Techtronic Industries

# INNOVATION EXECUTION

Annual Report 2005

Stock Code: 669

## Corporate Profile

Techtronic Industries Co. Ltd. ("TTI" or "the Group") is a market and innovation leader in power equipment products, floor care appliances, laser and electronic products. We have a powerful portfolio of trusted brands, recognized for setting new standards in innovative design, technical advancements, marketing concepts and speed-to-market. Our portfolio of global brands include Milwaukee®, AEG®, Ryobi® and Homelite® for power equipment products, Royal®, Dirt Devil®, Regina® and Vax® for floor care appliances.

TTI products are marketed through home centers, major retailers, full-line tool distributors and other channels in North America, Europe and other select markets. TTI is also the preferred partner of leading OEM brands and private label retail brands in North America and Europe.

Headquartered in Hong Kong, the Group recorded sales of HK$22.36 billion in 2005, a collective achievement of its 22,000 staff worldwide.

## Corporate Milestones

**2005**
Acquired Milwaukee®, AEG® and DreBo® electric power tools and accessories brands and businesses.

**2004**
Acquired Ryobi® brand license in North America for outdoor power equipment.

**2003**
Acquired Royal® and Dirt Devil® floor care brands and businesses.

**2002**
Acquired Ryobi® brand license and businesses in Australia and New Zealand for power tool and outdoor power equipment.

**2001**
Acquired Homelite® brand and businesses for outdoor power equipment.

Acquired Ryboi® brand license and businesses for power tool and outdoor power equipment in Europe.

**2000**
Acquired Ryobi® power tool brand license and businesses in North America.

**1999**
Acquired Vax® brand and businesses for floor care products in UK and Australia.

**2003**
Launched RIDGID® professional tools for The Home Depot®.

**2001**
Partnership with The Home Depot®.

**1990**
Listed on the Stock Exchange of Hong Kong (stock code: 669).

**1988**
Opened TTI's first manufacturing facilities in Dongguan, PRC.

**1987**
Partnership with SEARS®.

**1985**
Mr Horst Julius Pudwill & Mr Roy Chi Ping Chung founded TTI.

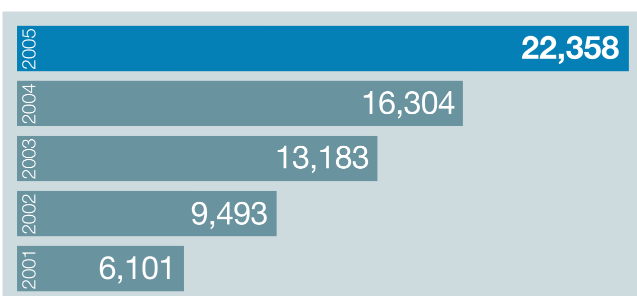
Corporate Milestones

**Contents**

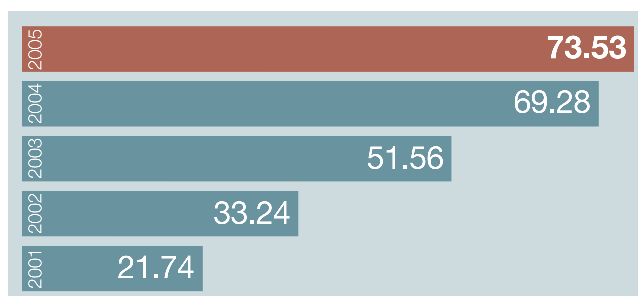
# FINANCIAL HIGHLIGHTS

| | **2005 HK$ m** | 2004 HK$ m (As restated) | **2005 US$ m** | 2004 US$ m (As restated) | Changes % |
|---|---|---|---|---|---|
| **Operations** | | | | | |
| Turnover | **22,358** | 16,304 | **2,866** | 2,090 | +37.1 |
| Gross profit | **6,942** | 4,941 | **890** | 633 | +40.5 |
| EBITDA | **1,989** | 1,488 | **255** | 191 | +33.6 |
| Profit attributable to equity holders of the parent | **1,019** | 926 | **131** | 119 | +10.0 |
| Basic earnings per share (HK / US cents) | **73.53** | 69.28 | **9.43** | 8.88 | +6.1 |
| Dividend per share (HK / US cents) | **18.60** | 17.00 | **2.38** | 2.18 | +9.4 |
| **Financial position at year end** | | | | | |
| Total assets | **20,375** | 13,903 | **2,612** | 1,782 | +46.5 |
| Net current assets | **4,886** | 3,823 | **626** | 490 | +27.8 |
| Equity attributable to equity holders of the parent | **6,112** | 3,454 | **784** | 443 | +77.0 |
| Capital expenditure | **597** | 312 | **77** | 40 | +91.6 |
| Net book value per share (HK$ / US$) | **4.18** | 2.55 | **0.54** | 0.33 | +63.9 |

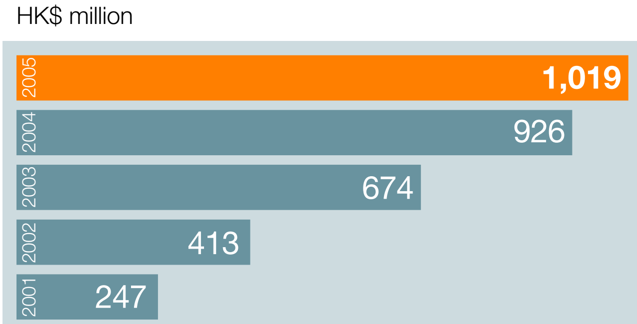
**TURNOVER**
HK$ million



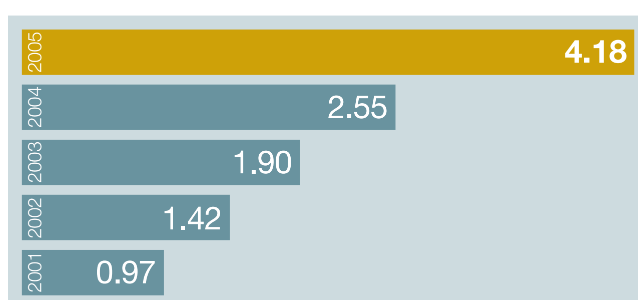

**BASIC EARNINGS PER SHARE**
HK cents




**PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**
HK$ million




**NET BOOK VALUE PER SHARE**
HK$



# CHAIRMAN'S STATEMENT

> **"Our success is the focused combination of market driven innovation and the relentless pursuit of operational excellence, delivering value added solutions to the needs of our customers and end users."**

**Horst Julius Pudwill**
*Chairman and Chief Executive Officer*

- **Record turnover and profit performance**
- **Primary brands achieved double digit growth in aggregate**
- **Milwaukee® and AEG® achieved double digit growth**
- **Innovative new products generated incremental business**

**DIVIDEND PER SHARE (TOTAL)**
HK cents


**2005 was another record year** for the Group in both turnover and profits. Our strategies of leading brands, powerful customer partnerships, innovation, and global operational efficiencies provided the platform for our core business growth. The Milwaukee® and AEG® acquisition delivered double digit organic turnover expansion and profit contribution to the Group. This solid foundation and our scale enabled us to respond to market fluctuations and competitive challenges in an effective and flexible manner, keeping our long-term goals on track.

Group turnover was HK$22.36 billion, an increase of 37.1% over fiscal year 2004. Importantly, our primary brands delivered double digit growth in aggregate and gross profit margins improved to 31.0% from 30.3% in 2004, despite rising material costs. Net profit was up by 10.0% to HK$1,019 million, though acquisition related restructuring and interest expenses had negative effects on margins. Basic earnings per share increased 6.1% to HK73.53 cents.

During the year, we initiated the integration of Milwaukee® and AEG® professional power tools into TTI, strengthening our power tool portfolio in terms of brands, products and customers. The ongoing integration process will generate future marketing synergies and cost savings as the acquisition benefits from the Group's lower operational costs and scale advantages. Our commitment to operational excellence delivered financial leverage through process advances and cost reduction initiatives. Working capital utilization improved over 2004 as supply chain efficiencies reduced the average inventory to sales by 4 days and tight management controls lowered average receivables to sales by 7 days.

We are pleased to announce the Board is recommending a final dividend of HK12.60 cents per share. Together with the interim dividend of HK6.00 cents per share, this will give a full year dividend of HK18.60 cents per share, against HK17.00 cents per share in 2004, an increase of 9.4%.

## Business Strength

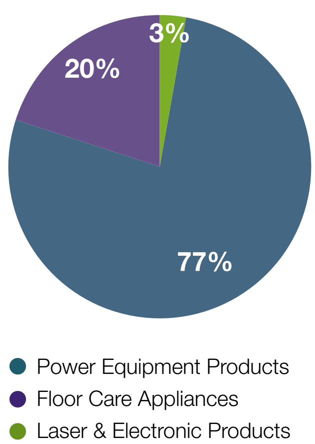
Our largest business, Power Equipment Products, expanded 49.1% over prior year and our major brands improved their positions in key markets. We had strong underlying end user demand for our products during the year. Innovative products were the drivers in power tools, including the Milwaukee® V28™ lithium ion power tools, RIDGID®'s new line of pneumatic tools, and the expansion of the One+™ line under the Ryobi® brand. The outdoor power equipment business also delivered growth with successful product introductions within existing categories and by entering new market categories, including the gasoline high-pressure washer and cultivator and the electric log splitter.

Our leading brands in Power Equipment Products, which include Milwaukee®, AEG®, Ryobi® and Homelite®, are recognized and trusted brands across a broad customer base, from professional contractors to DIY (Do-It-Yourself) consumers. Milwaukee® and AEG® will allow geographic expansion beyond our core. We continued to enhance the value of our brands with a focus on expanded markets, innovative marketing, product development, and efficient supply chain management. The addition of AEG® to our existing business has significantly strengthened our distribution and marketing reach across Europe.

The Floor Care Appliances business delivered solid brand performance in the competitive environment of North America. Total business had an increase of 11.0%, though heavily affected by lower OEM demand in the second half as a result of our strategic shift to our own Dirt Devil® and Vax® brands. Executing our strategy in challenging economies, new products delivered over 30% of 2005 turnover and our brands are leaders in the large geographic markets of Germany and the UK. The North American business expanded in 2005 with Dirt Devil® increasing its market position as a leading brand with consumers and high volume retailers. Our business is competitively positioned to face rising input costs and market price competition with streamlined North American operations, innovative new products and marketing support, and an aggressive best cost focused supply chain. We expect the OEM business to undergo a transition in 2006 and to rebound in 2007 as we launch new programs with complementary customers.

The Laser and Electronic Products business achieved profit margin improvement through cost reduction efforts despite a 6.5% drop in turnover. After several years of high growth, the business was impacted by competition in both laser measurement and solar light markets. Expansion efforts with existing ODM customers, growth in Europe, and additional distribution through our own brands will drive the business forward. The business maintains competitive advantages in intellectual property, product development capabilities and manufacturing efficiency.

**TURNOVER BY PRINCIPAL ACTIVITY**



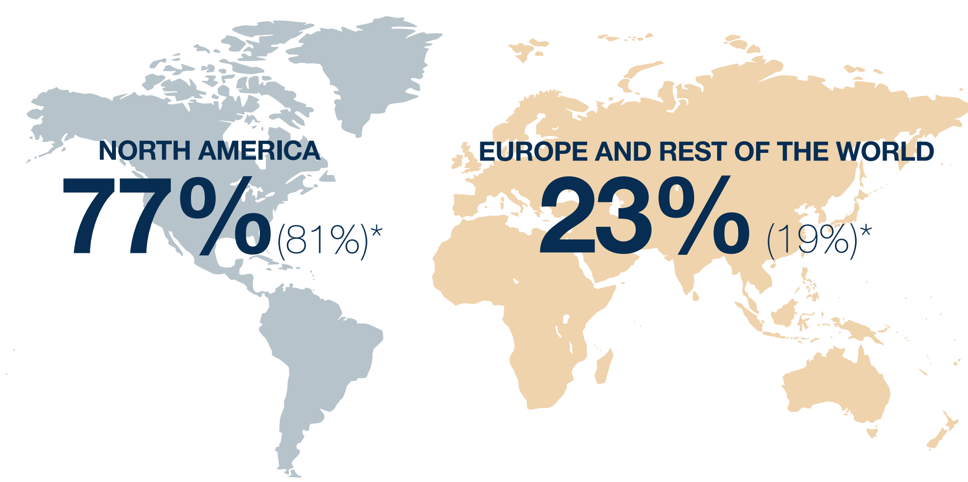
## Sustainable Growth Drivers

Operating philosophy and company culture are essential to quality leadership. They represent the day-to-day reality of an organization's ability to deliver on its goals. Our success is tied to delivering a clear direction throughout the organization. We focus on innovation, scale efficiencies, strong partnerships and timely execution. Consequently, in 2005 we were successful in expanding our markets, product lines, competencies and management talent, which strengthened our competitive advantages. This robust operational process focused our performance in 2005 and established the platform for future expansion in turnover and profitability.

### Culture of Innovation

Innovation is a priority for every brand and for every market. It creates brand loyalty, increases margin performance against cost pressure and price competition, and strengthens relationships with our channel partners. Each of our business units is organized to deliver powerful, innovative product introductions to capture market share and enhance the status of our brands. TTI continues to strengthen new product development with improvements in process, resource commitment and organizational dynamics that bring innovation and consumer insight together. Globally, investment in R&D increased 45.2% to 2.2% of turnover in 2005 from 2.1% last year. During the year, the Group integrated product concept centers, focused engineering resources and initiated global product platform, planning to yield better returns on investment and greater R&D efficiency going forward.

**TURNOVER BY GEOGRAPHICAL MARKET LOCATION**




** for year ended 31st December, 2004*

## Leading Brands

Leading brands drive sustainable growth by building customer loyalty. Strategic campaigns in public relations, advertising, promotions, and trade show participation delivered high impact images and messages to targeted audiences, resulting in record numbers of feature articles and awards in 2005. Aggressive marketing activities enhanced brand awareness, but more importantly, delivered increased consumer traffic to our retail partners. The Group invested in marketing, with advertising up 27% over 2004, to strengthen the leading brands in our portfolio. In addition, we demonstrated our competency in adding brands with the smooth integration of acquisitions while maximizing market penetration of our existing brands through synergies in research, innovation, sales and marketing.

## Operational Leadership

Our scale, geographic expansion, and operational efficiencies are creating competitive advantages that allow the Group to strengthen partnerships with the largest retailers and provide the resources for expansion. Scale provides us organizational agility and competitive flexibility to meet market challenges and changing retail trends while delivering products at the best cost. It is also the catalyst for cost savings at every level of the organization as we continue to improve supply chain, manufacturing, quality assurance systems and better leverage our best cost supplier base. Our floor care business in Europe, for example, has benefited from the Group's manufacturing and product development capabilities to become industry leaders.

## Focused Execution

The Group is dedicated to achieving our goals through relentless execution and ensuring our new product development efforts, supply chain performance and sales and marketing functions are among the best in the industry. To allow better work management and decision-making, we will continue to invest in our information systems. Strengthening our relationships with major channel partners in our targeted markets also remains a key focus. We work closely with our channel partners to deliver innovative products to each segment of the market and to improve supply chain management. Supply chain management efficiency is an important measure of supplier performance as our retail partners continue to drive working capital management. Our passion for continuous operational improvement, speed-to-market gains and innovative, higher margin products creates the opportunity for growth with the important channels in each market while also helping to negate market influences and keep our targets for growth in reach.

## Future Focus and Value Creation

We believe our consistent performance is a result of a disciplined approach to deliver the core strategies: leading brands, customer partnerships, innovation, and operational leadership. We had a very good year in 2005 and have positive growth prospects built on the new products introduced in the second half of 2005 and the array of innovative products to be introduced in 2006. We will also see the positive impact of the acquisition and the scale benefits on our operations.

Our brands have demonstrated the attributes necessary to capture market share with our capability to match the needs of major channels for high volume, quality products and effective logistics. The expanded distribution, product technologies, and powerful brands of the acquisition have significantly broadened our platform of growth opportunities. The ongoing streamlining of operations and relocation of production to the Group's best cost manufacturing base coupled with the aggressive use of outsourcing will deliver further cost savings going forward. We are well positioned to handle market expansions in targeted distribution channels across our businesses.

In 2006, our focus will remain on the investments – in our people, our facilities, our R&D, our brands and our future – because these will strengthen the foundation for sustainable long-term financial performance. We have clear, effective strategies, robust processes and a driven team. We believe that our focus on aligning our four strategies will continue to deliver excellent value to our shareholders, our partners, our employees and our customers.

Finally, I would like to thank our employees around the world for their dedicated efforts throughout the year. Their hard work and intelligence provides the fuel for our improved performance. I am grateful to my fellow directors who are tireless in their contributions to our vision and governance. On behalf of the entire organization, I express my appreciation to our shareholders, customers and partners for making 2005 another record year for the Group.

**Horst Julius Pudwill**
Chairman and Chief Executive Officer
Techtronic Industries Co. Ltd.

# MANAGEMENT FORUM

**David Butts,** *Group Senior Vice President*

*TTI, North America*
**Lee Sowell,** *President – Outdoor Power Equipment*
**Jeff Dils,** *President – Power Tools and Accessories*
**Philippe Buisson,** *Chief Financial Officer*

## Q1 : How is TTI able to sustain its growth in the different cycles of the US housing market, given its North America geographic mix?

At TTI, we believe innovation is the key to sustain growth in almost any market condition. In fact, innovation is often the ignition that reinvigorates a lagging market segment. The goal of any excellent company is to lead the market; not to follow the market. We have R&D capabilities which capture the imagination of and drive excitement with end users. The V28™ line of power tools from Milwaukee® is an example of innovation delivering a step change in a very crowded industry. This is what it means to lead; this is how we sustain growth.

In addition, TTI has a very diversified product portfolio and a powerful portfolio of trusted brands allowing us to face market challenges in a more efficient and flexible manner. While we believe North America will continue to be a healthy market for us, we are also very focused on expanding markets other than North America and have been delivering very solid growth in these markets.  We are beginning to see results of the large potential for our European business.

## Q2 : TTI has been expanding rapidly over the past 5 years. How are management resources coping with this expansion, especially with the integration of acquisitions?

TTI has been investing in and developing our management resources and processes throughout our worldwide organization. Each of our business leaders is empowered to develop strong teams within their units that possess the qualities needed to compete at a global level. Our operational review process encompasses organization and management planning and performance. Most of our acquisitions were divisions of multinational companies and have been an excellent source for adding talent and strengthening the management structure of the Group through the incorporation of any best practices of the acquired companies. The timely and smooth integration of our acquisitions are a tribute to the sound management processes throughout the company and the professional depth of our team. In addition, having clear strategies and purpose is a key to management effectiveness. This not only focuses the work, but also helps identify the managers we need in both experience and management style.

## Q3 : What are TTI's plans of expanding into the industrial and professional power tool segment?

We have been focusing on expanding our product reach into multiple market segments. The industrial and professional segment is an important end user segment for power tools. Consequently, in addition to their R&D capabilities, brand and product strengths, we targeted the acquisition of Milwaukee® and AEG® on their strength in the professional contractor distribution channel, which not only provided a new channel for us but also helped further diversify our customer base.

This is in line with our leading brand strategy. Each brand targets a different market



**Stephan Pudwill,** *Director – Business Development*

*A&M Electric Tools*
**Horst Garbrecht,** *Vice President – Operations*

**Dr Thomas James,** *Senior Vice President – Engineering, Global Power Tools*

segment ranging from consumer DIY to professional and industrial. Both Milwaukee® and AEG® are well recognized brands in the industrial and professional power tool market. Ryobi® is a well established brand in the DIY segment of “Pro Features. Affordable Prices.™” and reaches users that are looking for performance and value. We will capitalize on all of our brands by expanding and strengthening their product platform to meet the needs of the end users in each segment.

## Q4 : How does TTI focus on maintaining a strong relationship with its critical top customers?

As a world class manufacturing company, TTI recognizes that to be a leader in our industry, innovation needs to come not only from products but also from the services we provide our customers. To be a preferred supplier, we must be most efficient in supply chain management. We will continue to strengthen our customer relationships with important initiatives in logistics and inventory management. In fact, our relationships with high volume retail partners are reaching new levels in joint supply chain management.

We also work closely with the entire supply chain, from material suppliers to logistics at every level and from in-store research to linking production to customer demand. We continue to strengthen our supply network beyond our Asian base and now have operations in Mexico and Eastern Europe. We utilize flexible, lean assembly in our own production facilities to maximize operational efficiency. All these efforts target at shortening response time to our partners and creating greater efficiency on a global scale.

## Q5 : How does TTI maintain its Best Cost Position in the competitive environment today?

TTI understands that in order to compete in the global economy today, a company must deliver products and services at a competitive price that meet the highest standards in quality. TTI was founded on this principle as an OEM manufacturer. We are dedicated to improving our already aggressive cost containment and quality programs. We systematically look for opportunities to improve our operational processes such as moving production to low cost regions, leveraging our purchasing scale, and building quality into our products at the onset of product design. Our foundation of best cost is integrated into the operational review process of the Group.

In addition to our ongoing productivity improvements, we have expanded and refined our Continuous Improvement Quality system. This Total Quality Focus reaches our entire organization from the supplier base to end users in the field. The quality management system is also tied to our acquisition process and delivers benefits throughout the supply chain. Finally, once again, innovation is a key ingredient in maintaining best cost position. Our culture of innovation delivers breakthroughs in operations which helps to eliminate unnecessary costs while improving the quality and uniqueness of our line of products.

# CULTURE OF INNOVATION

Robust end user research drives innovations that revolutionize the market and capture share with customer driven solutions.


*The Milwaukee® V28™ Rotary Hammer Drill is the most powerful cordless drill in its weight class using Milwaukee® V28™ powerful lithium ion battery technology.*

LEADING

# BRANDS

Globally recognized and trusted brands by household and professional end users provide long term, sustainable growth.

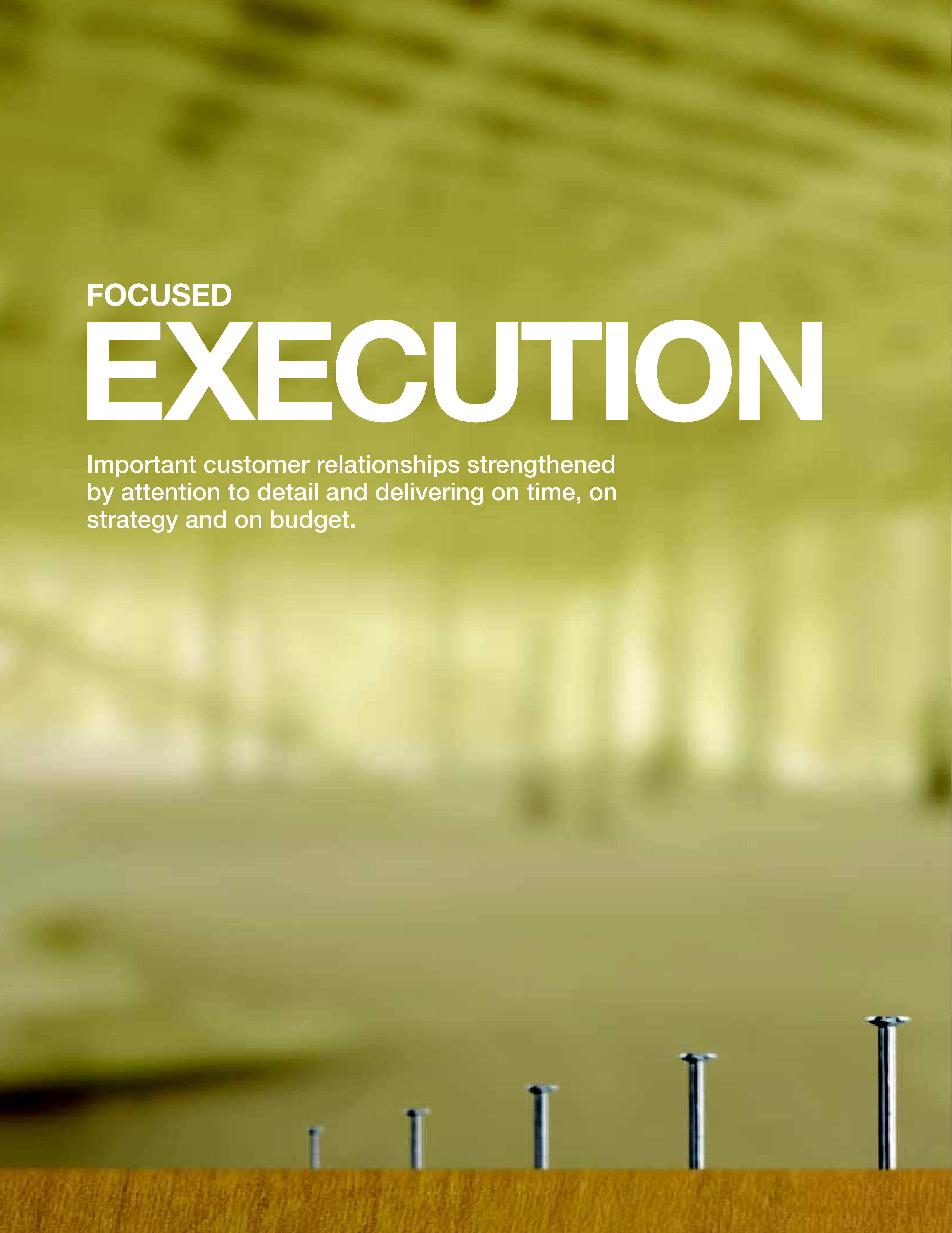

RYOBI
700W
RHT-700R
vax
X3
Designed with you in mind.
All floors
2-year warranty
12-amp dual motors
Advanced NEXT CLEAN design
1050W
RYOBI
BBM 14 STX
14,4 V
63 Nm
AEG
14.4V
REACTION
Dirt Devil
Homelite
Simply Reliable.
VacAttack II
Powerful
200 MPH, 420 CFM
Puissant
322 km/h (200 mph)
11,9 m³/mn (420 cfm)
Potente:
322 KPH (200 MPH),
11,9 MCM (420 PCM)
RYOBI
ONE+
4-Piece Combo Kit

OPERATIONAL

# LEADERSHIP

Scale creating competitive advantages, enhancing organizational agility and strengthening financial flexibility to better serve our customers.

*Ryobi® branded 12 AMP electric cultivator features Just Add Sand™ weight system allowing the unit to dig deeper without bouncing. It is also features Fold n' Store™ for convenient compact storage.*



## FOCUSED

# EXECUTION

Important customer relationships strengthened by attention to detail and delivering on time, on strategy and on budget.


*The new AEG® 14.4V cordless drill features the patented FIXTEC-System for quick one handed bit changes. The all metal, heavy duty keyless chuck easily withstands the rigours of intensive industrial use.*

# BRANDS OVERVIEW

## Power Tools and Accessories

| | |
|---|---|
| Milwaukee | • Founded in the United States in 1924, Milwaukee® manufactures and markets heavy duty, portable electric power tools and accessories, and is an industry leader in providing excellence in quality, performance, innovation and value to professional contractors and industry worldwide. Milwaukee® is synonymous in the trades with "Nothing but Heavy Duty" products. |
| AEG ELECTRIC TOOLS | • AEG®, founded in Germany in 1887, and manufacturing its first electric tools in 1893, offers a complete, finely tuned generation of power tool solutions for today's serious professionals. |
| RYOBI | • Ryobi® is the brand of choice for homeowners, woodworkers, gardening enthusiasts, hobbyists, craftspeople, upscale DIY'ers and remodelers. Under the Ryobi® brand, we offer a comprehensive line of power tools with "Pro Features. Affordable Prices.™" |

**Leading brands are more valuable than ever. The Group is driving this leading brand strategy in all of its divisions. TTI's powerful brands have captured the imagination and loyalty of end users, delivering superior quality, breakthrough innovation and lasting affordable value.**

## Outdoor Power Equipment

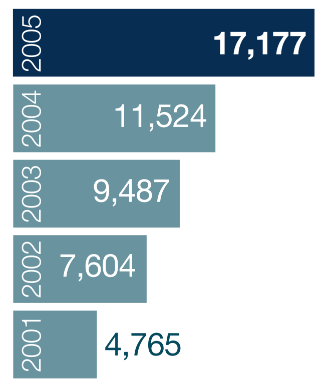
- Besides power tools, Ryobi® branded outdoor product line, highly featured, provides a clear trade-up proposition and a compelling value advantage over our competition. Ryobi® brand enjoys positive consumer acceptance and loyalty as a trusted outdoor power equipment brand in North America and Europe.
- The Homelite® brand originated in the 1920's in the United States. Throughout the years, Homelite® has delivered many innovative products to homeowners. From chainsaws to outdoor blowers, the full line of Homelite® products satisfies the needs of the end users.

## Floor Care Appliances

- With models dating back to 1905, Royal® is the world's oldest vacuum cleaner manufacturing company and in 2005 celebrates 100 years of innovation and success.
- Dirt Devil®, a household name, is a trusted and leading brand in North America and Europe with tremendous end user loyalty.
- Vax® stands for outstanding quality, durability, and performance. In the UK and Australia, Vax® is a leading brand and preferred partner to the high volume retailers for floor care products.
- The Regina® floor care brand originated nearly a century ago when the market for electric floor cleaners first developed.

# POWER EQUIPMENT PRODUCTS

**DIVISIONAL TURNOVER**
HK$ million




- Turnover increased **49.1%** to **HK$17.18 billion**
- Accounting for **76.9%** of total Group turnover
- Operating profits grew **35.9%** to **HK$1,237 million**

The Power Equipment Products business delivered record turnover in 2005, driven by the double digit growth of our primary brands in the core business and the Milwaukee® and AEG® acquisition, but offset by lower OEM and private label contributions. We continued to demonstrate our leadership in product innovation — Milwaukee®'s V28™ lithium ion power tools, RIDGID®'s best-in-class professional pneumatic fastening tools, Ryobi® branded gasoline high-pressure washer are just a few examples. We have established a superb power tool brand portfolio, targeting a broad and diverse customer base ranging from professional and industrial users to the most novice DIY'ers. Acquisition integration initiatives, including production relocation to the Group's best cost manufacturing base, assimilation of the new product development process, and leveraging other scale opportunities such as procurement, will bring efficiency and cost benefits over the next few years.

Turnover increased by 49.1% to HK$17.18 billion, accounting for 76.9% of total Group turnover. Operating profits grew 35.9% to HK$1,237 million.

*The Milwaukee® V28™ Sawzall™, with its improved internal reciprocating mechanism and lithium ion battery, provides professional users with the most powerful and longest lasting cutting performance on the market.*

*The One +™ 18V Right Angle Close Quarters' Drill makes jobs in tight spaces easy with its right angle design and extensive Gripzone™ overmold for improved control.*

*The AEG® 14.4V STX nickel metal hydride Drill Driver features high-torque for drilling in steel, soft wood and masonry, a versatile tool for every jobsite.*

# Review

## Power Tools

In North America, Milwaukee® is a leading brand of choice among industrial and professional contractors. The innovative V28™ lithium ion battery power tools were a clear success in 2005. Demand for these products increased throughout the year, though higher turnover was constrained in 2005 by capacity limitations of the battery supplier. The Group has already expanded the battery supply capacity to meet the growing demand and expanding product platform anticipated in 2006.


*The 18V One +™ Torque IV™ Drill provides a "Quick Mode Selector" allowing users to quickly switch between driving and drilling modes for faster dual-performance.*

## POWER EQUIPMENT PRODUCTS

*The RIDGID® 7 1/4" Worm Drive Saw has a 15AMP wormdrive motor for higher torque and power. Its Magnesium Guards and construction provide less weight and greater durability.*


*The Craftsman® Professional 10" Portable Table Saw features a superior action easy folding stand allowing storage in the work shop and effortless mobility from one jobsite to another.*

The Group added breadth to the RIDGID® professional power tool line moving beyond electric portable and bench / stationary tools, with a new line of best-in-class professional pneumatic fastening tools. This introduction has further strengthened the RIDGID® brand among professional users and as a success story in the North American professional power tool market.

Ryobi® is a preferred power tool brand by DIY'ers around the world. In North America, the unique system of interchangeable tools and batteries, the One+™ System, has proved to be a huge success. New products were added to the line and system tool combo kits were marketed successfully in 2005. In addition, a new website is launched to build greater awareness by consumers and the mainstream consumer media.

In Europe, the Milwaukee® and AEG® brands have expanded the Group's distribution into the industrial and professional contractor channels. Additionally, the acquisition has added marketing scale and geographic reach to our already growing Ryobi® business. Milwaukee® in Europe is benefiting from the launch of the revolutionary V28™ lithium ion power tools in the fourth quarter of 2005. The AEG® brand, well respected throughout Europe, has initiated developing its new professional tool range with improved performance and competitive prices. Our brands will continue to capitalize on the integrated R&D resources and defined centers of product competencies and we have put in place a global product platform management process that will leverage the R&D investments for the Group.

The Ryobi® branded One+™ System was launched into select DIY retailer partners in Europe during late 2005 and demonstrated signs of success. Across the DIY channels in Europe, the Ryobi® brand has benefited from the consumer demand for innovative and better performing, value oriented tools. The European expansion of Ryobi®, Milwaukee® and AEG® brands will gain further benefits from the larger scale and reach of the combined businesses.

## Outlook

The integration of the acquisition is progressing well, focusing on production transfer, product development, supply chain management and operational efficiency. The synergies and cost improvement benefits expected from the integration will have a positive impact on margins in the second half of 2006 and over the coming years.

Our culture of innovation is showcased in our power tools business and will continue to drive future growth. The acquisition has enhanced R&D capabilities of the Group. Demonstrating our R&D abilities, TTI is the technology leader in the professional lithium ion cordless category. Our V™ technology represents the superior solution for power tools. We are strengthening the platform by adding new products to the V28™ platform and introducing the V18™ platform, which has pioneered a high performance lithium ion solution that is compatible with the existing Milwaukee 18V cordless line.

*The new Milwaukee® range of professional pneumatic fastening tools feature Tool-Free Depth of Drive adjustment for accurate control to protect work surfaces from overdriving. The tool line features Magnesium housings providing light weight performance and rubber over mold grips for better handling.*


End users respect the Milwaukee® product range for its heavy-duty durability and high performance on the work site. We have identified opportunities for Milwaukee® beyond the current product range that are not being satisfied in the market today. These new potential products are complementary to the Milwaukee® broad distribution network. The first range expansion of Milwaukee® into a new category is a complete line of professional pneumatic fastening tools and accessories. This program is being introduced in the first half of 2006 and demonstrates opportunities of future brand growth.

Milwaukee®, AEG® and Ryobi® are truly globally recognized brands that command a strong presence in our most important geographic markets. With these brands, we are well positioned from industrial to consumer DIY markets. In addition, we continue to expand the opportunities with our strategic OEM and private label alliances. TTI is a proven, reliable partner to important brands at retail and in professional tools. We maintain these relationships through our competitiveness built around product innovation, operational efficiencies and our scale. A deep focus on understanding our end users and customer partners will continue to provide growth opportunities.

# POWER EQUIPMENT PRODUCTS

## Outdoor Power Equipment

In North America, existing and new outdoor power equipment introductions under Ryobi® and Homelite® continued to resonate with consumers. We gained market position in the key gasoline powered categories of trimmers, blowers and chain saws while capturing new market share with our successful entries into log splitters, cultivators and pressure washers under Ryobi®. The new Ryobi® branded gasoline pressure washer, introduced in the first half 2005, is innovative and practical, with a user-friendly design. It was the cornerstone to the Group's expansion into this incremental growth category.

The outdoor business delivered positive growth across Europe despite a slow start to the season, as poor weather conditions impacted end user demand in our major markets. The outdoor power equipment program under Ryobi® is an important element to our DIY channel strategy as it complements the power tool program and provides additional scale with our  key retail partners. Product development is benefiting from our global product platform initiatives.


*The Ryobi® branded 40cc gasoline 18"/ 46cm chain saw features high-performance power and ergonomic light weight design for gardening professionals or enthusiasts.*

The Ryobi® branded 7 hp high-pressure washer sprays water at 3000psi with a flow rate of 2.7 gallons per minute. It also features the exclusive Twist & StoreTM handle for easy transportation and convenient storage.

The 30cc Homelite® Yard Broom IITM gasoline blower provides powerful hand held performance and low noise emissions. It also features ZIP StartTM Technology, easy to pull Quicker to StartTM.

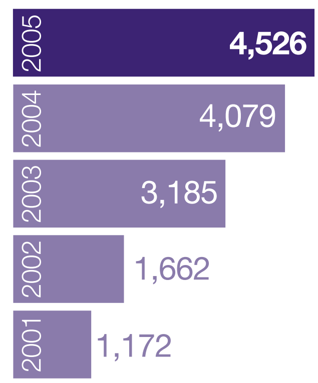
## Outlook

The outdoor power equipment business is strategically positioned to further develop the program of better outdoor products under Ryobi® and leverage the strength of the brand in the DIY channel. As with the new products like pressure washers, the brand will be tested and used on a broader range of outdoor products that will deliver incremental business. Homelite® currently offers a limited product range and we plan to expand its powerful brand recognition into new product categories in as early as the second half of 2006.

Operationally, the Group has improved the manufacturing cost base with gasoline product production located in China. Ongoing cost improvement initiatives are in place to offset material cost pressures. The strength of our two brands allows the Group to utilize outsourcing arrangements for lowering costs and entering new product categories. With these actions and the planned introduction of innovative new products, the business is on track to improve profitability.

# FLOOR CARE APPLIANCES

**DIVISIONAL TURNOVER**
HK$ million




- Turnover increased **11.0%** to **HK$4.53 billion**
- Accounting for **20.2%** of total Group turnover
- New products accounted for **30%** of the turnover

The Floor Care Appliances business continued to perform well despite lower OEM sales, material cost pressures and price competition. The results showed solid organic performance in our own branded business despite price sensitivity in the North American retail markets. Our brands created retail level excitement and consumer demand with new products and aggressive promotions. Strategically, new products accounted for 30% of the turnover for the business in 2005 and we moved aggressively to capitalize on opportunities at higher retail price points in the North American upright category with the introduction of the Vax® brand.

Turnover increased 11.0% to HK$4.53 billion, accounting for 20.2% of the Group's total turnover. Operating profits were down 0.7% to HK$200 million, negatively affected by material cost pressures and weak OEM demand in the second half. Significant cost containment initiatives such as broadening the sourcing parameters, driving product redesigns and consolidating manufacturing in line with the OEM decline have helped to balance the cost pressures on the business.

*The Dirt Devil® Reaction™, features new D2 Dual-Cyclonic Technology™ providing superior suction power that lasts! This patented technology divides the air into two smaller cyclones with air moving at higher velocities than in a single cup. The result is better dirt separation.*


*The Dirt Devil® Reaction™ Easy-To-Empty Filterless Dirt Cup means no messy interaction with the filter or a bag.*


*The Dirt Devil® VISION delivers superior HEPA filtration, removing 100% of pollen and ragweed allergens, to every location in the home including upholstery, drapes and all flooring surfaces with an easy bottom release dirt cup and bagless design.*

## Review

Our own branded business continues to increase market position and deliver value to customers in both North America and Europe. The positive results were driven by a continuing flow of new products, which allowed the Dirt Devil® and Vax® brands to expand product listings in key retailers and powerful marketing programs that generated end user demand and enhanced brand awareness. Across the brands, the business has taken steps to further link global sourcing and supply chain initiatives, and deepen product platform and marketing program planning. These have already begun to improve efficiencies and lower costs in both operations and product development.


*The Dirt Devil® Broom Vac® is a cordless broom that sweeps and vacuums in one easy step. With 60% more power than the original Broom Vac®, the new, improved Broom Vac® is convenient for quick pick ups, and powerful enough for everyday cleaning.*

## FLOOR CARE APPLIANCES

In North America, Dirt Devil® is a leading brand and grew in its primary product categories during 2005, despite intense industry-wide competitive price pressures. The business is focused on the high volume retail channel, which dominates the floor care market, and has developed a streamlined overhead structure that drives product development, marketing, supply chain and account management, with operational and engineering support centered in Asia. Significant gains through lean operational initiatives drove a 22% finished good inventory reduction in 2005 and reduced logistic costs. Several important new product launches during the year buoyed turnover. The Dynamite®, which is half the weight of a full size upright vacuum, was developed to match consumer lifestyles based on market research. The launch surpassed expectations and has created a product platform for future growth. The revitalization of the cordless Broom Vac® and the popular VISION bagless upright vacuum contributed strong performances capturing market position and excellent retail placement. Dirt Devil® also exhibited its global brand reach by remaining a leading brand in highly competitive Germany and initiating expansion progress across Europe.

In the second half of 2005, we launched a new generation of Vax® vacuum cleaners in the US market with a retail partner. This unique and premium “cutting-edge” product line features a philosophy called “Next Clean”, which combines effectiveness with user-focused engineering, to deliver superior cleaning with less strain and less bending by the user. Sell through at retail and at wholesale were in line with our plans. The Vax® brand in the premium segment complements the mid-range segment of Dirt Devil®, thus creating a better-best brand portfolio.

In the UK and Australia, Vax® is a leading brand and preferred partner to the high volume retailers for floor care products. In the UK, Vax® has moved up to the number two position, despite a contracting and competitive market. The dynamic performance in this market was driven by new product introductions, a dedication to cost control and our focus on strong partner relationships. Vax® continued to maximize the synergies with Floor Care Appliances for innovative product development and supply chain leverage.

The OEM side of this business is going through a shift in customer base, which is a result of our strategy to increase our own branded business. In the second half of 2005, we experienced an accelerated reduction in our OEM turnover. This transition will continue through 2006 and is expected to rebound in 2007 with significant new projects that have been initiated with complementary customers.


*The VAX® X3 and X5 offer a wide range of cutting edge product features, and have 12AMP dual-motor system, optimized for superior cleaning performance, the dual-system allows you to control the brush roll for cleaning hard floor surfaces.*

*The robust VAX® V100 1100W Dry Vac is highly maneuverable, durable and suitable for large scale floor care jobs with its long life heavy duty motor and 10 liter capacity.*


*The VAX® X3 and X5 feature a hidden stretch hose that extends from a front mount, so you can switch from vacuuming floors to cleaning above your head without bending.*

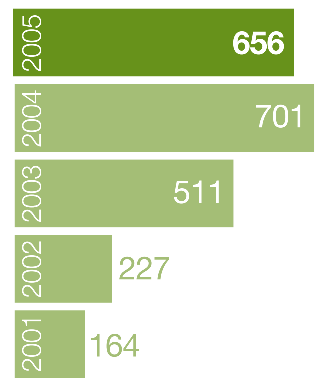

## Outlook

Business has come through a challenging year in 2005 with improved efficiency, better product platform planning, and powerful consumer brands in large markets. We are positioned to continue to drive brand growth with new innovative products and by expanding within the existing customer base in North America, plus geographic expansion in Europe. Several major new product platforms have been launched in the first half of 2006, including the Dirt Devil® Reaction™ in North America, which delivers "no loss of suction" with the D2 Dual-Cyclonic Technology™ filtration system.

Operationally, we will manage through the existing material cost pressures with new products and leveraging our scale efficiencies. We continue to be globally competitive, revising our production model to focus on the value added product categories and new product expansion opportunities and to initiate outsourcing on commodity categories. All our geographic markets in the Floor Care Appliances business will benefit from continued efforts on cost reductions and production synergies from our manufacturing facilities based in Asia. Our ability to maximize product innovations across all brands will continue to deliver consumer value in each market.

# LASER & ELECTRONIC PRODUCTS

**DIVISIONAL TURNOVER**
HK$ million




- Turnover decreased by **6.5%** to **HK$656 million**
- Accounting for **2.9%** of total Group turnover
- Operating profit margin improved to **21.2%**

The Laser and Electronic Products business remained focused on creating growth opportunities with new product development efforts. We have launched several innovative laser leveling tools and expanded the ODM electronic infant care product platform. Our investments in manufacturing automation and plastic molding capacity improved our cost position, helping to offset rising raw material prices.

Turnover decreased by 6.5% to HK$656 million, accounting for 2.9% of total Group revenue. Operating profits decreased 4.6% to HK$139 million and operating profit margin grew from 20.8% in 2004 to 21.2% in 2005.


*We offer a comprehensive range of measuring and sensor hand held tools under Ryobi®, utilizing the latest ultrasonic and laser technologies.*

*The MultiTASKit™ under Ryobi® provides multiple DIY jobsite and hobbyist solutions. Utilizing the award winning AIRgrip™ revolutionary vacuum technology, making home repairs and projects a one-person job.*

*Innovative 2-channel rechargeable baby monitors provide clear range of 400 ft for added mobility and with 7 soundlights allow parents to see baby's activity.*

## Review

Turnover declined for the full year despite a strong first half. We experienced a difficult second half due to competition in both the laser measurement and solar light markets. Even with the negative turnover impact, our margin improved compared to the same period last year, thanks to our continuous focus to improve operational efficiency and to introduce new products with higher margins.

For the laser leveling platform, we continued to build on the revolutionary AIRgrip™ technology and introduced the MultiTASKit™ under Ryobi® in September. The MultiTASKit™ includes the MultiTASKit™ body, which houses the AIRgrip™ vacuum technology, and four attachments that are designed to make home repairs and projects a one-person job. The high profile introduction and aggressive promotion of our laser products helped establish the Ryobi® brand as a leader in laser measurement tools.

## Outlook

The Laser and Electronic Products business had exhibited strong growth over the past few years due to industry leading innovation with products that captured the imagination of end users. Going forward, we expect growth to slow from a high base. With a focus on developing tools for the Group's power tool brands and expanding the ODM business, we will maintain R&D efforts to deliver unique, solution-driven products and continue to invest in enhancing our manufacturing expertise. The expansion and added capabilities of our manufacturing investments will deliver increased opportunities for new product development and ODM partnerships.

# BOARD OF DIRECTORS

From left : Roy Chi Ping Chung JP, Patrick Kin Wah Chan, Horst Julius Pudwill, Frank Chi Chung Chan

## Group Executive Directors

### Horst Julius Pudwill MSc

*Chairman and Chief Executive Officer*

Mr Horst Julius Pudwill, aged 60, a founding partner of TTI, has been the Chairman and Chief Executive Officer since 1985. He is responsible for the formulation of TTI's strategic vision, focusing on the continual growth and profitable development of the Group's organization, products and services. He is active in aligning the activities of the Group with customer needs.

His background includes a Master's Degree in Engineering and a General Commercial Degree, together with extensive experience in international business.

### Roy Chi Ping Chung JP, MSc

*Group Managing Director*

Mr Roy Chi Ping Chung, aged 54, a co-founder of TTI, has been the Group Managing Director since 1985. He is responsible for the corporate and business management of the Group. He holds a Master of Science Degree in Engineering Business Management from the University of Warwick.

He was appointed as Justice of Peace by the Hong Kong SAR Government effective on 1st July, 2005. Mr Chung won the 1997 HK Young Industrialists Award, and is currently Deputy Council Chairman of Hong Kong Polytechnic University, Vice-Chairman of the Federation of Hong Kong Industries, President of Hong Kong Young Industrialist Council Limited, a non-official member of Committee on Economic Development and Economic Cooperation with the Mainland – Commission on Strategic Development, a member of Home Affairs Bureau – Sports Commission, Council Member of Vocational Training Council, Chairman of Electronics / Electrical Appliances Industry Advisory Committee of HK Trade Development Council, Vice-Chairman of Employers' Federation of Hong Kong, Elected Council Member and Executive Committee Member of Hong Kong Management Association, a member of the Advisory Board for Lingnan University's Faculty of Business, Director of the HK Safety Institute Ltd & HK Standards & Testing Centre Ltd, Director of HK Applied Science and Technology Research Institute Co. Ltd (ASTRI), Vice-Chairman of the Governing Board of the Dongguan City Association of Enterprises with Foreign Investment. He is also an Independent Non-executive Director of Kin Yat Holdings Ltd and Daka Designs Limited.

### Patrick Kin Wah Chan FCCA, FCPA, APVC

*Operations Director*

Mr Patrick Kin Wah Chan, aged 46, 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 a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, an associate of The Professional Validation Council of Hong Kong Industries, Executive Committee Member of the Hong Kong Electrical Appliances Manufacturers Association.

### Frank Chi Chung Chan CPA

*Group Chief Financial Officer*

Mr Frank Chi Chung Chan, aged 52, 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.

From left : Joel Arthur Schleicher, Vincent Ting Kau Cheung, Manfred Kuhlmann, Christopher Patrick Langley

Mr Chan is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, an associate of the Taxation Institute of Hong Kong and qualified to practise as a Certified Public Accountant in Hong Kong. He is currently an Independent Non-executive Director of Gold Peak Industries (Holdings) Limited, a company listed on The Stock Exchange of Hong Kong Limited and an Independent Director of Tsit Wing International Holdings Limited, a company listed on The Singapore Exchange Securities Trading Limited.

## Non-executive Director

### Vincent Ting Kau Cheung

*Non-executive Director*

Mr Cheung, aged 64, was appointed as a Director in 1991. He is a Non-executive Director of Gold Peak Industries (Holdings) Limited and Paul Y. – ITC Construction Holdings Limited, both listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr Cheung is a graduate in law from University College, London and has been a practising solicitor since 1970. He is qualified to practise law in Hong Kong and the UK and he is now the Managing Partner of Vincent T. K. Cheung, Yap & Co.

## Independent Non-executive Directors

### Christopher Patrick Langley

OBE

*Independent Non-executive Director*

Mr Christopher Patrick Langley, aged 61, was appointed as an Independent Non-executive Director in 2001. He was formerly an Executive Director of The Hongkong and Shanghai Banking Corporation Ltd. Mr Langley holds directorships in a number of publicly-listed companies and maintains close ties with the business community in Hong Kong.

### Joel Arthur Schleicher CPA, BSB

*Independent Non-executive Director*

Mr Joel Arthur Schleicher, aged 54, was appointed as an Independent Non-executive Director in 1998. He has 28 years of management experience in the manufacturing and technology / telecom services sectors.

Mr Schleicher is currently Chairman and CEO for Integrated Solutions, Inc. and previously Chairman and CEO of Interpath Communications, Inc.; CEO of Expanets, Inc. and President and COO of Nextel Communications, Inc. He presently serves on the Board of Directors of several domestic and international companies. He is also involved with private equity firms, serving as their consultant and advisor.

### Manfred Kuhlmann

*Independent Non-executive Director*

Mr Kuhlmann, aged 61, was appointed as an Independent Non-executive Director in 2004. He was General Manager of Dresdner Bank AG Hong Kong Branch between 1994 and 1998 and General Manager of Dresdner Bank AG Dubai before he retired in August 2004. Mr Kuhlmann is a graduate of the Banking Academy, Hamburg and has extensive experience in the finance and banking industry. He is currently an independent financial advisor to customers in various industries in Europe.

# GLOBAL MANAGEMENT

## Asia

### Techtronic Industries Co. Ltd.

**David Butts**
*Group Senior Vice President*
*Joined 1998*

**Clarence Chi Hong Chan**
*Group Controller*
*Joined 1995*

**Alex Chunn**
*Vice President – Concept Development*
*Joined 1999*

**James Gough**
*Head of Internal Audit*
*Joined 2005*

**Dr jur. Matthias Hartz**
*Senior Vice President – Corporate Affairs*
*Joined 2003*

**Marc Hill**
*Divisional Senior Vice President*
*– Portable Electric Tools and Accessories*
*Joined 2006*

**Dr Thomas James**
*Senior Vice President*
*– Engineering, Global Power Tools*
*Joined 2005*

**Simon I-Nan Lin**
*Vice President – Sourcing and Procurement*
*Joined 2000*

**Edmund Tak Man Li**
*Treasurer*
*Joined 2005*

**Stephan Pudwill**
*Director – Business Development*
*Joined 2004*

**Wong Sakh Hong**
*Vice President – Manufacturing*
*Joined 2005*

### Techtronic Appliances (Hong Kong) Ltd.

**Seth Peterson**
*Vice President – Floor Care Appliances*
*Joined 2005*

### Gimelli Laboratories Co. Ltd.

**Bruno Gimelli**
*Executive Director*
*Joined 1991*

**Raymond Kwok Chung Lee**
*Managing Director*
*Joined 1982*

### Solar Wide Industrial Ltd.

**Hughes Sanoner**
*President and Chief Executive Officer*
*Joined 1991*

## North America

### Techtronic Industries North America, Inc.

**Jeff Dils**
*President – Power Tools and Accessories*
*Joined 2000*

**Philippe Buisson**
*Chief Financial Officer*
*Joined 2000*

**Robert Freitag**
*President – Business Development*
*Joined 2000*

**Lee Sowell**
*President – Outdoor Power Equipment*
*Joined 2001*

**Norman MacDonald**
*Senior Vice President – Operations*
*Joined 2003*

**Ken Brazell**
*Vice President – Concept Development*
*Joined 2000*

### Milwaukee Electric Tool Corporation

**Harry Peterson**
*Chief Operating Officer*
*Joined 2005*

**Patricia Grisham**
*Vice President Finance and Chief Financial Officer*
*Joined 2005*

### Royal Appliance Mfg. Co.

**Paul D'Aloia**
*President*
*Joined 2005*

## Europe

### A & M Electric Tools GmbH

**Horst Garbrecht**
*Vice President – Operations*
*Joined 2005*

**Stefan Duer**
*Vice President – Marketing and Sales*
*Joined 2005*

### DreBo Werkzeugfabrik GmbH

**Markus Dreps**
*Managing Director*
*Joined 2005*

### Ryobi Technologies SAS

**Michel Violleau**
*President*
*Joined 2001*

### Ryobi Technologies GmbH

**Walter Eichinger**
*Managing Director*
*Joined 2001*

### Ryobi Technologies (UK) Ltd.

**Mark Pearson**
*Managing Director*
*Joined 2002*

### Royal Appliance International GmbH

**Ralf Lindner**
*Managing Director and Chief Executive Officer*
*Joined 1995*

### Vax Ltd.

**Simon Lawson**
*Managing Director*
*Joined 2003*

## Australasia

### Techtronic Industries Australia Pty Ltd.

### Techtronic Industries N.Z. Ltd.

**Herbert Hermens**
*Managing Director*
*Joined 2006*

### Vax Appliances (Australia) Pty Ltd.

**Eddy Baroni**
*Executive Chairman*
*Joined 1999*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Results

### Result Analysis

The Group reported a 37.1% growth in turnover to HK$22.36 billion for the year as compared to HK$16.30 billion reported last year. Net profit amounted to HK$1,019 million, an increase of 10.0% on HK$926 million reported in 2004.

EBITDA increased by 33.6% to HK$1.99 billion, representing a margin of 8.9%. Included in the EBITDA were non-recurring restructuring charges of HK$62 million. Excluding these non-recurring charges, EBITDA margin was at 9.2%, improved from 9.1% in 2004.

Basic earnings per share were at HK73.53 cents after accounted for the dilution effect of the placement of 96 million new shares on 8th September, 2005 as compared to HK69.28 cents in 2004, as restated.

### Gross Margin

Gross margin continued to improve to 31.0% as compared to 30.3% reported last year despite continual pricing pressure on raw materials during the year. The improvement was the result of favorable product portfolio, introduction of new products from current and newly acquired business and continuous cost improvement programs at all levels within the Group.

### Selling, Distribution, Advertising and Warranty Expenses

Selling, distribution, advertising and warranty expenses efficiency improved from 11.8% of turnover in 2004 to 11.3% for the period under review. The improvement was contributed by the cost synergies created from the integration of the newly acquired operations and further rationalization of the Group's cost structure.

The Group's own brand business now accounted for 80.0% of total turnover as compared to 72.2% reported last year. This is in line with the Group's long-term strategy to increase its own brand business.

## Research and Development Expenses

Product innovation remains the Group's major focus to sustain growth momentum and to enhance profitability. In 2005, the Group invested HK$492 million, representing 2.2% of turnover, as compared to HK$339 million, or 2.1% of turnover in 2004.

## Administrative Expenses

Administrative expenses increased by HK$892 million to HK$2,443 million, representing 10.9% of 2005 turnover as compared to 9.5% in 2004. The increase was mainly due to the full year consolidation of the acquired operations in 2005, which were less efficient than the Group's existing business. Included in the expenses were non-recurring restructuring charges as we began the relocation and integration of the Milwaukee® and AEG® production operations to the Group's China plants. The charges amounted to HK$62 million in 2005. The relocation and integration will create additional savings and synergies which will commence to accrue from 2006 onwards, and will result in improvement of margins in relation to such products transferred and overall efficiency and cost improvements within the Group.

## Taxation

Effective tax rate for the year was 13.0% compared to 10.1% in 2004 as a result of the profits generated from higher tax jurisdiction and acquisition. The Group will continue to focus on improving tax efficiencies.

## Bank Borrowings

The Group continues to maintain a well balanced and carefully structured loan portfolio to support its long-term growth strategy and is also able to secure additional financing at favorable terms. Taking advantage of the low interest rate environment, the Group tapped into the capital market with two transactions in first quarter 2005 through its wholly owned entity in the United States. The Group placed US$200 million fixed interest rate Notes in two tranches, of US$150 million for 10 years at 5.44% per annum, and US$50 million for 7 years at 5.17% per annum, with private investors in the United States. Another US$200 million LIBOR-based floating rate transferable term loan was arranged through an elite group of financial institutions for a 3-year period extendable to 5 years. Both issues received overwhelming support and were successfully placed in March 2005. The proceeds were used to refinance existing bank borrowings.

### Foreign Exchange Risk Management

The Group's major borrowings including the ones issued during the period are in US Dollars and HK Dollars. Other than the fixed interest rate Notes, all borrowings are either LIBOR or Hong Kong best lending rates based. As the Group's major revenues are in US Dollars, there is a natural hedge mechanism in place and currency exposure is relatively low. To enhance overall risk management for its expansion, the Group had already strengthened its treasury management capability and will closely monitor and manage its currency and interest rate exposure.

## Liquidity and Financial Resources

### Shareholders' Funds

Total shareholders' funds amounted to HK$6,112 million as at 31st December, 2005, representing an increase of over 77.0% from HK$3,454 million as reported last year. Book value per share, after the share placement and options exercised during the year, increased from HK$2.55 to HK$4.18.

### Financial Position

As at 31st December, 2005, the Group's net gearing expressed as a percentage of total net borrowing to equity attributable to shareholders of the Company was at 68.3% (2004 as restated : 32.1%). The change was a result of the Milwaukee®, AEG® and Drebo® acquisitions which was fully funded by both internal resources and borrowing.

Net interest expenses amounted to HK$293 million, an increase of HK$195 million as compared to same period last year. The increase was due to additional borrowings for acquisition, expanded operation and the effective interest expense, a non-cash item, on the liability component of the convertible bonds in accordance with HKAS39. Interest coverage, expressed as a multiple of EBIT to total net interest remained at a healthy level of 5.0 times (2004 as restated : 11.6 times).

### Working Capital

The Group's net current assets increased by HK$1.06 billion to HK$4.89 billion as compared to last year. Current ratio further improved to 1.66 from 1.49 in 2004.

Total inventory value increased by HK$1.18 billion as a result of the acquisition completed at the beginning of the year. Average inventory days improved by 4 days from 59 days to 55 days. Average finished goods inventory days improved from 42 days to 38 days while raw material and work in progress turnover days remained stable at 17 days. The effect of the inventory re-alignment program by the Group's major customers had no negative impact on the inventory level as the Group manages a very flexible and efficient procurement and manufacturing operation.

Trade receivables turnover period improved by 7 days from 53 days to 46 days. The Group did not experience any material bad debts that required writing off in 2005.

Trade and other payable days were at 53 days as compared to 56 days last year.

## Capital Expenditure

Capital expenditure for the year amounted to HK$597 million. Excluding the land acquired for the China plant expansion, the capital expenditure during the year on operating assets was in line with the group's capital appropriation guidelines.

## Capital Commitment and Contingent Liability

As at 31st December, 2005, total capital commitment amounted to HK$269 million (2004 : HK$154 million) and there were no material contingent liabilities or off balance sheet obligations.

## Charges

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

## Acquisition

The Group completed the purchase from Atlas Copco AB ("ATCO") all of ATCO's electric power tools and accessories business ("the Business") conducted under the brand names "Milwaukee®" and "AEG® " as well as "DreBo® " accessories businesses, ("the Acquired Companies"), with unanimous approval by all the shareholders present in person or by proxy at the Company's Extraordinary General Meeting on 3rd January, 2005.

The purchase price for the Business, which was paid in cash at the closing of the transaction, was US$627 million (approximately HK$4,887 million), consisting of the pre-adjustment purchase price of US$713 million (approximately HK$5,560 million), reduced by an agreed pre-closing adjustment of US$86 million (approximately HK$672 million) in respect of a portion of the accrued and unfunded post-retirement liabilities of certain of the Acquired Companies and adjustments with respect to related deferred asset accounts and to certain accruals. The purchase price was calculated on the basis of the Acquired Companies having no indebtedness or cash and their net tangible assets (excluding, among other things, cash and amounts in respect of pre-agreed adjustments) being US$285 million (approximately HK$2,223 million). On 31st October, 2005, the Group and ATCO concluded that there will be no adjustments to the purchase price and the acquisition completed.

The acquisition strengthens the Group's brand profile, product offerings and distribution network in the global power tool industry, particularly in the US and Europe.

The Group is moving forward with its integration plans to reap the synergistic benefits in engineering, manufacturing and the supply chain for our operations. Leveraging the strengths of the combined business, the Group will be able to compete more effectively in the global power tool industry and to further enhance its leadership position.

### New Shares Placement

On 8th September, 2005, the Group placed an aggregate of 96 million shares to independent investors at a price of HK$19.25 per share. The new shares placed represented approximately 7.05% of the issued share capital of the Company of 1,361,898,652 shares at the date of placement and approximately 6.58% of the issued capital of the Company of 1,457,898,652 shares as enlarged by the placement.

The net proceeds approximated to HK$1,815 million have been used to repay existing debts and for general working capital purposes.

## Major Customers and Suppliers

For the year ended 31st December, 2005

i. The Group's largest customer and five largest customers accounted for approximately 36.8% and 52.4% respectively of the Group's total turnover.

ii. The Group's largest supplier and five largest suppliers accounted for approximately 2.7% and 12.1% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

According to the knowledge of the directors, none of the Directors, their associates or any shareholders who owned more than 5% of TTI's share capital had any interest in the five largest customers or suppliers.

## Human Resources

The Group employed a total of 22,053 employees (2004: 21,549 employees) in Hong Kong and overseas. Total staff costs for the period under review amounted to HK$2,533 million as compared to HK$1,390 million same period last year. The increase was due to the expansion of the Group's operations and the newly acquired business.

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

## Purchase, Sales or Redemption of Shares

There has been no purchase, sales or redemption of shares of the Company by the Company or any of its subsidiaries during the year.

## Audit Committee

An Audit Committee was established in 1999, and on 11th April, 2006 the Board adopted written terms of reference for the role and function of the Audit Committee, which are published on the Group's website (www.ttigroup.com). The role and function of the Audit Committee is to assist the Board to ensure that an effective system of internal control and compliance with the Group's obligations under the Listing Rules and other applicable laws and regulations is in place, and to oversee the integrity of the financial statements of the Group.

The Audit Committee is comprised of the Board's three independent Non-executive Directors, and is chaired by Mr Joel Arthur Schleicher. All members of the Audit Committee have professional, financial or accounting qualifications.

## Review of Financial Statements

The Audit Committee has reviewed with senior management of the Group and the Group's external auditors, Messrs. Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31st December, 2005. The Board of Directors of the Company (the "Board") acknowledges its responsibility for the preparation of the accounts of the Group.

## Code on Corporate Governance Practices

The Group confirms that it has complied with all material provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, save that:

1. The roles of Chairman and the Chief Executive Officer are both performed by Mr Horst Julius Pudwill. The Group does not currently propose to separate the functions of Chairman and Chief Executive Officer, as both the Board and senior management of the Group has significantly benefited from the leadership, support and experience of Mr Pudwill.

2. The Board formally adopted written procedures on 11th April, 2006 to govern the delegation of daily management responsibilities to the senior management of the Group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the Group. The work of the Audit Committee will include reviewing on an ongoing basis the Group's internal controls and the delegation and reporting procedures between the Board and senior management.

3. None of the Directors is appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of TTI. Under Article 103 of the Articles of Association of TTI, one third of the Board must retire by rotation at each Annual General Meeting and, if eligible, offer themselves for re-election.

## Model Code for Securities Transactions by Directors

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Group confirms that, after specific enquiry with each Director, all Directors have confirmed compliance with the Model Code. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code, that applies to securities transactions of all relevant employees who may be in possession of unpublished price-sensitive information in relation to the Group's shares, and which is now published on the Group's website (www.ttigroup.com).

## Dividend

The Directors recommend a final dividend of HK12.60 cents per share. Subject to the approval of the shareholders at the Annual General Meeting to be held on 22nd May, 2006. The final dividend will be paid to shareholders listed on the register of members of the Company on 16th June, 2006. It is expected that the final dividend will be paid on or about 28th July, 2006. This payment together with the interim dividend of HK6.00 cents per share paid on 30th September, 2005, makes a total payment of HK18.60 cents per share for 2005.

## Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 12th June, 2006 to Friday, 16th June, 2006, both days inclusive. In order to qualify for the final dividend to be approved at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00p.m. on Friday, 9th June, 2006.

Dividend warrants will be despatched on or around 28th July, 2006 subject to shareholders' approval of payment of the final dividend having been obtained at the Annual General Meeting.

# CORPORATE GOVERNANCE REPORT

## The Board of Directors

The Board of Directors of the Group (the “Board”) assumes responsibility for the management of the Group’s affairs, and concentrates on matters affecting the Group’s overall strategic policies, finances, shareholder interests and corporate governance. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

The Directors of the Group during the year and up to the date of this report were:

### Group Executive Directors

Mr Horst Julius Pudwill, *Chairman and Chief Executive Officer*
Mr Roy Chi Ping Chung JP, *Group Managing Director*
Mr Kin Wah Chan
Mr Chi Chung Chan

### Non-executive Director

Mr Vincent Ting Kau Cheung

### Independent Non-executive Directors

Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley
Mr Manfred Kuhlmann

The Board meets regularly, and all members of the Board are given complete and reliable information in relation to the affairs of the Group, and receive the support from and access to the Company Secretary in respect of all meetings of the Board. Each Director is afforded access, on his request, to senior management of the Group and to independent legal advice. All Directors receive briefings and professional development training as necessary to ensure a proper understanding of the business of the Group and their responsibilities under statute and at common law.

The Board held four meetings at approximately quarterly intervals during 2005, and the table below sets out the attendance record of each Director:

| Category of Director | Name of Director | Attendance Record |
|---|---|---|
| Group Executive Directors | Mr Horst Julius Pudwill | 4/4 |
| | Mr Roy Chi Ping Chung JP | 4/4 |
| | Mr Kin Wah Chan | 4/4 |
| | Mr Chi Chung Chan | 4/4 |
| Non-executive Director | Mr Vincent Ting Kau Cheung | 2/4 |
| Independent Non-executive Directors | Mr Joel Arthur Schleicher | 4/4 |
| | Mr Christopher Patrick Langley | 3/4 |
| | Mr Manfred Kuhlmann | 4/4 |

More than one third of the Board comprises Independent Non-executive Directors. The Company has received confirmation from each Independent Non-executive Director of his continuing independence under the Listing Rules, and the Board considers each of them to be independent. None of the Directors is related to each other. Each of the Independent Non-executive Directors has professional, financial or accounting qualifications.

No service contract has been entered into between the Company and any of the Directors. No casual vacancies on the Board occurred during 2005 or to the date of this report.

The auditors of the Group are Deloitte Touche Tohmatsu, and in 2005, Deloitte Touche Tohmatsu provided the following services to the Group:

| Nature of Services | Amount (HK$ million) |
|---|---|
| External Audit Services | 14.5 |
| Taxation Consultancy Services | 0.3 |
| Other Consultancy Services | 0.6 |

Deloitte Touche Tohmatsu are also the tax advisers of Hong Kong companies of the Group. The other consultancy services provided by Deloitte Touche Tohmatsu comprised an internal control review of the operations of a joint venture.

The Group confirms that it has complied with all material provisions of the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules, save that:

1. The roles of Chairman and the Chief Executive Officer are both performed by Mr Horst Julius Pudwill. The Group does not currently propose to separate the functions of Chairman and Chief Executive Officer, as both the Board and senior management of the Group has significantly benefited from the leadership, support and experience of Mr Pudwill.

2. The Board formally adopted written procedures on 11th April, 2006 to govern the delegation of daily management responsibilities to the senior management of the Group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the Group. The work of the Audit Committee will include reviewing on an ongoing basis the Group's internal controls and the delegation and reporting procedures between the Board and senior management.

3. None of the Directors is appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of TTI. Under Article 103 of the Articles of Association of TTI, one third of the Board must retire by rotation at each Annual General Meeting and, if eligible, offer themselves for re-election.

## Code for Securities Transactions

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Group confirms that, after specific enquiry with each Director, all Directors have confirmed compliance with the Model Code. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code, that applies to securities transactions of all relevant employees who may be in possession of unpublished price-sensitive information in relation to the Group's shares, and which is now published on the Group's website (www.ttigroup.com).

## Committees of the Board

**Audit Committee:** An Audit Committee was established in 1999, and on 11th April, 2006 the Board adopted written terms of reference for the role and function of the Audit Committee, now published on the Group's website (www.ttigroup.com). The role and function of the Audit Committee is to assist the Board to ensure that an effective system of internal control and compliance with the Group's obligations under the Listing Rules and other applicable laws and regulations is in place, and to oversee the integrity of the financial statements of the Group.

The Audit Committee is comprised of the three Independent Non-executive Directors, and is chaired by Mr Joel Arthur Schleicher. Each member of the Audit Committee has professional, financial or accounting qualifications.

The Audit Committee held three meetings during 2005, and the table below sets out the attendance record of each member:

| Category of Director | Name of Director | Attendance Record |
|---|---|---|
| Independent Non-executive Directors | Mr Joel Arthur Schleicher | 3/3 |
| | Mr Christopher Patrick Langley | 2/3 |
| | Mr Manfred Kuhlmann | 3/3 |

The Audit Committee has committed to four regularly scheduled meetings during 2006.

An Internal Audit ("IA") function was established in 2005 under terms of reference approved by the Audit Committee to actively monitor and participate in the improvement of the Group risk management and internal control framework. The Head of IA reports directly to the Audit Committee on audit matters and to the Chief Executive Officer on administration matters. IA uses a risk-assessment approach to establish its annual audit plan. The 2006 audit plan was submitted to and approved by the Audit Committee in August 2005. Independent reviews of different financial, business and functional operations and activities will be conducted with audit resources being focused on higher risk areas. Ad hoc reviews may also be conducted on areas of concern identified by the Audit Committee and management.

The Audit Committee has reviewed with senior management of the Group and the Group's external auditors, Messrs. Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the consolidated financial statements.

**Remuneration Committee:** A Remuneration Committee was established during 2005, and on 11th April, 2006 the Board adopted written terms of reference for the role and function of the Remuneration Committee, now published on the Group's website (www.ttigroup.com). The role and function of the Remuneration Committee is to assist the Board in 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 for determining their remuneration packages, on the basis of their merit, qualifications and competence, and having regard to the Company's operating results, individual performance and comparable market statistics. The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note (42) to the financial statements.

The Remuneration Committee is comprised of three members, and is chaired by Mr Vincent Ting Kau Cheung (Non-executive Director), the other members being Mr Christopher Patrick Langley and Mr Manfred Kuhlmann (Independent Non-executive Directors). The Remuneration Committee did not hold any meetings during 2005, but has committed to meeting twice during 2006.

**Nomination Committee:** A Nomination Committee was established in April 2006, and the Board adopted written terms of reference for the role and function of the Nomination Committee, now published on the Group's website (www.ttigroup.com). The role and function of the Nomination Committee is to ensure a fair and transparent process of Board appointments, and in particular to assist the Board to identify suitable candidates and make recommendations for consideration of the Board and shareholders.

The Nomination Committee is comprised of three members, and is chaired by Mr Vincent Ting Kau Cheung (Non-executive Director), the other members being Mr Christopher Patrick Langley and Mr Manfred Kuhlmann (Independent Non-executive Directors). The Nomination Committee has committed to meeting twice during 2006.

## Investor Relations and Shareholder Communications

The Group understands the importance of maintaining effective communication with our shareholders and the investment community. The Board has adopted a Policy on Market Disclosure, Investor Relations and Shareholder Communications, now published on the Group's website (www.ttigroup.com), to ensure that the Group complies with its disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by TTI.

# DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2005.

## Principal Activities

The Company acts as an investment holding company and also manufactures and trades electrical and electronic products.

The principal activities of the principal subsidiaries and associates are set out in Notes 45 and 46 to the financial statements, respectively.

## Results and Appropriations

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 62.

An interim dividend of HK 6.00 cents per share amounting to HK$81,818,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK 12.60 cents per share to the shareholders on the register of members on 16th June, 2006, amounting to approximately HK$184,177,000.

## Property, Plant and Equipment

The Group continued to expand its business, and during the year spent approximately HK$178,914,000 on moulds and tooling and acquired office equipment, furniture and fixtures of approximately HK$112,911,000, and plant and machinery of approximately HK$127,517,000. In addition, property, plant and equipment with an aggregate net book value of approximately HK$934,465,000 were acquired as a result of the acquisition of subsidiaries. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 17 to the financial statements.

## Share Capital

During the year, the Company issued 96,000,000 shares of HK$0.1 each at a price of HK$19.25 per share, with a total consideration of approximately HK$1,848,000,000, pursuant to placement and subscription arrangements. The Company also issued shares of HK$0.1 each at a total consideration of approximately HK$119,642,000 pursuant to the exercise of share options granted by the Company. Details of movements in the share capital of the Company during the year are set out in Note 34 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## Directors

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

### Group Executive Directors:

Mr Horst Julius Pudwill, *Chairman and Chief Executive Officer*
Mr Roy Chi Ping Chung JP, *Group Managing Director*
Mr Kin Wah Chan
Mr Chi Chung Chan

### Non-executive Director:

Mr Vincent Ting Kau Cheung
Dr Akio Urakami (resigned on 1st September, 2005)

### Independent Non-executive Directors:

Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley
Mr Manfred Kuhlmann

In accordance with Article 103 of the Company's Articles of Association, Messrs Kin Wah Chan, Chi Chung Chan and Joel Arthur Schleicher will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

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

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

The term of office for each of the Non-executive Directors and Independent Non-executive Directors is the period up to his retirement by rotation in accordance with Article 103 of the Company's Articles of Association.

## Directors' and Chief Executive's Interests in Shares

As at 31st December, 2005, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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 | 76,554,000 | 26,688,000 | 326,661,794 | 22.35% |
| | Interest of spouse | 760,000 | – | – | |
| | Interest of controlled corporation | 222,659,794[2] | – | – | |
| Mr Roy Chi Ping Chung JP | Beneficial owner | 113,541,948 | 13,824,000 | 164,576,978 | 11.26% |
| | Interest of spouse | 136,000 | – | – | |
| | Interest of controlled corporation | 37,075,030[3] | – | – | |
| Mr Kin Wah Chan | Beneficial owner | – | 1,000,000 | 1,000,000 | 0.07% |
| Mr Chi Chung Chan | Beneficial owner | – | 3,000,000 | 3,000,000 | 0.21% |
| Mr Vincent Ting Kau Cheung | Beneficial owner | 1,920,000 | – | 1,920,000 | 0.13% |
| Mr Joel Arthur Schleicher | Beneficial owner | 200,000 | 400,000 | 600,000 | 0.04% |
| Mr Christopher Patrick Langley | Beneficial owner | 400,000 | 300,000 | 700,000 | 0.05% |
| Mr Manfred Kuhlmann | Beneficial owner | – | 100,000 | 100,000 | 0.01% |

## Directors' and Chief Executive's Interests in Shares

*(continued)*

*Notes:*

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

The equity derivatives are physically settled and unlisted.

The interests of the directors of the Company in the underlying shares pursuant to equity derivatives represent options granted to them pursuant to the share option schemes adopted by the Company, details of which are separately disclosed in the section headed "Share Options" below.

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

| | No. of shares |
|---|---|
| Sunning Inc. | 185,584,764 |
| Cordless Industries Company Limited * | 37,075,030 |
| | 222,659,794 |

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

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

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 31st December, 2005.

## Share Options

### Scheme adopted on 25th May, 2001 and terminated on 28th March, 2002 ("Scheme B")

In accordance with the Company's share option scheme adopted pursuant to a resolution passed on 25th May, 2001, the Board of Directors of the Company may grant share options to eligible persons, including full-time officers, Executive Directors and full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company. The purpose of the scheme is to provide incentives or rewards to directors and eligible persons.

## Share Options *(continued)*

### Scheme adopted on 25th May, 2001 and terminated on 28th March, 2002 ("Scheme B") *(continued)*

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 in cash by way of consideration for the grant thereof. Share options may be exercised at any time from the date which the offer of share options is accepted to the fifth anniversary thereof. The subscription price is set at not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the share option.

The maximum number of shares in respect of which share options may be granted under Scheme B is not permitted to exceed 10% of the issued share capital of the Company from time to time. No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under Scheme B.

Scheme B was terminated on 28th March, 2002 pursuant to a resolution passed on that date.

### Scheme adopted on 28th March, 2002 ("Scheme C")

Following the termination of Scheme B, a new share option scheme was adopted pursuant to a resolution passed on 28th March, 2002 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on 27th March, 2007. Under Scheme C, 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) Non-executive Directors (including Independent Non-executive Directors); or

(iii) suppliers or customers; or

(iv) any person or entity that provides research, development or other technological support; or

(v) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 in cash by way of consideration for the grant thereof. Share options may be exercised at any time from the date of grant to the fifth 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 quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

The maximum number of shares in respect of which share options may be granted under Scheme C is not permitted to exceed 30% of the issued share capital of the Company from time to time or 10% of shares in issue as at the adoption date of Scheme C. No person shall be granted an option which exceeds 1% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

## Share Options *(continued)*

The following table discloses movements in the Company's share options during the year:

| Name of directors | Date of share options granted | Share option scheme category | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Lapsed or cancelled during the year | Outstanding at end of the year | Subscription price HK$ | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| Mr Horst Julius Pudwill | 28.6.2002 | Scheme C | 25,728,000 | – | – | – | 25,728,000 | 3.6000 | 28.6.2002 – 27.6.2007 |
| | 19.9.2003 | Scheme C | 560,000 | – | – | – | 560,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 400,000 | – | – | – | 400,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Roy Chi Ping Chung JP | 28.6.2002 | Scheme C | 12,864,000 | – | – | – | 12,864,000 | 3.6000 | 28.6.2002 – 27.6.2007 |
| | 19.9.2003 | Scheme C | 560,000 | – | – | – | 560,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 400,000 | – | – | – | 400,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Kin Wah Chan | 25.2.2004 | Scheme C | 1,000,000 | – | 1,000,000 | – | – | 12.1700 | 25.2.2004 – 24.2.2009 |
| | 1.3.2004 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 12.5250 | 1.3.2004 – 28.2.2009 |
| Mr Chi Chung Chan | 17.7.2003 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 19.9.2003 | Scheme C | 500,000 | – | – | – | 500,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| | 1.3.2004 | Scheme C | 500,000 | – | – | – | 500,000 | 12.5250 | 1.3.2004 – 28.2.2009 |
| Dr Akio Urakami | 25.2.2004 | Scheme C | 300,000 | – | 300,000 | – | – | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Vincent Ting Kau Cheung | 30.4.2002 | Scheme C | 400,000 | – | 400,000 | – | – | 3.2000 | 30.4.2002 – 29.4.2007 |
| | 17.7.2003 | Scheme C | 300,000 | – | 300,000 | – | – | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | – | 100,000 | – | – | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Joel Arthur Schleicher | 30.4.2002 | Scheme C | 200,000 | – | 100,000 | – | 100,000 | 3.2000 | 30.4.2002 – 29.4.2007 |
| | 17.7.2003 | Scheme C | 200,000 | – | – | – | 200,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | – | – | – | 100,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Christopher Patrick Langley | 17.7.2003 | Scheme C | 200,000 | – | – | – | 200,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | – | – | – | 100,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Manfred Kuhlmann | 7.2.2005 | Scheme C | – | 100,000 | – | – | 100,000 | 17.7500 | 7.2.2005 – 6.2.2010 |
| **Total for directors** | | | 47,412,000 | 100,000 | 2,200,000 | – | 45,312,000 | | |

# Share Options *(continued)*

| | Date of share options granted | Share option scheme category | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Lapsed or cancelled during the year | Outstanding at end of the year | Subscription price HK$ | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| Employees | 23.7.2001 | Scheme B | 600,000 | – | 300,000 | – | 300,000 | 1.0580 | 23.7.2001 – 22.7.2006 |
| | 30.4.2002 | Scheme C | 2,880,000 | – | 1,000,000 | – | 1,880,000 | 3.2000 | 30.4.2002 – 29.4.2007 |
| | 5.7.2002 | Scheme C | 1,000,000 | – | 500,000 | – | 500,000 | 3.3500 | 5.7.2002 – 4.7.2007 |
| | 17.7.2003 | Scheme C | 8,295,000 | – | 4,793,000 | 20,000 | 3,482,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 1.9.2003 | Scheme C | 40,000 | – | 40,000 | – | – | 8.8250 | 1.9.2003 – 31.8.2008 |
| | 19.9.2003 | Scheme C | 204,000 | – | – | – | 204,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 18.12.2003 | Scheme C | 148,000 | – | 148,000 | – | – | 10.3600 | 18.12.2003 – 17.12.2008 |
| | 1.3.2004 | Scheme C | 11,026,000 | – | 3,995,000 | 64,000 | 6,967,000 | 12.5250 | 1.3.2004 – 28.2.2009 |
| | 14.4.2004 | Scheme C | 200,000 | – | – | – | 200,000 | 12.9500 | 14.4.2004 – 13.4.2009 |
| | 5.5.2004 | Scheme C | 300,000 | – | – | – | 300,000 | 11.0500 | 5.5.2004 – 4.5.2009 |
| | 7.6.2004 | Scheme C | 200,000 | – | – | – | 200,000 | 12.0000 | 7.6.2004 – 6.6.2009 |
| | 25.6.2004 | Scheme C | 40,000 | – | 40,000 | – | – | 11.5000 | 25.6.2004 – 24.6.2009 |
| | 10.8.2004 | Scheme C | 400,000 | – | 400,000 | – | – | 11.3000 | 10.8.2004 – 9.8.2009 |
| | 18.8.2004 | Scheme C | 60,000 | – | – | – | 60,000 | 11.2500 | 18.8.2004 – 17.8.2009 |
| | 2.10.2004 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 15.3500 | 2.10.2004 – 1.10.2009 |
| | 13.12.2004 | Scheme C | 250,000 | – | – | – | 250,000 | 15.7100 | 13.12.2004 – 12.12.2009 |
| | 17.1.2005 | Scheme C | – | 150,000 | – | – | 150,000 | 16.5200 | 17.1.2005 – 16.1.2010 |
| | 7.2.2005 | Scheme C | – | 100,000 | – | – | 100,000 | 17.7500 | 7.2.2005 – 6.2.2010 |
| | 7.4.2005 | Scheme C | – | 200,000 | – | – | 200,000 | 17.2100 | 7.4.2005 – 6.4.2010 |
| | 27.4.2005 | Scheme C | – | 25,000 | – | – | 25,000 | 17.6600 | 27.4.2005 – 26.4.2010 |
| | 10.5.2005 | Scheme C | – | 200,000 | – | – | 200,000 | 17.2000 | 10.5.2005 – 9.5.2010 |
| | 1.6.2005 | Scheme C | – | 20,000 | – | – | 20,000 | 17.4200 | 1.6.2005 – 31.5.2010 |
| | 17.6.2005 | Scheme C | – | 250,000 | – | – | 250,000 | 17.9500 | 17.6.2005 – 16.6.2010 |
| | 27.6.2005 | Scheme C | – | 500,000 | – | – | 500,000 | 19.2000 | 27.6.2005 – 26.6.2010 |
| **Total for employees** | | | 26,643,000 | 1,445,000 | 11,216,000 | 84,000 | 16,788,000 | | |
| **Total for all categories** | | | 74,055,000 | 1,545,000 | 13,416,000 | 84,000 | 62,100,000 | | |

| | | | | | | Percentage to total Company's shares in issue at end of the year |
|---|---|---|---|---|---|---|
| Total under Scheme B | 600,000 | – | 300,000 | – | 300,000 | 0.02% |
| Total under Scheme C | 73,455,000 | 1,545,000 | 13,116,000 | 84,000 | 61,800,000 | 4.23% |
| **Total** | 74,055,000 | 1,545,000 | 13,416,000 | 84,000 | 62,100,000 | 4.25% |

## Share Options *(continued)*

The closing prices of the Company's shares immediately before various dates of grant ranged from HK$16.35 to HK$18.70.

The weighted average closing prices of the Company's shares immediately before various dates on which the share options were exercised ranged from HK$16.52 to HK$19.97.

The fair values of the share options granted in current year measured at various dates of grant ranged from HK$3.78 to HK$4.71 per option.

The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

| Date of grant | Expected life of share options | Expected volatility based on historical volatility of share prices | Hong Kong Exchange Fund Notes rate | Expected annual dividend yield |
|---|---|---|---|---|
| 17.1.2005 | 3 years | 35% | 1.993% | 1.5% |
| 7.2.2005 | 3 years | 35% | 2.148% | 1.5% |
| 7.4.2005 | 3 years | 35% | 3.437% | 1.5% |
| 27.4.2005 | 3 years | 35% | 2.877% | 1.5% |
| 10.5.2005 | 3 years | 35% | 3.003% | 1.5% |
| 1.6.2005 | 3 years | 35% | 3.137% | 1.5% |
| 17.6.2005 | 3 years | 35% | 3.178% | 1.5% |
| 27.6.2005 | 3 years | 35% | 3.137% | 1.5% |

For the purposes of the calculation of fair value, no adjustment has been made in respect of share options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of 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.

## Arrangements to Purchase Shares or Debentures

Other than as disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## Directors' Interests in Contracts of Significance

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

## Substantial Shareholders' Interests in Shares

As at 31st December, 2005, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

| Name | Total interests in shares (1) | Approximate aggregate percentage of interests |
|---|---|---|
| FMR Corp. (2) | 100,381,500 | 6.87% |
| Commonwealth Bank of Australia (3) | 73,551,000 | 5.03% |
| JPMorgan Chase & Co. (4) | 190,326,425 | 13.02% |

*Notes:*

(1) Interests in shares stated above represent long positions.

(2) The capacity of FMR Corp. in holding the 100,381,500 shares was as Investment Manager. These interests were indirectly held by FMR Corp. through its 100% controlled corporations, namely, Fidelity Management & Research Company (as to 80,510,300 shares) and Fidelity Management Trust Company (as to 19,871,200 shares).

(3) The following is a breakdown of the interests in shares of Commonwealth Bank of Australia:

## Substantial Shareholders' Interests in Shares *(continued)*

| Name | Remarks | Total interests in shares Direct interests | Deemed interests | Approximate percentage of interests |
|---|---|---|---|---|
| Commonwealth Bank of Australia | (a) | – | 73,551,000 | 5.03% |
| Colonial Ltd. | (b) | – | 73,551,000 | 5.03% |
| Colonial Holding Company Limited | (b) | – | 73,551,000 | 5.03% |
| Colonial Holding Company (No. 2) Pty Limited | (b) | – | 73,551,000 | 5.03% |
| Commonwealth Insurance Holdings Limited | (b) | – | 73,551,000 | 5.03% |
| The Colonial Mutual Life Assurance Society Ltd. | (b) | – | 73,551,000 | 5.03% |
| Colonial First State Group Ltd. | (b) | – | 73,551,000 | 5.03% |
| First State Investment Managers (Asia) Ltd. | (b)(c) | – | 14,773,000 | 1.01% |
| First State Investment (UK Holdings) Limited | (b)(c)(d) | – | 60,319,500 | 4.13% |
| Colonial First State Investments Limited | (b)(d) | 2,697,500 | – | 0.18% |
| First State Investment (Bermuda) Limited | (b)(c) | – | 14,773,000 | 1.01% |
| First State (Hong Kong) LLC | (b)(c)(e) | 531,500 | 13,109,500 | 0.93% |
| First State Investment (Hong Kong) Limited | (b)(c)(e) | 13,109,500 | – | 0.90% |
| First State Investments Holdings (Singapore) Limited | (b)(e) | – | 5,124,500 | 0.35% |
| First State Investments (Singapore) | (b)(e) | 5,124,500 | – | 0.35% |
| SI Holdings Limited | (b)(c)(d) | – | 60,319,500 | 4.13% |
| First State Investment Management (UK) Limited | (b)(c)(d) | 42,407,800 | 17,911,700 | 4.13% |
| First State Investments International Limited | (b) | 17,911,700 | – | 1.23% |

*Remarks:*

(a) Commonwealth Bank of Australia is listed on the Australian Stock Exchange.
The capacity of Commonwealth Bank of Australia in holding the 73,551,000 shares was as Controlled Corporation.

(b) Colonial Ltd., Colonial Holding Company Limited, Colonial Holding Company (No. 2) Pty Limited, Commonwealth Insurance Holdings Limited, The Colonial Mutual Life Assurance Society Ltd., Colonial First State Group Ltd., First State Investment Managers (Asia) Ltd., First State Investment (UK Holdings) Limited, Colonial First State Investments Limited, First State Investment (Bermuda) Limited, First State (Hong Kong) LLC, First State Investment (Hong Kong) Limited, First State Investments Holdings (Singapore) Limited, First State Investments (Singapore), SI Holdings Limited, First State Investment Management (UK) Limited and First State Investments International Limited, were all direct or indirect subsidiaries of Commonwealth Bank of Australia and by virtue of the SFO, Commonwealth Bank of Australia was deemed to be interested in the shares held by these subsidiaries.

(c) The 42,407,800 shares and the 13,109,500 shares held directly by First State Investment Management (UK) Limited and First State Investment (Hong Kong) Limited respectively included 1,622,000 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investment (UK Holdings) Limited, SI Holdings Limited, First State Investment Managers (Asia) Ltd., First State Investment (Bermuda) Limited and First State (Hong Kong) LLC also included the 1,622,000 shares.

# Substantial Shareholders' Interests in Shares *(continued)*

(d) The 42,407,800 shares and the 2,697,500 shares held directly by First State Investment Management (UK) Limited and Colonial First State Investments Limited respectively included 2,617,000 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investment (UK Holdings) Limited and SI Holdings Limited also included the 2,617,000 shares.

(e) The 5,124,500 shares and the 13,109,500 shares held directly by First State Investments (Singapore) and First State Investment (Hong Kong) Limited respectively included 3,992,500 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investments Holdings (Singapore) Limited and First State (Hong Kong) LLC also included the 3,992,500 shares.

(4) The following is a breakdown of the interests in shares of JPMorgan Chase & Co.:

| | | Total interests in shares | | Approximate |
|---|---|---|---|---|
| | | Direct | Deemed | percentage |
| **Name** | **Remarks** | **interests** | **interests** | **of interests** |
| JPMorgan Chase & Co. | (a) | – | 190,326,425 | 13.02% |
| JPMorgan Chase Bank, N.A. | (b) | 79,470,708 | – | 5.44% |
| JPMorgan Asset Management Holdings Inc. | (b) | – | 110,855,717 | 7.58% |
| J.P. Morgan Investment Management Inc. | (b) | 71,717 | – | 0.005% |
| JPMorgan Asset Management (Asia) Inc. | (b) | – | 110,765,500 | 7.58% |
| JF International Management Inc. | (b) | 963,500 | – | 0.07% |
| JF Asset Management (Singapore) Limited | (b) | 3,300,000 | – | 0.23% |
| JF Asset Management Limited | (b) | 103,358,000 | 3,144,000 | 7.29% |
| JF Funds Limited | (b) | – | 3,144,000 | 0.22% |
| JF Asset Management (Taiwan) Limited | (b) | 3,144,000 | – | 0.22% |
| JPMorgan Asset Management International Limited | (b) | – | 18,500 | 0.001% |
| JPMorgan Asset Management Holdings (UK) Limited | (b) | 18,500 | – | 0.001% |

*Remarks:*

(a) JPMorgan Chase & Co. is listed on the New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 190,326,425 shares was, as to 110,855,717 shares, as Investment Manager and, as to 79,470,708 shares, as Custodian. The 190,326,425 shares included a lending pool of 79,470,708 shares.

## Substantial Shareholders' Interests in Shares *(continued)*

(b) JPMorgan Chase Bank, N.A., JPMorgan Asset Management Holdings Inc., J.P. Morgan Investment Management Inc., JPMorgan Asset Management (Asia) Inc., JF International Management Inc., JF Asset Management (Singapore) Limited, JF Asset Management Limited, JF Funds Limited, JF Asset Management (Taiwan) Limited, JPMorgan Asset Management International Limited and JPMorgan Asset Management Holdings (UK) Limited, were all direct or indirect subsidiaries of JPMorgan Chase & Co. and by virtue of the SFO, JPMorgan Chase & Co. 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 Part XV of the SFO as at 31st December, 2005.

## Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

## Donations

During the year, the Group made charitable and other donations totalling HK$5,472,000.

## Auditors

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

On behalf of the Board

**Horst Julius Pudwill**
Chairman and Chief Executive Officer
Hong Kong
12th April, 2006

# AUDITORS' 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)*

We have audited the financial statements on pages 62 to 124 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the 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.

## Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
12th April, 2006

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31st December, 2005*

| | Notes | 2005 HK$'000 | 2004 HK$'000 (As restated) | 2005 US$'000 (Note 47) | 2004 US$'000 (As restated) (Note 47) |
|---|---|---|---|---|---|
| Turnover | 8 | **22,358,387** | 16,304,140 | **2,866,460** | 2,090,274 |
| Cost of sales | | **(15,416,176)** | (11,363,394) | **(1,976,433)** | (1,456,845) |
| Gross profit | | **6,942,211** | 4,940,746 | **890,027** | 633,429 |
| Other income | | **46,630** | 39,688 | **5,978** | 5,088 |
| Interest income | 9 | **60,368** | 52,772 | **7,739** | 6,766 |
| Selling, distribution, advertising and warranty expenses | | **(2,537,555)** | (1,916,812) | **(325,328)** | (245,745) |
| Administrative expenses | | **(2,443,035)** | (1,551,024) | **(313,208)** | (198,850) |
| Research and development costs | | **(492,234)** | (338,962) | **(63,107)** | (43,457) |
| Finance costs | 10 | **(353,041)** | (150,064) | **(45,262)** | (19,239) |
| Profit before share of results of associates and taxation | | **1,223,344** | 1,076,344 | **156,839** | 137,992 |
| Share of results of associates | | **(6,463)** | (845) | **(829)** | (108) |
| Profit before taxation | | **1,216,881** | 1,075,499 | **156,010** | 137,884 |
| Taxation | 11 | **(157,714)** | (108,829) | **(20,220)** | (13,952) |
| Profit for the year | 12 | **1,059,167** | 966,670 | **135,790** | 123,932 |
| Attributable to: | | | | | |
| Equity holders of the parent | | **1,018,984** | 926,356 | **130,638** | 118,764 |
| Minority interests | | **40,183** | 40,314 | **5,152** | 5,168 |
| | | **1,059,167** | 966,670 | **135,790** | 123,932 |
| Dividends paid | 15 | **251,469** | 178,998 | **32,240** | 22,948 |
| Earnings per share (HK/US cents) | 16 | | | | |
| Basic | | **73.53** | 69.28 | **9.43** | 8.88 |
| Diluted | | **69.75** | 66.87 | **8.94** | 8.57 |

# CONSOLIDATED BALANCE SHEET

*As at 31st December, 2005*

| | Notes | 2005 HK$'000 | 2004 HK$'000 (As restated) | 2005 US$'000 (Note 47) | 2004 US$'000 (As restated) (Note 47) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 17 | **1,755,025** | 879,846 | **225,003** | 112,801 |
| Lease prepayment | 18 | **65,829** | 4,772 | **8,440** | 612 |
| Goodwill | 19 | **3,943,935** | 653,504 | **505,633** | 83,783 |
| Negative goodwill | 20 | **–** | (28,868) | **–** | (3,701) |
| Intangible assets | 21 | **1,461,453** | 232,881 | **187,366** | 29,857 |
| Interests in associates | 24 | **189,453** | 160,442 | **24,289** | 20,569 |
| Available-for-sale investments | 25 | **13,363** | – | **1,713** | – |
| Investments in securities | 26 | **–** | 27,193 | **–** | 3,486 |
| Deferred tax assets | 37 | **646,758** | 329,711 | **82,918** | 42,271 |
| Other assets | | **2,195** | 1,195 | **281** | 153 |
| | | **8,078,011** | 2,260,676 | **1,035,643** | 289,831 |
| **Current assets** | | | | | |
| Inventories | 27 | **3,971,216** | 2,787,059 | **509,130** | 357,315 |
| Trade and other receivables | 28 | **3,265,355** | 2,762,156 | **418,635** | 354,123 |
| Deposits and prepayments | | **513,062** | 382,421 | **65,777** | 49,028 |
| Bills receivable | | **431,121** | 256,836 | **55,272** | 32,928 |
| Tax recoverable | | **68,544** | 872 | **8,788** | 112 |
| Trade receivables from associates | | **1,310** | 1,247 | **168** | 160 |
| Bank balances, deposits and cash | | **4,046,122** | 5,452,057 | **518,734** | 698,982 |
| | | **12,296,730** | 11,642,648 | **1,576,504** | 1,492,648 |
| **Current liabilities** | | | | | |
| Trade and other payables | 29 | **3,590,699** | 2,885,506 | **460,346** | 369,937 |
| Bills payable | | **550,964** | 510,144 | **70,636** | 65,403 |
| Warranty provision | 30 | **338,211** | 241,375 | **43,360** | 30,946 |
| Trade payable to an associate | | **21,946** | 21,593 | **2,814** | 2,768 |
| Tax payable | | **116,624** | 105,092 | **14,952** | 13,473 |
| Obligations under finance leases – due within one year | 31 | **18,107** | 6,266 | **2,321** | 803 |
| Discounted bills with recourse | | **2,101,171** | 3,208,964 | **269,381** | 411,406 |
| Unsecured borrowings – due within one year | 33 | **673,277** | 840,450 | **86,317** | 107,750 |
| | | **7,410,999** | 7,819,390 | **950,127** | 1,002,486 |
| Net current assets | | **4,885,731** | 3,823,258 | **626,377** | 490,162 |
| Total assets less current liabilities | | **12,963,742** | 6,083,934 | **1,662,020** | 779,993 |

# CONSOLIDATED BALANCE SHEET

| | Notes | 2005<br>HK$'000 | 2004<br>HK$'000<br>(As restated) | 2005<br>US$'000<br><br>(Note 47) | 2004<br>US$'000<br>(As restated)<br>(Note 47) |
|---|---|---|---|---|---|
| **Capital and Reserves** | | | | | |
| Share capital | 34 | **146,172** | 135,230 | **18,740** | 17,337 |
| Reserves | | **5,966,167** | 3,318,586 | **764,895** | 425,461 |
| Equity attributable to equity holders of the parent | | **6,112,339** | 3,453,816 | **783,635** | 442,798 |
| Minority interests | | **120,670** | 82,032 | **15,471** | 10,517 |
| Total equity | | **6,233,009** | 3,535,848 | **799,106** | 453,315 |
| **Non-current Liabilities** | | | | | |
| Obligations under finance leases | | | | | |
| – due after one year | 31 | **125,467** | 8,989 | **16,086** | 1,152 |
| Convertible bonds | 32 | **1,078,307** | 1,051,257 | **138,244** | 134,777 |
| Unsecured borrowings – due after one year | 33 | **4,225,411** | 1,446,292 | **541,719** | 185,422 |
| Retirement benefit obligations | 36 | **786,337** | – | **100,812** | – |
| Deferred tax liabilities | 37 | **515,211** | 41,548 | **66,053** | 5,327 |
| | | **6,730,733** | 2,548,086 | **862,914** | 326,678 |
| | | **12,963,742** | 6,083,934 | **1,662,020** | 779,993 |

The financial statements on pages 62 to 124 were approved and authorized for issue by the Board of Directors on 12th April, 2006 and are signed on its behalf by:

**Chi Chung Chan**
*Group Executive Director*

**Roy Chi Ping Chung JP**
*Group Managing Director*

# BALANCE SHEET

*As at 31st December, 2005*

| | Notes | 2005<br>HK$'000 | 2004<br>HK$'000<br>(As restated) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **196,832** | 213,423 |
| Lease prepayment | 18 | **4,643** | 4,772 |
| Intangible assets | 21 | **138,579** | 3,825 |
| Investments in subsidiaries | 23 | **551,396** | 426,981 |
| Interests in associates | 24 | **173,026** | 139,166 |
| Investments in securities | 26 | **–** | 5,227 |
| Other assets | | **1,195** | 1,195 |
| | | **1,065,671** | 794,589 |
| **Current assets** | | | |
| Inventories | 27 | **333,683** | 491,189 |
| Trade and other receivables | 28 | **42,362** | 64,419 |
| Deposits and prepayments | | **195,605** | 162,860 |
| Bills receivable | | **200,754** | 96,615 |
| Tax recoverable | | **4,637** | – |
| Amounts due from subsidiaries | | **5,608,841** | 4,843,002 |
| Bank balances, deposits and cash | | **2,442,099** | 3,642,497 |
| | | **8,827,981** | 9,300,582 |
| **Current liabilities** | | | |
| Trade and other payables | 29 | **878,734** | 1,237,928 |
| Bills payable | | **482,758** | 498,076 |
| Amounts due to subsidiaries | | **416,118** | 872,150 |
| Amounts due to associates | | **21,946** | 24,379 |
| Tax payable | | **–** | 27,343 |
| Obligations under finance leases – due within one year | 31 | **–** | 586 |
| Discounted bills with recourse | | **1,557,483** | 2,652,957 |
| Unsecured borrowings – due within one year | 33 | **234,000** | 407,333 |
| | | **3,591,039** | 5,720,752 |
| Net current assets | | **5,236,942** | 3,579,830 |
| Total assets less current liabilities | | **6,302,613** | 4,374,419 |

| | Notes | 2005 HK$'000 | 2004 HK$'000 (As restated) |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | 34 | **146,172** | 135,230 |
| Reserves | 35 | **5,057,800** | 2,855,936 |
| | | **5,203,972** | 2,991,166 |
| **Non-current Liabilities** | | | |
| Convertible bonds | 32 | **1,078,307** | 1,051,257 |
| Unsecured borrowings – due after one year | 33 | **–** | 312,000 |
| Deferred tax liabilities | 37 | **20,334** | 19,996 |
| | | **1,098,641** | 1,383,253 |
| | | **6,302,613** | 4,374,419 |

**Chi Chung Chan**
*Group Executive Director*

**Roy Chi Ping Chung JP**
*Group Managing Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31st December, 2005*

| | Equity attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Convertible bonds equity reserve HK$'000 (As restated) | Translation reserve HK$'000 | Employee share-based compensation reserve HK$'000 (As restated) | Retained profits HK$'000 (As restated) | Total HK$'000 (As restated) | Minority interests HK$'000 | Total equity HK$'000 (As restated) |
| At 1st January, 2004 | 132,497 | 672,083 | – | 45,519 | – | 1,662,785 | 2,512,884 | 46,374 | 2,559,258 |
| Exchange differences on translation of overseas operations | – | – | – | 25,979 | – | – | 25,979 | (4,656) | 21,323 |
| Profit for the year | – | – | – | – | – | 926,356 | 926,356 | 40,314 | 966,670 |
| Total recognized income and expense for the year | – | – | – | 25,979 | – | 926,356 | 952,335 | 35,658 | 987,993 |
| Recognition of equity component of convertible bonds | – | – | 31,920 | – | – | – | 31,920 | – | 31,920 |
| Recognition of deferred tax liabilities on convertible bonds | – | – | (5,586) | – | – | – | (5,586) | – | (5,586) |
| Shares issued at a premium | 2,733 | 138,528 | – | – | – | – | 141,261 | – | 141,261 |
| Final dividend – 2003 | – | – | – | – | – | (118,444) | (118,444) | – | (118,444) |
| Interim dividend – 2004 | – | – | – | – | – | (60,554) | (60,554) | – | (60,554) |
| At 1st January, 2005 | 135,230 | 810,611 | 26,334 | 71,498 | – | 2,410,143 | 3,453,816 | 82,032 | 3,535,848 |
| Effect of changes in accounting policies (Note 3) | – | – | – | – | – | 28,868 | 28,868 | – | 28,868 |
| At 1st January, 2005 as restated | 135,230 | 810,611 | 26,334 | 71,498 | – | 2,439,011 | 3,482,684 | 82,032 | 3,564,716 |
| Exchange differences on translation of overseas operations | – | – | – | (76,622) | – | – | (76,622) | (1,545) | (78,167) |
| Share of reserve of an associate | – | – | – | (1,081) | – | – | (1,081) | – | (1,081) |
| Profit for the year | – | – | – | – | – | 1,018,984 | 1,018,984 | 40,183 | 1,059,167 |
| Total recognized income and expense for the year | – | – | – | (77,703) | – | 1,018,984 | 941,281 | 38,638 | 979,919 |
| Shares issued at a premium | 10,942 | 1,956,700 | – | – | – | – | 1,967,642 | – | 1,967,642 |
| Transaction costs attributable to issue of new shares | – | (34,502) | – | – | – | – | (34,502) | – | (34,502) |
| Recognition of equity-settled share based payments | – | – | – | – | 6,703 | – | 6,703 | – | 6,703 |
| Final dividend – 2004 | – | – | – | – | – | (169,651) | (169,651) | – | (169,651) |
| Interim dividend – 2005 | – | – | – | – | – | (81,818) | (81,818) | – | (81,818) |
| At 31st December, 2005 | 146,172 | 2,732,809 | 26,334 | (6,205) | 6,703 | 3,206,526 | 6,112,339 | 120,670 | 6,233,009 |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31st December, 2005*

| | Note | **2005** | 2004 | **2005** | 2004 |
|---|---|---|---|---|---|
| | | HK$'000 | HK$'000 | US$'000 | US$'000 |
| | | | (As restated) | | (As restated) |
| | | | | (Note 47) | (Note 47) |
| **Operating Activities** | | | | | |
| Profit before taxation | | **1,216,881** | 1,075,499 | **156,010** | 137,884 |
| Adjustments for: | | | | | |
| Amortization/write off of intangible assets | | **49,125** | 8,692 | **6,298** | 1,114 |
| Amortization of goodwill | | **–** | 35,263 | **–** | 4,521 |
| Amortization of lease prepayment | | **1,402** | 128 | **180** | 16 |
| Depreciation and amortization on property, plant and equipment | | **471,178** | 316,381 | **60,407** | 40,562 |
| Employee share-based expense | | **6,703** | – | **859** | – |
| Finance costs | | **353,041** | 150,064 | **45,262** | 19,239 |
| Impairment loss of investment securities recognized | | **13,830** | 14,226 | **1,773** | 1,825 |
| Interest income | | **(60,368)** | (52,772) | **(7,739)** | (6,766) |
| (Profit) loss on disposal of property, plant and equipment | | **(2,690)** | 1,882 | **(345)** | 241 |
| Release of negative goodwill to income | | **–** | (4,307) | **–** | (552) |
| Share of the result of associates | | **6,463** | 845 | **828** | 108 |
| Operating cash flows before movements in working capital | | **2,055,565** | 1,545,901 | **263,533** | 198,192 |
| Increase in inventories | | **(361,469)** | (265,316) | **(46,342)** | (34,015) |
| Decrease (increase) in trade and other receivables, deposits and prepayments | | **86,729** | (621,895) | **11,119** | (79,730) |
| Increase in bills receivable | | **(103,654)** | (220,369) | **(13,289)** | (28,252) |
| Increase in trade receivables from associates | | **(63)** | (1,199) | **(8)** | (154) |
| (Decrease) increase in trade and other payables | | **(77,872)** | 786,963 | **(9,984)** | 100,893 |
| Increase in bills payable | | **40,820** | 19,838 | **5,233** | 2,543 |
| Increase in warranty provision | | **9,177** | 31,523 | **1,177** | 4,041 |
| Increase in trade payable to an associate | | **353** | 18,363 | **45** | 2,354 |
| Decrease in retirement benefit obligations | | **(87,675)** | – | **(11,240)** | – |
| Cash generated from operations | | **1,561,911** | 1,293,809 | **200,244** | 165,872 |
| Interest paid | | **(325,991)** | (136,657) | **(41,794)** | (17,520) |
| Hong Kong profits tax paid | | **(109,349)** | (105,995) | **(14,019)** | (13,589) |
| Overseas tax paid | | **(258,064)** | (37,440) | **(33,085)** | (4,800) |
| Hong Kong profits tax refunded | | **–** | 668 | **–** | 86 |
| Overseas tax refunded | | **2,325** | 68,779 | **298** | 8,818 |
| **Net Cash from Operating Activities** | | **870,832** | 1,083,164 | **111,644** | 138,867 |

| | Note | 2005<br>HK$'000 | 2004<br>HK$'000<br>(As restated) | 2005<br>US$'000<br><br>(Note 47) | 2004<br>US$'000<br>(As restated)<br>(Note 47) |
|---|---|---|---|---|---|
| **Investing Activities** | | | | | |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | 38 | **(4,769,329)** | – | **(611,452)** | – |
| Purchase of property, plant and equipment | | **(525,334)** | (296,061) | **(67,351)** | (37,957) |
| Additions to intangible assets | | **(261,070)** | (216,262) | **(33,470)** | (27,726) |
| Additions to other asset | | **(1,000)** | – | **(128)** | – |
| Advances to associates | | **(36,555)** | (37,043) | **(4,686)** | (4,749) |
| Further considerations on acquisition of subsidiaries in prior years | | **(12,807)** | – | **(1,642)** | – |
| Additions to lease prepayment | | **(63,674)** | – | **(8,163)** | – |
| Proceeds from disposal of property, plant and equipment | | **71,933** | 16,715 | **9,222** | 2,143 |
| Interest received | | **60,368** | 52,772 | **7,739** | 6,766 |
| Purchase of additional interest in a subsidiary | | **–** | (42,900) | **–** | (5,500) |
| Capital injection to an associate | | **–** | (5,850) | **–** | (750) |
| Proceeds from disposal of investments in securities | | **–** | 5,575 | **–** | 715 |
| **Net Cash Used in Investing Activities** | | **(5,537,468)** | (523,054) | **(709,931)** | (67,058) |
| **Financing Activities** | | | | | |
| New bank loans obtained | | **5,202,095** | 815,580 | **666,935** | 104,561 |
| Proceeds from issue of shares | | **1,933,140** | 141,261 | **247,838** | 18,110 |
| Proceeds from issue of fixed interest rate notes | | **1,538,458** | – | **197,238** | – |
| Repayment of bank loans | | **(4,135,671)** | (423,614) | **(530,214)** | (54,309) |
| (Decrease) increase in discounted bills with recourse | | **(1,107,793)** | 889,307 | **(142,025)** | 114,014 |
| Dividend paid | | **(251,469)** | (178,998) | **(32,240)** | (22,948) |
| (Decrease) increase in trust receipt loans | | **(87,309)** | 46,969 | **(11,193)** | 6,022 |
| Repayment of obligations under finance leases | | **(11,397)** | (20,046) | **(1,461)** | (2,570) |
| Proceeds from issue of convertible bonds | | **–** | 1,069,770 | **–** | 137,150 |
| **Net Cash from Financing Activities** | | **3,080,054** | 2,340,229 | **394,878** | 300,030 |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | | **(1,586,582)** | 2,900,339 | **(203,409)** | 371,839 |
| **Cash and cash equivalents at Beginning of the Year** | | **5,314,518** | 2,444,098 | **681,349** | 313,346 |
| **Effect of Foreign Exchange Rate Changes** | | **79,258** | (29,919) | **10,162** | (3,836) |
| **Cash and Cash Equivalents at End of the Year** | | **3,807,194** | 5,314,518 | **488,102** | 681,349 |
| **Analysis of the Balances of Cash and Cash Equivalents** | | | | | |
| Represented by: | | | | | |
| Bank balances, deposits and cash | | **4,046,122** | 5,452,057 | **518,734** | 698,982 |
| Bank overdrafts | | **(238,928)** | (137,539) | **(30,632)** | (17,633) |
| | | **3,807,194** | 5,314,518 | **488,102** | 681,349 |

## 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 24/F., CDW Building, 388 Castle Peak Road, Tsuen Wan, N.T., Hong Kong.

The principal activities of the Group are the manufacturing and trading of electrical and electronic products.

The financial statements have been presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

**Business Combinations**

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1st January, 2005 and for goodwill and negative goodwill previously recognized and brought forward as at 1st January, 2005. The principal effects of the application of transitional provisions of HKFRS 3 to the Group are summarized below:

***Goodwill***

In previous years, goodwill arising on acquisitions was capitalized and amortized over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalized on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortization of HK$166,245,000 with a corresponding decrease in the cost of goodwill (see Note 19). The Group has discontinued amortizing such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 3 for the financial impact).

In the current year, the Group has also applied HKAS 21 *The Effects of Changes in Foreign Exchange Rates* which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st January, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired a foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 31st December, 2005. This change in accounting policy has had no material effect on results for the current year.

## 2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies *(continued)*

***Excess of the Group's Interest in the Net Fair Value of Acquiree's Identifiable Assets, Liabilities and Contingent Liabilities over Cost (previously known as "Negative Goodwill")***

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognized immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognized all negative goodwill on 1st January, 2005. A corresponding adjustment to the Group's retained earnings of HK$28,868,000 has been made.

**Share-based Payments**

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group has not applied HKFRS 2 with respect to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 had vested before 1st January, 2005 in accordance with the relevant transitional provisions (see Note 3 for the financial impact).

**Financial Instruments**

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

***Convertible Loan Notes***

The principal impact of HKAS 32 on the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortized cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. Comparative profit for 2004 has also been restated in order to reflect the increase in effective interest on the liability component (see Note 3 for the financial impact).

## 2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies *(continued)*

**Financial Instruments** *(continued)*

***Classification and Measurement of Financial Assets and Financial Liabilities***

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On 31st December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealized gains or losses included in profit or loss. From 1st January, 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale investments" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale investments" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively. "Available-for-sale investments" that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortized cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. As a result of this change in accounting policy, the investments in securities of HK$27,193,000 as at 1st January, 2005 have been reclassified as "available-for-sale investments".

***Derivatives and Hedging***

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognized in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Group has applied the relevant transitional provisions in HKAS 39. The adoption of HKAS 39 has had no material effect on the Group's retained profits and results for the current year.

***Derecognition***

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognized, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1st January, 2005 onwards. As a result, the Group's bills receivables discounted with full recourse which were derecognized prior to 1st January, 2005 have not been restated. As at 31st December, 2005, the Group's bills receivables discounted with full recourse have not been derecognized. Instead, the related borrowings of HK$136,773,000 have been recognized on the balance sheet date. This change in accounting policy has had no material effect on results for the current year.

## 2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies *(continued)*

**Owner-occupied Leasehold Interest in Land**

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to lease prepayment under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

## 3. Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies in Note 2 on the results for the current and prior year are as follows:

| | **2005**<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Non-amortization of goodwill (Note) | **200,685** | – |
| Decrease in negative goodwill released to income | **(4,307)** | – |
| Decrease in depreciation of property, plant and equipment | **1,402** | 129 |
| Increase in amortization of lease prepayment | **(1,402)** | (129) |
| Recognition of share-based payments as expenses | **(6,703)** | – |
| Increase in effective interest expense on the liability component of convertible bonds | **(22,604)** | (11,184) |
| Increase (decrease) in profit for the year | **167,071** | (11,184) |

Note: The amount included amortization of goodwill amounting to HK$163,881,000 arising on acquisition of subsidiaries in current year provided that HKFRS 3 had not been adopted. The goodwill had been amortized over its estimated useful life of 20 years.

## 3. Summary of the Effects of the Changes in Accounting Policies *(continued)*

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarized below:

| | As at 31st December, 2004 (Originally stated) HK$'000 | Adjustments HK$'000 | As at 31st December, 2004 (As restated) HK$'000 | Adjustments HK$'000 | As at 1st January, 2005 (As restated) HK$'000 |
|---|---|---|---|---|---|
| **Balance sheet items** | | | | | |
| Impact of HKAS 17: | | | | | |
| Property, plant and equipment | 884,618 | (4,772) | 879,846 | – | 879,846 |
| Lease prepayment | – | 4,772 | 4,772 | – | 4,772 |
| Impact of HKFRS 3: | | | | | |
| Derecognition of negative goodwill | (28,868) | – | (28,868) | 28,868 | – |
| Impact of HKAS 32 and HKAS 39: | | | | | |
| Investments in securities | 27,193 | – | 27,193 | (27,193) | – |
| Available-for-sale investments | – | – | – | 27,193 | 27,193 |
| Convertible bonds | (1,071,993) | 20,736 | (1,051,257) | – | (1,051,257) |
| Deferred tax liabilities | (35,962) | (5,586) | (41,548) | – | (41,548) |
| Other assets and liabilities | 3,745,710 | – | 3,745,710 | – | 3,745,710 |
| **Total effects on assets and liabilities** | 3,520,698 | 15,150 | 3,535,848 | 28,868 | 3,564,716 |
| Share capital | 135,230 | – | 135,230 | – | 135,230 |
| Convertible bonds equity reserve | – | 26,334 | 26,334 | – | 26,334 |
| Retained profits | 2,421,327 | (11,184) | 2,410,143 | 28,868 | 2,439,011 |
| Other reserves | 882,109 | – | 882,109 | – | 882,109 |
| Minority interests | – | 82,032 | 82,032 | – | 82,032 |
| **Total effects on equity** | 3,438,666 | 97,182 | 3,535,848 | 28,868 | 3,564,716 |
| Minority interests | 82,032 | (82,032) | – | – | – |

The Group has not early applied the new standards and interpretations that have been issued but are not yet effective at 31st December, 2005. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

## 4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost convention except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with new 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 and by the Companies Ordinance.

**Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Goodwill**

***Goodwill arising on acquisitions prior to 1st January, 2005***

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalized goodwill arising on acquisitions, the Group has discontinued amortization from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired.

***Goodwill arising on acquisitions on or after 1st January, 2005***

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

## 4. Significant Accounting Policies *(continued)*

**Discount on Acquisitions**

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognized immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in Note 2 above, all negative goodwill as at 1st January, 2005 has been derecognized with a corresponding adjustment to the Group's retained profits.

**Investments in Subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Interests in Associates**

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its 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. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**Intangible Assets**

On initial recognition, intangible assets acquired separately and from business combinations are recognized at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The intangible assets with definite useful lives are amortized on a straight-line basis over 4 to 10 years. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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 the income statement when the asset is derecognized.

**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 expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortization and any accumulated impairment losses.

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.

## 4. Significant Accounting Policies *(continued)*

**Impairment**

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

**Leasing**

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 balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

**Property, Plant and Equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Freehold land | Nil |
| Buildings | 4% |
| Leasehold improvements | 2.5% – 25% |
| Office equipment, furniture and fixtures | 10% – $33^1/_3$% |
| Plant and machinery | 10% – 25% |
| Motor vehicles | 18% – 25% |
| Moulds and tooling | 20% – $33^1/_3$% |
| Vessels | 20% |

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## 4. Significant Accounting Policies *(continued)*

**Property, Plant and Equipment** *(continued)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment 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 the income statement in the year in which the item is derecognized.

**Impairment Losses other than Goodwill and Intangible Assets with Indefinite Lives**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and finite lives intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognized as income immediately.

**Financial Instruments**

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument.

***Financial Assets***

*Available-for-sale investments*

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

*Trade, bills and other receivables, deposits and trade receivables from associates*

Trade, bills and other receivables, deposits and trade receivables from associates are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Cash and cash equivalents*

Cash and cash equivalents are subject to an insignificant risk of changes in value.

## 4. Significant Accounting Policies *(continued)*

### ***Financial Liabilities and Equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an 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.

*Convertible Bonds*

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortized cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

*Trade, bills and other payables, trade payable to an associate and borrowings*

Trade, bills and other payables, trade payable to an associate and borrowings are initially measured at their fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

*Equity Instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### ***Derivative Financial Instruments***

The Group uses derivative financial instruments (primarily forward contract and currency swap) to hedge its exposure against currency risk. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

There are three types of hedge relationships, including fair value hedges, cash flow hedges and net investment hedges. Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading.

### ***Derecognition***

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

## 4. Significant Accounting Policies *(continued)*

***Derecognition*** *(continued)*

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

**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. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

A provision for warranties is recognized at the time the products are sold based on the estimated cost using historical data for level of repairs and replacements.

**Other Assets**

Other assets are stated at cost less any identified impairment losses.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method.

**Revenue Recognition**

Turnover represents fair value of net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances and commission income and royalty income received.

Sales of goods are recognized when goods are delivered and title has passed.

Commission income is recognized when services are provided.

Royalty income is recognized on a time proportion basis in accordance with the substance of the relevant agreements.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**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 net profit as reported in the income statement 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 balance sheet date.

Deferred tax is the difference between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from 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.

## 4. Significant Accounting Policies *(continued)*

**Taxation** *(continued)*

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

**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 recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 translation 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 forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

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 Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1st January, 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**

All borrowing costs are recognized as an expense in the period in which they are incurred.

## 4. Significant Accounting Policies *(continued)*

**Retirement Benefits Schemes**

Retirement benefits arrangements are made in accordance with the relevant laws and regulations. Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the amended benefits become vested. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The amount recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

**Equity-settled Share-based Payment Transactions**

For share options granted to employees of the Group, the fair value of services received determined by reference to the fair value of share options granted at the grant date is recognized as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (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 premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, management makes various estimates and judgments (other than those involving estimates) based on past experience, expectations of the future and other information. The key sources affect the amounts recognized in the financial information as disclosed below.

**Estimated Impairment of Goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has 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 31st December, 2005, the carrying amount of goodwill is HK$3,943,935,000. Details of the recoverable amount calculation are disclosed in Note 22.

**Estimated Impairment of Intangible Assets**

During the year, management reconsidered the carrying amount of its intangible assets. The relevant project continues to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. Management is confident that the carrying amount of the asset 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 such adjustments are appropriate.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(continued)*

**Income Taxes**

As at 31st December, 2005, a deferred tax asset of HK$199,127,000 in relation to unused tax losses has been recognized in the Group's balance sheet. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax asset may arise, which would be recognized in the income statement for the period in which such a reversal takes place.

## 6. Financial Risks Management Objectives and Policies

The Group maintains an overall risk management programme which seeks to minimize the potential impacts of the financial exposures on the financial performance of the Group.

**Currency Risk**

The revenue and costs of the Group are primarily denominated in either Hong Kong dollar and US dollar. Several overseas subsidiaries of the Company have sales and assets denominated in foreign currencies which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts and options are employed to hedge against the committed and highly probable foreign currency transactions in accordance with the Group's risk management policies. The terms of the hedging instruments match closely with the underlying hedged transactions.

The Group's borrowings were predominantly denominated in HK dollar or US dollar. The Group generally endeavors to naturally hedge the foreign currency assets of the overseas subsidiaries by having the subsidiaries to arrange borrowings in their local currencies, wherever appropriate.

**Interest Rate Risk**

The Group is exposed to interest rate risk in respect of its interest-bearing borrowings as the Group does not have any substantial long-term interest-bearing assets at the balance sheet date. The Group has short-term and long-term interest-bearing assets at the balance sheet date. The Group has short-term and long-term borrowings which included floating rate loans and fixed rate bonds. By maintaining a balanced profile in maturities and interest rates for its borrowings, the Group ensures that its exposure to fluctuations in interest rates is minimized.

The interest rate and terms of repayment of long-term and short-term borrowings of the Group are disclosed in Note 33 to the financial statements.

**Credit Risk**

Credit risk arises when the counterparty to a transaction is unwilling or unable to fulfill its obligations with the result that the Group suffers a financial loss. The Group performs comprehensive credit evaluations to assess the financial conditions of its prospective customers before entering into business relations with them. The credit risk is minimized by the Group's credit control procedures for monitoring and reporting such risk on a regular basis.

**Liquidity Risk**

The Group finances its operations by a combination of borrowings and equity. During the year, the Group arranged a syndicated bank loan with an initial term of 3 years extendable to 5 years in the total amount of US$200,000,000 and issued notes with terms of 7 years and 10 years in the total amount of US$200,000,000. The Company issued 96,000,000 new shares at HK$19.25 through private placement in the total amount of HK$1,848,000,000.

With substantial cash balance and adequate banking facilities at the balance sheet date, the Group's liquidity position remains strong. The Group has sufficient financial resources to meet its commitments and working capital requirements.

## 7. Business and Geographical Segments

### Business Segments

For management purpose, the Group is engaged in the manufacturing and trading of electrical and electronic products. The segment information is disclosed in accordance with different types of products as its primary segment information.

**Income Statement**

For the year ended 31st December, 2005

| | Power Equipment Products HK$'000 | Floor Care Appliances HK$'000 | Laser and Electronic Products HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| External sales | 17,176,671 | 4,525,858 | 655,858 | – | 22,358,387 |
| Inter-segment sales | 187,074 | 25,718 | 221,922 | (434,714) | – |
| Total | 17,363,745 | 4,551,576 | 877,780 | (434,714) | 22,358,387 |

Inter-segment sales are charged at prevailing market rates.

| | Power Equipment Products HK$'000 | Floor Care Appliances HK$'000 | Laser and Electronic Products HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Result** | | | | | |
| Segment results | 1,237,379 | 199,786 | 139,220 | – | 1,576,385 |
| Finance costs | | | | | (353,041) |
| Share of results of associates | | | | | (6,463) |
| Profit before taxation | | | | | 1,216,881 |
| Taxation | | | | | (157,714) |
| Profit for the year | | | | | 1,059,167 |

## 7. Business and Geographical Segments *(continued)*

**Business Segments** *(continued)*

**Balance Sheet**

As at 31st December, 2005

| | Power Equipment Products HK$'000 | Floor Care Appliances HK$'000 | Laser and Electronic Products HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | 13,388,572 | 1,655,609 | 481,870 | 15,526,051 |
| Interests in associates | | | | 189,453 |
| Unallocated corporate assets | | | | 4,659,237 |
| Consolidated total assets | | | | 20,374,741 |
| Liabilities | | | | |
| Segment liabilities | (6,424,536) | (1,004,834) | (87,630) | (7,517,000) |
| Unallocated corporate liabilities | | | | (6,624,732) |
| Consolidated total liabilities | | | | (14,141,732) |

**Other Information**

For the year ended 31st December, 2005

| | Power Equipment Products HK$'000 | Floor Care Appliances HK$'000 | Laser and Electronic Products HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Capital additions | 4,070,172 | 62,329 | 15,907 | 4,148,408 |
| Depreciation and amortization | 415,105 | 96,126 | 8,433 | 519,664 |
| Impairment loss of investment securities recognized | 13,830 | – | – | 13,830 |

## 7. Business and Geographical Segments *(continued)*

**Business Segments** *(continued)*

**Income Statement**

For the year ended 31st December, 2004

| | Power Equipment Products HK$'000 | Floor Care Appliances HK$'000 | Laser and Electronic Products HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 (As restated) |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| External sales | 11,523,924 | 4,078,995 | 701,221 | – | 16,304,140 |
| Inter-segment sales | 189,277 | 9,907 | 109,532 | (308,716) | – |
| Total | 11,713,201 | 4,088,902 | 810,753 | (308,716) | 16,304,140 |

Inter-segment sales are charged at prevailing market rates.

| | | | | | |
|---|---|---|---|---|---|
| **Result** | | | | | |
| Segment results | 910,230 | 201,269 | 145,865 | – | 1,257,364 |
| Amortization of goodwill | | | | | (35,263) |
| Release of negative goodwill to income | | | | | 4,307 |
| Finance costs | | | | | (150,064) |
| Share of results of associates | | | | | (845) |
| Profit before taxation | | | | | 1,075,499 |
| Taxation | | | | | (108,829) |
| Profit for the year | | | | | 966,670 |

## 7. Business and Geographical Segments *(continued)*

**Business Segments** *(continued)*

**Balance Sheet**

As at 31st December, 2004

| | Power Equipment Products HK$'000 | Floor Care Appliances HK$'000 | Laser and Electronic Products HK$'000 | Consolidated HK$'000 (As restated) |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | 10,405,833 | 1,950,652 | 431,178 | 12,787,663 |
| Interests in associates | | | | 160,442 |
| Unallocated corporate assets | | | | 955,219 |
| Consolidated total assets | | | | 13,903,324 |
| Liabilities | | | | |
| Segment liabilities | (5,893,251) | (1,075,362) | (113,950) | (7,082,563) |
| Unallocated corporate liabilities | | | | (3,284,913) |
| Consolidated total liabilities | | | | (10,367,476) |

**Other Information**

For the year ended 31st December, 2004

| | Power Equipment Products HK$'000 | Floor Care Appliances HK$'000 | Laser and Electronic Products HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Capital additions | 470,083 | 79,757 | 14,045 | 563,885 |
| Depreciation and amortization | 205,311 | 145,367 | 5,479 | 356,157 |
| Impairment loss of investment securities recognized | 14,226 | – | – | 14,226 |

## 7. Business and Geographical Segments *(continued)*

### Geographical Segments

(i) The following table provides an analysis of the Group's sales by geographical market location:

| | Turnover | | Contribution to results from ordinary activities before taxation | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 (As restated) |
| By geographical market location: | | | | |
| North America | **17,122,079** | 13,205,612 | **1,385,239** | 1,082,567 |
| Europe and other countries | **5,236,308** | 3,098,528 | **191,146** | 174,797 |
| | **22,358,387** | 16,304,140 | **1,576,385** | 1,257,364 |
| Amortization of goodwill | | | **–** | (35,263) |
| Release of negative goodwill to income | | | **–** | 4,307 |
| Finance costs | | | **(353,041)** | (150,064) |
| Share of results of associates | | | **(6,463)** | (845) |
| Profit before taxation | | | **1,216,881** | 1,075,499 |

(ii) The following table provides an analysis of segment assets, and additions to property, plant and equipment and intangible assets, analysed by geographical areas in which the assets are located:

| | Carrying amount of segment assets | | Additions to property, plant and equipment and intangible assets | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Hong Kong and People's Republic of China ("PRC") | **5,820,443** | 6,616,721 | **535,583** | 416,540 |
| North America | **6,646,528** | 4,572,948 | **3,478,153** | 101,263 |
| Europe and other countries | **3,059,080** | 1,597,994 | **134,672** | 46,082 |
| | **15,526,051** | 12,787,663 | **4,148,408** | 563,885 |

## 8. Turnover

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

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Sale of goods | **22,320,353** | 16,254,139 |
| Commission income | **12,222** | 9,545 |
| Royalty income | **25,812** | 40,456 |
| | **22,358,387** | 16,304,140 |

## 9. Interest Income

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Interest earned on bank deposits | **53,230** | 49,180 |
| Interest earned on amount due from an associate | **7,138** | 3,592 |
| | **60,368** | 52,772 |

## 10. Finance Costs

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(As restated) |
|---|---|---|
| Interest on: | | |
| Bank loans and overdrafts wholly repayable within five years | **137,747** | 86,759 |
| Obligations under finance leases | **8,142** | 708 |
| Fixed interest rate notes | **180,102** | 49,190 |
| Effective interest expense on convertible bonds | **27,050** | 13,407 |
| | **353,041** | 150,064 |

## 11. Taxation

| | 2005 | 2004 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Current tax: | | |
| Hong Kong profits tax | **67,955** | 101,954 |
| Net overprovision in prior years | **(3,499)** | (8,747) |
| | **64,456** | 93,207 |
| Overseas taxation on profit for the year | **163,776** | 63,096 |
| Net underprovision in prior years | **5,038** | 4,006 |
| | **168,814** | 67,102 |
| Deferred tax: | | |
| Current year | **(75,556)** | (51,480) |
| | **157,714** | 108,829 |

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for both years.

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

The tax expenses for the year are reconciled as follows:

| | 2005 | 2004 |
|---|---|---|
| | HK$'000 | HK$'000 |
| | | (As restated) |
| Profit before taxation | **1,216,881** | 1,075,499 |
| Tax at Hong Kong profits tax rate | **212,954** | 188,212 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **48,505** | 11,306 |
| Tax effect of expenses not deductible for tax purpose | **20,757** | 13,428 |
| Tax effect of income not taxable for tax purpose | **(124,272)** | (120,773) |
| Tax effect of tax losses not recognized | **16,307** | 24,269 |
| Recognition of tax losses previously not recognized | **(18,098)** | – |
| Under(over) provision in respect of prior years | **1,539** | (4,741) |
| Others | **22** | (2,872) |
| Tax expenses for the year | **157,714** | 108,829 |

Details of deferred tax are set out in Note 37.

## 12. Profit for the Year

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Amortization of intangible assets | **47,084** | 8,692 |
| Amortization of goodwill | **–** | 35,263 |
| Release of negative goodwill to income | **–** | (4,307) |
| Auditors' remuneration | **15,934** | 7,863 |
| Amortization of lease prepayment | **1,402** | 129 |
| Depreciation and amortization on property, plant and equipment | | |
| Owned assets | **456,449** | 310,381 |
| Assets held under finance leases | **14,729** | 5,999 |
| Impairment loss of investment securities | **–** | 14,226 |
| Impairment loss of available-for-sale investments | **13,830** | – |
| Operating lease expense recognized in respect of: | | |
| Premises | **114,300** | 92,919 |
| Motor vehicles | **38,582** | 27,754 |
| Plant and machinery | **20,884** | 8,433 |
| Other assets | **24,312** | 4,626 |
| (Gain) loss on disposal of property, plant and equipment | **(2,690)** | 1,882 |
| Staff costs | | |
| Directors' remuneration | | |
| Fees | **566** | 391 |
| Other emoluments | **38,785** | 33,938 |
| Other staff | **2,077,257** | 1,196,185 |
| Retirement benefits schemes contributions (other than those included in the Directors' emoluments) | **98,909** | 16,448 |
| | **2,215,517** | 1,246,962 |

Staff costs disclosed above do not include an amount of HK$317,788,000 (2004: HK$142,905,000) relating to research and development activities, which is included under research and development costs.

## 13. Directors' Emoluments

The emoluments paid or payable to each of the 9 (2004: 9) directors were as follows:

For the year ended 31st December, 2005

| | | Other emoluments | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Share-based payments | Total emoluments |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr Horst Julius Pudwill | 10 | 18,989 | 12 | – | 19,011 |
| Mr Roy Chi Ping Chung JP | 10 | 7,868 | 12 | – | 7,890 |
| Mr Kin Wah Chan | 10 | 5,726 | 12 | – | 5,748 |
| Mr Chi Chung Chan | 10 | 5,737 | 12 | – | 5,759 |
| Mr Vincent Ting Kau Cheung | 10 | – | – | – | 10 |
| Dr Akio Urakami | – | – | – | – | – |
| Mr Joel Arthur Schleicher | 172 | – | – | – | 172 |
| Mr Christopher Patrick Langley | 172 | – | – | – | 172 |
| Mr Manfred Kuhlmann | 172 | – | – | 417 | 589 |
| Total | 566 | 38,320 | 48 | 417 | 39,351 |

For the year ended 31st December, 2004

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Total emoluments |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr Horst Julius Pudwill | 10 | 12,135 | 12 | 12,157 |
| Mr Roy Chi Ping Chung JP | 10 | 7,118 | 12 | 7,140 |
| Mr Kin Wah Chan | 10 | 5,483 | 12 | 5,505 |
| Mr Chi Chung Chan | 10 | 5,446 | 12 | 5,468 |
| Mr Vincent Ting Kau Cheung | – | – | – | – |
| Dr Akio Urakami | – | 3,696 | 12 | 3,708 |
| Mr Joel Arthur Schleicher | 156 | – | – | 156 |
| Mr Christopher Patrick Langley | 156 | – | – | 156 |
| Mr Manfred Kuhlmann | 39 | – | – | 39 |
| Total | 391 | 33,878 | 60 | 34,329 |

## 14. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2004: five) were group directors of the Company whose emoluments are included in Note 13 above. The emoluments of the remaining one (2004: Nil) individual was as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **2,665** | – |
| Contributions to retirement benefits schemes | **12** | – |
| | **2,677** | – |

During each of the two years ended 31st December, 2005 and 2004, 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.

## 15. Dividends Paid

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Final dividend paid: | | |
| 2004: HK 12.50 cents (2003: HK 8.875 cents (Note i)) per share | **169,651** | 118,444 |
| Interim dividend paid: | | |
| 2005: HK 6.00 cents (2004: HK 4.50 cents) per share | **81,818** | 60,554 |
| | **251,469** | 178,998 |

The final dividend in respect of the current financial year of HK12.60 cents per share (2004: HK12.50 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

Note: The 2003 final dividend paid at HK 17.75 cents was adjusted to HK 8.875 cents per subdivided share.

## 16. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

| | **2005** HK$'000 | 2004 HK$'000 (As restated) |
|---|---|---|
| Earnings for the purpose of basic earnings per share: | | |
| Profit for the year attributable to equity holders of the parent | **1,018,984** | 926,356 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible bonds | **22,316** | 11,061 |
| Earnings for the purpose of diluted earnings per share | **1,041,300** | 937,417 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,385,789,675** | 1,337,198,995 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **41,186,410** | 38,266,686 |
| Convertible bonds | **65,922,585** | 26,296,987 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,492,898,670** | 1,401,762,668 |

The following table summarizes the impact of change in accounting policies on both basic and diluted earnings per share:

| | Impact on basic earnings per share | | Impact on diluted earnings per share | |
|---|---|---|---|---|
| | **2005** HK cents | 2004 HK cents | **2005** HK cents | 2004 HK cents |
| Reported figures before adjustments | **61.47** | 70.11 | **57.31** | 68,16 |
| Adjustments arising from changes in accounting policies (see Note 3) | **12.06** | (0.83) | **12.44** | (1.29) |
| | **73.53** | 69.28 | **69.75** | 66.87 |

## 17. Property, Plant and Equipment

| | Freehold land and buildings outside Hong Kong HK$'000 | Leasehold improvements HK$'000 | Office equipment, furniture and fixtures HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Moulds and tooling HK$'000 | Vessels HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **The Group** | | | | | | | | | |
| **Cost** | | | | | | | | | |
| At 1st January, 2004 | | | | | | | | | |
| – as originally stated | 449,114 | 153,152 | 418,111 | 475,397 | 20,253 | 1,089,762 | 3,476 | 7,676 | 2,616,941 |
| Effect of change in accounting policies | (6,448) | – | – | – | – | – | – | – | (6,448) |
| At 1st January, 2004 | | | | | | | | | |
| – as restated | 442,666 | 153,152 | 418,111 | 475,397 | 20,253 | 1,089,762 | 3,476 | 7,676 | 2,610,493 |
| Currency realignment | 4,731 | 811 | 3,888 | 531 | 282 | 301 | – | – | 10,544 |
| Additions | 3,127 | 13,243 | 46,591 | 57,591 | 2,221 | 123,232 | 8,359 | 57,252 | 311,616 |
| Disposals | (24,731) | (12,553) | (2,428) | (19,944) | (1,586) | (84,421) | – | – | (145,663) |
| Reclassification | 5,342 | – | 16,670 | 1,600 | – | 520 | – | (24,132) | – |
| At 31st December, 2004 | 431,135 | 154,653 | 482,832 | 515,175 | 21,170 | 1,129,394 | 11,835 | 40,796 | 2,786,990 |
| Currency realignment | (55,048) | (1,745) | (19,337) | (80,404) | (1,087) | (58,083) | – | (2,266) | (217,970) |
| Additions | 1,278 | 22,769 | 112,911 | 127,517 | 7,430 | 178,914 | – | 82,415 | 533,234 |
| Acquisition of subsidiaries | 571,356 | 14,549 | 168,688 | 1,327,128 | 4,977 | 836,921 | – | 90,371 | 3,013,990 |
| Disposals | (74,713) | (14,793) | (13,633) | (115,322) | (1,923) | (17,178) | – | – | (237,562) |
| Reclassification | 14,928 | – | 11,206 | 24,476 | 258 | 10,210 | – | (61,078) | – |
| At 31st December, 2005 | **888,936** | **175,433** | **742,667** | **1,798,570** | **30,825** | **2,080,178** | **11,835** | **150,238** | **5,878,682** |
| **Depreciation and Amortization** | | | | | | | | | |
| At 1st January, 2004 | | | | | | | | | |
| – as originally stated | 113,765 | 99,515 | 273,019 | 333,404 | 14,791 | 874,772 | 3,319 | – | 1,712,585 |
| Effect of change in accounting policies | (1,548) | – | – | – | – | – | – | – | (1,548) |
| At 1st January, 2004 | | | | | | | | | |
| – as restated | 112,217 | 99,515 | 273,019 | 333,404 | 14,791 | 874,772 | 3,319 | – | 1,711,037 |
| Currency realignment | 2,497 | 614 | 2,645 | 399 | 406 | 232 | – | – | 6,793 |
| Provided for the year | 19,219 | 12,663 | 67,820 | 61,634 | 2,628 | 151,823 | 593 | – | 316,380 |
| Eliminated on disposals | (15,020) | (8,596) | (2,224) | (17,306) | (1,579) | (82,341) | – | – | (127,066) |
| Reclassification | – | – | – | 829 | – | (829) | – | – | – |
| At 31st December, 2004 | 118,913 | 104,196 | 341,260 | 378,960 | 16,246 | 943,657 | 3,912 | – | 1,907,144 |
| Currency realignment | (26,180) | (1,114) | (13,116) | (70,687) | (795) | (53,979) | – | – | (165,871) |
| Provided for the year | 36,553 | 12,959 | 86,064 | 125,834 | 4,134 | 203,927 | 1,707 | – | 471,178 |
| Acquisition of subsidiaries | 187,560 | 5,568 | 139,396 | 995,950 | 3,952 | 747,099 | – | – | 2,079,525 |
| Eliminated on disposals | (19,696) | (4,681) | (13,633) | (113,479) | (1,242) | (15,588) | – | – | (168,319) |
| Reclassification | (64) | – | (11,890) | 11,886 | – | 68 | – | – | – |
| At 31st December, 2005 | **297,086** | **116,928** | **528,081** | **1,328,464** | **22,295** | **1,825,184** | **5,619** | **–** | **4,123,657** |
| **Net Book Values** | | | | | | | | | |
| At 31st December, 2005 | **591,850** | **58,505** | **214,586** | **470,106** | **8,530** | **254,994** | **6,216** | **150,238** | **1,755,025** |
| At 31st December, 2004 | 312,222 | 50,457 | 141,572 | 136,215 | 4,924 | 185,737 | 7,923 | 40,796 | 879,846 |

## 17. Property, Plant and Equipment *(continued)*

| | Buildings outside Hong Kong HK$'000 | Leasehold improvements HK$'000 | Office equipment, furniture and fixtures HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Moulds and tooling HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **The Company** | | | | | | | |
| **Cost** | | | | | | | |
| At 1st January, 2004 | | | | | | | |
| – as originally stated | 72,393 | 64,001 | 96,437 | 206,805 | 9,944 | 462,107 | 911,687 |
| Effect of change in accounting policies | (6,448) | – | – | – | – | – | (6,448) |
| At 1st January, 2004 | | | | | | | |
| – as restated | 65,945 | 64,001 | 96,437 | 206,805 | 9,944 | 462,107 | 905,239 |
| Additions | – | 1,955 | 8,162 | 16,169 | 432 | 63,387 | 90,105 |
| Disposals | – | (6,265) | (626) | (3,352) | (357) | (361) | (10,961) |
| At 31st December, 2004 | 65,945 | 59,691 | 103,973 | 219,622 | 10,019 | 525,133 | 984,383 |
| Additions | – | 10,334 | 21,007 | 12,143 | 709 | 53,922 | 98,115 |
| Transfer to subsidiaries | – | (1,544) | (1,398) | (91,800) | – | (81) | (94,823) |
| Disposals | – | – | (4) | (3,085) | (158) | (637) | (3,884) |
| At 31st December, 2005 | **65,945** | **68,481** | **123,578** | **136,880** | **10,570** | **578,337** | **983,791** |
| **Depreciation and Amortization** | | | | | | | |
| At 1st January, 2004 | | | | | | | |
| – as originally stated | 19,669 | 55,456 | 64,589 | 154,223 | 7,775 | 376,316 | 678,028 |
| Effect of change in accounting policies | (1,548) | – | – | – | – | – | (1,548) |
| At 1st January, 2004 | | | | | | | |
| – as restated | 18,121 | 55,456 | 64,589 | 154,223 | 7,775 | 376,316 | 676,480 |
| Provided for the year | 2,638 | 4,578 | 13,868 | 26,515 | 1,157 | 55,174 | 103,930 |
| Eliminated on disposals | – | (6,009) | (612) | (2,462) | (357) | (10) | (9,450) |
| At 31st December, 2004 | 20,759 | 54,025 | 77,845 | 178,276 | 8,575 | 431,480 | 770,960 |
| Provided for the year | 2,638 | 4,462 | 13,770 | 13,253 | 861 | 58,079 | 93,063 |
| Transfer to subsidiaries | – | (1,303) | (921) | (71,739) | – | (27) | (73,990) |
| Eliminated on disposals | – | – | (4) | (2,712) | (158) | (200) | (3,074) |
| At 31st December, 2005 | **23,397** | **57,184** | **90,690** | **117,078** | **9,278** | **489,332** | **786,959** |
| **Net Book Values** | | | | | | | |
| At 31st December, 2005 | **42,548** | **11,297** | **32,888** | **19,802** | **1,292** | **89,005** | **196,832** |
| At 31st December, 2004 | 45,186 | 5,666 | 26,128 | 41,346 | 1,444 | 93,653 | 213,423 |

## 17. Property, Plant and Equipment *(continued)*

The net book values of property shown above comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (As restated) | | (As restated) |
| Land and buildings are situated outside Hong Kong and are analyzed as follows: | | | | |
| Freehold | **546,664** | 267,036 | **–** | – |
| Medium-term lease | **45,186** | 45,186 | **42,548** | 45,186 |
| | **591,850** | 312,222 | **42,548** | 45,186 |

The net book values of the Group's and the Company's property, plant and equipment include amounts of approximately HK$138,189,000 and nil respectively (2004: HK$16,043,000 and HK$76,000 respectively) in respect of assets held under finance leases.

## 18. Lease Prepayment

| | The Group | The Company |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Cost** | | |
| At 1st January, 2004 | – | – |
| Recognized upon application of HKAS 17 | 6,449 | 6,449 |
| At 31st December, 2004 | 6,449 | 6,449 |
| Currency realignment | (1,240) | – |
| Additions | 63,674 | – |
| At 31st December, 2005 | **68,883** | **6,449** |
| **Amortization** | | |
| At 1st January, 2004 | – | – |
| Recognized upon application of HKAS 17 | 1,677 | 1,677 |
| At 31st December, 2004 | 1,677 | 1,677 |
| Currency realignment | (25) | – |
| Provided for the year | 1,402 | 129 |
| At 31st December, 2005 | **3,054** | **1,806** |
| **Net Book Values** | | |
| At 31st December, 2005 | **65,829** | **4,643** |
| At 31st December, 2004 | 4,772 | 4,772 |

All lease prepayment are medium-term lease outside Hong Kong.

## 19. Goodwill

| | The Group<br>HK$'000 |
|---|---|
| **Cost** | |
| At 1st January, 2004 | 783,742 |
| Arising on acquisition of additional interest of a subsidiary | 36,007 |
| At 1st January, 2005 | 819,749 |
| Arising on acquisition of subsidiaries | 3,277,624 |
| Adjustments to considerations on acquisition of subsidiaries in prior years | 12,807 |
| Elimination of accumulated amortization upon application of HKFRS 3 | (166,245) |
| At 31st December, 2005 | **3,943,935** |
| **Amortization** | |
| At 1st January, 2004 | 130,982 |
| Charged for the year | 35,263 |
| At 1st January, 2005 | 166,245 |
| Elimination of accumulated amortization upon application of HKFRS 3 | (166,245) |
| At 31st December, 2005 | **–** |
| **Carrying Amounts** | |
| At 31st December, 2005 | **3,943,935** |
| At 31st December, 2004 | 653,504 |

Particulars regarding impairment testing on goodwill are disclosed in Note 22.

Until 31st December, 2004, the goodwill was amortized over its estimated useful life, ranging from 9 to 20 years.

## 20. Negative Goodwill

| | The Group<br>HK$'000 |
|---|---|
| **Gross Amount** | |
| At 1st January, 2004 and 31st December, 2004 | 47,379 |
| Derecognized upon the application of HKFRS 3 | (47,379) |
| At 31st December, 2005 | – |
| **Released to Income** | |
| At 1st January, 2004 | 14,204 |
| Released in the year | 4,307 |
| At 31st December, 2004 | 18,511 |
| Derecognized upon the application of HKFRS 3 | (18,511) |
| At 31st December, 2005 | – |
| **Carrying Amounts** | |
| At 31st December, 2005 | – |
| At 31st December, 2004 | 28,868 |

As explained in Note 2, all negative goodwill arising on acquisition prior to 1st January, 2005 was derecognized as a result of the application of HKFRS 3.

## 21. Intangible Assets

| | Deferred development cost HK$'000 | Patents and trademarks HK$'000 | Manufacture know-how HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **The Group** | | | | |
| **Cost** | | | | |
| At 1st January, 2004 | 1,773 | 42,993 | 3,510 | 48,276 |
| Currency realignment | 157 | 12 | – | 169 |
| Additions | 50,834 | 165,428 | – | 216,262 |
| Write off in the year | – | (12,475) | – | (12,475) |
| At 31st December, 2004 | 52,764 | 195,958 | 3,510 | 252,232 |
| Currency realignment | (5,217) | (6,596) | – | (11,813) |
| Additions | 138,009 | 123,061 | – | 261,070 |
| Acquisition of subsidiaries | 58,988 | 987,805 | – | 1,046,793 |
| Write off in the year | (2,029) | (2,791) | – | (4,820) |
| At 31st December, 2005 | **242,515** | **1,297,437** | **3,510** | **1,543,462** |
| **Amortization** | | | | |
| At 1st January, 2004 | – | 22,010 | 1,112 | 23,122 |
| Currency realignment | – | 12 | – | 12 |
| Provided for the year | – | 7,990 | 702 | 8,692 |
| Eliminated on write off | – | (12,475) | – | (12,475) |
| At 31st December, 2004 | – | 17,537 | 1,814 | 19,351 |
| Currency realignment | (701) | (2,042) | – | (2,743) |
| Provided for the year | 21,965 | 24,417 | 702 | 47,084 |
| Acquisition of subsidiaries | 7,197 | 13,899 | – | 21,096 |
| Eliminated on write off | – | (2,779) | – | (2,779) |
| At 31st December, 2005 | **28,461** | **51,032** | **2,516** | **82,009** |
| **Carrying Amounts** | | | | |
| At 31st December, 2005 | **214,054** | **1,246,405** | **994** | **1,461,453** |
| At 31st December, 2004 | 52,764 | 178,421 | 1,696 | 232,881 |

## 21. Intangible Assets *(continued)*

| | Deferred development cost HK$'000 | Patents HK$'000 | Total HK$'000 |
|---|---|---|---|
| **The Company** | | | |
| **Cost** | | | |
| At 1st January, 2004 | – | 8,021 | 8,021 |
| Additions | – | 219 | 219 |
| At 31st December, 2004 | – | 8,240 | 8,240 |
| Additions | 102,473 | 42,064 | 144,537 |
| At 31st December, 2005 | **102,473** | **50,304** | **152,777** |
| **Amortization** | | | |
| At 1st January, 2004 | – | 2,362 | 2,362 |
| Provided for the year | – | 2,053 | 2,053 |
| At 31st December, 2004 | – | 4,415 | 4,415 |
| Provided for the year | – | 9,783 | 9,783 |
| At 31st December, 2005 | **–** | **14,198** | **14,198** |
| **Carrying Amounts** | | | |
| At 31st December, 2005 | **102,473** | **36,106** | **138,579** |
| At 31st December, 2004 | – | 3,825 | 3,825 |

Deferred development costs are internally generated. All the patents and trademarks and manufacture know-how were acquired from third parties.

The above intangible assets, other than trademarks, of the Group and the Company have definite useful lives and are amortized on a straight-line basis over 4 to 10 years.

The trademarks are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortized until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in Note 22.

## 22. Impairment Testing on Goodwill And Intangible Assets with Indefinite Useful Lives

The carrying amounts of goodwill and trademarks with indefinite useful lives as at 31st December, 2005 allocated to the following cash-generating units ("CGUs") are as follows:

| | Goodwill | Trademarks |
|---|---|---|
| | HK$'000 | HK$'000 |
| Power Equipment Products | 3,369,920 | 195,000 |
| Floor Care Appliances | 574,015 | – |
| | 3,943,935 | 195,000 |

During the year ended 31st December, 2005, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trademarks with indefinite useful lives.

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

The recoverable amount of the CGUs are determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate ranging from 5% to 12% and extrapolated using a steady 3.6% growth rate.

## 23. Investments in Subsidiaries

| | **The Company** | |
|---|---|---|
| | **2005** | 2004 |
| | HK$'000 | HK$'000 |
| Investments in unlisted shares, at cost | **551,396** | 426,981 |

Particulars of the principal subsidiaries of the Company as at 31st December, 2005 are set out in Note 45.

## 24. Interests in Associates

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Unlisted shares, at cost less impairment loss recognized | **–** | – | **23,790** | 23,790 |
| Share of net assets | **15,394** | 22,938 | **–** | – |
| Net amounts due from associates | **174,059** | 137,504 | **149,236** | 115,376 |
| | **189,453** | 160,442 | **173,026** | 139,166 |

Particulars of the associates as at 31st December, 2005 are set out in Note 46.

## 24. Interests in Associates *(continued)*

The amounts due from associates are unsecured, bear interest at LIBOR plus 2% and repayable on demand. In the opinion of directors, no part of the amounts will be repaid within the next twelve months and the amounts are therefore presented as non-current.

The summarized financial information in respect of the Group's associates is set out below:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total assets | **160,742** | 156,123 |
| Total liabilities | **(99,165)** | (64,372) |
| Net assets | **61,577** | 91,751 |
| Group's share of net assets of associates | **15,394** | 22,938 |
| Revenue | **274,330** | 232,851 |
| Loss for the year | **(22,485)** | (12,731) |
| Group's share of result of associates for the year | **(6,463)** | (845) |

At the balance sheet date, amongst the associates, the Group held 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together "Gimelli Group companies"). The carrying value of the Group's interests in Gimelli Group companies is nil at both 31st December, 2005 and 31st December, 2004. During the year, the Group did not share the profits of Gimelli Group companies of HK$3,368,000 (2004: loss) as Gimelli Group companies was having net liabilities.

## 25. Available-for-sale Investments

| | **The Group** |
|---|---|
| | **2005** |
| | HK$'000 |
| Unlisted equity securities, at cost less impairment loss recognized | **13,363** |

As at the balance sheet date, all available-for-sale investments represent investments in unlisted equity securities. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The Group's investments above included investments in Nack Products USA Limited ("Nack") and in America Direct, Inc. ("ADI"), with nil carrying values (2004: HK$5,227,000 and HK$2,003,000, respectively). The Company's investments included its investment in Nack of the same amount. Both companies are incorporated in the United States of America ("USA"). Nack has the exclusive rights to market and distribute a registered product in the USA, of which the Group holds the manufacturing right. Its principal activity is the marketing and distribution of the registered product and other related products in the USA. ADI is engaged in marketing through a combination of direct response television and retail distribution in the USA and selected international markets.

The Group's investment represents approximately 25% (2004: 25%) of Nack's issued shares held directly by the Company and 26% (2004: 26%) of ADI's common stocks in issue held by a 51% subsidiary of the Company. Both Nack and ADI are not regarded as associates of the Group because the Group has no significant influence over their affairs as there is no director representative in their board.

## 26. Investments In Securities

Investment securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investment securities were reclassified to available-for-sale investments under HKAS 39 (see Note 3 for details).

| | **The Group** | **The Company** |
|---|---|---|
| | 2004 | 2004 |
| | HK$'000 | HK$'000 |
| Unlisted equity securities at cost less impairment loss recognized | 27,193 | 5,227 |

## 27. Inventories

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Raw materials | **1,139,478** | 746,533 | **225,745** | 320,333 |
| Work in progress | **104,442** | 61,517 | **38,443** | 26,408 |
| Finished goods | **2,727,296** | 1,979,009 | **69,495** | 144,448 |
| | **3,971,216** | 2,787,059 | **333,683** | 491,189 |

## 28. Trade and Other Receivables

The Group has a policy of allowing credit periods ranging from 60 days to 120 days. The aged analysis of trade receivables is as follows:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 0 to 60 days | **2,622,904** | 2,323,226 | **16,363** | 52,434 |
| 61 to 120 days | **255,728** | 264,250 | **6,903** | 3,485 |
| 121 days or above | **115,733** | 57,009 | **19,096** | 8,500 |
| Total trade receivables | **2,994,365** | 2,644,485 | **42,362** | 64,419 |
| Other receivables | **270,990** | 117,671 | **–** | – |
| | **3,265,355** | 2,762,156 | **42,362** | 64,419 |

The fair value of the Group's and the Company's trade and other receivables at 31st December, 2005 approximates the corresponding carrying amount.

## 29. Trade and Other Payables

The aged analysis of trade payables is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 0 to 60 days | **1,552,235** | 1,487,387 | **453,877** | 760,654 |
| 61 to 120 days | **278,482** | 211,234 | **147,106** | 164,460 |
| 121 days or above | **70,475** | 17,907 | **60,486** | 10,187 |
| Total trade payables | **1,901,192** | 1,716,528 | **661,469** | 935,301 |
| Other payables | **1,689,507** | 1,168,978 | **217,265** | 302,627 |
| | **3,590,699** | 2,885,506 | **878,734** | 1,237,928 |

The fair value of the Group's and the Company's trade and other payables at 31st December, 2005 approximates the corresponding carrying amount.

## 30. Warranty Provision

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | HK$'000 | HK$'000 |
| At 1st January | **241,375** | 208,552 |
| Currency realignment | **(6,767)** | 1,300 |
| Additional provision in the year | **530,336** | 488,260 |
| Acquisition of subsidiaries | **94,426** | – |
| Utilization of provision | **(521,159)** | (456,737) |
| At 31st December | **338,211** | 241,375 |

The warranty provision represents management's best estimate of the Group's outstanding liabilities on products sold. It is expected that the majority of this expenditure will be incurred in the next financial year.

## 31. Obligations under Finance Leases

It is the Group's policy to lease certain of its plant and machinery, fixtures and equipment under finance leases, with lease terms of ranging from 3 years to 20 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates. No arrangements have been entered into for contingent rental payments.

The maturity of obligations under finance leases is as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **The Group** | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | **20,341** | 6,814 | **18,107** | 6,266 |
| In more than one year but not more than two years | **18,464** | 5,571 | **15,686** | 5,294 |
| In more than two years but not more than three years | **14,175** | 3,722 | **11,411** | 3,642 |
| In more than three years but not more than four years | **13,248** | 39 | **10,188** | 34 |
| In more than four years but not more than five years | **12,284** | 20 | **8,903** | 19 |
| More than five years | **108,892** | – | **79,279** | – |
| | **187,404** | 16,166 | **143,574** | 15,255 |
| Less: future finance charges | **(43,830)** | (911) | **–** | – |
| Present value of lease obligations | **143,574** | 15,255 | **143,574** | 15,255 |
| Less: Amount due within one year shown under current liabilities | | | **(18,107)** | (6,266) |
| Amount due after one year | | | **125,467** | 8,989 |
| **The Company** | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | **–** | 625 | **–** | 586 |
| Less: future finance charges | **–** | (39) | **–** | – |
| Present value of lease obligations | **–** | 586 | **–** | 586 |
| Less: Amount due within one year shown under current liabilities | | | **–** | (586) |
| Amount due after one year | | | **–** | – |

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at 31st December, 2005 approximates their carrying amount.

## 32. Convertible Bonds

On 16th June, 2004, the Group announced the issue of 5-year Zero Coupon Convertible Bonds at par, due in July, 2009 (the "Bonds"), for an aggregate principal amount of US$140,000,000 (approximately HK$1,092,000,000). The Bonds are convertible, at the option of bondholders, into ordinary shares of HK$0.1 each of the Company at an initial conversion price of HK$16.56 per share at any time from 7th August, 2005 to 1st July, 2009. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at 107.76% of its principal amount on the maturity date of 8th July, 2009. However, on or after 8th July, 2007 and prior to the maturity date, the bondholders may, at their option, require the Company to redeem all or some of the Bonds at 104.59% of the principal amount.

The Bonds contain two components, liability and equity elements. Upon the application of HKAS 32 *Financial Instruments: Disclosure and Presentation* (see Note 3 for details), the Bonds were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component is 2.11%.

The movement of the liability component of the Bonds for the year is set out below:

| | The Group and The Company | |
|---|---|---|
| | **2005** | 2004 |
| | HK$'000 | HK$'000 |
| Liability component at the beginning of the year | **1,051,257** | – |
| Issue of the Bonds | **–** | 1,037,850 |
| Interest charge | **27,050** | 13,407 |
| Liability at the end of the year | **1,078,307** | 1,051,257 |

The fair value of the liability component of the Bonds at 31st December, 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate at the balance sheet date, was approximately HK$920,689,000.

## 33. Unsecured Borrowings

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trust receipt loans | **127,672** | 214,981 | **–** | – |
| Bank loans | **1,891,735** | 838,649 | **234,000** | 719,333 |
| Bank overdrafts | **238,928** | 137,539 | **–** | – |
| Bank borrowings | **2,258,335** | 1,191,169 | **234,000** | 719,333 |
| Fixed interest rate notes (Note) | **2,640,353** | 1,095,573 | **–** | – |
| Total borrowings | **4,898,688** | 2,286,742 | **234,000** | 719,333 |

The borrowings of the Group and the Company are repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| On demand or within one year | **673,277** | 840,450 | **234,000** | 407,333 |
| In more than one year but not more than two years | **18,181** | 251,961 | **–** | 234,000 |
| In more than two years but not more than three years | **1,566,877** | 95,961 | **–** | 78,000 |
| In more than three years but not more than four years | **–** | 2,797 | **–** | – |
| More than five years | **2,640,353** | 1,095,573 | **–** | – |
| | **4,898,688** | 2,286,742 | **234,000** | 719,333 |
| Less: Amount due within one year shown under current liabilities | **(673,277)** | (840,450) | **(234,000)** | (407,333) |
| Amount due after one year | **4,225,411** | 1,446,292 | **–** | 312,000 |

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | **2005** | 2004 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **4.09% to 5.44%** | 4.09% to 4.70% |
| Variable-rate borrowings | **3.07% to 5.67%** | 1.80% to 3.79% |

The Group's major borrowings are denominated in US dollar.

Note: In 2003, the Group issued fixed interest rate notes, through its wholly-owned entity in the USA, for an aggregate principal amount of US$145,000,000. The notes were issued in two fixed rate tranches, of US$120,000,000 for 10 years at 4.7% per annum, and US$25,000,000 for 7 years at 4.09% per annum. The proceeds were used to refinance existing medium term debts and for general working capital purposes.

In 2005, the Group issued another fixed interest rate notes, through its wholly-owned entity in the USA, for an aggregate principal amount of US$200,000,000. The notes were issued in two fixed rate tranches, of US$150,000,000 for 10 years at 5.44% per annum, and US$50,000,000 for 7 years at 5.17% per annum. The proceeds were used to finance the acquisition of subsidiaries.

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rate approximate the contracted market rate.

## 34. Share Capital

| | 2005 | 2004 | 2005 | 2004 |
|---|---|---|---|---|
| | Number of shares | | HK$'000 | HK$'000 |
| **Ordinary shares** | | | | |
| Authorized: | | | | |
| Shares of HK$0.1 (2004: HK$0.2) each at 1st January | **2,400,000,000** | 800,000,000 | **240,000** | 160,000 |
| Increase in authorized share capital | **–** | 400,000,000 | **–** | 80,000 |
| Subdivision of one share of HK$0.2 each into two shares of HK$0.1 each | **–** | 1,200,000,000 | **–** | – |
| Shares of HK$0.1 each at 31st December | **2,400,000,000** | 2,400,000,000 | **240,000** | 240,000 |
| Issued and fully paid: | | | | |
| Shares of HK$0.1 (2004: HK$0.2) each at 1st January | **1,352,304,652** | 662,486,826 | **135,230** | 132,497 |
| Issued on share placement | **96,000,000** | – | **9,600** | – |
| Issued on exercise of share options | **13,416,000** | 24,336,000 | **1,342** | 2,733 |
| Subdivision of one share of HK$0.2 each into two shares of HK$0.1 each | **–** | 665,481,826 | **–** | – |
| Shares of HK$0.1 each at 31st December | **1,461,720,652** | 1,352,304,652 | **146,172** | 135,230 |

On 8th September, 2005, the Group placed an aggregate of 96,000,000 shares to independent investors at a price of HK$19.25 per share. The new shares placed represent approximately 7.05% of the issued share capital of the Company of 1,361,898,652 shares at the date of placement and approximately 6.58% of the issued capital of the Company of 1,457,898,652 shares as enlarged by the placement.

On 28th May, 2004, ordinary resolutions were passed by the shareholders of the Company to approve the increase (the "Increase") in the authorized share capital of the Company to HK$240,000,000 and the subdivision (the "Subdivision") of each issued and unissued shares of HK$0.2 each in the authorized share capital into two ordinary shares of HK$0.1 each. The Increase and the Subdivision became effective on 28th and 31st May, 2004 respectively.

The shares issued during the year rank pari passu in all respects with the existing shares.

Details of the share options are set out in Note 42.

## 35. Reserves

| | Share premium HK$'000 | Convertible bonds equity reserve HK$'000 (As restated) | Employee share-based compensation reserve HK$'000 | Retained profits HK$'000 (As restated) | Total HK$'000 (As restated) |
|---|---|---|---|---|---|
| **The Company** | | | | | |
| At 1st January, 2004 | 672,083 | – | – | 1,434,872 | 2,106,955 |
| Premium on shares issued | 138,528 | – | – | – | 138,528 |
| Recognition of equity component of convertible bonds | – | 31,920 | – | – | 31,920 |
| Recognition of deferred tax liabilities on convertible bonds | – | (5,586) | – | – | (5,586) |
| Profit for the year | – | – | – | 763,117 | 763,117 |
| Final dividend – 2003 | – | – | – | (118,444) | (118,444) |
| Interim dividend – 2004 | – | – | – | (60,554) | (60,554) |
| At 1st January, 2005 | 810,611 | 26,334 | – | 2,018,991 | 2,855,936 |
| Premium on shares issued | 1,956,700 | – | – | – | 1,956,700 |
| Transaction costs attributable to issue of new shares | (34,502) | – | – | – | (34,502) |
| Recognition of equity – settled share based payment | – | – | 6,703 | – | 6,703 |
| Profit for the year | – | – | – | 524,432 | 524,432 |
| Final dividend – 2004 | – | – | – | (169,651) | (169,651) |
| Interim dividend – 2005 | – | – | – | (81,818) | (81,818) |
| At 31st December, 2005 | **2,732,809** | **26,334** | **6,703** | **2,291,954** | **5,057,800** |

As at 31st December, 2005, the Company's reserves available for distribution to shareholders comprised the retained profits of HK$2,291,954,000 (2004: HK$2,018,991,000 as restated).

## 36. Retirement Benefits Obligations

| | **The Group** | |
|---|---|---|
| | **2005** HK$'000 | 2004 HK$'000 |
| Pension plan obligations (Note i) | **621,737** | – |
| Post-retirement, medical, dental and life insurance plan obligations (Note ii) | **151,770** | – |
| Others | **12,830** | – |
| | **786,337** | – |

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 Ordinance since December, 2000.

## 36. Retirement Benefits Obligations *(continued)*

The Group's overseas subsidiaries operate a number of defined contribution schemes and defined benefit schemes which cover substantially all of their employees. Contributions to the defined contribution schemes applicable to each year are made at a certain percentage of the employees' payroll.

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. Under the plan, the employees are entitled to retirement benefits varying between 10 and 20 per cent of final salary on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 1st January 2006 by BDO Deutsche Warentreuhand Aktiengescllschaft, Germany.

Note ii: Post-retirement, medical, dental and life insurance plan obligations

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the USA operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligation were carried out on 1st January, 2006 by Mercer Human Resource Consulting. There are no assets segregated and restricted for these benefits and the plans are funded on a pay-as-you-go basis.

The main actuarial assumptions used were as follows:

| | Pension plan<br>**2005** | Post-retirement, medical, dental and life insurance plan<br>**2005** |
|---|---|---|
| Discount rate | **5.00%** | **5.50%** |
| Expected rate of salary increases | **3.00%** | **N/A** |
| Future pension increases | **2.00%** | **N/A** |
| Medical cost inflation (ultimate) | **N/A** | **5.00%** |

Amounts recognized in income in respect of the plans are as follows:

| | Pension plan<br>**2005**<br>HK$'000 | Post-retirement, medical, dental and life insurance plan<br>**2005**<br>HK$'000 |
|---|---|---|
| Current service cost | **5,198** | **4,329** |
| Interest cost | **29,879** | **8,471** |
| | **35,077** | **12,800** |

The charge for the year has been included in staff costs.

## 36. Retirement Benefits Obligations *(continued)*

The amount included in the balance sheet arising from the Group's obligation in respect of the plans are as follows:

| | Pension plan 2005 HK$'000 | Post-retirement, medical, dental and life insurance plan 2005 HK$'000 |
|---|---|---|
| Present value of unfunded obligations | **621,737** | **151,770** |

Movements in the net liability in the current year were as follows:

| | Pension plan 2005 HK$'000 | Post-retirement, medical, dental and life insurance plan 2005 HK$'000 |
|---|---|---|
| At 1st January | **–** | **–** |
| Net liability acquired on acquisition of subsidiaries | **711,429** | **155,563** |
| Exchange differences | **(91,780)** | **–** |
| Amounts charged to income | **35,077** | **12,800** |
| Benefits paid | **(32,989)** | **(16,593)** |
| At 31st December | **621,737** | **151,770** |

One World Technologies, Inc., a subsidiary of the Group in USA operates another defined benefit scheme. The pension costs of the defined benefit scheme are assessed in accordance with an actuarial valuation as at 1st January, 2006 performed by Aon Consulting, an employee benefits consulting group, using the Projected Unit Credit method. No medical trend rate assumption is necessary as at 31st December, 2005 and 2004 since all retirees are assumed to be affected by the fixed dollar subsidy and a discount rate of 5.5% (2004: 6.0%) were assumed for calculating the actuarial valuation.

There are no assets set aside for these benefits and the plan is funded on a pay-as-you-go basis. The accrued benefit costs under such scheme are to be reimbursed by a former shareholder of the overseas subsidiary in accordance with an assignment assumption, reimbursement and indemnification agreement. As such, the overseas subsidiary has set up a receivable and an accrued benefit cost of same amount of approximately HK$23,000,000 (2004: HK$26,000,000) as at 31st December, 2005.

## 37. Deferred Tax Assets (Liabilities)

The followings are the major deferred tax assets and liabilities recognized and movements thereon during the current and prior years:

| | Accelerated tax depreciation HK$'000 | Warranty provision HK$'000 | Convertible bonds equity reserve HK$'000 (As restated) | Employee related provision HK$'000 | Tax losses HK$'000 | Others HK$'000 | Total HK$'000 (As restated) |
|---|---|---|---|---|---|---|---|
| **The Group** | | | | | | | |
| At 1st January, 2004 | (17,219) | 61,739 | – | 26,202 | 129,062 | 27,418 | 227,202 |
| Currency realignment | (36) | (20) | – | 95 | 13,262 | 1,766 | 15,067 |
| Charge to equity for the year | – | – | (5,586) | – | – | – | (5,586) |
| (Charge) credit to income for the year | (12,422) | 9,206 | – | 3,630 | 5,162 | 45,904 | 51,480 |
| At 1st January, 2005 | (29,677) | 70,925 | (5,586) | 29,927 | 147,486 | 75,088 | 288,163 |
| Acquisition of subsidiaries | (119,720) | 27,920 | – | 125,890 | 19,483 | (251,430) | (197,857) |
| Currency realignment | 2,616 | (876) | – | (10,276) | (8,680) | (17,099) | (34,315) |
| (Charge) credit to income for the year | 43,579 | (2,445) | – | 10,082 | 40,838 | (16,498) | 75,556 |
| At 31st December, 2005 | **(103,202)** | **95,524** | **(5,586)** | **155,623** | **199,127** | **(209,939)** | **131,547** |

| | Accelerated tax depreciation HK$'000 | Convertible bonds HK$'000 (As restated) | Total HK$'000 (As restated) |
|---|---|---|---|
| **The Company** | | | |
| At 1st January, 2004 | (15,006) | – | (15,006) |
| Charge to equity for the year | – | (5,586) | (5,586) |
| Charge to income for the year | 596 | – | 596 |
| At 1st January, 2005 | (14,410) | (5,586) | (19,996) |
| Charge to income for the year | (338) | – | (338) |
| At 31st December, 2005 | **(14,748)** | **(5,586)** | **(20,334)** |

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** HK$'000 | 2004 HK$'000 (As restated) | **2005** HK$'000 | 2004 HK$'000 (As restated) |
| Deferred tax assets | **646,758** | 329,711 | **–** | – |
| Deferred tax liabilities | **(515,211)** | (41,548) | **(20,334)** | (19,996) |
| | **131,547** | 288,163 | **(20,334)** | (19,996) |

## 38. Acquisition of Subsidiaries

The Group completed the purchase from Atlas Copco AB ("ATCO") all of ATCO's electric power tools and accessories business ("the Business") conducted under the brand names "Milwaukee®" and "AEG®" as well as the "DreBo®" accessories businesses, ("the Acquired Companies"), with unanimous approval by all the shareholders present in person or by proxy at the Company's Extraordinary General Meeting on 3rd January, 2005.

The purchase price for the Business, which was paid in cash at the closing of the transaction, was US$627 million (approximately HK$4,887 million), consisting of the pre-adjustment purchase price of US$713 million (approximately HK$5,560 million), reduced by an agreed pre-closing adjustment of US$86 million (approximately HK$672 million) in respect of a portion of the accrued and unfunded post-retirement liabilities of certain of the Acquired Companies and adjustments with respect to related deferred asset accounts and to certain accruals. The purchase price was calculated on the basis of the Acquired Companies having no indebtedness or cash and their net tangible assets (excluding, among other things, cash and amounts in respect of pre-agreed adjustments) being US$285 million (approximately HK$2,223 million). On 31st October, 2005, the Group and ATCO concluded that there will be no adjustments to the purchase price and the acquisition completed.

| | Acquiree's carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
|---|---|---|---|
| **Net Assets Acquired** | | | |
| Property, plant and equipment | 951,927 | (17,462) | 934,465 |
| Intangible assets | 88,948 | 936,749 | 1,025,697 |
| Deferred tax assets | 293,484 | – | 293,484 |
| Inventories | 873,050 | 10,163 | 883,213 |
| Trade and other receivables, deposits and prepayments | 1,153,104 | – | 1,153,104 |
| Bills receivables | 71,874 | – | 71,874 |
| Tax recoverable | 2,176 | – | 2,176 |
| Bank balances and cash | 211,585 | – | 211,585 |
| Trade and other payables | (1,185,318) | – | (1,185,318) |
| Tax payable | (79,263) | – | (79,263) |
| Warranty provision | (94,426) | – | (94,426) |
| Obligations under finance leases | (147,948) | – | (147,948) |
| Deferred tax liabilities | (491,341) | – | (491,341) |
| Retirement benefit obligations | (874,012) | – | (874,012) |
| | 773,840 | 929,450 | 1,703,290 |
| Goodwill arising on acquisition | | | 3,277,624 |
| Cash consideration paid during the year | | | 4,980,914 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid during the year | | | (4,980,914) |
| Bank balances and cash acquired | | | 211,585 |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | | | (4,769,329) |

The goodwill arising on the acquisition of the subsidiaries is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

The subsidiaries acquired contributed approximately HK$5,940,957,000 to the Group's turnover, and approximately HK$354,605,000 to the Group's profit before taxation and interest or the period between the date of acquisition and the balance sheet date.

## 39. Major Non-cash Transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of HK$7,900,000 (2004: HK$15,555,000).

## 40. Lease Commitments

At the balance sheet date, the Group and the Company had outstanding commitments under non-cancellable operating leases, which would fall due as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Within one year | **167,654** | 86,626 | **18,022** | 9,428 |
| In the second to fifth year inclusive | **368,848** | 151,288 | **25,575** | 7,251 |
| After five years | **175,124** | 142,876 | **16,160** | 16,309 |
| | **711,626** | 380,790 | **59,757** | 32,988 |

Operating lease payments represent rentals payable by the Group and the Company for certain of its plant and machinery and office properties. Leases are negotiated for a term ranging from 1 year to 10 years.

## 41. Contingent Liabilities

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Guarantees given to banks in respect of credit facilities utilized by associates | **30,654** | 24,455 | **30,654** | 24,455 |
| Bills discounted with recourse | **–** | 207,338 | **–** | 147,496 |
| | **30,654** | 231,793 | **30,654** | 171,951 |

In addition, the Company has given guarantees to banks and independent third parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at 31st December, 2005 amounted to HK$5,467,275,000 (2004: HK$2,135,485,000).

## 42. Share Options

**Scheme adopted on 25th May, 2001 and terminated on 28th March, 2002 ("Scheme B")**

In accordance with the Company's share option scheme adopted pursuant to a resolution passed on 25th May, 2001, the Board of Directors of the Company may grant share options to eligible persons, including full-time officers, Executive Directors and full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company. The purpose of the scheme is to provide incentives or rewards to directors and eligible persons.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 in cash by way of consideration for the grant thereof. Share options may be exercised at any time from the date which the offer of share options is accepted to the fifth anniversary thereof. The subscription price is set at not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the share option.

The maximum number of shares in respect of which share options may be granted under Scheme B is not permitted to exceed 10% of the issued share capital of the Company from time to time. No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under Scheme B.

Scheme B was terminated on 28th March, 2002 pursuant to a resolution passed on that date.

**Scheme adopted on 28th March, 2002 ("Scheme C")**

Following the termination of Scheme B, a new share option scheme was adopted pursuant to a resolution passed on 28th March, 2002 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on 27th March, 2007. Under Scheme C, 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) Non-executive Directors (including Independent Non-executive Directors); or

(iii) suppliers or customers; or

(iv) any person or entity that provides research, development or other technological support; or

(v) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 in cash by way of consideration for the grant thereof. Share options may be exercised at any time from the date of grant to the fifth 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 quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

The maximum number of shares in respect of which share options may be granted under Scheme C is not permitted to exceed 30% of the issued share capital of the Company from time to time or 10% of shares in issue as at the adoption date of Scheme C. No person shall be granted an option which exceeds 1% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

## 42. Share Options *(continued)*

The following table discloses movements in the Company's share options during the year:

| Name of directors | Date of share options granted | Share option scheme category | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Lapsed or cancelled during the year | Outstanding at end of the year | Subscription price HK$ | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| Mr Horst Julius Pudwill | 28.6.2002 | Scheme C | 25,728,000 | – | – | – | 25,728,000 | 3.6000 | 28.6.2002 – 27.6.2007 |
| | 19.9.2003 | Scheme C | 560,000 | – | – | – | 560,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 400,000 | – | – | – | 400,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Roy Chi Ping Chung JP | 28.6.2002 | Scheme C | 12,864,000 | – | – | – | 12,864,000 | 3.6000 | 28.6.2002 – 27.6.2007 |
| | 19.9.2003 | Scheme C | 560,000 | – | – | – | 560,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 400,000 | – | – | – | 400,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Kin Wah Chan | 25.2.2004 | Scheme C | 1,000,000 | – | 1,000,000 | – | – | 12.1700 | 25.2.2004 – 24.2.2009 |
| | 1.3.2004 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 12.5250 | 1.3.2004 – 28.2.2009 |
| Mr Chi Chung Chan | 17.7.2003 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 19.9.2003 | Scheme C | 500,000 | – | – | – | 500,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| | 1.3.2004 | Scheme C | 500,000 | – | – | – | 500,000 | 12.5250 | 1.3.2004 – 28.2.2009 |
| Dr Akio Urakami | 25.2.2004 | Scheme C | 300,000 | – | 300,000 | – | – | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Vincent Ting Kau Cheung | 30.4.2002 | Scheme C | 400,000 | – | 400,000 | – | – | 3.2000 | 30.4.2002 – 29.4.2007 |
| | 17.7.2003 | Scheme C | 300,000 | – | 300,000 | – | – | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | – | 100,000 | – | – | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Joel Arthur Schleicher | 30.4.2002 | Scheme C | 200,000 | – | 100,000 | – | 100,000 | 3.2000 | 30.4.2002 – 29.4.2007 |
| | 17.7.2003 | Scheme C | 200,000 | – | – | – | 200,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | – | – | – | 100,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Christopher Patrick Langley | 17.7.2003 | Scheme C | 200,000 | – | – | – | 200,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | – | – | – | 100,000 | 12.1700 | 25.2.2004 – 24.2.2009 |
| Mr Manfred Kuhlmann | 7.2.2005 | Scheme C | – | 100,000 | – | – | 100,000 | 17.7500 | 7.2.2005 – 6.2.2010 |
| **Total for directors** | | | 47,412,000 | 100,000 | 2,200,000 | – | 45,312,000 | | |

## 42. Share Options *(continued)*

| | Date of share options granted | Share option scheme category | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Lapsed or cancelled during the year | Outstanding at end of the year | Subscription price HK$ | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| Employees | 23.7.2001 | Scheme B | 600,000 | – | 300,000 | – | 300,000 | 1.0580 | 23.7.2001 – 22.7.2006 |
| | 30.4.2002 | Scheme C | 2,880,000 | – | 1,000,000 | – | 1,880,000 | 3.2000 | 30.4.2002 – 29.4.2007 |
| | 5.7.2002 | Scheme C | 1,000,000 | – | 500,000 | – | 500,000 | 3.3500 | 5.7.2002 – 4.7.2007 |
| | 17.7.2003 | Scheme C | 8,295,000 | – | 4,793,000 | 20,000 | 3,482,000 | 7.6250 | 17.7.2003 – 16.7.2008 |
| | 1.9.2003 | Scheme C | 40,000 | – | 40,000 | – | – | 8.8250 | 1.9.2003 – 31.8.2008 |
| | 19.9.2003 | Scheme C | 204,000 | – | – | – | 204,000 | 8.6850 | 19.9.2003 – 18.9.2008 |
| | 18.12.2003 | Scheme C | 148,000 | – | 148,000 | – | – | 10.3600 | 18.12.2003 – 17.12.2008 |
| | 1.3.2004 | Scheme C | 11,026,000 | – | 3,995,000 | 64,000 | 6,967,000 | 12.5250 | 1.3.2004 – 28.2.2009 |
| | 14.4.2004 | Scheme C | 200,000 | – | – | – | 200,000 | 12.9500 | 14.4.2004 – 13.4.2009 |
| | 5.5.2004 | Scheme C | 300,000 | – | – | – | 300,000 | 11.0500 | 5.5.2004 – 4.5.2009 |
| | 7.6.2004 | Scheme C | 200,000 | – | – | – | 200,000 | 12.0000 | 7.6.2004 – 6.6.2009 |
| | 25.6.2004 | Scheme C | 40,000 | – | 40,000 | – | – | 11.5000 | 25.6.2004 – 24.6.2009 |
| | 10.8.2004 | Scheme C | 400,000 | – | 400,000 | – | – | 11.3000 | 10.8.2004 – 9.8.2009 |
| | 18.8.2004 | Scheme C | 60,000 | – | – | – | 60,000 | 11.2500 | 18.8.2004 – 17.8.2009 |
| | 2.10.2004 | Scheme C | 1,000,000 | – | – | – | 1,000,000 | 15.3500 | 2.10.2004 – 1.10.2009 |
| | 13.12.2004 | Scheme C | 250,000 | – | – | – | 250,000 | 15.7100 | 13.12.2004 – 12.12.2009 |
| | 17.1.2005 | Scheme C | – | 150,000 | – | – | 150,000 | 16.5200 | 17.1.2005 – 16.1.2010 |
| | 7.2.2005 | Scheme C | – | 100,000 | – | – | 100,000 | 17.7500 | 7.2.2005 – 6.2.2010 |
| | 7.4.2005 | Scheme C | – | 200,000 | – | – | 200,000 | 17.2100 | 7.4.2005 – 6.4.2010 |
| | 27.4.2005 | Scheme C | – | 25,000 | – | – | 25,000 | 17.6600 | 27.4.2005 – 26.4.2010 |
| | 10.5.2005 | Scheme C | – | 200,000 | – | – | 200,000 | 17.2000 | 10.5.2005 – 9.5.2010 |
| | 1.6.2005 | Scheme C | – | 20,000 | – | – | 20,000 | 17.4200 | 1.6.2005 – 31.5.2010 |
| | 17.6.2005 | Scheme C | – | 250,000 | – | – | 250,000 | 17.9500 | 17.6.2005 – 16.6.2010 |
| | 27.6.2005 | Scheme C | – | 500,000 | – | – | 500,000 | 19.2000 | 27.6.2005 – 26.6.2010 |
| **Total for employees** | | | 26,643,000 | 1,445,000 | 11,216,000 | 84,000 | 16,788,000 | | |
| **Total for all categories** | | | 74,055,000 | 1,545,000 | 13,416,000 | 84,000 | 62,100,000 | | |

## 42. Share Options *(continued)*

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

| Option type | Outstanding at 1.1.2005 | Granted during the year | Exercised during the year | Lapsed or cancelled during the year | Outstanding at 31.12.2005 |
|---|---|---|---|---|---|
| Scheme B | 600,000 | – | 300,000 | – | 300,000 |
| Scheme C | 73,455,000 | 1,545,000 | 13,116,000 | 84,000 | 61,800,000 |
| | 74,055,000 | 1,545,000 | 13,416,000 | 84,000 | 62,100,000 |

| Option type | Outstanding at 1.1.2004 | Granted before the share subdivision | Exercised before the share subdivision | Addition due to adjustment for the share subdivision made during the year | Granted subsequent to the share subdivision | Exercised subsequent to the share subdivision | Lapsed during the year | Outstanding at 31.12.2004 |
|---|---|---|---|---|---|---|---|---|
| Scheme B | 2,750,000 | – | 250,000 | 2,500,000 | – | 4,400,000 | – | 600,000 |
| Scheme C | 38,829,000 | 8,383,000 | 2,745,000 | 44,467,000 | 1,950,000 | 16,941,000 | 488,000 | 73,455,000 |
| | 41,579,000 | 8,383,000 | 2,995,000 | 46,967,000 | 1,950,000 | 21,341,000 | 488,000 | 74,055,000 |

Details of the share options held by the directors included in the above table are as follows:

| | Outstanding at 1st January | Granted during the year | Exercised during the year | Outstanding at 31st December |
|---|---|---|---|---|
| 2005 | **47,412,000** | **100,000** | **2,200,000** | **45,312,000** |

| | Outstanding at 1st January | Granted before the share subdivision | Exercised before the share subdivision | Addition due to adjustment for the share subdivision made during the year | Exercised subsequent to the share subdivision | Outstanding at 31st December |
|---|---|---|---|---|---|---|
| 2004 | 24,556,000 | 2,450,000 | 350,000 | 26,656,000 | 5,900,000 | 47,412,000 |

The weighted average closing prices of the Company's shares immediately before various dates on which the share options were exercised ranged from HK$16.52 to HK$19.97 (2004: ranged from HK$10.57 to HK$16.70), which were approximately the fair value of the Company's share at the date of exercise.

## 42. Share Options *(continued)*

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model and details of Company's share options were as follows:

| Date of grant | Exercise price | based on Expected life of share options | Expected volatility Hong Kong historical volatility of share prices | Expected Exchange Fund Notes rate | annual dividend yield |
|---|---|---|---|---|---|
| 17.1.2005 | 16.5200 | 3 years | 35% | 1.993% | 1.5% |
| 7.2.2005 | 17.7500 | 3 years | 35% | 2.148% | 1.5% |
| 7.4.2005 | 17.2100 | 3 years | 35% | 3.437% | 1.5% |
| 27.4.2005 | 17.6600 | 3 years | 35% | 2.877% | 1.5% |
| 10.5.2005 | 17.2000 | 3 years | 35% | 3.003% | 1.5% |
| 1.6.2005 | 17.4200 | 3 years | 35% | 3.137% | 1.5% |
| 17.6.2005 | 17.9500 | 3 years | 35% | 3.178% | 1.5% |
| 27.6.2005 | 19.2000 | 3 years | 35% | 3.137% | 1.5% |

The weighted average closing prices of the Company's Shares on dates of grant ranged from HK$16.40 to HK$19.20 per option.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimated, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognized the total expense of HK$6,703,000 for the year ended 31st December, 2005 (2004: nil) in relation to share options granted by the Company.

The fair values of the share options granted in the current year measured as at various dates of grant ranged from HK$3.78 to HK$4.71 (2004: ranged from HK$2.66 to HK$3.63) per option. The weighted average fair value of the share options granted in the current year was HK$4.34 per option.

## 43. Capital Commitments

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Capital expenditure in respect of the purchase of property, plant and equipment and licence: | | | | |
| Contracted for but not provided | **199,554** | 151,762 | **59,349** | 22,445 |
| Authorized but not contracted for | **68,957** | 2,067 | **–** | – |

## 44. Related Party Transactions

During the year, the Group entered into the following transactions with associates:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Management fee income | **456** | 526 |
| Management fee expenses | **420** | 843 |
| Interest income received | **7,138** | 3,592 |
| Sales income | **402** | 729 |
| Equipment charge income | **897** | 973 |
| Commission income received | **17,287** | – |

The remuneration of directors and other members of key management during the year was as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Short-term benefits | **129,998** | 75,065 |
| Post-employment benefits | **9,446** | 717 |
| Termination benefits | **13,175** | 5,720 |
| Share-based payments | **4,653** | – |
| | **157,272** | 81,502 |

Details of the balances with related parties are set out in the consolidated balance sheet, balance sheet and Note 24.

## 45. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31st December, 2005 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital | Proportion of nominal value of issued capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|
| A&M Electric Tools GmbH | Germany | €20,451,675 | – | 100 | Trading and manufacture of power equipment products |
| DreBo Werkzeugfabrik GmbH | Germany | €1,000,000 | – | 100 | Trading and manufacture of power equipment products |
| Digiwireless Limited | Hong Kong | HK$2 | 100 | – | Investment holding |
| Homelite Asia (Dongguan) Company Limited | The PRC | US$2,100,000 | – | 100 | Manufacture of outdoor power equipment products |
| Homelite Asia Ltd. | The British Virgin Islands ("BVI")/ The PRC | US$1 | – | 100 | Investment holding |
| Homelite Consumer Products, Inc. | USA | US$10 | – | 100 | Trading of outdoor power equipment products |
| Homelite Far East Co. Ltd. | Hong Kong | HK$2 | 100 | – | Trading of outdoor power equipment products |
| Homelite Technologies Ltd. | Bermuda | US$12,000 | 100 | – | Investment holding |
| MacEwen Property Co. Inc. | USA | US$100 | 100 | – | Property holding |
| Marco Polo Industries & Merchandising Company Limited | Hong Kong | HK$100,000 | 100 | – | Trading of household electronic and electrical products |
| Milwaukee Electric Tool Corporation | USA | US$50,000,000 | – | 100 | Trading and manufacture of power equipment products |
| One World Technologies, Inc. | USA | US$10 | – | 100 | Investment holding |
| OWT France SAS | France | €1,750,000 | – | 100 | Investment holding |
| OWT Industries, Inc. | USA | US$10 | – | 100 | Manufacture of electric components and power equipment products |
| Royal Appliance International GmbH | Germany | €1,050,000 | 74.9 | – | Trading of household electronic and electrical products |
| Royal Appliance Mfg. Co. | USA | US$1 | – | 100 | Trading and manufacture of floor care products |
| Ryobi Technologies Canada Inc. | Canada | C$600,000 | – | 100 | Trading of electric power equipment products |

## 45. Particulars of Principal Subsidiaries *(continued)*

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital | Proportion of nominal value of issued capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|
| Ryobi Technologies GmbH | Germany | €500,000 | 100 | – | Trading of electric power equipment products |
| Ryobi Technologies S.A.S. | France | €14,919,832 | – | 100 | Trading of electric power equipment products |
| Ryobi Technologies (UK) Limited | The United Kingdom | £4,000,000 | – | 100 | Trading of electric power equipment 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 |
| Techpower Engineering Company Limited | Hong Kong | HK$2 | 100 | – | Manufacture of components |
| Techtronic Appliances (Hong Kong) Limited | Hong Kong | HK$2 | – | 100 | Trading and manufacture of floor care products |
| Techtronic Appliances International Ltd | BVI | US$1 | – | 100 | Investment holding |
| Techtronic Industries Australia Pty. Ltd. (formerly known as "Ryobi Technologies Australia Pty Limited".) | Australia | A$5,500,000 | 100 | – | Trading of electric power equipment products |
| Technologies Industries N.Z. Ltd (formerly known as "Ryobi Technologies (New Zealand) Limited") | New Zealand | NZ$1,165,500 | 100 | – | Trading of electric equipment products |
| Techtronic Industries North America, Inc. | USA | US$10 | 98.4 | 1.6 | Investment holding |
| Techtronic Industries (Dongguan) Co. Ltd. | The PRC | US$12,500,000 | – | 100 | Manufacture of power equipment products |
| Techtronic Industries (Taiwan) Co. Ltd. (formerly known as "OWT Taiwan Limited") | Taiwan | NT$5,000,000 | 100 | – | Provision of inspection services |
| TTI Investments (Dongguan) Company Limited | Hong Kong | HK$2 | 100 | – | Investment holding |
| Vax Appliances (Australia) Pty. Ltd. | Australia | A$1,200,008 | 100 | – | Assembly and distribution of floor care products |
| Vax Limited | The United Kingdom | £33,000 | 100 | – | Assembly, procurement and distribution of floor care products |

## 45. Particulars of Principal Subsidiaries *(continued)*

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.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## 46. Particulars of Associates

Particulars of the associates as at 31st December, 2005 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 % | Indirectly % | Principal activities |
|---|---|---|---|---|---|
| Gimelli International (Holdings) Limited | The Cayman Islands | US$6,250 | 40.8 | – | Investment holding |
| Gimelli Laboratories Company Limited | Hong Kong | HK$5,000,000 | – | 100 | Manufacture and trading of electrical and dental care products |
| Gimelli Produktions A.G. | Switzerland | CHF105,000 | – | 100 | Marketing and research and development |
| Precision Technology Industries Limited | Bermuda | US$12,000,000 | 25 | – | Manufacture of power equipment products |

## 47. US Dollar Equivalents

These are shown for reference only and have been arrived at based on the fixed exchange rate of HK$7.8 to US$1.0.

## 48. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

# FINANCIAL SUMMARY

## Results

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | Year ended 31st December, | | | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 (As restated) | HK$'000 |
| Turnover | 6,101,140 | 9,492,938 | 13,182,808 | 16,304,140 | **22,358,387** |
| Profit before share of results of associates and taxation | 270,055 | 495,780 | 769,228 | 1,076,344 | **1,223,344** |
| Share of results of associates | (300) | 121 | (987) | (845) | **(6,463)** |
| Profit before taxation | 269,755 | 495,901 | 768,241 | 1,075,499 | **1,216,881** |
| Taxation | (19,517) | (70,246) | (66,811) | (108,829) | **(157,714)** |
| Profit for the year | 250,238 | 425,655 | 701,430 | 966,670 | **1,059,167** |
| Attributable to: | | | | | |
| Equity holders of the parent | 247,113 | 413,414 | 673,973 | 926,356 | **1,018,984** |
| Minority interests | 3,125 | 12,241 | 27,457 | 40,314 | **40,183** |
| Profit for the year | 250,238 | 425,655 | 701,430 | 966,670 | **1,059,167** |
| Basic earnings per share | 21.74 cents | 33.24 cents | 51.56 cents | 69.28 cents | **73.53 cents** |

## Assets and Liabilities

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | At 31st December, | | | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 (As restated) | HK$'000 |
| Total assets | 3,807,792 | 6,423,105 | 9,646,268 | 13,903,324 | **20,374,741** |
| Total liabilities | 2,683,100 | 4,576,251 | 7,087,010 | 10,367,476 | **14,141,732** |
| | 1,124,682 | 1,846,854 | 2,559,258 | 3,535,848 | **6,233,009** |
| Equity attributable to equity holders of the parent | 1,114,705 | 1,827,937 | 2,512,884 | 3,453,816 | **6,112,339** |
| Minority interests | 9,977 | 18,917 | 46,374 | 82,032 | **120,670** |
| | 1,124,682 | 1,846,854 | 2,559,258 | 3,535,848 | **6,233,009** |

# CORPORATE INFORMATION

## Board of Directors

### Group Executive Directors

Mr Horst Julius Pudwill
*Chairman and Chief Executive Officer*

Mr Roy Chi Ping Chung JP
*Group Managing Director*

Mr Patrick Kin Wah Chan
Mr Frank Chi Chung Chan

### Non-executive Director

Mr Vincent Ting Kau Cheung

### Independent Non-executive Directors

Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley
Mr Manfred Kuhlmann

## Financial Calendar 2006

| | |
|---|---|
| 12th April: | Announcement of 2005 annual results |
| 22nd May: | Annual General Meeting |
| 9th June: | Last day to register for 2005 final dividend |
| 12th-16th June: | Book closure period |
| 28th July: | Final dividend payment |
| 30th June: | Six months interim period end |
| 31st December: | Financial year end |

## Investor Relations Contact

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email: ir@tti.com.hk

## Website

www.ttigroup.com

Earning results, annual/interim reports are available online

## Listing Information

The Stock Exchange of Hong Kong Limited
Ordinary Shares (code: 669)
Zero Coupon Convertible Bonds 2009 (code: 2591)
ADR Level 1 Programme (code: TTNDY)

## Share Registrar and Transfers Office

Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong
T: (852) 2980 1888
F: (852) 2861 0285

## ADR Depositary

The Bank of New York

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Citibank N.A.
Standard Chartered Bank
Wachovia Bank, N.A.
Hang Seng Bank Ltd.

## Solicitors

Vincent T K Cheung Yap & Co

## Auditors

Deloitte Touche Tohmatsu

## Company Secretary

Mr Frank Chi Chung Chan

## Trademarks

All trademarks are registered trademarks of their respective owners.

Sears® and Craftsman® brands are registered trademarks of Sears Brands, LLC.

RIDGID® is a registered trademark of Ridgid, Inc., part of Emerson Professional Tools, a business of St. Louis-based Emerson (NYSE: EMR). The orange color used on these products and the combination of orange and grey are trademarks for RIDGID® brand power tools.

The use of the trademark Ryobi® is pursuant to a license granted by Ryobi Limited.

# Asia

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Solar Wide Factory
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Techtronic Industries North America, Inc.
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OWT Industries, Inc.
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