



Techtronic Industries

A close-up photograph of a person's hands operating a red and black Milwaukee power drill. The drill is positioned vertically, with its bit drilling into a wooden surface. The background is a blurred blue and red, suggesting a workshop or industrial setting. The drill's handle and body are in sharp focus, while the background is out of focus.

INNOVATION EXECUTION

Annual Report 2005

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 Ryobi® 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.



1985

1987

1988

1990

2001

2000

2002

2003

2004

2005

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.



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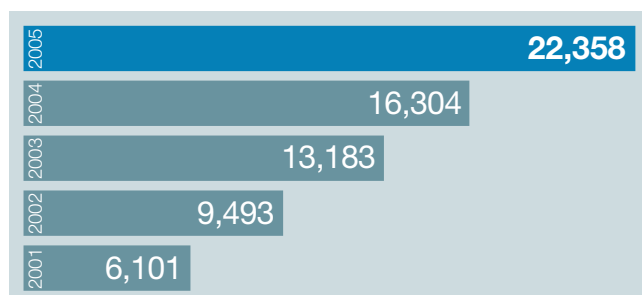
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FINANCIAL HIGHLIGHTS

	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

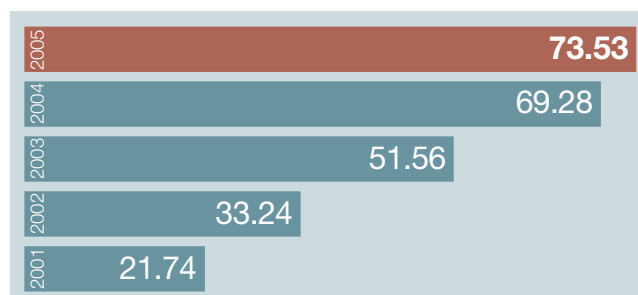
TURNOVER

HK\$ million



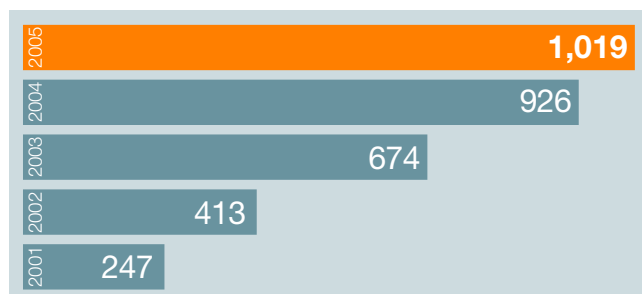
BASIC EARNINGS PER SHARE

HK cents



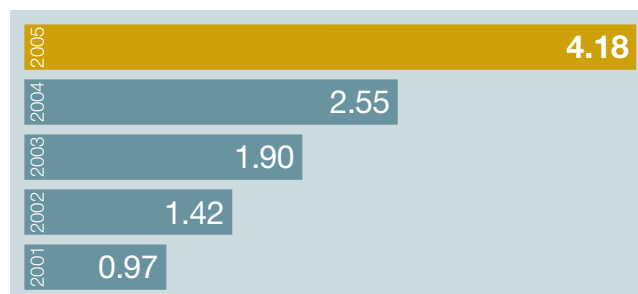
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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



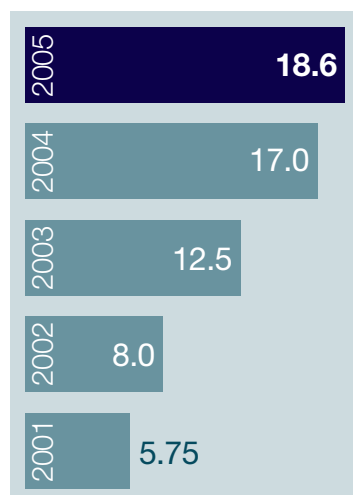
- **Record turnover and profit performance**
- **Primary brands achieved double digit growth in aggregate**
- **Milwaukee® and AEG® achieved double digit growth**
- **Innovative new products generated incremental business**

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.

DIVIDEND PER SHARE (TOTAL)

HK 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

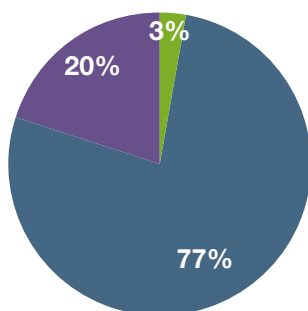
Our largest business, Power Equipment Products, expanded 49.1% over prior year and our major brands improved their positions in key markets. We had strong underlying end user demand for our products during the year. Innovative products were the drivers in power tools, including the Milwaukee® V28™ lithium 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



- Power Equipment Products
- Floor Care Appliances
- Laser & Electronic Products

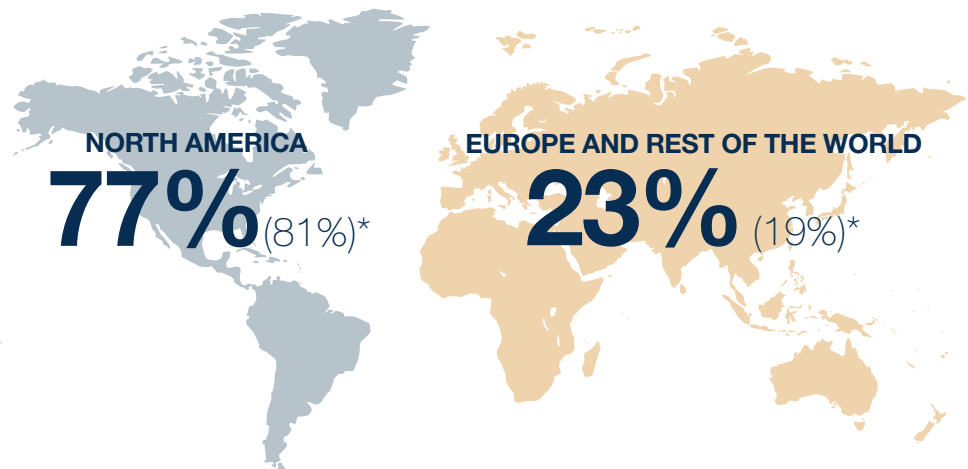
Sustainable Growth Drivers

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

CHAIRMAN'S STATEMENT

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.

Milwaukee

V28
LITHIUM-ION

LEADING

BRANDS

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

0719-22

Milwaukee

NOTHING BUT HEAVY DUTY

SAWZALL® KIT
JUEGO DE SAWZALL®

2X RUNTIME
V28™
LITHIUM-ION

28 Volt Power at 18 Volt Battery Weight!

V
TECHNOLOGY

RYOBI

3000psi | **7 HP**
2.7 GPM

RYOBI

3 YEAR WARRANTY

Premium Features Come Standard!

- Performance: 100% Commercial Grade 5.0cc/2" DC Engine with Flow Control System
- Easy Storage: Compact "Fold & Store" Design
- Convenience: On-Board Storage for all accessories
- Quality: 100% Commercial Grade Components

Applications: Driveways, Siding, Decks, Vehicles

Dirt Devil

REACTION

Advanced Design for Exceptional Performance and Quality

Superior Suction Power That Lasts!

NEW

D2
DUAL ACTION

DUAL CYCLONIC ACTION
means sustained suction and excellent performance at the nozzle

Filterless Dirt Cup
New Filtration Design
No messy interaction with filter
Easy, bottom empty dirt cup

Faster. Easier. Cleaner.

- Extraction D'Card
- Rotating Power Brush Tool
- Lifetime available HEPA filter

Standard Dirt Devil Features:

- Powerful 12 amp motor
- On-Board Tools

WORRY FREE 4 YEAR WARRANTY

HEPA DUST GUARD

Applications: Siding, Decks, Vehicles



vax X3

Designed with you in mind.

All floors
2-year warranty
12-amp dual motors
Advanced **NEXT CLEAN** design

RYOBI 700W

RHT-700R

1050W

RYOBI

BBM 14 STX

14,4 V
63 Nm

Aktív Dolérschrauber
Battery Cells & Gear Drive
Tlačítko vstupu a baterie
Pákový & Vrhákový závit
Tržný a Avistický a baterie
Accu-boostschneidmaschine
Akkuaparatka je v našej výbave
AKKU horná-krútiaci
Getriebsdrehl. bon-krútiaci
Dvojitá batéria & škrutkárka
Akumulátorová vrtáko-škrutkárka
Akkuaparatka-akku. závit
Bateriová tržná a škrutkárka
Akumulátorová 14,4V & osovotlač
APRILIAKATSAKARLÓ MITATAPAZ

Grip2

RYOBI

Bittool Indicator

- PERCUSSION + PERCUSSION
- IMPACT ORBIT
- SCHLAGBOHRMASCHINE
- TALONADORA DE PERCUSSÃO
- TRAMPADO + PERCUSSIONE
- 4.000 RPM
- REBREGUE DE PERCUSSÃO
- IL ACCORREMASCHINE
- SLURD
- 1500 RPM
- SLURD
- 1.150 RPM

Homelite
Simply Reliable™

VacAttack II™

Powerful
200 MPH, 420 CFM

Puissant
322 km/h (200 mph)
11,9 m³/min (420 cfm)

Potente:
322 KPH (200 MPH),
11,9 MCM (420 CFM)

RYOBI

18V

ONE+

4-Piece Combo Kit

OPERATIONAL

LEADERSHIP

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



RYOBI®



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



- 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®, 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® 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.

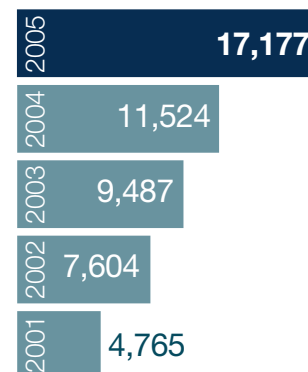
Floor Care Appliances



- 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.



Milwaukee

AEG
ELECTRIC TOOLS

RYOBI

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.

Review of Operations

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.

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.

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.





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 & Store™ handle for easy transportation and convenient storage.



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



Outlook

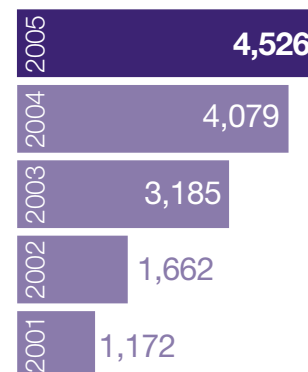
The outdoor power equipment business is strategically positioned to further develop the program of better outdoor products under Ryobi® and leverage the strength of the brand in the DIY channel. As with the new products like pressure washers, the brand will be tested and used on a broader range of outdoor 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.



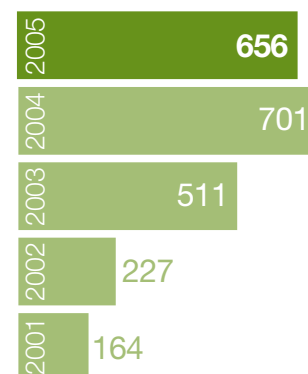
Outlook

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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.

DIRECTORS' REPORT

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		Hong Kong Exchange Fund Notes rate	Expected annual dividend yield
		based on historical volatility of share prices			
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		Approximate percentage of interests
		Direct interests	Deemed 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.:

Name	Remarks	Total interests in shares		Approximate percentage of interests
		Direct interests	Deemed 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



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 HK\$'000	2004 HK\$'000 (As restated)	2005 US\$'000 (Note 47)	2004 US\$'000 (As restated) (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 HK\$'000	2004 HK\$'000 (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

BALANCE SHEET

	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	Translation reserve	Employee share-based compensation reserve	Retained profits	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
			HK\$'000	HK\$'000	HK\$'000	HK\$'000			
			(As restated)		(As restated)	(As restated)	(As restated)		(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 HK\$'000	2004 HK\$'000 (As restated)	2005 US\$'000 (Note 47)	2004 US\$'000 (As restated) (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 HK\$'000	2004 HK\$'000 (As restated)	2005 US\$'000 (Note 47)	2004 US\$'000 (As restated) (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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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		As at 31st December, 2004 (As restated) HK\$'000		As at 1st January, 2005 (As restated) HK\$'000
		Adjustments HK\$'000		Adjustments 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 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 HK\$'000	2004 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 HK\$'000	2004 HK\$'000 (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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

11. Taxation

	2005 HK\$'000	2004 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 HK\$'000	2004 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	2004
	HK\$'000	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

	Fees HK\$'000	Other emoluments			Total emoluments HK\$'000
		Salaries and other benefits HK\$'000	Contributions to retirement benefits schemes HK\$'000	Share-based payments 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

	Fees HK\$'000	Other emoluments			Total emoluments HK\$'000
		Salaries and other benefits HK\$'000	Contributions to retirement benefits schemes HK\$'000	Share-based payments 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 HK\$'000	2004 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 HK\$'000	2004 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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	2004
	HK\$'000	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	2004	2005	2004
	HK cents	HK cents	HK cents	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

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For the year ended 31st December, 2005

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.

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For the year ended 31st December, 2005

19. Goodwill

	The Group
	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
	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.

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For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	Trademarks 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 HK\$'000	2004 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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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.

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For the year ended 31st December, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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 HK\$'000	2004 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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	
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 Aktiengesellschaft, 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 2005	Post-retirement, medical, dental and life insurance plan 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 2005 HK\$'000	Post-retirement, medical, dental and life insurance plan 2005 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.

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For the year ended 31st December, 2005

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)

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For the year ended 31st December, 2005

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 for 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).

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For the year ended 31st December, 2005

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		

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For the year ended 31st December, 2005

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	Outstanding at end of the year	Subscription price HK\$	Exercise period
						or cancelled during the year			
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.

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For the year ended 31st December, 2005

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	Expected life of share options	Expected volatility based on 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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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	2004
	HK\$'000	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	2004
	HK\$'000	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.

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For the year ended 31st December, 2005

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		Principal activities
			Directly %	Indirectly %	
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		Principal activities
			Directly %	Indirectly %	
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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		Principal activities
			Directly %	Indirectly %	
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

	Year ended 31st December,				2005
	2001	2002	2003	2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(As restated)	
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

	At 31st December,				2005
	2001	2002	2003	2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(As restated)	
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

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Website

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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
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28 Queen's Road East
Hong Kong
T: (852) 2980 1888
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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.

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