	53,843	257,899	986,739	298,112	—	1,596,593	1,596,593
– outflow								
– EUR	—	(8,658)	(16,679)	(64,400)	—	—	(89,737)	(89,737)
– RMB	—	—	(92,678)	(261,661)	—	—	(354,339)	(354,339)
– GBP	—	(5,435)	(10,860)	(52,527)	(28,890)	—	(97,712)	(97,712)
– US\$	—	(24,603)	(124,389)	(561,240)	(267,820)	—	(978,052)	(978,052)
– AUD	—	(2,200)	(4,401)	(19,798)	—	—	(26,399)	(26,399)
– NZD	—	(14,209)	(6,964)	(15,519)	—	—	(36,692)	(36,692)
	—	(55,105)	(255,971)	(975,145)	(296,710)	—	(1,582,931)	(1,582,931)
	—	(1,262)	1,928	11,594	1,402	—	13,662	13,662

Note: Maturities are based on the management's estimation of the expected realization of these financial assets.

36. Financial Instruments (continued)

36.2 Financial Risk Management Objectives and Policies (continued)

36.2.5 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.

36.3 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).

36. Financial Instruments (continued)

36.3 Fair Value (continued)

Fair Value Measurements Recognized in the Consolidated Statement of Financial Position (continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	2020	2019		
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\$8,494,000	Acquisition right of certain property, plant and equipment: US\$8,929,000	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\$9,341,000; and Liabilities – US\$67,858,000	Assets – US\$25,065,000; and Liabilities – US\$15,068,000	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\$17,763,000	Listed shares: US\$24,597,000	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\$3,189,000	Club membership debentures: US\$2,450,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
	Unlisted equity securities: US\$3,301,000	Unlisted equity securities: US\$3,301,000	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	Liabilities: US\$28,277,000	Liabilities: US\$2,425,000	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.

36. Financial Instruments (continued)**36.3 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
2020			
Financial assets			
Acquisition right of certain property, plant and equipment	—	8,494	8,494
Foreign currency forward contracts	—	9,341	9,341
Financial assets at FVTPL	17,763	6,535	24,298
Total	17,763	24,370	42,133
Financial liabilities			
Foreign currency forward contracts	—	(67,858)	(67,858)
Cross-currency interest rate swaps	—	(28,277)	(28,277)
Total	—	(96,135)	(96,135)
2019			
Financial assets			
Acquisition right of certain property, plant and equipment	—	8,929	8,929
Foreign currency forward contracts	—	25,065	25,065
Financial assets at FVTPL	24,597	5,796	30,393
Total	24,597	39,790	64,387
Financial liabilities			
Foreign currency forward contracts	—	(15,068)	(15,068)
Cross-currency interest rate swaps	—	(2,425)	(2,425)
Total	—	(17,493)	(17,493)

The Group owns equity interest in a private company incorporated in the US that is classified as financial assets at FVTPL and is measured at fair value at the reporting date.

There were no transfers between level 1 and level 2 during the year.

36.4 Transfers of Financial Assets

The following were the Group's financial assets as at December 31, 2020 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 34) and unsecured borrowings – due within one year (see Note 37). 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:

	2020 US\$'000	2019 US\$'000
Carrying amount of transferred assets	11,436	77,789
Carrying amount of associated liabilities	(11,436)	(77,789)
Net position	—	—

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

37. Unsecured Borrowings

	2020 US\$'000	2019 US\$'000
Bank advance from Factored Trade Receivables	10,000	68,700
Bank loans	1,205,110	1,418,308
Medium Term Notes	110,324	—
Total borrowings	1,325,434	1,487,008

The borrowings of the Group are repayable as follows:

	2020 US\$'000	2019 US\$'000
Fixed-rate		
Within one year	20,982	20,977
In more than one year but not more than two years	62,960	20,943
In more than two years but not more than five years	274,154	137,960
More than five years	110,324	—
Variable-rate		
Within one year	364,232	711,403
In more than one year but not more than two years	182,750	130,051
In more than two years but not more than five years	310,032	465,674
	1,325,434	1,487,008
Less: Amount due within one year shown under current liabilities	(385,214)	(732,380)
Amount due after one year	940,220	754,628

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2020	2019
Effective interest rate:		
Fixed-rate borrowings	0.73% to 3.52%	2.55% to 3.52%
Variable-rate borrowings	0.31% to 1.15%	0.31% to 2.85%

The Group's borrowings that are denominated in EUR are set out below:

	US\$'000
As at December 31, 2020	60,745
As at December 31, 2019	—

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the contracted market rates.

38. Share Capital

	2020	2019	2020	2019
	Number of shares	Number of shares	US\$'000	US\$'000
Ordinary shares				
Authorized shares	2,400,000,000	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the year	1,830,006,941	1,828,521,941	662,379	654,991
Issue of shares upon exercise of share options	2,613,500	3,835,000	10,762	7,388
Buy-back of shares	—	(2,350,000)	—	—
At the end of the year	1,832,620,441	1,830,006,941	673,141	662,379

Details of the share options are set out in Note 43.

During 2019, the Company cancelled its own shares through the Stock Exchange as follows:

Month of cancellation	No. of ordinary shares	Price per share		Aggregate consideration paid US\$'000
		Highest HK\$	Lowest HK\$	
January 2019	2,350,000	43.00	40.45	12,644

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$12,644,000 was charged to retained profits.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

39. 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, 2019	(25,115)	11,032	—	718,442	704,359
Profit for the year	—	—	—	23,411,930	23,411,930
Fair value gain on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	16,522	—	16,522
Total comprehensive income for the year	—	—	16,522	23,411,930	23,428,452
Shares issued on exercise of options	—	(1,450)	—	—	(1,450)
Buy-back of shares	—	—	—	(12,644)	(12,644)
Vesting of awarded shares	1,765	(1,765)	—	—	—
Shares for share award scheme	(8,477)	—	—	—	(8,477)
Recognition of equity-settled share-based payments	—	6,792	—	—	6,792
Lapse of share options	—	(10)	—	10	—
Final dividend – 2018	—	—	—	(117,621)	(117,621)
Interim dividend – 2019	—	—	—	(105,973)	(105,973)
At December 31, 2019	(31,827)	14,599	16,522	23,894,144	23,893,438
Loss for the year	—	—	—	(60,272)	(60,272)
Fair value loss on foreign currency forward contracts and cross-currency interest rate swaps in hedge accounting	—	—	(81,012)	—	(81,012)
Total comprehensive loss for the year	—	—	(81,012)	(60,272)	(141,284)
Shares issued on exercise of options	—	(2,168)	—	—	(2,168)
Vesting of awarded shares	12,798	(12,798)	—	—	—
Shares for share award scheme	(23,057)	—	—	—	(23,057)
Recognition of equity-settled share-based payments	—	17,778	—	—	17,778
Final dividend – 2019	—	—	—	(136,688)	(136,688)
Interim dividend – 2020	—	—	—	(124,949)	(124,949)
At December 31, 2020	(42,086)	17,411	(64,490)	23,572,235	23,483,070

As at December 31, 2020, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$23,572,235,000 (2019: US\$23,894,144,000).

40. Retirement Benefit Obligations

Defined Contribution Plans:

The Company and its subsidiaries 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 (2019: 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\$17,997,000 (2019: US\$14,341,000) 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:

	2020 US\$'000	2019 US\$'000
Pension plan obligations (Note i)	90,505	82,755
Life and medical insurance plan (Note ii)	1,245	1,269
Post-employment benefit plan obligations (Note iii)	—	2,884
Others	568	21,059
	92,318	107,967

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, 2021, by BDO AG Wirtschaftsprüfungsgesellschaft, Germany, 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 21, 2020 by Willis Towers Watson, an independent valuer not related to the Group.

Note iii: Post-employment benefit plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on January 9, 2021 by CBIZ Benefits & Insurance Services, an independent valuer not related to the Group.

40. 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		Post-employment benefit plan	
	2020	2019	2020	2019	2020	2019
Discount rate	0.45%	0.30%	1.75%	2.50%	4.14%	4.14%
Expected rate of salary increases	2.00%	2.00%	N/A	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A	N/A	4.14%	4.14%
Future pension increases	2.00%	2.00%	N/A	N/A	N/A	N/A
Medical cost trend rates	N/A	N/A	5.00%	5.00%	N/A	N/A

The actuarial valuation showed that the market value of plan assets was US\$Nil (2019: US\$5,994,000) and that the actuarial value of these assets represented 67.5% of the benefits that had accrued to members in 2019.

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		Post-employment benefit plan	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Current service cost and interest cost	N/A	N/A	1	2	N/A	N/A
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	80	82	N/A	N/A

40. 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		Post-employment benefit plan	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Service cost:						
Current service cost	485	409	—	—	—	—
Net interest expense on defined benefit liabilities	263	1,118	30	45	30	88
Components of defined benefit costs recognized in profit or loss	748	1,527	30	45	30	88
Remeasurement on the net defined benefit liability:						
Actuarial losses (gains) arising from changes in financial assumptions	3,283	8,412	(40)	(2)	(30)	666
Components of defined benefit costs recognized in other comprehensive income	3,283	8,412	(40)	(2)	(30)	666
Total	4,031	9,939	(10)	43	—	754

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		Post-employment benefit plan	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Present value of funded obligations	—	—	—	—	—	8,878
Fair value of plan assets	—	—	—	—	—	(5,994)
	—	—	—	—	—	2,884
Present value of unfunded obligations	90,505	82,755	1,245	1,269	—	—
	90,505	82,755	1,245	1,269	—	2,884

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		Post-employment benefit plan	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
At January 1	82,755	77,619	1,269	1,257	8,878	17,153
Exchange realignment	7,429	(933)	—	—	—	—
Current service cost	485	409	—	—	—	—
Actuarial losses (gains)	3,283	8,412	(40)	(2)	(30)	245
Interest cost	263	1,118	30	45	84	678
Benefit paid	(3,710)	(3,870)	(14)	(31)	(8,932)	(9,198)
At December 31	90,505	82,755	1,245	1,269	—	8,878

40. Retirement Benefit Obligations (continued)**Defined Benefits Plans:** (continued)

Movements in the fair value of the plan assets in the current year in respect of certain major defined benefit plans were as follows:

	Pension plan		Life & medical insurance plan		Post-employment benefit plan	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
At January 1	N/A	N/A	N/A	N/A	5,994	15,024
Exchange realignment	N/A	N/A	N/A	N/A	—	—
Expected return on plan assets	N/A	N/A	N/A	N/A	54	590
Actuarial losses	N/A	N/A	N/A	N/A	—	(421)
Contribution from employer	N/A	N/A	N/A	N/A	4,593	—
Benefit paid	N/A	N/A	N/A	N/A	(10,641)	(9,199)
At December 31	N/A	N/A	N/A	N/A	—	5,994

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 4.14% (2019: 4.14%).

The actual return on plan assets was US\$54,000 (2019: US\$168,000).

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.

The Group expects to make a contribution of US\$Nil (2019: US\$4,700,000) to the defined benefit plans during the next financial year.

41. 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 and LIFO US\$'000	Others US\$'000	Total US\$'000
At January 1, 2019	(28,795)	14,759	23,535	30,608	9,290	19,926	69,323
Adjustment for adoption of HKFRS16	—	—	—	—	—	3,386	3,386
At January 1, 2019 (as restated)	(28,795)	14,759	23,535	30,608	9,290	23,312	72,709
Currency realignment	27	(31)	(2,074)	2,200	(28)	(301)	(207)
Charge to hedging reserve	—	—	—	—	—	1,250	1,250
(Charge) credit to profit or loss	(9,347)	1,547	9,779	(4,125)	5,992	(16,296)	(12,450)
Change in tax rates	211	(5)	29	(518)	(24)	(217)	(524)
Credit to other comprehensive income	—	—	715	—	—	—	715
At December 31, 2019	(37,904)	16,270	31,984	28,165	15,230	7,748	61,493
Currency realignment	(73)	503	131	369	141	1,653	2,724
Charge to hedging reserve	—	—	—	—	—	322	322
(Charge) credit to profit or loss	(16,406)	4,873	10,906	(3,277)	(14,360)	17,818	(446)
Change in tax rates	36	—	(64)	105	4	(90)	(9)
Charge to other comprehensive income	—	—	(3,505)	—	—	—	(3,505)
At December 31, 2020	(54,347)	21,646	39,452	25,362	1,015	27,451	60,579

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:

	2020 US\$'000	2019 US\$'000
Deferred tax assets	74,501	74,947
Deferred tax liabilities	(13,922)	(13,454)
	60,579	61,493

At the end of the reporting period, the Group has unused tax losses of US\$1,916 million (2019: US\$1,737 million) available for offset against future taxable profits. Of the US\$1,916 million of unused losses approximately US\$447 million expire over the next 8 to 17 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\$1,802 million (2019: US\$1,615 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\$13 million (2019: US\$13 million) as these unrepatriated foreign earnings are not considered permanently reinvested.

42. Guarantees

	2020 US\$'000	2019 US\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	—	8,877

In addition, 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, 2020 amounted to US\$83,227,000 (2019: US\$123,959,000).

43. 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 of Directors 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 or second 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

43. Share Options (continued)

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

2020

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	11.9.2015	D	168,000	—	(168,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	(155,500)	—	—	32.100	17.3.2018 – 16.3.2027
	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 Stephan Horst Pudwill	20.3.2014	D	1,000,000	—	(250,000)	—	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
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	(1,000,000)	—	—	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
Mr Chi Chung Chan	20.3.2014	D	600,000	—	(400,000)	—	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
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
Mr Camille Jojo	17.3.2017	D	250,000	—	(250,000)	—	—	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 Christopher Patrick Langley OBE	17.3.2017	D	150,000	—	(20,000)	—	130,000	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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

43. Share Options (continued)

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

2020

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
Mr Vincent Ting Kau Cheung	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
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
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
Total for directors			9,787,500	7,951,000	(2,243,500)	—	15,495,000		
Employees									
	17.1.2011	D	20,000	—	(20,000)	—	—	10.436	17.1.2012 - 16.1.2021
	23.3.2017	D	200,000	—	(100,000)	—	100,000	32.150	23.3.2018 - 22.3.2027
	19.6.2017	E	350,000	—	(250,000)	—	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			670,000	—	(370,000)	—	300,000		
Total for all categories			10,457,500	7,951,000	(2,613,500)	—	15,795,000		
Exercisable at the end of the year							6,754,500		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

43. Share Options (continued)

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

2019

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	20.3.2014	D	230,000	—	(230,000)	—	—	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	—	—	155,500	32.100	17.3.2018 – 16.3.2027
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 – 19.5.2029
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	(1,000,000)	—	—	8.742	21.5.2013 – 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	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
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	(1,000,000)	—	6.770	16.11.2010 – 15.11.2019	
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	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
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	(400,000)	—	600,000	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
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
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	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
Mr Christopher Patrick Langley OBE	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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

43. Share Options (continued)

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

2019

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	16.11.2009	D	200,000	—	(200,000)	—	—	6.770	16.11.2010 – 15.11.2019
	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2012 – 22.5.2021
	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 – 20.5.2022
	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
Mr Vincent Ting Kau Cheung	17.3.2017	D	150,000	—	(150,000)	—	—	32.100	17.3.2018 – 16.3.2027
	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
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
Mr Manfred Kuhlmann (retired after the conclusion of the annual general meeting of the Company held on May 17, 2019)	17.3.2017	D	75,000	—	(75,000)	—	—	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Total for directors			11,263,500	2,179,000	(3,555,000)	—	9,887,500		
Employees	16.11.2009	D	300,000	—	(250,000)	(50,000)	—	6.770	16.11.2010 – 15.11.2019
	28.12.2009	D	30,000	—	(30,000)	—	—	6.390	28.12.2010 – 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 – 16.1.2021
	23.3.2017	D	200,000	—	—	—	200,000	32.150	23.3.2018 – 22.3.2027
	19.6.2017	E	350,000	—	—	—	350,000	36.300	19.6.2018 – 18.6.2027
Total for employees			900,000	—	(280,000)	(50,000)	570,000		
Total for all categories			12,163,500	2,179,000	(3,835,000)	(50,000)	10,457,500		
Exercisable at the end of the year							7,553,500		

43. 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, 2020					
15.5.2020	65.250	3 years	38%	0.273%	1.5%
22.12.2020	105.500	3 years	38%	0.178%	1.5%
For the year ended December 31, 2019					
20.5.2019	51.080	3 years	38%	1.678%	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 behavioral 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 2020 was HK\$98.44 (2019: HK\$50.15).

The closing price of the Company's shares immediately before the various dates on which the share options were granted ranged from HK\$63.80 to HK\$107.00 in 2020 (2019: HK\$50.15).

The weighted average closing prices of the Company's shares immediately before various dates during 2020 on which the share options were exercised was HK\$83.11 (2019: HK\$55.67).

The Group recognized a total expense of US\$3,209,000 (2019: US\$2,636,000) for the year ended December 31, 2020 in relation to share options granted by the Company.

The fair value of the share options granted in 2020 measured at various dates on which the share options were granted was ranged from HK\$15.26 to HK\$24.57 (2019: HK\$12.69). The weighted average fair value of the share options granted in 2020 was HK\$22.73 (2019: HK\$12.69) per option.

The Company had 15,795,000 share options outstanding (2019: 10,457,500), which represented approximately 0.86% (2019: 0.57%) of the issued share capital of the Company as at December 31, 2020. No option (2019: Nil) was cancelled and no share options (2019: 50,000) was lapsed during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.21% of the issued shares of the Company as at December 31, 2020. Total securities available for issue under Scheme E are 183,299,194 shares, which represented approximately 10.00% of the issued shares of the Company as at December 31, 2020.

44. 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\$14,569,000 (2019: US\$4,156,000). During the year ended December 31, 2020, 2,364,000 shares (2019: 451,000 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	
	2020	2019
At January 1	2,423,000	1,314,000
Awarded (Note (a))	3,393,000	1,560,000
Vested	(2,364,000)	(451,000)
At December 31 (Note (b))	3,452,000	2,423,000

Notes:

- (a) All the awarded shares were purchased from the market with the average price of HK\$44.08.
- (b) At the end of the year, the average fair value per share is HK\$44.51 (2019: HK\$41.22). 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	
	2020	2019
Less than 1 year	1,376,000	691,000
More than 1 year	2,076,000	1,732,000
	3,452,000	2,423,000

45. Capital Commitments

	2020	2019
	US\$'000	US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	103,957	58,380

46. Related Party Transactions

During the year, the Group entered into the following transactions with its associates, which did not constitute connected transactions under Chapter 14A of the Listing Rules:

	2020	2019
	US\$'000	US\$'000
Interest income	7	150
Sales income	40,644	50,014
Service income	57	—
Purchases	520	3,067

The remuneration of directors and other members of key management during the year was as follows:

	2020	2019
	US\$'000	US\$'000
Short-term benefits	97,852	76,619
Post-employment benefits	1,316	1,918
Share-based payments	17,522	6,514
	116,690	85,051

Details of the balances and transactions with related parties are set out in the consolidated statements of financial position and Notes 21, 27 and 42.

47. 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	Discounted bills with recourse	Lease liabilities	Total
	Note 37	Note 34	Note 33		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2019	—	795,442	243,360	278,710	1,317,512
Financing cash flows	(223,594)	691,566	(234,271)	(64,230)	169,471
New leases entered	—	—	—	86,116	86,116
Early termination of leases	—	—	—	(62,228)	(62,228)
Interest expenses	—	45,620	—	6,703	52,323
Interest paid	—	(45,620)	—	(6,703)	(52,323)
Dividends declared	223,594	—	—	—	223,594
At December 31, 2019	—	1,487,008	9,089	238,368	1,734,465
Currency realignment	—	—	—	6,124	6,124
Financing cash flows	(261,637)	(161,574)	(7,653)	(75,823)	(506,687)
New leases entered	—	—	—	211,432	211,432
Early termination of leases	—	—	—	(5,694)	(5,694)
Interest expenses	—	36,648	—	7,574	44,222
Interest paid	—	(36,648)	—	(7,574)	(44,222)
Dividends declared	261,637	—	—	—	261,637
At December 31, 2020	—	1,325,434	1,436	374,407	1,701,277

48. Statement of Financial Position of the Company

As at December 31, 2020

	Note	2020 US\$'000	2019 US\$'000
Non-current assets			
Property, plant and equipment		3,643	4,523
Right of use assets		1,273	687
Intangible assets		30	12
Investments in subsidiaries		25,672,357	25,290,888
Loans to subsidiaries		33,148	131,180
Interests in associates		1,470	1,831
Financial assets at FVTPL		5,224	4,485
		25,717,145	25,433,606
Current assets			
Deposits and prepayments		19,482	12,641
Financial assets at FVTPL		17,763	24,597
Tax recoverable		6,068	4,368
Derivative financial instruments		11,200	25,665
Amounts due from subsidiaries		1,256,348	814,001
Bank balances, deposits and cash		415,159	555,486
		1,726,020	1,436,758
Current liabilities			
Trade and other payables		130,958	94,562
Derivative financial instruments		75,691	9,142
Lease liabilities		823	371
Amounts due to subsidiaries		1,773,617	791,840
Unsecured borrowings – due within one year		365,214	663,680
		2,346,303	1,559,595
Net current liabilities		(620,283)	(122,837)
Total assets less current liabilities		25,096,862	25,310,769
Capital and Reserves			
Share capital		673,141	662,379
Reserves	39	23,483,070	23,893,438
Total equity		24,156,211	24,555,817
Non-current Liabilities			
Lease liabilities		431	324
Unsecured borrowings – due after one year		940,220	754,628
Total equity and non-current liabilities		25,096,862	25,310,769

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 3, 2021 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

49. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2020 and December 31, 2019 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
			2020		2019		
			Directly %	Indirectly %	Directly %	Indirectly %	
DreBo Werkzeugfabrik GmbH *	Germany	EUR1,000,000	—	100	—	100	Trading and manufacture of power equipment products
Homelite Consumer Products, Inc.	US	US\$10	—	100	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	US\$1	—	100	—	100	Trading and manufacture of floorcare 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
One World Technologies, 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
Sang Tech Industries Limited	Hong Kong	HK\$1,000,000	100	—	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$2,000,000	100	—	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK\$2,000,000	75.725	—	75.725	—	Manufacture of electronic 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

49. 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
			2020		2019		
			Directly %	Indirectly %	Directly %	Indirectly %	
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 (Formerly known as Techtronic Industries Korea Limited)	Korea	KRW3,400,000,000	100	—	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN50,000 (Serie I) MXN596,964,358 (2019: MXN362,720,990) (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	MXN458,386,930 (2019: MXN98,646,170)	99.99	0.01	99.99	0.01	Manufacture of power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZD4,165,600 (2019: NZD4,165,500)	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	VND347,895,000,000 (2019: VND324,810,000,000)	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\$2	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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

49. 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	
		2020	2019
Manufacture of power equipment, floorcare and outdoor power equipment products	Europe, PRC, US and others	6	7
Trading of power equipment, floorcare and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	44	38
Investment holding	Australia, BVI, Europe, Hong Kong, US	22	25
Dormant	BVI, Europe, Hong Kong, US	15	16

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

50. Particulars of Principal Associates

Particulars of the principal associates are as follows:

Name of associates	Place of incorporation/operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company directly		Principal activities
			2020 %	2019 %	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	40.8	40.8	Investment holding
Wuerth Master Power Tools Limited	Hong Kong	US\$3,000,000	49.0	49.0	Manufacture and sale of power equipment

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 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.

Independent Auditor's Report

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 HKSA's 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 HKSA's, 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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

	Notes	2019 US\$'000	2018 US\$'000
Revenue	6	7,666,721	7,021,182
Cost of sales		(4,774,065)	(4,406,605)
Gross profit		2,892,656	2,614,577
Other income	7	10,542	7,013
Interest income	8	40,215	25,204
Selling, distribution and advertising expenses		(1,195,138)	(1,103,437)
Administrative expenses		(804,989)	(708,135)
Research and development costs		(229,796)	(202,563)
Finance costs	9	(52,323)	(38,049)
Profit before share of results of associates and taxation		661,167	594,610
Share of results of associates		119	—
Profit before taxation		661,286	594,610
Taxation charge	10	(46,290)	(42,070)
Profit for the year	11	614,996	552,540
Other comprehensive (loss) income:			
Item that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		(8,361)	(111)
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss) gain on foreign currency forward contracts and cross-currency interest rate swap in hedge accounting		(10,856)	50,232
Exchange differences on translation of foreign operations		(8,071)	(49,173)
Other comprehensive (loss) income for the year		(27,288)	948
Total comprehensive income for the year		587,708	553,488
Profit for the year attributable to:			
Owners of the Company		614,900	552,463
Non-controlling interests		96	77
		614,996	552,540
Total comprehensive income attributable to:			
Owners of the Company		587,612	553,411
Non-controlling interests		96	77
		587,708	553,488
Earnings per share (US cents)			
Basic	15	33.67	30.16
Diluted		33.55	30.06

Consolidated Statement of Financial Position

As at December 31, 2019

	Notes	2019 US\$'000	2018 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,086,559	790,936
Lease prepayments	17	—	28,475
Right of use assets	18	247,144	—
Goodwill	19	580,866	581,215
Intangible assets	20	666,705	620,801
Interests in associates	22	3,243	3,664
Financial assets at fair value through profit or loss	23	5,796	5,361
Derivative financial instruments	28	8,929	9,441
Deferred tax assets	42	74,947	83,945
		2,674,189	2,123,838
Current assets			
Inventories	24	2,112,931	1,766,722
Right to returned goods asset		15,342	14,005
Trade and other receivables	25	1,228,573	1,126,798
Deposits and prepayments		169,076	126,841
Bills receivable	26	6,076	5,057
Tax recoverable		23,887	12,852
Trade receivables from associates	27	6,494	2,253
Derivative financial instruments	28	25,065	33,788
Financial assets at fair value through profit or loss	23	24,597	32,828
Bank balances, deposits and cash	29	1,411,821	1,103,880
		5,023,862	4,225,024
Current liabilities			
Trade and other payables	30	2,177,417	1,921,452
Bills payable	31	46,170	41,164
Warranty provision	32	115,210	105,215
Tax payable		19,596	15,300
Derivative financial instruments	28	17,493	712
Lease liabilities	33	63,878	—
Obligations under finance leases – due within one year	34	—	288
Discounted bills with recourse	35	9,089	243,360
Unsecured borrowings – due within one year	38	732,380	255,228
Refund liabilities from right of return		36,474	33,267
		3,217,707	2,615,986
Net current assets		1,806,155	1,609,038
Total assets less current liabilities		4,480,344	3,732,876

Consolidated Statement of Financial Position

As at December 31, 2019

	Notes	2019 US\$'000	2018 US\$'000
Capital and Reserves			
Share capital	39	662,379	654,991
Reserves		2,732,266	2,402,780
Equity attributable to Owners of the Company		3,394,645	3,057,771
Non-controlling interests		(334)	(430)
Total equity		3,394,311	3,057,341
Non-current Liabilities			
Lease liabilities	33	174,490	—
Obligations under finance leases – due after one year	34	—	725
Unsecured borrowings – due after one year	38	754,628	540,214
Retirement benefit obligations	41	143,461	119,974
Deferred tax liabilities	42	13,454	14,622
		1,086,033	675,535
Total equity and non-current liabilities		4,480,344	3,732,876

The consolidated financial statements on pages 136 to 222 were approved and authorized for issue by the Board of Directors on March 4, 2020 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, 2019

	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, 2018	653,918	(10,561)	(94,058)	6,902	(20,421)	(28,784)	2,234,229	2,741,225	(507)	2,740,718
Adjustment for adoption of HKFRS 9	—	—	—	—	—	—	1,570	1,570	—	1,570
Adjustment for adoption of HKFRS 15	—	—	—	—	—	—	(7,060)	(7,060)	—	(7,060)
At January 1, 2018 (restated)	653,918	(10,561)	(94,058)	6,902	(20,421)	(28,784)	2,228,739	2,735,735	(507)	2,735,228
Profit for the year	—	—	—	—	—	—	552,463	552,463	77	552,540
Remeasurement of defined benefit obligations	—	—	—	—	(29)	—	—	(29)	—	(29)
Fair value gain on foreign currency forward contracts in hedge accounting	—	—	—	—	—	51,730	—	51,730	—	51,730
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	(82)	—	—	(82)	—	(82)
Deferred tax liability on hedging reserve	—	—	—	—	—	(1,498)	—	(1,498)	—	(1,498)
Exchange differences on translation of foreign operations	—	—	(49,173)	—	—	—	—	(49,173)	—	(49,173)
Other comprehensive income (loss) for the year	—	—	(49,173)	—	(111)	50,232	—	948	—	948
Total comprehensive income (loss) for the year	—	—	(49,173)	—	(111)	50,232	552,463	553,411	77	553,488
Shares issued at premium on exercise of options	1,073	—	—	(205)	—	—	—	868	—	868
Buy-back of shares	—	—	—	—	—	—	(38,608)	(38,608)	—	(38,608)
Vesting of awarded shares	—	637	—	(637)	—	—	—	—	—	—
Shares for share award scheme	—	(15,191)	—	—	—	—	—	(15,191)	—	(15,191)
Recognition of equity-settled share-based payments	—	—	—	4,978	—	—	—	4,978	—	4,978
Lapse of share options	—	—	—	(6)	—	—	6	—	—	—
Final dividend – 2017	—	—	—	—	—	—	(93,827)	(93,827)	—	(93,827)
Interim dividend – 2018	—	—	—	—	—	—	(89,595)	(89,595)	—	(89,595)
At December 31, 2018 (audited)	654,991	(25,115)	(143,231)	11,032	(20,532)	21,448	2,559,178	3,057,771	(430)	3,057,341
Adjustment for adoption of HKFRS 16 (Note 2.1)	—	—	—	—	—	—	(18,753)	(18,753)	—	(18,753)
At January 1, 2019 (restated)	654,991	(25,115)	(143,231)	11,032	(20,532)	21,448	2,540,425	3,039,018	(430)	3,038,588
Profit for the year	—	—	—	—	—	—	614,900	614,900	96	614,996
Remeasurement of defined benefit obligations	—	—	—	—	(9,076)	—	—	(9,076)	—	(9,076)
Fair value loss on foreign currency forward contracts and cross-currency interest rate swap in hedge accounting	—	—	—	—	—	(12,106)	—	(12,106)	—	(12,106)
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	715	—	—	715	—	715
Deferred tax liability on hedging reserve	—	—	—	—	—	1,250	—	1,250	—	1,250
Exchange differences on translation of foreign operations	—	—	(8,071)	—	—	—	—	(8,071)	—	(8,071)
Other comprehensive loss for the year	—	—	(8,071)	—	(8,361)	(10,856)	—	(27,288)	—	(27,288)
Total comprehensive (loss) income for the year	—	—	(8,071)	—	(8,361)	(10,856)	614,900	587,612	96	587,708
Shares issued at premium on exercise of options	7,388	—	—	(1,450)	—	—	—	5,938	—	5,938
Buy-back of shares	—	—	—	—	—	—	(12,644)	(12,644)	—	(12,644)
Vesting of awarded shares	—	1,765	—	(1,765)	—	—	—	—	—	—
Shares for share award scheme	—	(8,477)	—	—	—	—	—	(8,477)	—	(8,477)
Recognition of equity-settled share-based payments	—	—	—	6,792	—	—	—	6,792	—	6,792
Lapse of share options	—	—	—	(10)	—	—	10	—	—	—
Final dividend – 2018	—	—	—	—	—	—	(117,621)	(117,621)	—	(117,621)
Interim dividend – 2019	—	—	—	—	—	—	(105,973)	(105,973)	—	(105,973)
At December 31, 2019	662,379	(31,827)	(151,302)	14,599	(28,893)	10,592	2,919,097	3,394,645	(334)	3,394,311

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 US\$'000	2018 US\$'000
Operating Activities		
Profit before taxation	661,286	594,610
Adjustments for:		
Amortization/write-off of intangible assets	113,101	111,994
Amortization of lease prepayments	—	747
Depreciation of right of use assets	67,719	—
Depreciation on property, plant and equipment	144,663	129,229
Employee share-based payments expense	6,792	4,978
Fair value loss (gain) on foreign currency forward contracts	11,007	(17,954)
Fair value loss on listed equity securities	8,231	5,570
Fair value gain on club membership debentures	(145)	(114)
Fair value loss on acquisition right of certain property, plant and equipment	512	117
Fair value loss on cross-currency interest rate swap	2,425	—
Finance costs	52,323	38,049
Gain on early termination of leases	(3,500)	—
Gain on disposal of listed equity securities	—	(236)
Impairment loss on trade receivables under expected credit loss model	1,321	22,845
Interest income	(40,215)	(25,204)
Loss on disposal of property, plant and equipment	6,330	16,859
Share of results of associates	(119)	—
Write down of inventories	34,455	27,584
Operating cash flows before movements in working capital	1,066,186	909,074
Increase in inventories	(383,721)	(348,651)
Increase in trade and other receivables, deposits and prepayments	(147,290)	(31,138)
Increase in right to returned goods asset	(1,337)	(576)
(Increase) decrease in bills receivable	(1,019)	2,951
(Increase) decrease in trade receivables from associates	(3,701)	537
Increase in trade and other payables	257,994	364,105
Increase in refund liabilities from right of return	3,207	2,457
Increase (decrease) in bills payable	5,006	(13,788)
Increase in warranty provision	9,900	13,512
Increase (decrease) in retirement benefit obligations	14,411	(4,571)
Net payment for purchase of shares for share award scheme	(8,477)	(15,191)
Cash generated from operations	811,159	878,721
Interest paid	(52,323)	(38,049)
Hong Kong Profits Tax paid	(3,568)	(9,582)
Overseas tax paid	(35,072)	(38,811)
Hong Kong Profits Tax refunded	965	59
Overseas tax refunded	3,112	1,302
Net Cash from Operating Activities	724,273	793,640

	2019 US\$'000	2018 US\$'000
Investing Activities		
Acquisition of a subsidiary	—	(49,347)
Additions to intangible assets	(158,971)	(135,639)
Equity interest acquired in an associate	—	(1,470)
Interest received	40,215	25,204
Proceeds from derecognition of right of use assets	25	—
Proceeds from disposal of listed equity securities	—	2,667
Proceeds from disposal of property, plant and equipment	7,154	1,869
Purchase of listed equity securities	—	(8,536)
Purchase of property, plant and equipment	(456,608)	(259,114)
Purchase of unlisted equity securities	(301)	—
Repayment from associates	—	586
Net Cash used in Investing Activities	(568,486)	(423,780)
Financing Activities		
(Decrease) increase in discounted bills with recourse	(234,271)	155,523
Dividends paid	(223,594)	(183,422)
New bank loans obtained	4,041,720	2,519,087
Proceeds from issue of shares	5,938	868
Repayment of bank loans	(3,350,154)	(2,548,665)
Repayment of lease liabilities	(64,230)	—
Repayment of obligations under finance leases	—	(10,751)
Buy-back of shares	(12,644)	(38,608)
Net Cash from (used in) Financing Activities	162,765	(105,968)
Net Increase in Cash and Cash Equivalents	318,552	263,892
Cash and Cash Equivalents at Beginning of the Year	1,103,880	863,515
Effect of Foreign Exchange Rate Changes	(10,611)	(23,527)
Cash and Cash Equivalents at End of the Year	1,411,821	1,103,880
Analysis of the Balances of Cash and Cash Equivalents		
Represented by:		
Bank balances, deposits and cash	1,411,821	1,103,880
	1,411,821	1,103,880

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

1. General

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 Group are the manufacturing and trading of electrical and electronic products.

The functional currency of the Company is United States dollars ("US\$").

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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

2.1 HKFRS 16 Leases

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

Definition of a Lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

As a Lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. As at January 1, 2019, the Group recognized additional lease liabilities and measured right of use assets ("ROU assets") at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16. C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

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

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognize ROU assets and lease liabilities for leases with lease term ending within 12 months from the date of initial application;

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

2.1 HKFRS 16 Leases (continued)

As a Lessee (continued)

- iii. excluded initial direct costs from measuring the ROU assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

2.1 HKFRS 16 Leases (continued)

As a Lessee (continued)

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

	Right of use assets US\$'000
Right of use assets relating to operating leases recognized upon application of HKFRS 16	255,558
Reclassification from lease prepayments (note a)	28,475
Amounts included in property, plant and equipment under HKAS 17	
– Assets previously under finance leases (note b)	715
	284,748
By class:	
Leasehold land (lease prepayments)	28,475
Land and buildings	210,715
Office equipment, furniture and fixtures	2,528
Plant and machinery	2,930
Motor vehicles	34,963
Aircraft	5,137
	284,748

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

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

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

	Impact of adopting HKFRS 16 at January 1, 2019 US\$'000
Retained profits	
Recognition of the differences between right of use assets and lease liabilities	18,753

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

2.1 HKFRS 16 Leases (continued)

As a Lessee (continued)

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

	Carrying amounts previously reported at December 31, 2018 US\$'000	Reclassification US\$'000	Adjustments US\$'000	Carrying amounts under HKFRS 16 at January 1, 2019 US\$'000
Non-current Assets				
Property, plant and equipment	790,936	(715)	—	790,221
Lease prepayments	28,475	(28,475)	—	—
Right of use assets	—	29,190	255,558	284,748
Deferred tax assets	83,945	—	3,386	87,331
Current Liabilities				
Lease liabilities	—	288	55,271	55,559
Obligations under finance leases	288	(288)	—	—
Non-current Liabilities				
Lease liabilities	—	725	222,426	223,151
Obligations under finance leases	725	(725)	—	—
Capital and Reserves				
Retained profits	2,559,178	—	(18,753)	2,540,425

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

New and revised 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:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after January 1, 2021.

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

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

⁴ Effective for annual periods beginning on or after January 1, 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

New and revised HKFRSs in issue but not yet effective (continued)

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after January 1, 2020.

Other than described below, the directors of the Company consider the application of the new and amendments to HKFRSs would not have any material impact on the consolidated financial statements.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in HKFRS 9 Financial Instruments (“HKFRS 9”) and HKAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities’ hedging relationships are affected by the amendments. There are also amendments to HKFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. 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 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.

3. Significant Accounting Policies (continued)

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 (since January 1, 2019) or HKAS 17 (before application of HKFRS 16), 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.

The principal accounting policies are set out below.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Business Combinations

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.

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

- deferred tax assets or liabilities and liabilities or assets 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. 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 entity's net assets in the event of liquidation may be 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. 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 considered 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, with the corresponding adjustments made against goodwill. 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 at subsequent reporting dates in accordance with HKFRS 9 or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) 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.

3. Significant Accounting Policies (continued)

Goodwill (continued)

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

If the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit (or groups of cash-generating units). 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 cash-generating unit or any of the cash-generating unit within the group of cash-generating units, 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 cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

Interests in Associates

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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associates. Changes in net assets of the 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 an 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 assets, 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.

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 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Interests in Associates (continued)

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.

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.

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. Alternatively, intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially measured at their fair value at the acquisition date. The cost of these intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets 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. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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. Where no internally generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an internally-generated intangible asset is measured 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.

3. Significant Accounting Policies (continued)

Leases

Definition of a Lease (upon Application of HKFRS 16 in accordance with Transitions in note 2)

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 or arising from business combinations on or after the date of initial application, 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.

The Group as a Lessee (upon Application of HKFRS 16 in accordance with Transitions in note 2)

Allocation of Consideration to Components of a Contract

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

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

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.

Short-term Leases and Leases of Low-value Assets

The Group applies the short-term lease recognition exemption to leases of certain property, plant & equipment (“PP&E”) 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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a Lessee (upon Application of HKFRS 16 in accordance with Transitions in note 2) (continued)

Lease Liabilities (continued)

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 remeasures lease liabilities (and makes a corresponding adjustment to the related ROU assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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.

The Group as Lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidation statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the term of the relevant lease.

3. Significant Accounting Policies (continued)

The Group as Lessee (prior to 1 January 2019) (continued)

In the event that lease incentives are received to enter into operating leases, these incentives are recognized as a liability. The aggregate benefits of incentives are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Property, Plant & Equipment

PP&E including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, 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 provided 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.

Construction in progress includes PP&E in the course of construction for production or for its own use purposes. Construction in progress 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. 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.

Ownership Interests in Leasehold Land and Building

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" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) 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 PP&E, ROU Assets and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above)

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. The recoverable amount of PP&E, ROU assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 cash-generating unit) for which the estimates of future cash flows have not been adjusted.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Impairment PP&E, ROU Assets and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above) (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) 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 cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 cash-generating units. 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 cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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. 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 collecting contractual cash flows and selling; 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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Classification and Subsequent Measurement of Financial Assets (continued)

All other financial assets are subsequently measured at FVTPL except for derivatives designated as cash flow hedge relationship and, that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“OCI”) if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

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

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, bills receivable, trade receivables from associates, bank balances, deposits and cash) and other items (financial guarantee contracts) which are subject to impairment 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 without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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.

(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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

(i) Significant Increase in Credit Risk (continued)

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 foregoing, 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.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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.

(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;

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

(iii) Credit-impaired Financial Assets (continued)

- (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 adjusted by 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.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis as below:

- Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group. Trade receivables from associates and other receivables are assessed for expected credit losses on an individual basis);
- 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).

For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

(v) *Measurement and Recognition of ECL (continued)*

Except for financial guarantee contracts, 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.

Financial Liabilities and Equity

Financial liabilities 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 the Group 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

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 financial guarantee contract or a designated and effective hedging instrument.

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.

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.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Liabilities and Equity (continued)

Hedge Accounting (continued)

Assessment of Hedging Relationship and Effectiveness (continued)

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.

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. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

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. 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.

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance determined in accordance with HKFRS 9; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

Derecognition

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 continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized only when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

Offsetting a Financial Asset and a Financial Liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event and 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.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is calculated 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.

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 and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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.

3. 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 it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 associates, 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 recognises 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 carrying amounts of 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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

Foreign Currencies (continued)

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 item that form part of the Company's 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 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 reallocated to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates 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.

Equity-Settled Share-Based Payment Transactions

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 will 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 will be transferred to retained profits.

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

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.

3. Significant Accounting Policies (continued)

Equity-Settled Share-Based Payment Transactions (continued)

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.

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. 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 reserves and will not be reclassified to profit or loss.

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 Group presents the first two components of defined benefit costs in the line item administrative expenses under profit or loss. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. Significant Accounting Policies (continued)

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 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 associated 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.

Estimated Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of their recoverable amounts, which is the higher of the value in use and fair value less costs of disposal of the cash-generating units to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2019, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately US\$580,866,000 (2018: US\$581,215,000) and approximately US\$227,640,000 (2018: US\$227,640,000) respectively. Details of the recoverable amount calculation are disclosed in Note 21. In determining whether the goodwill and intangible assets with indefinite useful lives are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the cash-generating units. 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.

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, 2019, the carrying amounts of deferred development costs of the Group are US\$388,018,000 (2018: US\$338,230,000). 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.

4. Key Sources of Accounting Estimates (continued)

Useful Lives and Impairment Assessment of Property, Plant and Equipment

PP&E are stated at cost less accumulated depreciation and identified impairment losses. As at December 31, 2019, the Group's carrying amount of PP&E is US\$1,086,559,000 (2018: US\$790,936,000). The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life of the equipment placed into production reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's PP&E. PP&E are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate assets' carrying values are written down to their recoverable amount and the amount of the write-down is charged against the results of operations.

Income Taxes

As at December 31, 2019, a deferred tax asset of approximately US\$28,165,000 (2018: US\$30,608,000) in relation to unused tax losses and approximately US\$31,984,000 (2018: US\$23,535,000) in relation to employee related provisions has been recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax asset 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, a material reversal of the deferred tax asset may arise, which would be recognized in profit or loss for the period in which the reversal takes place. During the year, deferred tax assets of approximately US\$2,563,000 (2018: US\$3,326,000) in relation to unused tax losses were utilized.

Provision of ECL for Trade Receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 37 and 25 respectively.

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 "Floor Care and Appliances". 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 and HOMELITE brands plus original equipment manufacturer ("OEM") customers.
2. Floor Care and Appliances – sales of floor care products and floor care accessories under the HOOVER, DIRT DEVIL, VAX and ORECK brands plus OEM customers.

Information regarding the above segments is reported below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. Segment Information (continued)

Segment Revenue and Results

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

For the year ended December 31, 2019

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	6,791,514	875,207	—	7,666,721
Inter-segment sales	—	205	(205)	—
Total segment revenue	6,791,514	875,412	(205)	7,666,721
Inter-segment sales are charged at prevailing market rates.				
Result				
Segment results	662,931	10,344	—	673,275
Interest income				40,215
Finance costs				(52,323)
Share of results of associates				119
Profit before taxation				661,286
Taxation charge				(46,290)
Profit for the year				614,996

For the year ended December 31, 2018

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	6,009,495	1,011,687	—	7,021,182
Inter-segment sales	—	1,442	(1,442)	—
Total segment revenue	6,009,495	1,013,129	(1,442)	7,021,182
Inter-segment sales are charged at prevailing market rates.				
Result				
Segment results	598,283	9,172	—	607,455
Interest income				25,204
Finance costs				(38,049)
Profit before taxation				594,610
Taxation charge				(42,070)
Profit for the year				552,540

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 by each segment without the allocation of interest income, finance costs and share of results of associates. This is the measure reported to the executive directors of the Company for the purpose of resources allocation and performance assessment.

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

Other Segment Information

For the year ended December 31, 2019

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	5,779	551	6,330
Write down of inventories	33,632	823	34,455
(Reversal of impairment loss) impairment loss on trade receivables under expected credit loss model	(1,876)	3,197	1,321
Depreciation and amortization	269,489	51,930	321,419
Gain on early termination of leases	(3,500)	—	(3,500)

For the year ended December 31, 2018

Amounts included in the measure of segment results:

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Loss on disposal of property, plant and equipment	14,415	2,444	16,859
Write down of inventories	27,220	364	27,584
Impairment loss on trade receivables under expected credit loss model	20,197	2,648	22,845
Depreciation and amortization	182,200	56,534	238,734

Revenue from Major Products

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

	2019 US\$'000	2018 US\$'000
Power Equipment	6,791,514	6,009,495
Floor Care and Appliances	875,207	1,011,687
Total	7,666,721	7,021,182

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. Segment Information (continued)

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*	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
North America	5,909,781	5,371,768	1,456,518	1,037,973
Europe	1,160,614	1,071,056	172,451	113,851
Other countries	596,326	578,358	952,305	869,603
Total	7,666,721	7,021,182	2,581,274	2,021,427

* Non-current assets exclude interests in associates, financial assets at FVTPL, derivative financial instruments and deferred tax assets.

Information about Major Customer

During the years ended December 31, 2019 and 2018, the Group's largest customer contributed total revenue of US\$3,586,339,000 (2018: US\$3,194,744,000), of which US\$3,530,735,000 (2018: US\$3,143,450,000) was under the Power Equipment segment and US\$55,604,000 (2018: US\$51,294,000) was under the Floor Care and Appliances 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:

	2019 US\$'000	2018 US\$'000
Sales of goods	7,641,865	7,009,861
Commission and royalty income	24,856	11,321
	7,666,721	7,021,182

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 (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 that 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, 2019, 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 2019 and 2018 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

	2019 US\$'000	2018 US\$'000
Interests on:		
Bank borrowings	45,620	37,407
Interest on lease liabilities	6,703	—
Obligations under finance leases	—	642
	52,323	38,049

10. Taxation Charge

	2019 US\$'000	2018 US\$'000
Current tax:		
Hong Kong Profits Tax	(1,309)	(1,088)
Over (Under) provision in prior years	596	(2,057)
	(713)	(3,145)
Overseas taxation	(32,279)	(30,575)
(Under) Over provision in prior years	(324)	404
	(32,603)	(30,171)
Deferred tax (Note 42):		
Current year	4,203	17,544
Deferred tax asset impairment	(16,653)	(26,969)
Change in tax rates	(524)	671
	(12,974)	(8,754)
	(46,290)	(42,070)

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

10. Taxation Charge (continued)

The tax charge for the year is reconciled as follows:

	2019 US\$'000	2019 %	2018 US\$'000	2018 %
Profit before taxation	661,286		594,610	
Tax at Hong Kong Profits Tax rate	(109,112)	16.5%	(98,111)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	128,326	(19.4%)	74,295	(12.5%)
Tax effect of expenses not deductible for tax purposes	(25,431)	3.8%	(6,537)	1.1%
Tax effect of income not taxable for tax purposes	2,175	(0.3%)	8,779	(1.4%)
Utilization of deductible temporary differences previously not recognized	2,563	(0.4%)	3,326	(0.6%)
Tax effect of tax losses and deductible temporary differences not recognized	(28,025)	4.2%	4,129	(0.7%)
Deferred tax asset impairment	(16,653)	2.5%	(26,969)	4.5%
Over (under) provision in respect of prior years	272	0.0%	(1,653)	0.3%
Tax effect of changes in tax rates	(524)	0.1%	671	(0.1%)
Tax effect of share of results of associates	119	0.0%	—	—
Tax charge for the year	(46,290)	7.0%	(42,070)	7.1%

Details of deferred tax are set out in Note 42.

11. Profit for the Year

	2019 US\$'000	2018 US\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	109,037	108,758
Amortization of lease prepayments	—	747
Auditors' remuneration	3,247	3,267
Cost of inventories recognized as an expense	4,774,065	4,406,605
Depreciation of right of use assets	67,719	—
Depreciation on property, plant and equipment		
Owned assets	144,663	126,396
Assets held under finance leases	—	2,833
Fair value loss (gain) on foreign currency forward contracts	11,007	(17,954)
Fair value loss on listed equity securities	8,231	5,570
Fair value gain on club membership debentures	(145)	(114)
Fair value loss on acquisition right of certain property, plant and equipment	512	117
Fair value loss on cross-currency interest rate swap	2,425	—
Gain on early termination of leases	(3,500)	—
Gain on disposal of listed equity securities	—	(236)
Impairment loss on trade receivables under expected credit loss model	1,321	22,845
Loss on disposal of property, plant and equipment	6,330	16,859
Net exchange gain	(3,128)	(20,788)
Operating lease expenses/expenses relating to short-term leases and low-value assets recognized in respect of:		
Motor vehicles	640	23,825
Plant and machinery	10,198	11,910
Premises	8,162	43,932
Other assets	601	2,632
Share of results of associates	(119)	—
Unconditional government grants	(322)	(382)
Write off of intangible assets	4,064	3,236
Write down of inventories	34,455	27,584
Staff costs		
Directors' remuneration		
Fees	491	315
Other emoluments	48,663	41,205
	49,154	41,520
Other staff costs	1,097,733	911,760
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)		
Defined contribution plans	14,155	11,979
Defined benefit plans (Note 41)	1,660	2,277
	1,162,702	967,536

Staff costs disclosed above do not include an amount of US\$174,477,000 (2018: US\$149,073,000) of staff costs incurred relating to research and development activities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12. Directors' Emoluments

The emoluments paid or payable to each of the twelve (2018: twelve) directors, disclosed pursuant to the applicable Listing Rules and CO, were as follows:

For the year ended December 31, 2019

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	15,066	1,186	17,925
Mr Stephan Horst Pudwill (Note i)	—	390	2	2,057	601	3,050
Mr Joseph Galli Jr (Note i)	—	1,633	180	14,100	648	16,561
Mr Kin Wah Chan (Note i)	—	826	2	2,345	601	3,774
Mr Chi Chung Chan (Note i)	—	823	—	4,585	601	6,009
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	77	—	—	—	135	212
Mr Camille Jojo (Note ii)	77	15	—	—	453	545
Mr Christopher Patrick Langley OBE (Note iii)	77	15	—	—	135	227
Mr Manfred Kuhlmann (Note iii)	29	13	—	—	61	103
Mr Peter David Sullivan (Note iii)	77	37	—	—	135	249
Mr Vincent Ting Kau Cheung (Note iii)	77	40	—	—	135	252
Mr Johannes-Gerhard Hesse (Note iii)	77	26	—	—	144	247
Total	491	5,489	186	38,153	4,835	49,154

12. Directors' Emoluments (continued)

For the year ended December 31, 2018

	Other emoluments					Total US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Contributions to retirement benefits schemes US\$'000	Bonus US\$'000	Share-based payments US\$'000	
Mr Horst Julius Pudwill (Note i)	—	1,671	2	10,195	1,295	13,163
Mr Stephan Horst Pudwill (Note i)	—	362	2	1,960	505	2,829
Mr Joseph Galli Jr (Note i)	—	1,696	180	14,100	827	16,803
Mr Kin Wah Chan (Note i)	—	722	2	2,136	505	3,365
Mr Chi Chung Chan (Note i)	—	719	2	2,486	505	3,712
Prof Roy Chi Ping Chung GBS BBS JP (Note ii)	45	6	—	—	150	201
Mr Camille Jojo (Note ii)	45	13	—	—	231	289
Mr Christopher Patrick Langley OBE (Note iii)	45	19	—	—	150	214
Mr Manfred Kuhlmann (Note iii)	45	44	—	—	150	239
Mr Peter David Sullivan (Note iii)	45	47	—	—	150	242
Mr Vincent Ting Kau Cheung (Note iii)	45	48	—	—	150	243
Mr Johannes-Gerhard Hesse (Note iii)	45	31	—	—	144	220
Total	315	5,378	188	30,877	4,762	41,520

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.

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. Details of these benefits in kind are disclosed under the sections "Share Options" and "Share Award Scheme" in Notes 46 and 47 respectively

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2018: four) were directors of the Company whose emoluments are included in Note 12 above. The emoluments of the remaining one (2018: one) individual for the year ended December 31, 2019 were as follows:

	2019 US\$'000	2018 US\$'000
Basic salaries and allowances	787	773
Contributions to retirement benefits schemes	74	191
Bonus	2,587	4,000
Other benefit	—	59
Share-based payments	1,635	—
	5,083	5,023

The emoluments of this one (2018: one) highest paid individual for the year ended December 31, 2019 were within the following bands:

HK\$	No. of persons	
	2019	2018
39,000,001 to 39,500,000	1	1

During each of the two years ended December 31, 2019 and 2018, 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

	2019 US\$'000	2018 US\$'000
Dividends recognized as distributions during the year:		
Final dividend paid:		
2018: HK50 cents (approximately US6.44 cents) (2017: HK39.75 cents (approximately US5.12 cents)) per share	117,621	93,827
Interim dividend paid:		
2019: HK45.00 cents (approximately US5.79 cents) (2018: HK38.00 cents (approximately US4.89 cents)) per share	105,973	89,595
	223,594	183,422

The final dividend of HK58.00 cents (approximately US7.46 cents) per share with a total of approximately US\$136,603,000 in respect of the year ended December 31, 2019 (2018: final dividend of HK50.00 cents (approximately US6.44 cents) per share in respect of the year ended December 31, 2018) has been proposed by the directors 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:

	2019 US\$'000	2018 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	614,900	552,463
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,826,362,982	1,831,782,645
Effect of dilutive potential ordinary shares:		
Share options	5,004,102	5,678,803
Share award	1,155,989	505,165
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,832,523,073	1,837,966,613

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

16. Property, Plant and Equipment

	Land and buildings (Note) US\$'000	Leasehold improvements US\$'000	Office equipment, furniture and fixtures US\$'000	Plant and machinery US\$'000	Motor vehicles US\$'000	Moulds and tooling US\$'000	Vessels US\$'000	Aircraft US\$'000	Construction in progress US\$'000	Total US\$'000
Cost										
At January 1, 2018	193,239	89,191	225,647	322,146	6,271	312,060	2,369	—	127,590	1,278,513
Currency realignment	(2,047)	(2,911)	(3,709)	(10,067)	(161)	(4,109)	—	—	(856)	(23,860)
Additions	7,530	3,808	12,315	23,110	590	2,226	4,737	31,283	173,635	259,234
Acquisition of a subsidiary	1,280	—	165	1,157	—	273	—	—	87	2,962
Disposals	(14)	(1,860)	(10,207)	(17,572)	(1,034)	(36,647)	—	—	(4,442)	(71,776)
Reclassification	5,611	1,188	13,406	17,971	225	69,822	—	—	(108,223)	—
At December 31, 2018	205,599	89,416	237,617	336,745	5,891	343,625	7,106	31,283	187,791	1,445,073
Adjustments upon application of HKFRS 16	(3,094)	—	—	—	(393)	—	—	—	—	(3,487)
At January 1, 2019 (restated)	202,505	89,416	237,617	336,745	5,498	343,625	7,106	31,283	187,791	1,441,586
Currency realignment	1,080	302	(8,305)	1,316	197	(1,108)	—	—	(46)	(6,564)
Additions	31,687	3,989	16,212	31,554	409	4,626	—	312	367,819	456,608
Disposals	(307)	(3,786)	(19,494)	(7,104)	(440)	(28,892)	—	(3,900)	(3,882)	(67,805)
Reclassification	165,256	2,626	21,743	33,078	2,383	71,930	—	—	(297,016)	—
At December 31, 2019	400,221	92,547	247,773	395,589	8,047	390,181	7,106	27,695	254,666	1,823,825
Depreciation and Impairment										
At January 1, 2018	31,223	41,597	147,842	172,616	4,268	189,780	2,319	—	—	589,645
Currency realignment	(734)	(1,295)	(2,200)	(5,141)	(104)	(2,217)	—	—	—	(11,691)
Provided for the year	6,389	6,117	22,227	29,083	782	63,693	704	234	—	129,229
Eliminated on disposals	(2)	(1,802)	(7,732)	(12,947)	(898)	(29,665)	—	—	—	(53,046)
At December 31, 2018	36,876	44,617	160,137	183,611	4,048	221,591	3,023	234	—	654,137
Adjustments upon application of HKFRS 16	(2,526)	—	—	—	(246)	—	—	—	—	(2,772)
At January 1, 2019 (restated)	34,350	44,617	160,137	183,611	3,802	221,591	3,023	234	—	651,365
Currency realignment	867	225	(6,021)	1,052	76	(640)	—	—	—	(4,441)
Provided for the year	9,026	7,509	22,579	33,611	1,050	67,789	1,198	1,901	—	144,663
Eliminated on disposals	(216)	(2,595)	(18,935)	(5,763)	(311)	(26,501)	—	—	—	(54,321)
At December 31, 2019	44,027	49,756	157,760	212,511	4,617	262,239	4,221	2,135	—	737,266
Carrying amounts										
At December 31, 2019	356,194	42,791	90,013	183,078	3,430	127,942	2,885	25,560	254,666	1,086,559
At December 31, 2018	168,723	44,799	77,480	153,134	1,843	122,034	4,083	31,049	187,791	790,936

Note: Buildings with a carrying amount of US\$16,655,000 (2018: US\$18,485,000) are erected on leasehold land that is presented as ROU assets (2018: lease prepayments) on the consolidated statement of financial position.

16. Property, Plant and Equipment (continued)

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

Freehold land	Nil
Leasehold land	Shorter of lease term or useful life
Buildings	2½% – 6⅔%
Leasehold improvements	2½% – 33⅓%
Office equipment, furniture and fixtures	10% – 33⅓%
Plant and machinery	9% – 25%
Motor vehicles	10% – 33⅓%
Moulds and tooling	18% – 33⅓%
Vessels	20% – 25%
Aircraft	6% – 16⅔%

The carrying amounts of properties shown above comprise:

	2019 US\$'000	2018 US\$'000
Properties situated outside Hong Kong are analyzed as follows:		
Freehold land	276,007	85,310
Leasehold land and buildings	16,655	18,485
	292,662	103,795
Land and buildings situated in Hong Kong	63,532	64,928
	356,194	168,723

As at December 31, 2018, the carrying amounts of the Group's PP&E includes approximately US\$715,000 in respect of assets held under finance leases.

The cost of the Group's PP&E includes amounts of approximately US\$342,522,000 (2018: US\$290,105,000) in respect of fully depreciated PP&E that are still in use.

17. Lease Prepayments

	US\$'000
Cost	
At January 1, 2018	37,982
Currency realignment	(2,054)
Additions	27
At December 31, 2018	35,955
Amortization	
At January 1, 2018	7,146
Currency realignment	(413)
Provided for the year	747
At December 31, 2018	7,480
Carrying amount	
At December 31, 2018	28,475

All lease prepayments were related to leases outside Hong Kong.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

18. 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							
Adjustments upon application of HKFRS 16 at January 1, 2019	352,851	4,313	4,842	64,143	12,582	35,955	474,686
Currency realignment	(992)	32	51	(597)	—	(436)	(1,942)
Additions	52,426	4,075	1,716	30,899	—	—	89,116
Termination of leases	(74,091)	(1,206)	—	(13,028)	—	(34)	(88,359)
At December 31, 2019	330,194	7,214	6,609	81,417	12,582	35,485	473,501
Depreciation							
Adjustments upon application of HKFRS 16 at January 1, 2019	142,136	1,785	1,912	29,180	7,445	7,480	189,938
Currency realignment	(842)	3	40	(521)	—	(96)	(1,416)
Provided for the year	43,668	1,392	1,149	19,537	1,258	715	67,719
Elimination on termination of leases	(16,903)	(879)	—	(12,102)	—	—	(29,884)
At December 31, 2019	168,059	2,301	3,101	36,094	8,703	8,099	226,357
Carrying amounts							
At January 1, 2019 (restated)	210,715	2,528	2,930	34,963	5,137	28,475	284,748
At December 31, 2019	162,135	4,913	3,508	45,323	3,879	27,386	247,144
							US\$'000
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16							11,844
Expense relating to leases of low-value assets, excluding short-term leases of low value assets							7,757
Total cash outflow for leases							83,831

For both years, the Group leases land and buildings, office equipment, furniture and fixtures, plant and machinery, motor vehicles, aircraft and leasehold land for its operations. Lease contracts are entered into for term of up to 18 years. Certain leases of land and buildings, plant and machinery and fixtures and equipment were accounted for as finance leases during the year ended December 31, 2018 and carried interest ranged from 6.00% to 8.54%. 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.

Leases committed

As at December 31, 2019, the Group entered into new leases for certain PP&E that have not yet commenced, with average non-cancellable period that range from 1 to 10 years with extension options, the total future undiscounted cash flows under which amounted to US\$33,475,000 over the non-cancellable period.

Details of the lease maturity analysis of the lease liabilities are set out in Note 33.

19. Goodwill

	US\$'000
At January 1, 2018	555,350
Currency realignment	(782)
Arising on acquisition of a subsidiary	26,647
At December 31, 2018	581,215
Currency realignment	(349)
At December 31, 2019	580,866

Particulars regarding impairment testing of goodwill are disclosed in Note 21.

20. 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, 2018	801,490	88,839	234,212	453	10,500	—	1,135,494
Currency realignment	(17)	—	—	—	—	—	(17)
Additions	124,489	11,150	—	—	—	—	135,639
Acquisition of a subsidiary	—	47	8,200	1,300	5,900	1,300	16,747
Written off in the year	(9,414)	(222)	—	—	—	—	(9,636)
At December 31, 2018	916,548	99,814	242,412	1,753	16,400	1,300	1,278,227
Currency realignment	53	—	—	—	—	—	53
Additions	151,931	7,040	—	—	—	—	158,971
Written off in the year	(6,075)	(198)	—	—	—	—	(6,273)
At December 31, 2019	1,062,457	106,656	242,412	1,753	16,400	1,300	1,430,978
Amortization							
At January 1, 2018	485,178	52,095	13,138	453	4,206	—	555,070
Currency realignment	(2)	—	—	—	—	—	(2)
Provided for the year	99,542	7,975	453	33	690	65	108,758
Eliminated on write off	(6,400)	—	—	—	—	—	(6,400)
At December 31, 2018	578,318	60,070	13,591	486	4,896	65	657,426
Currency realignment	19	—	—	—	—	—	19
Provided for the year	98,311	8,898	453	130	718	527	109,037
Eliminated on write off	(2,209)	—	—	—	—	—	(2,209)
At December 31, 2019	674,439	68,968	14,044	616	5,614	592	764,273
Carrying amounts							
At December 31, 2019	388,018	37,688	228,368	1,137	10,786	708	666,705
At December 31, 2018	338,230	39,744	228,821	1,267	11,504	1,235	620,801

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

20. Intangible Assets (continued)

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

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\$227,640,000 (2018: US\$227,640,000) 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 21.

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% – 33 $\frac{1}{3}$ %
Patents	10% – 25%
Trademarks with finite useful lives	6 $\frac{2}{3}$ %
Manufacturing know-how	10%
Retailer and service relationships	5% – 6 $\frac{2}{3}$ %
Non compete agreement	6 $\frac{2}{3}$ %

21. 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 19 and 20, the majority of the amounts have been allocated to five major individual cash-generating units ("CGUs"), including four units in the Power Equipment segment and one unit in the Floor Care and Appliances segment. The carrying amounts of goodwill and trademarks as at December 31, 2019 allocated to these units are as follows:

	Goodwill		Trademarks	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Power Equipment – MET	443,264	443,264	126,607	126,607
Power Equipment – HCP	7,492	7,492	30,648	30,648
Power Equipment – Drebo	21,779	22,128	—	—
Power Equipment – Baja	9,017	9,017	3,200	3,200
Floor Care and Appliances – RAM/Hoover/VAX	75,748	75,748	67,179	67,179
Others	23,566	23,566	6	6
	580,866	581,215	227,640	227,640

No impairment of goodwill and trademarks have been recognized for the years ended December 31, 2019 and 2018.

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

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

Power Equipment – MET (“MET”)

The recoverable amount of MET’s goodwill and intangibles has 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 10.0% (2018: 10.0%) 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, the success in reducing the working capital requirements and the success of the cost cutting strategy implemented by the Group. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2018: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of MET’s goodwill and intangibles to exceed the recoverable amounts.

Power Equipment – HCP (“HCP”)

The recoverable amount of HCP’s goodwill and intangibles has 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 11.0% (2018: 11.0%) per annum.

Cash flow projections during the budget period for HCP 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 HCP’s past performance, management’s expectations of the market development, the success of the new products launched and the success of the cost cutting 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 HCP’s goodwill and intangibles to exceed the recoverable amounts.

Power Equipment – Drebo (“Drebo”)

The recoverable amount of Drebo’s goodwill has 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 10.0% (2018: 11.0%) 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 cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a 1.0% (2018: 1.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Drebo’s goodwill to exceed the recoverable amount.

Power Equipment – Baja (“Baja”)

The recoverable amount of Baja’s goodwill and intangibles has 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 12.0% (2018: 12.0%) per annum.

Cash flow projections during the budget period for Baja 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 Baja’s past performance, management’s expectations of the market development and the success of the cost cutting strategy implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2018: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Baja’s goodwill and intangibles to exceed the aggregate recoverable amounts.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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

Floor Care and Appliances – RAM/Hoover/VAX (“RAM/Hoover/VAX”)

The recoverable amount of RAM/Hoover/VAX’s goodwill and intangibles has 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 13.5% (2018: 14.0%) 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, the success in reducing the working capital requirements and the success of the cost cutting strategies implemented. Cash flow projections beyond the 5-year period are extrapolated using a steady 2.0% (2018: 2.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of RAM/Hoover/VAX’s goodwill and intangibles to exceed the aggregate recoverable amounts.

22. Interests in Associates

	2019 US\$'000	2018 US\$'000
Cost of investment in associates	1,470	1,470
Share of post-acquisition profits	119	—
Share of net assets	1,589	1,470
Amounts due from associates	1,654	2,194
	3,243	3,664

Summarized financial information in respect of 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.

	2019 US\$'000	2018 US\$'000
Non-current assets	1,681	—
Current assets	7,484	3,000
Current liabilities	5,922	—
Net assets	3,243	3,000

	2019 US\$'000	2018 US\$'000
Revenue	44,386	—
Profit for the year	242	—

22. Interests in Associates (continued)

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

	2019 US\$'000	2018 US\$'000
Net assets	3,243	3,000
Proportion of the Group's ownership interest	49.0%	49.0%
The Group's share of net assets	1,589	1,470
Carrying amount of the Group's interest	1,589	1,470

Particulars of the principal associate as at December 31, 2019 and 2018 are set out in Note 53.

The amounts due from associates are unsecured, non-interest bearing and are repayable on demand.

At the end of the reporting period, amongst the associates, the Group holds 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together the "Gimelli Group companies"). The Group has discontinued recognizing its share of the losses of the Gimelli Group companies. The unrecognized share of profit (loss) for the year and cumulatively, extracted from the relevant unaudited management accounts of the associates, are US\$215,000 (2018: US\$504,000) and (US\$3,236,000) (2018: (US\$3,451,000)) respectively.

23. Financial assets at FVTPL

	Notes	2019 US\$'000	2018 US\$'000
Club membership debentures	(a)	2,450	2,316
Unlisted equity securities	(b)	3,301	3,000
Listed equity securities	(c)	24,597	32,828
Other		45	45
		30,393	38,189
Analyzed for reporting purposes as:			
Current assets		24,597	32,828
Non-current assets		5,796	5,361
		30,393	38,189

Notes:

- (a) As at December 31, 2019, 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, 2019, the unlisted equity securities represented the interest in a private company incorporated in the United States ("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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

24. Inventories

	2019 US\$'000	2018 US\$'000
Raw materials	209,495	112,049
Work in progress	43,832	41,723
Finished goods	1,859,604	1,612,950
	2,112,931	1,766,722

25. Trade and Other Receivables

	2019 US\$'000	2018 US\$'000
Trade receivables	1,195,630	1,140,923
Less: Allowances for credit losses	(34,529)	(51,760)
	1,161,101	1,089,163
Other receivables	67,472	37,635
	1,228,573	1,126,798

As at December 31, 2019 and January 1, 2019, all trade receivables 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:

	2019 US\$'000	2018 US\$'000
0 to 60 days	966,306	680,424
61 to 120 days	137,389	346,055
121 days or above	57,406	62,684
Total trade receivables	1,161,101	1,089,163

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, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$334,794,000 (2018: US\$268,543,000) which are past due as at the reporting date. Of the past due balances, US\$303,196,000 (2018: US\$218,511,000) 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 has 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 approximately US\$68,700,000 (2018: US\$75,000,000) were recognized as liabilities and included in "Unsecured borrowings – due within one year" in the consolidated statement of financial position.

26. Bills Receivable

All the Group's bills receivable at December 31, 2019 and 2018 are aged within 120 days based on invoice date.

27. Trade Receivables from Associates

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

28. Derivative Financial Instruments

	2019 US\$'000	2018 US\$'000
Assets		
Acquisition right of certain property, plant and equipment	8,929	9,441
Foreign currency forward contracts – under hedge accounting	25,065	33,477
Foreign currency forward contracts – not under hedge accounting	—	311
	33,994	43,229
Liabilities		
Foreign currency forward contracts – under hedge accounting	10,688	135
Foreign currency forward contracts – not under hedge accounting	4,380	577
Cross-currency interest rate swap – under hedge accounting	2,425	—
	17,493	712

Acquisition Right of Certain Property, Plant & Equipment

As at December 31, 2019 and 2018, 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\$8,929,000 valued on September 30, 2019 (2018: US\$9,441,000 valued on September 30, 2018) by Duff & Phelps, LLC., 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

28. Derivative Financial Instruments (continued)

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.

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

2019

Notional amounts in millions	Maturity
Sell AUD 430M, Buy US\$	January 30, 2020 to December 30, 2020
Sell EUR 589M, Buy US\$	January 31, 2020 to December 30, 2021
Sell US\$354.3M, Buy RMB	January 31, 2020 to December 30, 2020
Sell US\$9M, Buy EUR	January 3, 2020 to May 22, 2020
Sell GBP 36.5M, Buy EUR	January 16, 2020 to December 10, 2020
Sell CHF 3M, Buy EUR	January 16, 2020 to December 10, 2020
Sell SEK 285M, Buy EUR	January 16, 2020 to December 10, 2020
Buy US\$95.9M, Sell GBP	January 3, 2020 to June 11, 2021

2018

Notional amounts in millions	Maturity
Sell AUD 129M, Buy US\$	January 30, 2019 to December 30, 2019
Sell EUR 312M, Buy US\$	January 30, 2019 to December 30, 2019
Sell US\$60.2M, Buy RMB	January 30, 2019
Sell AUD 276.6M, Buy US\$	January 30, 2019 to December 30, 2019
Sell US\$12.8M, Buy EUR	January 7, 2019 to August 23, 2019
Sell GBP 33M, Buy EUR	January 17, 2019 to November 14, 2019
Sell CHF 3.3M, Buy EUR	January 17, 2019 to December 12, 2019
Sell SEK 48M, Buy EUR	January 17, 2019 to March 14, 2019
Buy US\$68M, Sell GBP	January 4, 2019 to December 2, 2019
Buy US\$22M, Sell EUR	January 4, 2019 to December 16, 2019

As at December 31, 2019, a fair value loss of US\$9,681,000 (December 31, 2018: fair value gain of US\$51,730,000) has been recognized in other comprehensive income and accumulated in reserves and is expected to be reclassified to profit or loss.

During the year, a fair value gain of US\$21,448,000 (2018: loss of US\$28,784,000) was reclassified from reserves to profit or loss.

28. Derivative Financial Instruments (continued)

Foreign Currency Forward Contracts not under hedge accounting

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

2019

Notional amounts in millions	Maturity
Buy EUR 4.8M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$21M, Sell AUD	January 21, 2020 to December 18, 2020
Buy US\$35.9M, Sell NZD	January 17, 2020 to December 18, 2020
Buy US\$308.4M, Sell CAD	January 31, 2020 to August 21, 2020

2018

Notional amounts in millions	Maturity
Buy EUR 4.2M, Sell AUD	January 21, 2019 to December 20, 2019
Buy US\$9M, Sell AUD	January 22, 2019 to December 19, 2019
Buy US\$34.5M, Sell NZD	January 22, 2019 to December 20, 2019

Cross-currency Interest Rate Swap

The Group uses cross-currency interest rate swap designated as highly effective hedging instrument to minimize its exposures to foreign currency and interest rate risk of its US\$ bank borrowing by swapping the floating-rate US\$ bank borrowing to fixed-rate EUR bank borrowing.

The cross-currency interest rate swap with notional amount of US\$165,300,000 has fixed currency payments in EUR at exchange rate of EUR to US\$ at 1.102, fixed interest payments monthly in EUR at 0.305% per annum for periods up until October 2023 and October 2024.

The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the directors of the Company consider that the cross-currency interest rate swap is highly effective hedging instrument.

During the year, net adjustment on the above-mentioned cash flow hedges amounted to US\$2,425,000 and is included in other comprehensive income.

The fair value of the cross-currency interest swap is determined by using the discounted cash flow method based on 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 swap were as follows:

2019

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%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

29. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which ranged from 0.001% to 3.95% (2018: 0.001% to 4.20%) per annum.

30. 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:

	2019 US\$'000	2018 US\$'000
0 to 60 days	908,313	822,557
61 to 120 days	217,144	248,261
121 days or above	5,829	15,006
Total trade payables	1,131,286	1,085,824
Other payables	1,046,131	835,628
	2,177,417	1,921,452

The credit period on the purchase of goods ranges from 30 days to 120 days (2018: 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.

31. Bills Payable

All the Group's bills payable at December 31, 2019 and 2018 are aged within 120 days based on invoice date.

32. Warranty Provision

	US\$'000
At January 1, 2018	94,264
Currency realignment	(2,601)
Provision in the year	135,423
Acquisition of a subsidiary	39
Utilization of provision	(121,910)
At December 31, 2018	105,215
Currency realignment	95
Provision in the year	127,237
Utilization of provision	(117,337)
At December 31, 2019	115,210

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 incurred in the next financial year.

33. Lease Liabilities

	2019 US\$'000
Amounts payable under lease liabilities:	
Within one year	63,878
In more than one year but not more than two years	53,152
In more than two years but not more than five years	82,080
More than five years	39,258
	238,368
Less: Amount due for settlement with 12 months shown under current liabilities	(63,878)
Amount due for settlement after 12 months shown under non-current liabilities	174,490

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	GBP US\$'000
As at December 31, 2019	30,372	20,417	17,765

34. Obligations under Finance Leases

As at December 31, 2018, it was the Group's policy to lease certain of its land and buildings, plant and machinery and fixtures and equipment under finance leases, with lease terms ranging from 2.5 years to 20 years. Interest rates underlying all obligations under finance leases were fixed at the respective contract dates ranging from 6.00% to 8.54% per annum. No arrangements had been entered into that include contingent rental payments.

The maturity of obligations under finance leases was as follows:

	Minimum lease payments 2018 US\$'000	Present value of minimum lease payments 2018 US\$'000
Amounts payable under finance leases:		
Within one year	356	288
In more than one year but not more than two years	305	260
In more than two years but not more than three years	286	261
In more than three years but not more than four years	152	142
In more than four years but not more than five years	63	62
More than five years	—	—
	1,162	1,013
Less: future finance charges	(149)	—
Present value of lease obligations	1,013	1,013
Less: Amount due within one year shown under current liabilities		(288)
Amount due after one year		725

The Group's obligations under finance leases were secured by charges over the leased assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

35. Discounted Bills with Recourse

Bills discounted with banks at an effective interest rate of 2.93% per annum (2018: 2.76% 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 stakeholders 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 debt which includes borrowings, discounted bills with recourse and obligations under finance leases, 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:

	2019 US\$'000	2018 US\$'000
Bank balances, deposits and cash	1,411,821	1,103,880
Debt ⁽ⁱ⁾	(1,427,397)	(964,815)
Net (debt) cash	(15,576)	139,065
Equity ⁽ⁱⁱ⁾	3,394,645	3,057,771
Net debt to equity ratio	0.46%	-4.55%

(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 25 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

	2019 US\$'000	2018 US\$'000
Financial assets		
<i>FVTPL</i>		
Financial assets at FVTPL	30,393	38,189
	30,393	38,189
<i>Derivative financial instruments</i>		
Acquisition right of certain property, plant and equipment	8,929	9,441
Foreign currency forward contracts – under hedge accounting	25,065	33,477
Foreign currency forward contracts – not under hedge accounting	—	311
	33,994	43,229
<i>Financial assets at amortized cost</i>		
Trade and other receivables	1,228,573	1,126,798
Bills receivable	6,076	5,057
Trade receivables from associates	6,494	2,253
Bank balances, deposits and cash	1,411,821	1,103,880
	2,652,964	2,237,988
Financial liabilities		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts – under hedge accounting	10,688	135
Foreign currency forward contracts – not under hedge accounting	4,380	577
Cross-currency interest rate swap – under hedge accounting	2,425	—
	17,493	712
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	2,177,417	1,921,452
Bills payable	46,170	41,164
Discounted bills with recourse	9,089	243,360
Unsecured borrowings	1,487,008	795,442
	3,719,684	3,001,418

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 by the internal auditors on a continuous basis. The Group does not enter into or trade derivative financial instruments for speculative purposes.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

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 21.0% (2018: 21.9%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 38.2% (2018: 47.2%) 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	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Foreign Currency EURO	17,754	115,160	137,377	214,474

Note: For group entities with their functional currency as the US\$, monetary assets and monetary liabilities denominated in Hong Kong dollars have no material foreign currency risk exposure as the Hong Kong dollar 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\$660,461,000 (2018: US\$357,800,000). 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 28 for details).

Sensitivity Analysis

The Group is mainly exposed to the effects of rate fluctuations in the EURO against US\$.

The following table details the Group's sensitivity to a 5% increase and decrease in the US\$ against the EURO without considering the foreign currency forward contracts and cross-currency interest rate swap entered at end of the reporting period. 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 EURO:US\$ foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and excludes the effect of any foreign currency forward contracts held at the reporting date. A positive number below indicates an increase in profit for the year where the US\$ weakens 5% against the EURO.

	2019 US\$'000	2018 US\$'000
Impact of EURO Profit for the year ⁽ⁱ⁾	5,562	4,614

(i) This is mainly attributable to the net exposure on receivables, payables and bank borrowings denominated in EURO at the reporting date.

37. Financial Instruments (continued)

37.2 Financial Risk Management Objectives and Policies (continued)

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 borrowing (see Note 38 for details of these borrowings), discounted bills with recourse, bank balances and deposits. The Group's cash flow interest rate risk is mainly concentrated on London Interbank Offered Rate ("LIBOR") arising from the Group's US\$ and EURO 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 bank borrowings (see Note 38 for details of these borrowings) and lease liabilities.

During the year, the Group obtained new bank borrowings of US\$4,042 million (2018: US\$2,519 million) which are either at a fixed rate or LIBOR based. The proceeds were used for refinancing the Group's borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the amount of the liability 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 point increase or decrease in LIBOR 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 higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2019 would decrease/increase by US\$6,120,000 (2018: decrease/increase by US\$4,338,000). 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 increased during the current period mainly due to the increase in variable rate debt instruments.

37.2.3 Other Price Risk

The Group is exposed to price risk through its financial assets at FVTPL.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to 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, 2019 of the Group would increase by US\$2,460,000 (2018: would increase by US\$3,283,000) as a result of the changes in the fair values of financial assets at FVTPL.

37.2.4 Credit Risk Management and Impairment Assessment

As at December 31, 2019, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk of US\$2,652,964,000 the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group is disclosed in Note 45. 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 under ECL model upon application of HKFRS 9 based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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

The credit risks on bank balances 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
Low risk	The counterparty has a low risk of default and does not have any past-due amounts.	Lifetime ECL – not credit-impaired	12-month ECL
Medium risk	Debtor occasionally repays after due dates.	Lifetime ECL – not credit-impaired	12-month 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:

	Note	Internal credit rating	12-month or lifetime ECL	2019		2018	
				External credit rating	Gross carrying amount US\$'000	External credit rating	Gross carrying amount US\$'000
Trade receivables	25	(Note 2)	Lifetime ECL (not credit-impaired)	N/A	1,195,630	N/A	1,140,923
			Lifetime ECL (credit-impaired)		—		—
Other receivables	25	(Note 1)	12-month ECL	N/A	67,472	N/A	37,635
Bills receivable	26	N/A	12-month ECL	A- To A	6,076	A- To AA-	5,057
Trade receivables from associates	27	(Note 1)	12-month ECL	N/A	6,494	N/A	2,253
Bank balances, deposits and cash	29	N/A	12-month ECL	A To AA-	1,411,821	A- To AA+	1,103,880
Financial guarantee contracts	N/A	(Note 3)	12-month ECL	N/A	8,877	N/A	8,877

Notes:

- Trade receivables from associates and other receivables amounted to US\$6,494,000 and US\$67,472,000 (2018: US\$2,253,000 and US\$37,635,000) respectively have no fixed repayment terms. The Group has assessed these balances on a 12-month ECL basis as there has been no significant increase in the credit risk since initial recognition.
- 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 expected credit losses on these items by using a provision matrix grouped by internal credit rating.
- For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

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 operation. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at December 31, 2019.

	2019			2018		
	Average loss rate	Gross carrying amount	Impairment loss allowance	Average loss rate	Gross carrying amount	Impairment loss allowance
		US\$'000	US\$'000		US\$'000	US\$'000
Internal credit rating						
No risk	Less than 1%	224,368	—	Less than 1%	246,139	—
Low risk	1-5%	904,009	12,777	1-5%	454,309	3,086
Medium risk	6-20%	42,682	4,498	6-20%	411,623	34,527
High risk	Over 20%	24,571	17,254	Over 20%	28,852	14,147
		1,195,630	34,529		1,140,923	51,760

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for 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, 2019, the Group provided US\$34,529,000 (2018: US\$51,760,000) for impairment 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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, 2018	37,114
Currency realignment	(562)
Impairment losses reversed	(28,890)
Impairment losses recognized	51,735
Acquisition of a subsidiary	25
Write-offs	(7,662)
As at December 31, 2018	51,760
Currency realignment	(290)
Impairment losses reversed	(33,208)
Impairment losses recognized	34,529
Write-offs	(18,262)
As at December 31, 2019	34,529

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, 2019, the Group has available unutilized overdrafts facilities and short and medium term bank loan facilities of approximately US\$345 million (2018: US\$419 million) and US\$1,506 million (2018: US\$1,466 million) respectively.

Liquidity Tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as well as non-derivative financial assets which are included in the maturity analysis. For non-derivative financial assets, the tables have been drawn up based on the contractual maturities of the undiscounted cash flow of the financial assets unless specified separately. For non-derivative financial liabilities, the tables reflect the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay. 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. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

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 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, 2019 US\$'000
2019								
Non-derivative financial liabilities								
Trade and other payables	—	(1,517,478)	(583,207)	(76,732)	—	—	(2,177,417)	(2,177,417)
Bills payable	—	(15,835)	(30,335)	—	—	—	(46,170)	(46,170)
Lease liabilities	2.80%	(5,323)	(10,696)	(48,915)	(54,640)	(128,133)	(247,707)	(238,368)
Discounted bills with recourse	2.93%	(7,233)	(1,866)	—	—	—	(9,099)	(9,089)
Bank borrowings	0.31% – 3.52%	(554,957)	(11,951)	(167,887)	(153,885)	(626,753)	(1,515,433)	(1,487,008)
Refund liabilities from right of return	—	(25,640)	—	(10,834)	—	—	(36,474)	(36,474)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(2,135,343)	(638,055)	(304,368)	(208,525)	(754,886)	(4,041,177)	(3,994,526)
2019								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	8,929	8,929	8,929
Cross-currency interest rate swap contracts	—	308	600	2,571	3,333	(9,745)	(2,933)	(2,425)
Foreign currency forward contracts – US\$	—	—	(727)	(2,938)	—	—	(3,665)	(3,665)
		308	(127)	(367)	3,333	(816)	2,331	2,839
Derivatives – gross settlement								
Foreign currency forward contracts								
– inflow								
– EUR	—	8,318	16,233	63,054	—	—	87,605	87,605
– RMB	—	—	94,794	267,196	—	—	361,990	361,990
– GBP	—	5,000	9,987	51,117	29,168	—	95,272	95,272
– US\$	—	24,207	125,575	570,623	268,944	—	989,349	989,349
– AUD	—	2,155	4,307	19,347	—	—	25,809	25,809
– NZD	—	14,163	7,003	15,402	—	—	36,568	36,568
	—	53,843	257,899	986,739	298,112	—	1,596,593	1,596,593
– outflow								
– EUR	—	(8,658)	(16,679)	(64,400)	—	—	(89,737)	(89,737)
– RMB	—	—	(92,678)	(261,661)	—	—	(354,339)	(354,339)
– GBP	—	(5,435)	(10,860)	(52,527)	(28,890)	—	(97,712)	(97,712)
– US\$	—	(24,603)	(124,389)	(561,240)	(267,820)	—	(978,052)	(978,052)
– AUD	—	(2,200)	(4,401)	(19,798)	—	—	(26,399)	(26,399)
– NZD	—	(14,209)	(6,964)	(15,519)	—	—	(36,692)	(36,692)
	—	(55,105)	(255,971)	(975,145)	(296,710)	—	(1,582,931)	(1,582,931)
	—	(1,262)	1,928	11,594	1,402	—	13,662	13,662

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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, 2018 US\$'000
2018								
Non-derivative financial liabilities								
Trade and other payables	—	(1,158,086)	(627,490)	(135,876)	—	—	(1,921,452)	(1,921,452)
Bills payable	—	(12,801)	(27,906)	(457)	—	—	(41,164)	(41,164)
Discounted bills with recourse	2.76%	(88,396)	(148,763)	(7,024)	—	—	(244,183)	(243,360)
Bank borrowings	0.10% – 3.57%	(40,228)	(140,428)	(76,032)	(114,423)	(443,555)	(814,666)	(795,442)
Financial guarantee contracts	—	(8,877)	—	—	—	—	(8,877)	—
		(1,308,388)	(944,587)	(219,389)	(114,423)	(443,555)	(3,030,342)	(3,001,418)
2018								
Derivatives – net settlement								
Acquisition right of certain property, plant & equipment	—	—	—	—	—	9,441	9,441	9,441
	—	—	—	—	—	9,441	9,441	9,441
Derivatives – gross settlement								
Foreign currency forward contracts								
– inflow								
– EUR	—	10,187	19,110	54,850	—	—	84,147	84,147
– RMB	—	60,619	—	—	—	—	60,619	60,619
– GBP	—	7,044	11,542	49,366	—	—	67,952	67,952
– US\$	—	70,535	105,604	500,275	—	—	676,414	676,414
– AUD	—	1,098	2,198	9,910	—	—	13,206	13,206
– NZD	—	4,012	4,911	25,590	—	—	34,513	34,513
	—	153,495	143,365	639,991	—	—	936,851	936,851
– outflow								
– EUR	—	(10,035)	(18,770)	(53,882)	—	—	(82,687)	(82,687)
– RMB	—	(60,200)	—	—	—	—	(60,200)	(60,200)
– GBP	—	(6,538)	(10,369)	(45,539)	—	—	(62,446)	(62,446)
– US\$	—	(67,682)	(101,377)	(481,400)	—	—	(650,459)	(650,459)
– AUD	—	(1,069)	(2,141)	(9,684)	—	—	(12,894)	(12,894)
– NZD	—	(4,043)	(5,000)	(26,046)	—	—	(35,089)	(35,089)
	—	(149,567)	(137,657)	(616,551)	—	—	(903,775)	(903,775)
	—	3,928	5,708	23,440	—	—	33,076	33,076

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 amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

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.

37.3 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 swap 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 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).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

37. Financial Instruments (continued)

37.3 Fair Value (continued)

Fair Value Measurements Recognized in the Statement of Financial Position (continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	2019	2018		
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the consolidated statement of financial position	Acquisition right of certain property, plant and equipment: US\$8,929,000	Acquisition right of certain property, plant and equipment: US\$9,441,000	Level 2	Measured at the fair value of the land and buildings associated with the acquisition right which is based on a valuation by 3 rd 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\$25,065,000; and Liabilities – US\$15,068,000	Assets – US\$33,788,000; and Liabilities – US\$712,000	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
3) Listed equity securities classified as financial assets at FVTPL (2018: held-for-trading investments) in the consolidated statement of financial position	Listed shares: US\$24,597,000	Listed shares: US\$32,828,000	Level 1	Quoted bid prices in an active market.
4) Other financial assets classified as financial assets at FVTPL in the consolidated statement of financial position	Club membership debentures: US\$2,450,000	Club membership debentures: US\$2,316,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
	Unlisted equity securities: US\$3,301,000	Unlisted equity securities: US\$3,000,000	Level 3	The fair value was arrived at with reference to the latest purchase price per share arising on subscribing for the shares in private market.
	Other: US\$45,000	Other: US\$45,000	Level 2	The fair value was arrived at with reference to recent transaction prices for similar comparables with similar characteristics.
5) Cross-currency interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	Liabilities: US\$2,425,000	—	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 Statement of Financial Position (continued)

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
2019				
Financial assets				
Acquisition right of certain property, plant and equipment	—	8,929	—	8,929
Foreign currency forward contracts	—	25,065	—	25,065
Financial assets at FVTPL	24,597	2,495	3,301	30,393
Total	24,597	36,489	3,301	64,387
Financial liabilities				
Foreign currency forward contracts	—	(15,068)	—	(15,068)
Cross-currency interest rate swaps	—	(2,425)	—	(2,425)
Total	—	(17,493)	—	(17,493)
2018				
Financial assets				
Acquisition right of certain property, plant and equipment	—	9,441	—	9,441
Foreign currency forward contracts	—	33,788	—	33,788
Held-for-trading investments	32,828	2,361	3,000	38,189
Total	32,828	45,590	3,000	81,418
Financial liabilities				
Foreign currency forward contracts	—	(712)	—	(712)
Total	—	(712)	—	(712)

The Group owns equity interest in a private company incorporated in the US that is classified as financial assets at FVTPL and is measured at fair value at the reporting date.

37.4 Transfers of financial assets

The following were the Group's financial assets as at December 31, 2019 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:

	2019 US\$'000	2018 US\$'000
Carrying amount of transferred assets	77,789	318,360
Carrying amount of associated liabilities	(77,789)	(318,360)
Net position	—	—

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

38. Unsecured Borrowings

	2019 US\$'000	2018 US\$'000
Bank advance from Factored Trade Receivables	68,700	75,000
Bank loans	1,418,308	720,442
Total borrowings	1,487,008	795,442

The borrowings of the Group are repayable as follows:

	2019 US\$'000	2018 US\$'000
Fixed rate		
Within one year	20,977	—
In more than one year but not more than two years	20,943	20,904
In more than two years but not more than five years	137,960	83,903
Floating rate		
Within one year	711,403	255,228
In more than one year but not more than two years	130,051	91,457
In more than two years but not more than five years	465,674	343,950
	1,487,008	795,442
Less: Amount due within one year shown under current liabilities	(732,380)	(255,228)
Amount due after one year	754,628	540,214

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2019	2018
Effective interest rate:		
Fixed-rate borrowings	2.55% to 3.52%	2.55% to 3.10%
Variable-rate borrowings	0.31% to 2.85%	0.10% to 3.57%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	US\$'000
As at December 31, 2019	—
As at December 31, 2018	14,843

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the contracted market rates.

39. Share Capital

	2019 Number of shares	2018 Number of shares	2019 US\$'000	2018 US\$'000
Ordinary shares				
Authorized shares	2,400,000,000	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the year	1,828,521,941	1,835,021,941	654,991	653,918
Issue of shares upon exercise of share options	3,835,000	600,000	7,388	1,073
Buy-back of shares	(2,350,000)	(7,100,000)	—	—
At the end of the year	1,830,006,941	1,828,521,941	662,379	654,991

Details of the share options are set out in Note 46.

During the year, the Company cancelled its own shares through the Stock Exchange as follows:

Month of cancellation	No. of ordinary shares	Price per share		Aggregate consideration paid US\$'000
		Highest HK\$	Lowest HK\$	
January 2019	2,350,000	43.00	40.45	12,644

The shares bought back were settled and cancelled during the year. The consideration paid on the buy-back of the shares of approximately US\$12,644,000 was charged to retained profits.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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, 2018	(10,561)	6,902	—	1,068,611	1,064,952
Loss for the year	—	—	—	(128,138)	(128,138)
Total comprehensive loss for the year	—	—	—	(128,138)	(128,138)
Shares issued at premium on exercise of options	—	(205)	—	—	(205)
Buy-back of shares	—	—	—	(38,608)	(38,608)
Vesting of awarded shares	637	(637)	—	—	—
Shares for share award scheme	(15,191)	—	—	—	(15,191)
Recognition of equity-settled share-based payments	—	4,978	—	—	4,978
Lapse of share options	—	(6)	—	6	—
Final dividend – 2017	—	—	—	(93,827)	(93,827)
Interim dividend – 2018	—	—	—	(89,595)	(89,595)
At December 31, 2018	(25,115)	11,032	—	718,449	704,366
Adjustment for adoption of HKFRS 16	—	—	—	(7)	(7)
At January 1, 2019 (restated)	(25,115)	11,032	—	718,442	704,359
Profit for the year	—	—	—	23,411,930	23,411,930
Fair value gain on foreign currency forward contracts and cross-currency interest rate swap in hedge accounting	—	—	16,522	—	16,522
Total comprehensive (loss) income for the year	—	—	16,522	23,411,930	23,428,452
Shares issued at premium on exercise of options	—	(1,450)	—	—	(1,450)
Buy-back of shares	—	—	—	(12,644)	(12,644)
Vesting of awarded shares	1,765	(1,765)	—	—	—
Shares for share award scheme	(8,477)	—	—	—	(8,477)
Recognition of equity-settled share-based payments	—	6,792	—	—	6,792
Lapse of share options	—	(10)	—	10	—
Final dividend – 2018	—	—	—	(117,621)	(117,621)
Interim dividend – 2019	—	—	—	(105,973)	(105,973)
At December 31, 2019	(31,827)	14,599	16,522	23,894,144	23,893,438

As at December 31, 2019, the Company's reserves available for distribution to shareholders comprised the retained profits of US\$23,894,144,000 (2018: US\$718,449,000).

41. Retirement Benefit Obligations

Defined Contribution Plans:

The Company and its subsidiaries 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 (2018: 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\$14,341,000 (2018: US\$12,167,000) 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 plan is administered by a separate fund that is 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:

	2019 US\$'000	2018 US\$'000
Pension plan obligations (Note i)	82,755	77,619
Post-retirement, medical and dental plan obligations (Note ii)	—	1
Life and medical insurance plan (Note ii)	1,269	1,257
Post-employment benefit plan obligations (Note iii)	2,884	2,129
Others (Note iv)	56,553	38,968
	143,461	119,974

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the 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, 2020, by BDO AG Wirtschaftsprüfungsgesellschaft, Germany, an independent valuer not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

41. Retirement Benefit Obligations (continued)

Defined Benefits Plans: (continued)

Note ii: Post-retirement, medical and dental plan obligations/Life and medical insurance plan

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on January 3, 2019 by Willis Towers Watson, an independent valuer not related to the Group.

Note iii: Post-employment benefit plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on January 9, 2020 by CBIZ Benefits & Insurance Services, an independent valuer not related to the Group.

Note iv: Others

Others mainly includes the a long-term incentive benefit that is offered to certain management executives of the Group. The benefit is based on the performance of the executives and will pay out after certain year of services.

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		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate	0.30%	1.50%	N/A	1.00%	2.50%	3.75%	4.14%	3.46%
Expected rate of salary increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	4.14%	3.46%
Future pension increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Medical cost trend rates	N/A	N/A	N/A	5.00%	5.00%	5.00%	N/A	N/A

The actuarial valuation showed that the market value of plan assets was US\$5,994,000 (2018: US\$15,024,000) and that the actuarial value of these assets represented 67.5% (2018: 87.6%) of the benefits that had accrued to members.

41. Retirement Benefit Obligations (continued)

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		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Current service cost and interest cost	N/A	N/A	—	—	2	3	N/A	N/A
Accumulated post-employment benefit obligations for medical costs	N/A	N/A	—	—	82	77	N/A	N/A

Amounts recognized in comprehensive income in respect of the plans are as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Service cost:								
Current service cost	409	509	—	—	—	—	—	—
Net interest on defined benefit liabilities	1,118	1,265	—	—	45	41	88	462
Components of defined benefit costs recognized in profit or loss	1,527	1,774	—	—	45	41	88	462
Remeasurement on the net defined benefit liability:								
Actuarial losses (gains) arising from changes in financial assumptions	8,412	666	—	(9)	(2)	(182)	666	(446)
Components of defined benefit costs recognized in other comprehensive income	8,412	666	—	(9)	(2)	(182)	666	(446)
Total	9,939	2,440	—	(9)	43	(141)	754	16

The charge for the year has been included in staff costs.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

41. Retirement Benefit Obligations (continued)

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the major plans is as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Present value of funded obligations	—	—	—	—	—	—	8,878	17,153
Fair value of plan assets	—	—	—	—	—	—	(5,994)	(15,024)
Present value of unfunded obligations	82,755	77,619	—	1	1,269	1,257	—	—
	82,755	77,619	—	1	1,269	1,257	2,884	2,129

Movements in the present value of the defined benefit obligations in the current year in respect of major plans were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
At January 1	77,619	82,764	1	19	1,257	1,431	17,153	18,620
Exchange differences	(933)	(3,688)	—	—	—	—	—	—
Current service cost	409	509	—	—	—	—	—	—
Actuarial losses (gains)	8,412	666	—	(9)	(2)	(182)	245	(406)
Interest cost	1,118	1,265	—	—	45	41	678	613
Benefit paid	(3,870)	(3,897)	(1)	(9)	(31)	(33)	(9,198)	(1,674)
At December 31	82,755	77,619	—	1	1,269	1,257	8,878	17,153

Movements in the fair value of the plan assets in the current year in respect of certain major plans were as follows:

	Pension plan		Post-retirement medical and dental plan		Life & medical insurance plan		Post-employment benefit plan	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	15,024	5,272
Exchange differences	N/A	N/A	N/A	N/A	N/A	N/A	—	—
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	590	151
Actuarial losses	N/A	N/A	N/A	N/A	N/A	N/A	(421)	40
Contribution from employer	N/A	N/A	N/A	N/A	N/A	N/A	—	11,235
Benefit paid	N/A	N/A	N/A	N/A	N/A	N/A	(9,199)	(1,674)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	5,994	15,024

The plan assets of the post-employment benefit plan are cash and cash equivalents in a Federated Money Market Fund with an expected return of 4.14% (2018: 3.46%).

The actual return on plan assets was US\$168,000 (2018: US\$191,000).

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.

The Group expects to make a contribution of US\$4,700,000 (2018: US\$Nil) to the defined benefit plans during the next financial year.

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 and LIFO US\$'000	Others US\$'000	Total US\$'000
At January 1, 2018	(18,786)	12,629	24,196	46,523	6,376	7,597	78,535
Reclassify to refund liabilities from right of return	—	—	—	—	—	2,231	2,231
At January 1, 2018 (as restated)	(18,786)	12,629	24,196	46,523	6,376	9,828	80,766
Currency realignment	(26)	(392)	(453)	2,574	(94)	(2,718)	(1,109)
Credit to hedging reserve	—	—	—	—	—	(1,498)	(1,498)
(Charge) credit to profit or loss	(10,004)	2,522	(184)	(18,825)	3,003	14,063	(9,425)
Change in tax rates	21	—	58	336	5	251	671
Charge to equity	—	—	(82)	—	—	—	(82)
At December 31, 2018	(28,795)	14,759	23,535	30,608	9,290	19,926	69,323
Adjustment for adoption of HKFRS 16	—	—	—	—	—	3,386	3,386
At January 1, 2019	(28,795)	14,759	23,535	30,608	9,290	23,312	72,709
Currency realignment	27	(31)	(2,074)	2,200	(28)	(301)	(207)
Charge to hedging reserve	—	—	—	—	—	1,250	1,250
(Charge) credit to profit or loss	(9,347)	1,547	9,779	(4,125)	5,992	(16,296)	(12,450)
Change in tax rates	211	(5)	29	(518)	(24)	(217)	(524)
Charge to equity	—	—	715	—	—	—	715
At December 31, 2019	(37,904)	16,270	31,984	28,165	15,230	7,748	61,493

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:

	2019 US\$'000	2018 US\$'000
Deferred tax assets	74,947	83,945
Deferred tax liabilities	(13,454)	(14,622)
	61,493	69,323

At the end of the reporting period, the Group has unused tax losses of US\$1,737 million (2018: US\$1,611 million) available for offset against future taxable profits. Of the US\$1,737 million of unused losses approximately US\$447 million expire over the next 9 to 18 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\$1,615 million (2018: US\$1,475 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\$13 million (2018: US\$13 million) as these unrepatriated foreign earnings are not considered permanently reinvested.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

43. Major Non-Cash Transactions

During the year ended December 31, 2018, the Group entered into finance lease arrangements in respect of assets at the inception of the finance leases of US\$147,000.

44. Lease Commitments

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2018 US\$'000
Within one year	63,159
In the second to fifth year inclusive	153,247
After five years	99,967
	316,373

Operating lease payments represented rentals payable by the Group for certain of its plant and machinery, motor vehicles, office properties and other assets. Leases were negotiated for a term ranging from 1 year to 20 years.

45. Contingent Liabilities

	2019 US\$'000	2018 US\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	8,877	8,877

In addition, 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, 2019 amounted to US\$123,959,000 (2018: US\$514,367,000).

46. Share Options

Scheme 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 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 or second 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

46. Share Options (continued)

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

2019

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	20.3.2014	D	230,000	—	(230,000)	—	—	21.600	20.3.2015 - 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 - 10.9.2025
	17.3.2017	D	155,500	—	—	—	155,500	32.100	17.3.2018 - 16.3.2027
	20.5.2019	E	—	97,000	—	—	97,000	51.080	20.5.2020 - 19.5.2029
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	(1,000,000)	—	—	8.742	21.5.2013 - 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	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
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	(1,000,000)	—	—	6.770	16.11.2010 - 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	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
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	(400,000)	—	600,000	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
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
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	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
Mr Christopher Patrick Langley OBE	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
Mr Peter David Sullivan	16.11.2009	D	200,000	—	(200,000)	—	—	6.770	16.11.2010 - 15.11.2019
	23.5.2011	D	200,000	—	(200,000)	—	—	9.872	23.5.2012 - 22.5.2021
	21.5.2012	D	250,000	—	(250,000)	—	—	8.742	21.5.2013 - 20.5.2022
	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

46. Share Options (continued)

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

2019

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 Vincent Ting Kau Cheung	17.3.2017	D	150,000	—	(150,000)	—	—	32.100	17.3.2018 - 16.3.2027
	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
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
Mr Manfred Kuhlmann (retired after the conclusion of the annual general meeting of the Company held on May 17, 2019)	17.3.2017	D	75,000	—	(75,000)	—	—	32.100	17.3.2018 - 16.3.2027
	14.3.2018	E	100,000	—	—	—	100,000	47.900	14.3.2019 - 13.3.2028
Total for directors			11,263,500	2,179,000	(3,555,000)	—	9,887,500		
Employees									
	16.11.2009	D	300,000	—	(250,000)	(50,000)	—	6.770	16.11.2010 - 15.11.2019
	28.12.2009	D	30,000	—	(30,000)	—	—	6.390	28.12.2010 - 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 - 16.1.2021
	23.3.2017	D	200,000	—	—	—	200,000	32.150	23.3.2018 - 22.3.2027
	19.6.2017	E	350,000	—	—	—	350,000	36.300	19.6.2018 - 18.6.2027
Total for employees			900,000	—	(280,000)	(50,000)	570,000		
Total for all categories			12,163,500	2,179,000	(3,835,000)	(50,000)	10,457,500		
Exercisable at the end of the year							7,553,500		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

46. Share Options (continued)

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

2018

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	20.3.2014	D	230,000	—	—	—	230,000	21.600	20.3.2015 – 19.3.2024
	11.9.2015	D	168,000	—	—	—	168,000	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	155,500	—	—	—	155,500	32.100	17.3.2018 – 16.3.2027
Mr Stephan Horst Pudwill	21.5.2012	D	1,000,000	—	—	—	1,000,000	8.742	21.5.2013 – 20.5.2022
	20.3.2014	D	1,000,000	—	—	—	1,000,000	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
Mr Joseph Galli Jr	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2010 – 15.11.2019
Mr Kin Wah Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	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
Mr Chi Chung Chan	20.3.2014	D	1,000,000	—	—	—	1,000,000	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
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
Mr Camille Jojo	17.3.2017	D	250,000	—	—	—	250,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Christopher Patrick Langley OBE	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
Mr Manfred Kuhlmann	11.9.2015	D	25,000	—	(25,000)	—	—	29.650	11.9.2016 – 10.9.2025
	17.3.2017	D	150,000	—	(75,000)	—	75,000	32.100	17.3.2018 – 16.3.2027
	14.3.2018	E	—	100,000	—	—	100,000	47.900	14.3.2019 – 13.3.2028
Mr Peter David Sullivan	16.11.2009	D	200,000	—	—	—	200,000	6.770	16.11.2010 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2012 – 22.5.2021
	21.5.2012	D	250,000	—	—	—	250,000	8.742	21.5.2013 – 20.5.2022
	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
Mr Vincent Ting Kau Cheung	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
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
Total for directors			9,913,500	1,450,000	(100,000)	—	11,263,500		

46. Share Options (continued)

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

2018

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
Employees	14.1.2008	D	25,000	—	—	(25,000)	—	7.566	14.1.2009 – 13.1.2018
	17.4.2008	D	200,000	—	(200,000)	—	—	7.780	17.4.2009 – 16.4.2018
	16.11.2009	D	600,000	—	(300,000)	—	300,000	6.770	16.11.2010 – 15.11.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2010 – 27.12.2019
	17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2012 – 16.1.2021
	23.3.2017	D	200,000	—	—	—	200,000	32.150	23.3.2018 – 22.3.2027
	19.6.2017	E	350,000	—	—	—	350,000	36.300	19.6.2018 – 18.6.2027
Total for employees			1,425,000	—	(500,000)	(25,000)	900,000		
Total for all categories			11,338,500	1,450,000	(600,000)	(25,000)	12,163,500		
Exercisable at the end of the year							9,043,250		

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, 2019					
20.5.2019	51.080	3 years	38%	1.678%	1.5%
For the year ended December 31, 2018					
14.3.2018	47.900	3 years	38%	1.507%	1.5%

The share options are vested in parts over 1 to 2 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 behavioral 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 date on which the share options were granted during 2019 was HK\$50.15 (2018: HK\$48.50).

The closing price of the Company's shares immediately before the date on which the share options were granted was HK\$50.15 in 2019 (2018: HK\$48.50).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

46. Share Options (continued)

The weighted average closing prices of the Company's shares immediately before various dates during 2019 and 2018 on which the share options were exercised were HK\$55.67 and HK\$46.63 respectively.

The Group recognized a total expense of US\$2,636,000 for the year ended December 31, 2019 (2018: US\$2,634,000) in relation to share options granted by the Company.

The fair value of the share options granted in 2019 measured at the date on which the share options were granted was HK\$12.69 (2018: HK\$11.82). The weighted average fair value of the share options granted in 2019 was HK\$12.69 (2018: HK\$11.82) per option.

The Company had 10,457,500 share options outstanding (2018: 12,163,500), which represented approximately 0.57% (2018: 0.67%) of the issued share capital of the Company as at December 31, 2019. No option (2018: Nil) was cancelled and 50,000 (2018: 25,000) share options were lapsed during the year.

Total securities available for issue under Scheme D are 150,505,065 shares, which represented approximately 8.22% of the issued shares of the Company as at December 31, 2019. Total securities available for issue under Scheme E are 183,299,194 shares, which represented approximately 10.02% of the issued shares of the Company as at December 31, 2019.

47. 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 must cause to be paid to 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 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\$4,156,000 (2018: US\$2,344,000). During 2019, 451,000 shares (2018: 160,500 shares) were transferred to the awardees upon vesting.

47. Share Award Scheme (continued)

(i) Movements in the number of awarded shares and their related average fair value were as follows:

	Number	
	2019	2018
At January 1	1,314,000	300,000
Awarded (Note (a))	1,560,000	1,174,500
Vested	(451,000)	(160,500)
At December 31 (Note (b))	2,423,000	1,314,000

Notes:

(a) All the awarded shares were purchased from the market.

(b) At the end of the year, the average fair value per share is HK\$41.22 (2018: HK\$30.30). 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	
	2019	2018
Less than 1 year	691,000	441,000
More than 1 year	1,732,000	873,000
	2,423,000	1,314,000

48. Capital Commitments

	2019 US\$'000	2018 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	58,380	119,350

49. Related Party Transactions

During the year, the Group entered into the following transactions with its associates, which did not constitute connected transactions under Chapter 14A of the Listing Rules:

	2019 US\$'000	2018 US\$'000
Interest income	150	—
Sales income	50,014	5,141
Purchases	3,067	5,142

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

49. Related Party Transactions (continued)

The remuneration of directors and other members of key management during the year was as follows:

	2019 US\$'000	2018 US\$'000
Short-term benefits	76,619	61,249
Post-employment benefits	1,918	856
Share-based payments	6,514	4,762
	85,051	66,867

Details of the balances and transactions with related parties are set out in the consolidated statements of financial position and Notes 22, 27 and 45.

50. 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	Discounted bills with recourse	Obligations under finance leases	Lease liabilities	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2018	—	825,020	87,837	11,617	—	924,474
Financing cash flows	(183,422)	(29,578)	155,523	(10,751)	—	(68,228)
Inception of finance lease	—	—	—	147	—	147
Interest expenses	—	37,407	—	642	—	38,049
Interest paid	—	(37,407)	—	(642)	—	(38,049)
Dividend declared	183,422	—	—	—	—	183,422
At December 31, 2018	—	795,442	243,360	1,013	—	1,039,815
Adjustments upon application of HKFRS 16	—	—	—	(1,013)	278,710	277,697
At January 1, 2019 (restated)	—	795,442	243,360	—	278,710	1,317,512
Financing cash flows	(223,594)	691,566	(234,271)	—	(64,230)	169,471
New leases entered	—	—	—	—	86,116	86,116
Early termination of leases	—	—	—	—	(62,228)	(62,228)
Interest expenses	—	45,620	—	—	6,703	52,323
Interest paid	—	(45,620)	—	—	(6,703)	(52,323)
Dividend declared	223,594	—	—	—	—	223,594
At December 31, 2019	—	1,487,008	9,089	—	238,368	1,734,465

51. Statement of Financial Position of the Company

As at December 31, 2019

	Note	2019 US\$'000	2018 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		4,523	5,380
Right of use assets		687	—
Intangible assets		12	19
Investments in subsidiaries		25,290,888	2,692,850
Loans to subsidiaries		131,180	829,857
Interests in associates		1,831	2,371
Financial assets at FVTPL		4,485	4,148
		25,433,606	3,534,625
Current assets			
Other receivables		—	9
Deposits and prepayments		12,641	12,397
Financial assets at FVTPL		24,597	32,828
Tax recoverable		4,368	1,794
Derivative financial instruments		25,665	—
Amounts due from subsidiaries		814,001	1,225,045
Bank balances, deposits and cash		555,486	225,764
		1,436,758	1,497,837
Current liabilities			
Trade and other payables		94,562	58,402
Derivative financial instruments		9,142	—
Lease liabilities		371	—
Amounts due to subsidiaries		791,840	3,049,630
Unsecured borrowings – due within one year		663,680	25,600
		1,559,595	3,133,632
Net current liabilities		(122,837)	(1,635,795)
Total assets less current liabilities		25,310,769	1,898,830
Capital and Reserves			
Share capital		662,379	654,991
Reserves	40	23,893,438	704,366
		24,555,817	1,359,357
Non-current Liabilities			
Lease liabilities		324	—
Unsecured borrowings – due after one year		754,628	539,473
Total equity and non-current liabilities		25,310,769	1,898,830

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on March 4, 2020 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Stephan Horst Pudwill
Vice Chairman

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

52. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2019 and December 31, 2018 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
			Directly %	Indirectly %	
Baja, Inc.	US	US\$17.36	—	100	Trading of outdoor power equipment products
DreBo Werkzeugfabrik GmbH*	Germany	EUR1,000,000	—	100	Trading and manufacture of power equipment products
Homelite Consumer Products, Inc.	US	US\$10	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	US\$1	—	100	Trading and manufacture of floor care products
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK\$100,000	100	—	Trading of household electronic and electrical products
Milwaukee Electric Tool Corporation	US	US\$50,000,000	—	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	US	US\$10	—	100	Trading of power equipment products
Royal Appliance International GmbH	Germany	EUR2,050,000	100	—	Trading of floor care products
Royal Appliance Mfg. Co.	US	US\$1	—	100	Trading and manufacture of floor care products
Sang Tech Industries Limited	Hong Kong	HK\$1,000,000	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$2,000,000	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK\$2,000,000	75.725	—	Manufacture of electronic products
Techtronic Cordless GP	US	US\$200	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Floor Care Technology Limited	British Virgin Islands ("BVI")	US\$1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd.#	PRC	US\$47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT\$5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd	United Kingdom	GBP4,000,000	—	100	Trading of power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AU\$25,575,762	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR25,600	—	100	Trading of power equipment products
Techtronic Industries ELC GmbH*	Germany	EUR25,000	—	100	Trading of power equipment products and outdoor power equipment products
Techtronic Industries France SAS	France	EUR14,919,832	—	100	Trading of power equipment products
Techtronic Industries GmbH	Germany	EUR20,452,500	100	—	Trading and manufacture of power equipment products
Techtronic Industries Korea LLC	Korea	KRW3,400,000,000	100	—	Trading of power equipment products
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN50,000 (Serie I) MXN362,720,990 (Serie II)	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZ\$4,165,500	100	—	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries North America, Inc.	US	US\$10	100	—	Investment holding
Techtronic Outdoor Products Technology Limited	Bermuda	US\$3,244	100	—	Investment and intellectual properties holding

52. 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
			Directly %	Indirectly %	
Techtronic Power Tools Technology Limited	BVI	US\$1	100	—	Investment and intellectual properties holding
Techtronic Product Development Limited	Hong Kong	HK\$2	100	—	Engage in research and development activities
Techtronic Trading Limited	Hong Kong	HK\$2	100	—	Trading of power equipment, floor care and outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HK\$2	100	—	Investment holding
Vax Limited	United Kingdom	GBP30,000 (Ordinary A shares) GBP2,500 (Ordinary B shares)	100	—	Trading of household electrical and floor care 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.

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	
		2019	2018
Manufacture of power equipment, floor care and outdoor power equipment products	Europe, Latin America, PRC, US and others	7	7
Trading of power equipment, floor care and outdoor power equipment product	Canada, Europe, Hong Kong, Latin America, PRC, US and others	38	34
Investment holding	Australia, BVI, Europe, Hong Kong, US	25	24
Dormant	BVI, Europe, Hong Kong, US	16	13

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

53. Particulars of Principal Associate

Particulars of the principal 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 Company directly		Principal activities
			2019 %	2018 %	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	40.8	40.8	Investment holding
Wuerth Master Power Tools Limited	Hong Kong	US\$3,000,000	49.0	49.0	Manufacture and sale of power equipment

54. Subsequent Event

The outbreak of the 2019 Novel Coronavirus (“COVID-19”) in PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group’s operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since early February 2020 and is already at approximately 70% capacity as at the date hereof.

The directors of the Company are monitoring the financial impact that the COVID-19 will have on the Group’s consolidated financial statements as at the date that these financial statements are authorized for issue.

PRINCIPAL AND REGISTERED OFFICE OF THE ISSUER

Techtronic Industries Company Limited
(創科實業有限公司)
28F & 29F, Tower 2, Kowloon Commerce Centre
Kwai Chung, New Territories, Hong Kong

AUDITOR OF THE ISSUER

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway, Admiralty
Hong Kong

TRUSTEE

Citicorp International Limited
20th Floor, Citi Tower
One Bay East
83 Hoi Bun Road, Kwun Tong
Kowloon
Hong Kong

**PRINCIPAL PAYING AGENT, PAYING AGENT AND TRANSFER AGENT IN RESPECT OF
NOTES CLEARED THROUGH EUROCLEAR/CLEARSTREAM, LUXEMBOURG**

Citibank, N.A., London Branch
c/o Citibank, N.A., Dublin Branch
1 North Wall Quay
Dublin 1
Ireland

**REGISTRAR IN RESPECT OF NOTES CLEARED THROUGH
EUROCLEAR/CLEARSTREAM, LUXEMBOURG**

Citigroup Global Markets Europe AG
Reuterweg 16
60323 Frankfurt
Germany

CMU LODGING AND PAYING AGENT

Citicorp International Limited
9th Floor, Citi Tower
One Bay East, 83 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

LEGAL ADVISERS

*To the Issuer
as to Hong Kong law*

Paul Hastings
21st-22nd Floor
Bank of China Tower
1 Garden Road
Hong Kong

*To the Issuer
as to English Law*

Paul Hastings (Europe) LLP
Ten Bishops Square
Eighth Floor
London E1 6EG
United Kingdom

*To the Arrangers and Dealers
as to English law
and Hong Kong law*

Clifford Chance
27th Floor
Jardine House
One Connaught Place
Central
Hong Kong