



Techtronic Industries





**TTI is a world-class leader in Power Tools, Outdoor Power Equipment, and Floor Care for consumers, professionals, and industrial users in the home improvement, repair and construction industries.**

Our powerful brands are recognized worldwide for their heritage, quality and performance. Through our commitment to innovation and strong customer partnerships, we consistently deliver new products which enhance customer satisfaction and productivity. This provides TTI with a platform for sustainable leadership and strong growth.

Founded in 1985 in Hong Kong, TTI has worldwide staff spreading across 6 continents. TTI is listed on the Stock Exchange of Hong Kong and in 2010 had worldwide sales of HK\$26.4 billion.

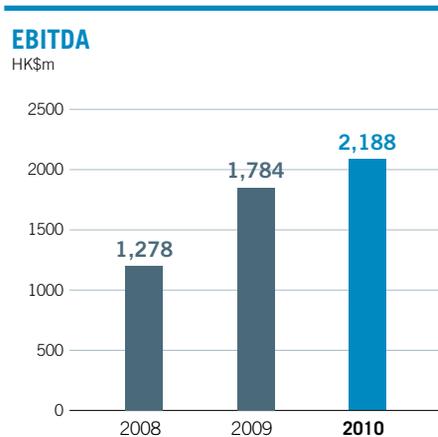
## Contents

1	Financial Highlights	35	Corporate Governance Report
2	Chairman's Statement	40	Directors' Report
4	Vice Chairman's Message	49	Independent Auditor's Report
6	Chief Executive Officer's Strategic Review	50	Consolidated Financial Statements
8	Brands Overview	59	Notes to the Consolidated Financial Statements
24	Review of Operations	149	Financial Summary
28	Board of Directors	150	Corporate Information
32	Global Senior Management		
33	Management's Discussion and Analysis		

# Financial Highlights

- **Continued execution of our strategies produced strong results**
- **Net profit increase of 50.7%**
- **Sales growth of 10.0% driven by new product innovation and geographic expansion**
- **Operational efficiencies improve gross profit by 13.3%**

	2010 HK\$m	2009 HK\$m	2010 US\$m	2009 US\$m	Changes %
Turnover	26,386	23,985	3,383	3,075	+10.0%
EBITDA (before restructuring costs)	2,396	1,784	307	229	+34.3%
EBITDA	2,188	1,784	280	229	+22.6%
EBIT (before restructuring costs)	1,510	978	194	125	+54.4%
EBIT	1,302	978	167	125	+33.1%
Profit attributable to Owners of the Company (before restructuring costs)	948	491	122	63	+93.1%
Profit attributable to Owners of the Company	740	491	95	63	+50.7%
Basic earnings per share (HK/US cents)	46.23	31.87	5.93	4.09	+45.1%
Dividend per share (HK/US cents)	10.00	7.50	1.28	0.96	+33.3%



# Chairman's Statement

**“ Our excellent product portfolio and superior brands give us strong confidence the Group will capitalize on the opportunities and drive further growth.”**



## A Quarter Century of Success

Techtronic Industries' (TTI) 25th year was marked with solid performance across all businesses resulting in excellent growth. This exceptional achievement was the result of strength in new products, continued geographic expansion, and significant operational efficiencies in a period of rising input costs.

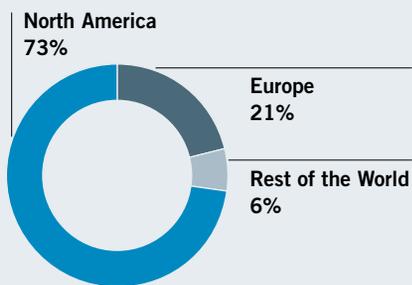
Sales were HK\$26.4 billion (US\$3.4 billion) for the full year, representing a 10.0% increase over 2009. Our full year profit attributable to owners of the company was HK\$740 million (US\$95 million), an increase of 50.7% and earnings per share increased 45.1% to HK46.23 cents over the prior year.

TTI continued to invest in developing exciting new products, building our brands, expanding global operations, and implementing cost containment programs. These actions have further strengthened TTI's market leadership position and have increased demand for our superior brands and products. Our strong growth and improvement in profit margins underscores the effectiveness of our strategies.

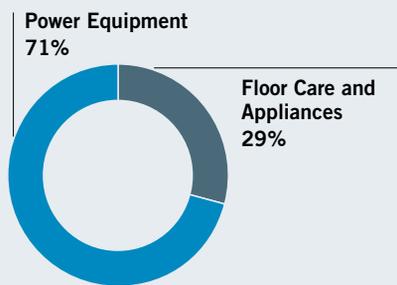
During the period, our gross profit margin increased to 32.2%, up from 31.3% in 2009. This was a result of ongoing new product introductions and efficiency gains through broad, systematic cost reduction and productivity programs put in place that countered rising input costs. SG&A expenses were reduced from 27.7% of sales in 2009 to 26.9% in 2010 through strategic spending cuts and greater volume leverage.

Earnings before interest and tax increased by 33.1% to HK\$1,302 million (US\$167 million) representing a margin improvement of 80 basis points. Additionally, we initiated the restructuring of our German power tool manufacturing and gradual relocation to our Czech Republic and China facilities which will further enhance profitability going forward. A non-recurring provision of HK\$208 million (US\$27 million) was taken for the full year and no further charges are expected. Earnings before interest, tax and one-time charges was HK\$1,510 million (US\$194 million), 54.4% above 2009.

### Sales by Location



### Sales by Business



### Dividend per Share

HK cents



We continue to manage our working capital with an improvement in inventory days. We are comfortable with our current working capital level to meet our service requirements and fund our business growth. Our gearing position improved to 72.9% at the end of the year from 78.6% in the first half of 2010.

The Board is pleased to recommend a final dividend of HK6.25 cents per share. Together with the interim dividend of HK3.75 cents per share, this will give a full-year dividend of HK10.00 cents per share, against HK7.50 cents per share in 2009, an increase of 33.3%.

### Powerful Brands Deliver Strong Performance

TTI's portfolio of leading brands continued to generate outstanding growth through brand extensions into new products and categories. Our brands hold leading positions in their respective markets and have created a loyal following with end-users. We are expanding our brand reach into new product categories and under-represented markets.

### New Products Fuel Growth

Our commitment to launching new innovative products and our leadership position in cordless technology, particularly lithium-ion, continues to drive growth. New products accounted for approximately one third of global sales in 2010. TTI's new product development process maximizes speed-to-market, with a deep understanding of our customers' needs, allowing us to deliver a continuous stream of innovative new products that help grow our market share.

### Aggressive Cost Management Culture

Our relentless focus on cost containment has been beneficial to the Group with gross margin improvements over the past two consecutive years. Value engineering projects and supplier initiatives across the Group continue to offset rising material and labor costs, building sustainable margin improvements. Product mix, volume leverage and accelerated integration of our production facilities are further improving operating performance.

Our recently constructed Asia Industrial Park has absorbed the increase in production volumes from the relocation of our outdoor products manufacturing into the facility in 2010, as well as higher volume from our businesses. At the beginning of 2011, the completion of our Asia Innovation Centre will bring R&D synergies and productivity efficiencies that will further enhance our already best-in-class, speed-to-market capabilities.

### Confident Outlook

Entering 2011, our excellent product portfolio and superior brands give us strong confidence the Group will capitalize on the opportunities and drive further growth.

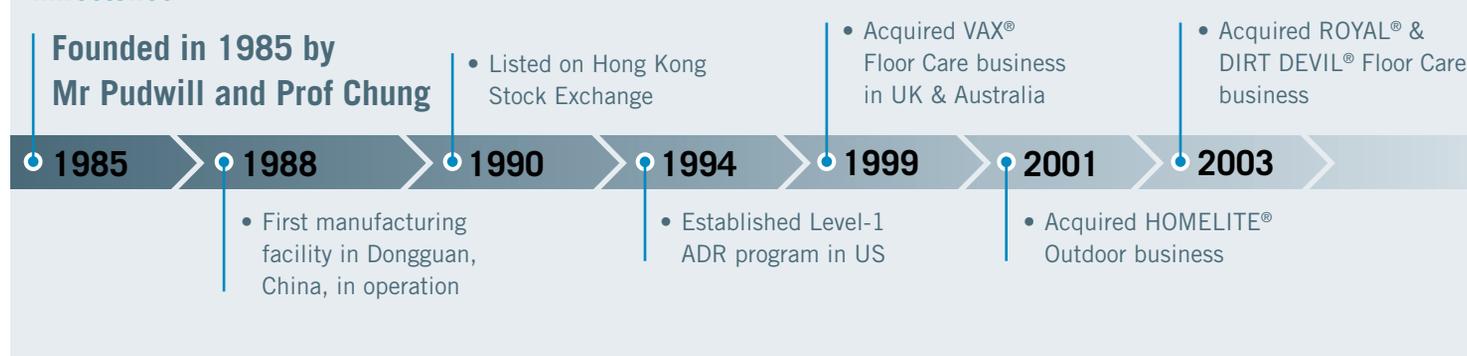
Our four Strategic Drivers of Powerful Brands, Innovative Products, Exceptional People, and Operational Excellence continue to be the foundation for strong performance and will help us achieve the goal of being number one in the industries we serve. These strategies have driven our transition from an Original Equipment Manufacturer to a global company with highly innovative products and powerful brands focused on exceeding the expectations of our customers.

I would like to thank our customers for their dedicated partnership, our world-wide team for working with enthusiasm and creativity, and our Directors for their strategic vision and support. TTI is at the beginning of the next 25 years of expansion and I am looking forward to the years ahead with excitement and passion.

**Horst Julius Pudwill**  
Chairman

# Vice Chairman's Message

## Milestones



It gives me great pleasure that in its 25th anniversary year, TTI has achieved strong operating profits. This is a tremendous achievement that reflects our efforts to become a global leader in our industries.

TTI has grown from a small company to a multinational with annual sales over US\$3 billion. Our Chairman Horst Pudwill and I first founded the company in a small industrial building in Hong Kong in 1986. Back then we could only imagine that TTI would become the global force in Power Equipment and Floor Care products that it is today. From the beginning, we shared a vision of cordless products and a belief that we must always go one step further than the competition. To do this, we recognized that investing in the training, education and recruitment of the best staff and engineers must be at the heart of our company.

Today with a global workforce of over 18,000, that same dedication remains, channeled through our strategic drivers of Powerful Brands, Innovative Products, Exceptional People, and Operational Excellence, and our ambition to be the leader. This has allowed us to bring iconic brands such as MILWAUKEE®, AEG®, RYOBI®, HOMELITE®, HOOVER®, DIRT DEVIL®, and VAX® into the Group, while also maintaining our corporate culture of teamwork, passion, and a commitment to excellence.



It is also a special anniversary year for me as I am retiring from the positions of Vice Chairman and Executive Director. In the past three years, under the leadership of our CEO, Joe Galli, TTI has transitioned to become a truly global and competitive organization with a management team of dedicated professionals. TTI now has the brands, new products, cost competitiveness, and international distribution network for sustainable long term growth.

I am extremely proud of what we have achieved and would like to thank our many colleagues for their contribution throughout the years. I would also like to express special thanks to our Chairman, for not just being a leader of the company, but also a friend, mentor and colleague. I look forward to involving myself in various social services. I am extremely confident that with our new management team, TTI will continue to have many more successful years in the future.

**Prof Roy Chi Ping Chung JP**  
Vice Chairman

# Chief Executive Officer's Strategic Review

**“ Our new products will continue to drive sales growth, market share gains, and gross margin improvement in the future.”**



I am pleased to report that TTI had an outstanding year in 2010. We delivered strong financial results across all geographic regions and business segments. We also made sweeping progress in deploying our long term strategic plan. TTI is now positioned for an even more exciting future!

Following are highlights demonstrating our progress.

## **Powerful New Product Development System**

TTI is a New Product Machine. We have invested in building a powerful, high speed product development system at TTI. Our product development capability allows us to bring a broad range of innovative, value added, margin enhancing products to market with demonstrable advantages over competitive offerings.

Our new product focus over the next three years will include:

- **Professional Lithium-ion Cordless Power Tools.** We will continue expanding the M18™ platform and the M12™ compact platform to fuel continued growth and market share gains in our MILWAUKEE® industrial tool business. Both the 18-volt and 12-volt platforms will feature the new MILWAUKEE® high-performance Red Lithium™ technology which lasts longer and outperforms the competition.
- **Revolutionary, Interchangeable Head Cordless Tool System.** We are rolling out our unique AEG® multi-tool product range featuring a 12-volt lithium-ion cordless tool with many interchangeable heads. This system offers value and versatility to the professional and DIY'er.
- **RYOBI® ONE+ System® Cordless Tools.** Our large installed base of ONE+ System® cordless users represents a major opportunity for further expansion. We will roll out more RYOBI® ONE+ System® cordless power tools and outdoor products. Our ONE+ System® will continue to be the broadest DIY cordless range and will offer the user lithium-ion technology to upgrade the performance of all ONE+ System® products.

## Strategic Roadmap

Our drivers of Powerful Brands, Innovative Products, Exceptional People, and Operational Excellence are the core strengths of TTI. They enable us to achieve our strategic goals, maximizing returns.



**Powerful Brands**

**Innovative Products**

**Exceptional People**

**Operational Excellence**

- **New Generation Floor Care.** Our Floor Care team is launching a series of new carpet washers and detergents that offer superior performance compared to the competition. Under our HOOVER®, VAX® and DIRT DEVIL® brands, we now market completely re-engineered, next generation products in all key floor care categories.
- **Accessories.** In 2010, we grew our power tool accessory business by 16% worldwide. Our Accessory business will continue to grow with the introduction of many innovative new products. A great example of Accessory innovation is our highly successful MILWAUKEE® Shockwave Impact Duty™ line of industrial grade screwdriving products.
- **New Businesses.** Developing new businesses organically is a core competency of TTI. This year we are rolling out yet another new business we have developed from scratch - our STOK™ Outdoor Grilling Systems. STOK™ grills feature a unique insert design which enhances the grilling experience for our customers.

Our new products will continue to drive sales growth, market share gains, and gross margin improvement in the future.

## Geographic Expansion

We delivered a strong 22% sales growth outside of North America in 2010. TTI is now positioned to continue to grow in Western Europe, Central Europe, the Middle East, Latin America, Australia, and throughout Asia. We have built talented local management teams and are developing close partnerships with key customers in these targeted markets. Geographic expansion will be a highlight of TTI's future.

## Operational Excellence

TTI's global supply chain made encouraging strides in 2010. Our new PRC manufacturing complex is now fully operational and achieving impressive productivity gains. Our service levels to customers continue to be a key TTI competitive advantage. We formed a global purchasing organization in 2010 to improve our

supplier management. We have deployed many productivity initiatives to offset the impact of commodity and wage inflation.

## Organizational Development

We are fortunate to have an outstanding management team in place at TTI. Our team of business unit presidents is comprised of industry veterans with superb track records and a passion for serving our customers. Our presidents have done an exceptional job of building their management teams. We believe the TTI management team we have in place worldwide is a major strength of our company.

Our Leadership Develop Program (LDP) is flourishing. We recruit high-potential graduates from a network of 50 universities. We train our newly recruited grads extensively. In 2010 alone, we promoted 78 LDPs to higher level positions in product development, marketing, sales, supply chain management, and emerging market development. Our commitment to the LDP initiative will enable TTI to internally develop exceptional managers to further support our growth goals.

In closing, I want to thank our visionary Chairman, Horst Pudwill for his guidance and his support. Horst has challenged our company to be Number 1 in the markets we serve. His bold vision is evident in all facets of TTI. Our team is highly focused on delivering outstanding results and becoming Number 1 in our served markets.

Our future is exciting at TTI!

**Joseph Galli Jr**  
Chief Executive Officer



## Nothing but **HEAVY DUTY.**

It means an obsessive commitment to our core users who swear by our products every day.

It means total focus on the needs of our core customers – and driving solid partnerships for future growth.

It means a commitment to our core beliefs and a true passion to design and build the best power tools and accessories in the world.

**REDLITHIUM™**

**M12**

**M18**

**Electrical**



**Plumbing**



**HVAC**



**Automotive**





M18™ Cordless Lithium-ion 1/2" Hammer Drill Driver is up to 20% faster in concrete than the competition and the only hammer drill/ driver in its class with an all metal gear case, providing maximum durability for heavy duty applications.



# Powering Professionals Since 1898

Since being founded, AEG® power tools have been leading the way in new product development. By introducing the first transportable drilling machines in 1898, portable power tools were born.

Over 100 years later, AEG® power tools is committed to offering today's professional user a wide range of innovative, powerful products that are capable of performing even in the toughest conditions.



Cordless



Hammers & Drilling



Metalworking



Woodworking





The new 12V Cordless Lithium-ion AEG® Multi-head Multi-tool offers the ultimate flexibility to professional end users, with a range of interchangeable heads to tackle many applications.





# Pro Features. Affordable Prices.

RYOBI® power tools have select features customers expect to find on more expensive professional tools. The blend of these professional features with value pricing makes RYOBI® branded products the perfect choice for Do-it-Yourselfers and cost conscious PRO.



Trade & Jobsite



Home Projects



Consumer & Do-it-Yourselfers





RYOBI® ONE+ System® Lithium-ion 18V Drill.  
With RYOBI®'s ONE+ System® the user has  
over 40 different power tool options.



# Pro Features. Affordable Prices.

Innovative tools designed to deliver best-in-class performance, versatility, and user comfort. RYOBI® Outdoor Products are the perfect choice for any Homeowner who demands more from their tools.



Gas



Cordless



Electric





The Lithium-ion 18V Cordless Hedge Trimmer provides cordless convenience and a dual action blade for less vibration. Powered by 18V Lithium-ion battery, holds charge 4x longer.

# Homelite®

HOMELITE® Consumer Products manufactures a full line of handheld outdoor power equipment including string trimmers, blowers, chain saws, hedge trimmers, generators, accessories, and a new line of pressure washers for the consumer and Do-it-Yourselfer.





**Homelite® 14in**

**HOMELITE® chain saws** deliver incredible cutting performance in a light weight design for user comfort.



# HOOVER® Nobody does it like you.

From the first HOOVER® vacuum launched in 1908 to the WindTunnel® T-Series™ family of bagless upright vacuums in 2009, the HOOVER® brand continues a tradition of innovation through a comprehensive line of floor care products, including lithium-ion battery powered cordless vacuums, full-size, bagged and cyclonic upright and canister vacuums, carpet cleaners, hard floor cleaners and central vacuum systems.

Hard Floor Cleaners



Vacuums



Carpet Washers



Cleaning Solutions



The new HOOVER® WindTunnel® MAX™ Multi-Cyclonic Bagless Upright offers 3 channels of suction that remove dirt with less scatter. 12 cyclones separate fine particles of dirt before they reach the rinsable filter, allowing homeowners to clean filters less often.





DIRT DEVIL® is an energetic brand committed to developing innovative cleaning solutions our customers value and trust. Simple and intuitive products offered in a range of categories such as uprights, quick vacs, stick vacs, hand vacs, steam cleaners, canisters, outdoor, and shredders are what propel DIRT DEVIL® to have 98% brand recognition cleaning inside and outside the home.

Hand Vac and Stick Vac



Upright And Quick Vac



Steam



Cylinder Vacuums



Outdoor





The DIRT DEVIL® Power Reach is a Multi-Cyclonic upright vacuum with no loss of suction technology. It is equipped with a six position height adjust, bottom empty dirt cup, and 12 foot premium stretch hose to provide faster cleaning on all surfaces.



VAX®, the UK's number one floor care brand is dedicated to providing products that offer performance; and solve consumers cleaning frustrations. Using innovation and the latest technologies to develop premium products whilst maintaining competitive prices is the brands key focus.

**Upright Vacuums**



**Cylinder Vacuums**



**Carpet Cleaners**





Mach bagless upright vacuum cleaners use powerful multi cyclonic suction, so filters do not get blocked and the machine cleans as good as the first time, every time.

# Review of Operations



1. The M12™ Cordless Lithium-ion 3/8" Hammer Drill Driver is the industry's first sub-compact hammer drill driver. Powered by Red Lithium™, it is the lightest and most compact hammer drill driver on the market.
2. AEG® Large Angle Grinder delivers convenient three-finger switch and provides superior protection through high-quality sealed bearings.
3. With over 200 foot pounds of torque, the 18V ONE+ System® Impact Wrench is perfect for tackling large fasteners.

## Power Equipment Business Review

Our Power Equipment business comprising of power tools, outdoor products, and accessories delivered HK\$18.6 billion in sales, an increase of 9.6% over the prior year. The business accounted for 70.5% of Group turnover in 2010. The business segment result before restructuring grew by 35.2%. This strong performance was driven by continued successful expansion of our lithium-ion cordless platforms, new ranges of consumer tools, innovative accessory programs, and growth momentum from new outdoor product categories.

### Industrial

In North America, Europe, and Australasia, strong gains were realized with double-digit sales growth. MILWAUKEE® gained market share in the global power tool market with its innovative best-in-class lithium-ion cordless tool and accessory range. This was a result of new product launches, increased distribution channel presence, and expanded geographic reach.

Our innovative, trade-specific application solutions and promotions further improved the market position of MILWAUKEE® M12™ in the compact cordless power tool category. Continued gains were produced by the M18™ lithium-ion product range driven by trade-channel focus, consistent and effective marketing programs, and new products. To further secure our leadership, MILWAUKEE® has launched its next generation of lithium-ion, Red Lithium™, which significantly enhances performance, durability, and value to further drive end-user productivity across the MILWAUKEE® cordless offering.



MILWAUKEE® power tool accessories launched the innovative Ice Hardened™ hole saws and Shockwave Impact Duty™ accessories. These fueled growth and provided end-users with visually differentiated, high performance accessories. The launch of MILWAUKEE® hand tools was successful and has set the stage for further expansion.



### Consumer and Professional

In North America, our business remained robust. RYOBI® maintained its market leadership in the US and Canadian consumer segments by expanding the cost effective and comprehensive ONE+ System® cordless power tool range for DIY home repairs and renovation. In the professional tool segment, RIDGID® launched a first-to-market, interchangeable tool head JobMax™ system of 12-volt lithium-ion cordless tools.



In Europe, product and marketing investments have continued to pay off in 2010 with double-digit growth across the business units. Professional AEG® cordless products have been key to delivering outstanding sales growth, driven by its new range of improved and

## Sales by Business

Power Equipment  
71%



Floor Care and  
Appliances  
29%

Power Equipment  
Divisional Turnover  
HK\$m 18,608

+9.6%

more competitively positioned cordless and corded tools. We are encouraged by the introduction of the new AEG® multi-tool 12-volt cordless platform, which generated strong demand in late 2010. The multi-tool offers a range of job site solutions on a single power platform, thereby offering convenience, value and efficiency to users. Strong gains were made in adding new distribution, particularly in Nordic markets, and through newly launched products driving gains in targeted distribution channels.



New hyper-green color RYOBI® power tools were successfully introduced resulting in solid sales growth and improved retail listings, which positions the business for further growth. Our partnerships with leading DIY retailers were enhanced through aggressive new product introductions and intensive marketing support.

In Australasia, RYOBI® is a leading consumer brand and had another solid year led by new product introductions of corded and cordless tools in hyper-green, and new marketing initiatives. AEG® professional tools successfully delivered growth. We have built a uniquely powerful retail partnership in the region where we closely coordinate aggressive product development and marketing to drive demand for both our brands.

## Outdoor Products

Outdoor Products & Accessories exhibited growth with product innovation in new categories, particularly lithium-ion cordless tools and accessories under the RYOBI® and HOMELITE® brands.

In North America, our innovative, lightweight 4-cycle engine that powers RYOBI® trimmers and wheeled products with energy efficient performance generated strong end-user demand. Sales of RYOBI® cordless mowers, gas trimmers, and pressure washers all grew. RYOBI® ONE+ System® tools proved successful with consumers. Our expanded new product line-up supported by aggressive marketing helped drive sales growth.



HOMELITE® electric products in core categories of trimmers, mowers, and gas-powered chain saws targeted at the value segment of the market were strong performers. There was also encouraging growth in HOMELITE®'s gas powered generators in North America.



## Review of Operations



1



2

1. Hoover® WindTunnel® T-Series™ of upright bagless machines combine light weight design and simplicity of use with superior performance without a premium price.
2. The Gator series of cordless hand vacs feature a flip open dirt cup for easy emptying. With the versatility of a built-in crevice tool and detachable power brushroll for added convenience.

## Floor Care and Appliances

Floor Care and Appliances sales were HK\$7.8 billion, accounting for 29.5% of total TTI sales. This represented an 11.1% increase compared to the same period last year. The business segment result grew by 161.9%. The impressive improvement reflects the benefits of the recent product line streamlining activities and aggressive cost improvement programs. New products are a primary business driver and accounted for one third of sales during the year.

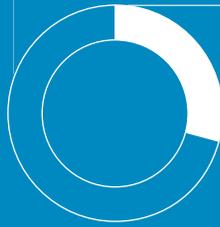
In North America, HOOVER® continued to strengthen its market position. The brand has established a strong position in upright vacuums with its highly successful WindTunnel® T-Series™ which reached a significant milestone by selling its one millionth unit,

underscoring the power of this technology platform. The HOOVER® Max Extract proved to be a high impact new product with strong end-user acceptance. It incorporates patented cleaning functions and technology including 'pressurized cleaning', 'SpinScrub® technology', and 'smart tanks system'. The Max Extract also drives sales of proprietary cleaning solutions that reinforce the platform's competitive advantage as well as providing incremental revenue streams. The iconic HOOVER® brand continues to prove its value, facilitating brand extension into new products such as steam cleaning, sanitizing cleaners, and FloorMate® for hard floor washing.



## Sales by Business

Power Equipment  
71%



Floor Care and  
Appliances  
29%

## Floor Care and Appliances Divisional Turnover

HK\$m 7,779

+11.1%

DIRT DEVIL® sales were driven by the introduction of a new range in its traditional red color and the brand's expansion into outdoor cleaning products. New products including cyclonic quick vacs, 2-in-1 cordless stick vacs and electric pressure washers were introduced at strategic price points. The expansion of product offerings beyond floor care to electric pressure washers offered a simple and intuitive solution to outdoor cleaning tasks. Targeted promotional activities combined with refreshed packaging supported the DIRT DEVIL® performance in 2010.

In Europe, we achieved double-digit growth through channel expansion and new products under our DIRT DEVIL® and VAX® brands. DIRT DEVIL® continued to expand distribution and solidified its position as a leader in Germany. The brand also ran a highly successful advertising campaign to celebrate the 20th anniversary of DIRT DEVIL®. UK sales were led by the success of the VAX® ultra light weight Mach Air® vacuum which was supported by aggressive marketing and advertising campaigns, and new steam cleaning products.



# Board of Directors

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## Group Executive Directors

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### **Horst Julius Pudwill** MSc

#### **Chairman**

Mr Horst Julius Pudwill, aged 66, a founding partner of TTI, has been the joint Chairman and Chief Executive Officer from 1985 until early 2008, following which Mr Pudwill retired as a Chief Executive Officer but remains in office as Chairman of the Group. As Chairman, Mr Pudwill focuses on the strategic planning and development of the Group and continues to have oversight of the operations with the Chief Executive Officer reporting directly to him. Mr Pudwill is also a director of Sunning Inc. which has interest in the shares of the Company.

Mr Pudwill holds a Master's Degree in Engineering and a General Commercial Degree. He has extensive experience in international business. Mr Pudwill is the father of Mr Stephan Horst Pudwill.

### **Prof Roy Chi Ping Chung** JP

#### **Vice Chairman**

Prof Roy Chi Ping Chung JP, aged 58, is a co-founder of TTI. Prof Chung, previously the Group Managing Director since 1985, has been appointed as the Group Vice Chairman and Executive Director of the Company on April 18, 2007 and he is responsible for the corporate and business management of the Group.

Prof Chung holds a Doctor of Engineering Degree from the University of Warwick, United Kingdom. He was appointed as an Industrial Professor by the University of Warwick, United Kingdom in December 2010. He was awarded an Honorary Doctor of Business Administration by the Hong Kong Polytechnic University in 2007 and awarded an Honorary Doctorate Degree by the University of Newcastle, New South Wales, Australia in 2006. He was also appointed as Justice of Peace by the Hong Kong SAR Government effective on July 1, 2005 and won the Hong Kong Young Industrialists Award in 1997.



**Peter David Sullivan**

Independent Non-executive Director

**Patrick Kin Wah Chan**  
Operations Director

**Joel Arthur Schleicher**

Independent Non-executive Director

**Prof Roy Chi Ping Chung** JP  
Vice Chairman

**Horst Julius Pudwill**

Chairman

Prof Chung is an active member of many social committees and associations. He is also highly dedicated to the advancement of the industry. He is currently the Vice-Chairman of the Federation of Hong Kong Industries, the Chairman of Hong Kong Q-Mark Council, a member on Innovation and Technology Steering Committee of the Innovation & Technology Commission, HKSAR, the Vice-Chairman of The Hong Kong Standards & Testing Centre Limited, the Director of The Hong Kong Safety Institute Limited and the Vice-Chairman of Hong Kong Design Centre Limited. He is the Court Chairman of the Hong Kong Polytechnic University, a Council Member of University of Warwick, United Kingdom, the Vice-Chairman of Vocational Training Council, the Executive Committee Chairman of the Outward Bound Trust of Hong Kong Limited, the Executive Committee Chairman of the Boys' and Girls' Club Association of Hong Kong, and also a Member of Board of Directors of the Hong Kong Paediatric Foundation. He is the Founder of the Bright Future Charitable Foundation. Prof Chung is also an Independent Non-executive Director of Kin Yat Holdings Limited.

## **Joseph Galli Jr** BSBA, MBA

### **Chief Executive Officer**

Mr Joseph Galli Jr, aged 53, joined the Group in 2006 as the Chief Executive Officer of Techtronic Appliances and was appointed as Chief Executive Officer and Executive Director of TTI effective February 1, 2008. He is responsible for integrating acquisitions in North America and Europe, and enhancing the global sales potential of the Group's strong brand portfolio. He is also responsible for leading the management team in the Group's daily operation.

Mr Galli joined Black & Decker in 1980 where he worked for over 19 years and held various high level management positions, rising to the position of President of Worldwide Power Tools and Accessories. During his tenure at Black & Decker, he was responsible for highly successful launch of the "DeWalt®" Brand heavy duty power tools in 1992. After leaving Black & Decker, Mr Galli joined Amazon.com where he was President and Chief Operating Officer from 1999 to 2000. From 2001 to 2005, he was a Director and Chief Executive Officer of Newell Rubbermaid Inc.

Mr Galli graduated from the University of North Carolina in 1980 with a Bachelor of Science in Business Administration. In 1987, he obtained an MBA from Loyola College in Baltimore, Maryland.



**Joseph Galli Jr**  
Chief Executive Officer

**Frank Chi Chung Chan**  
Group Chief Financial Officer

**Stephan Horst Pudwill**  
President of Strategic Planning

**Christopher Patrick Langley** OBE  
Independent Non-executive Director

**Vincent Ting Kau Cheung**  
Non-executive Director

**Manfred Kuhlmann**  
Independent Non-executive Director

### Group Executive Directors (continued)

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

##### **Operations Director**

Mr Patrick Kin Wah Chan, aged 51, 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.

#### **Frank Chi Chung Chan** ACA, FCCA, FCPA, CPA (Practising)

##### **Group Chief Financial Officer**

Mr Frank Chi Chung Chan, aged 57, joined the Group in 1991 and was appointed as Executive Director in 1992. He is now responsible for corporate affairs and financial management of the Group.

Mr Chan is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, a member of The Institute of Chartered Accountants in England & Wales, 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, and an Independent Director of Tsit Wing International Holdings Limited, companies listed on the stock exchanges of Hong Kong and Singapore respectively.

#### **Stephan Horst Pudwill**

##### **President of Strategic Planning**

Mr Stephan Horst Pudwill, aged 34, joined the Group in 2004 and was appointed as Executive Director in 2006. He is mainly responsible for managing, improving and monitoring internal operations and identifying synergistic business opportunities within the Group.

Prior to joining the Group, Mr Pudwill held managerial positions at Daimler Chrysler AG that included product marketing and strategic planning for the Mercedes-Benz car group.

Mr Pudwill holds a Bachelor of Arts Degree from the University of British Columbia and is Mr Horst Julius Pudwill's son.

### Non-executive Director

#### **Vincent Ting Kau Cheung**

Mr Cheung, aged 69, was appointed as a Director in 1991. He is a Non-executive Director of Gold Peak Industries (Holdings) Limited, listed on 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 practice law in Hong Kong and the UK and he is now a Consultant of Vincent T.K. Cheung, Yap & Co. He is also a Fellow of University College London and a Commandeur de l'Ordre du Mérite Agricole from France.

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## Independent Non-executive Directors

### Christopher Patrick Langley OBE

Mr Christopher Patrick Langley, aged 66, was appointed as an Independent Non-executive Director in May 2001. He was formerly an Executive Director of The Hongkong and Shanghai Banking Corporation Ltd. Mr Langley maintains close ties with the business community in Hong Kong. He is currently an Independent Non-executive Director of Winsor Properties Holdings Limited and Dickson Concepts (International) Limited, both listed on the stock exchange of Hong Kong, and a Non-executive Director of Lei Shing Hong Limited which has been delisted from the stock exchange of Hong Kong on 17 March 2008.

### Joel Arthur Schleicher CPA, BSB

Mr Joel Arthur Schleicher, aged 59, 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 the Founder, Chairman and CEO of Presidio, Inc., the foremost professional and managed services companies in North America, at the forefront of Virtualization/Data Center; Collaboration and other advanced IT infrastructure solutions. Since 1989, he has worked with private equity firms as a consultant, advisor, board member and held portfolio management roles including as Chairman and CEO for Interpath Communications, Inc.; CEO of Expanets, Inc. and President and COO for Nextel Communications, Inc. In the past, he has served on the board of directors of various North American domestic and international companies – both public and private.

### Manfred Kuhlmann

Mr Manfred Kuhlmann, aged 66, 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. Since 2005 he serves as “Hamburg Ambassador” in the UAE, to support the economic ties between Hamburg, Germany and the UAE. Since July 2009 Mr Kuhlmann was a Non-executive Director and member of the Board of Avicenna Pharma Development FZLLC in Dubai, he retired from that position on 31 December 2010.

### Peter David Sullivan BS

Mr Peter David Sullivan, aged 63, was appointed as Independent Non-executive Director effective February 1, 2008. He was an Executive Director and Chief Executive Officer of Standard Chartered Bank (Hong Kong) Limited. Mr Sullivan held governance responsibility for franchises of the Standard Chartered Group in Japan, Australia, the Philippines and Bohai Bank in Tianjin, China. He also held a number of other major appointments, including as the Chairman of the Hong Kong Association of Banks and the British Chamber of Commerce.

Mr Sullivan is the Chairman and Non-executive director of Cenkos Securities plc, a company listed on AIM (a market operated by the London Stock Exchange). He is also a Non-executive director of JPMorgan Indian Investment Trust plc. that is listed on the London Stock Exchange, and of AXA Asia Pacific Holdings Limited that is listed on the Australian and New Zealand stock exchanges. Mr Sullivan was an Independent Non-executive Director of SmarTone Telecommunications Holdings Limited, a company listed on the stock exchange of Hong Kong in the last three years.

Mr Sullivan holds a Bachelor of Science Degree from the University of New South Wales.

# Global Senior Management

## TTI Corporate

### David Butts

Group Executive Vice President  
& President, Asia Pacific

### Clarence Chan

Group Controller

### Matt DeFeo

Vice President,  
Leadership Development

### Sean Dougherty

Deputy Group Chief Financial Officer

### Nate Easter

Executive Vice President of Global Sourcing

### Scott Hetherington

Vice President, Corporate Tax

### Michael Konick

Vice President,  
Group Head of Internal Audit

### Dyann L. Kostello

Vice President &  
General Counsel

## ► EMEA Corporate

### Alexandre Duarte

President,  
EMEA

### Philippe Buisson

Chief Financial Officer,  
EMEA

## Power Equipment

### ► North & South America

#### Craig Baxter

President,  
Canada

#### Mike Farrah

President,  
Power Tools

#### Steven P. Richman

President,  
Milwaukee Tools

#### Lee Sowell

President,  
Outdoor Products

#### Rodrigo Villanueva

President,  
Latin America

### ► Asia

#### Hermann Holst

Managing Director,  
South Asian Pacific Co. Ltd.

#### Hughes Sanoner

President &  
Chief Executive Officer,  
Solar Wide Industrial Ltd.

### ► Australasia

#### Mike Brendle

Managing Director,  
Australia & New Zealand

### ► Europe

#### Markus Dreps

Managing Director,  
DreBo Werkzeugfabrik GmbH

## Floor Care and Appliances

### ► North America

#### Chris Gurreri

President,  
Floor Care

### ► Europe-International

#### Simon Lawson

Managing Director,  
Floor Care

# Management's Discussion and Analysis

## Financial Review

### Financial Results

#### Result Analysis

The Group's turnover for the year amounted to HK\$26.4 billion, 10.0% higher than the HK\$24.0 billion reported in 2009. Profit attributable to Owners of the Company amounted to HK\$740 million as compared to HK\$491 million reported in 2009. Basic earnings per share for the year improved to HK46.23 cents as compared to HK31.87 cents in 2009.

EBITDA amounted to HK\$2.2 billion, an increase of 22.6% as compared to HK\$1.8 billion reported in 2009.

EBIT amounted to HK\$1.3 billion, an increase of 33.1% as compared to HK\$978 million reported in 2009.

#### Gross Margin

Gross margin improved to 32.2% as compared to 31.3% reported last year. The margin gain was the result of new product introduction, favorable product mix with higher margin products, efficient production in the new PRC facilities, effective supply chain management and improved economies of scale.

#### Operating Expenses

Total operating expenses for the year amounted to HK\$7.1 billion as compared to HK\$6.6 billion reported in 2009. The Group managed to control the non-strategic SG&A expenses and reinvested into the strategic SG&A as planned.

Investments in product design and development amounted to HK\$504 million, representing 1.9% of turnover (2009: 2.1%) reflecting efficiency improvements from the consolidated and effectively structured R&D resources.

Net interest expenses for the year amounted to HK\$563 million as compared to HK\$550 million reported in 2009, an increase of 2.4%. The increase was mainly due to the Group having issued two tranches of 5-year 8.5% coupon convertible bonds with an aggregate principal amount of US\$150 million in April 2009. Interest coverage, expressed as a multiple of EBITDA to total interest was 3.8 times (2009: 3.2 times).

During the year, there were tax credits of HK\$1 million which translated to an effective tax rate of -0.1% as a result of effective global tax planning.

### Liquidity and Financial Resources

#### Shareholders' Funds

Total shareholders' funds amounted to HK\$8.7 billion as compared to HK\$8.1 billion in 2009. Book value per share was at HK\$5.41 as compared to HK\$5.08 as reported last year.

#### Financial Position

The Group's net gearing, expressed as a percentage of total net borrowing (excluding bank advance from factored trade receivable which is without recourse in nature) to equity attributable to equity holders, was at 72.9% as compared to 68.7% last year. The Group remains confident that gearing will improve further after the successful implementation of the Strategic Repositioning Plan and initiatives to deliver focused and stringent working capital management.

During the year, holders of unlisted warrants previously issued by the Company, entitling the holder to subscribe for new shares of the Company at an exercise price of HK\$5.10 per share between April 30, 2010 and April 30, 2012 (the "Warrants"), exercised 14,903,600 Warrants at the exercise price resulting in the issuance of 14,903,600 new shares of the Company.

During the year, the Group bought back 40,984,900 Warrants from the Warrants holders for a consideration of HK\$101,843,000.

#### Bank Borrowings

Long term borrowings accounted for 44.8% of total debts (40.0% at December 31, 2009).

The Group's major borrowings continued to be in US Dollars and in HK Dollars. Other than the fixed rate notes and the 5-year 8.5% Coupon Convertible Bonds, borrowings are predominantly LIBOR or Hong Kong best lending rates based. There is a natural hedge mechanism in place as the Group's major revenues are in US Dollars and currency exposure therefore is low. Currency, interest rate exposures, and cash management functions are all being closely monitored and managed by the Group's treasury team.

During the year, the Group repaid HK\$1,354 million of fixed interest rate notes, refinanced by a new syndicated loan obtained in February 2010. This refinancing arrangement will lower our interest cost in future periods.

## Financial Review *(continued)*

### Working Capital

Total inventory increased from HK\$4.8 billion in 2009 to HK\$5.0 billion in 2010. Days inventory improved from 73 days to 70 days. The inventory build is in preparation for new products to be launched in 2011, buffer for the European manufacturing relocation and anticipated 2011 first quarter sales increase as compared to that of 2010.

Trade receivable turnover days were at 63 days as compared to 62 days as reported last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 55 days. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing the credit exposure.

Trade payable days declined from 59 days reported in 2009 to 52 days in 2010.

The Group's current ratio improved from 1.25 times in 2009 to 1.34 times and quick ratio also improved to 0.89 from 0.81 in 2009.

### Capital Expenditure

Total capital expenditures for the year amounted to HK\$725 million (2009: HK\$697 million) including HK\$17 million (2009: HK\$80 million) related to the new Asia Industrial Park and Innovation Centre.

### Capital Commitments and Contingent Liabilities

As at December 31, 2010, total capital commitments amounted to HK\$108 million (2009: HK\$83 million) and there were no material contingent liabilities or off balance sheet obligations.

### Charge

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

### Major Customers and Suppliers

For the year ended December 31, 2010

- (i) the Group's largest customer and five largest customers accounted for approximately 36.4% and 52.3% respectively of the Group's total turnover; and
- (ii) the Group's largest supplier and five largest suppliers accounted for approximately 3.4% and 13.4% 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 of the Group.

### Human Resources

The Group employed a total of 18,440 employees (2009: 16,772 employees) in Hong Kong and overseas. Total staff cost for the year under review amounted to HK\$3.6 billion (2009: HK\$3.3 billion).

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improving 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, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has, during the year, purchased, sold or redeemed any of the listed securities of the Company.

### Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters, including the review of Group's consolidated financial statements for the year ended December 31, 2010. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

### Dividend

The Directors have recommended a final dividend of HK6.25 cents per share for the year ended December 31, 2010 (2009: HK4.50 cents) payable to the Company's shareholders whose names appear on the register of members of the Company on May 20, 2011. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about July 8, 2011. This payment, together with the interim dividend of HK3.75 cents per share (2009: HK3.00 cents) paid on September 29, 2010, makes a total payment of HK10.00 cents per share for 2010 (2009: HK7.50 cents).

### Closure of Register of Members

The register of members of the Company will be closed from May 18, 2011 to May 20, 2011, both days inclusive. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on May 17, 2011.

# Corporate Governance Report

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The Company is committed to a high standard of corporate governance with a view to assuring the conduct of management of the Company as well as safeguarding the interests of all shareholders. The corporate governance principles of the Company emphasize a quality Board for leadership and control of the Company, effective internal controls, transparency and accountability to all shareholders.

## Compliance with Code of Governance Practices

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The Company has complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules throughout the year ended December 31, 2010, except none of the Directors are appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. The Company's Articles of Association provided that each Director is required to retire by rotation once every three years and that one third of the Board must retire from office by rotation at each annual general meeting of the Company. Retiring directors are eligible to offer themselves for re-election at annual general meeting of the Company.

## Board of Directors

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### Roles and Responsibilities

The board of directors (the "Board") assumes responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Group affairs. Principle responsibilities of the Board including, but are not limited to, the following:

- decide or consider matters covering major acquisitions and disposals, appointment of Directors and external auditors, and other significant operational matters.
- monitor and control the Group's operation and financial performance through the determination of the annual budget and continuous review of performance results.

Each Director has a duty to act in good faith and in the best interests of the Company. The Directors, collectively and individually, are aware of their responsibilities and accountability to shareholders, for the manner in which the affairs of the Company are managed and operated.

Written procedures have been formally adopted in order 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. The procedures are reviewed by the Board periodically.

## Board Composition

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As at the date of this report, the Board consists of six Group Executive Directors, one Non-executive Director and four Independent Non-executive Directors. The composition of the Board of the Company is as follows:-

### Group Executive Directors

Mr Horst Julius Pudwill (*Chairman*)  
Prof Roy Chi Ping Chung JP (*Vice Chairman*)  
Mr Joseph Galli Jr (*Chief Executive Officer*)  
Mr Kin Wah Chan (*Operations Director*)  
Mr Chi Chung Chan (*Group Chief Financial Officer*)  
Mr Stephan Horst Pudwill (*President of Strategic Planning*)

### Non-executive Director

Mr Vincent Ting Kau Cheung

### Independent Non-executive Directors

Mr Christopher Patrick Langley OBE  
Mr Joel Arthur Schleicher  
Mr Manfred Kuhlmann  
Mr Peter David Sullivan

The roles of Chairman and Chief Executive Officer of the Company have been segregated, with a clear division of responsibilities.

The role of Chairman comprises, but is not limited to, the following:

- a) To ensure that all Directors are properly briefed on issues arising at Board meetings.
- b) To ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner.
- c) To ensure that good corporate governance practices and procedures are established.
- d) To encourage all Directors to make a full and active contribution to the Board's affairs and to take the lead to ensure that the Board acts in the best interests of the Company.

### **Board Composition** *(continued)*

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- e) To ensure that appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole.

The role of Chief Executive Officer comprises, but is not limited to, the following:

- a) To lead the management team in the Group's daily operation.
- b) To assist the Group on integrating acquisitions in North America and Europe, and to enhance the global sales potential of our strong brand portfolio.

Every Director is aware that, before accepting appointment as a Director, he must be able to give sufficient time and attention to the affairs of the Company.

Orientation which details the duties and responsibilities of directors under the Listing Rules, the Company's Articles of Association, related ordinances and relevant regulatory requirements of Hong Kong is provided for every newly appointed Director. Presentations are, as necessary, given by senior executives of the Company and external professionals. Training and updates are offered to Directors as necessary to ensure that Directors are aware of the latest changes in the commercial and regulatory environment in which the Company conducts its business. All above-mentioned arrangements aim to assist the relevant Director to discharge his duties to the Company.

Appropriate Directors' and Officers' liability insurance cover has also been arranged to indemnify the Directors and Officers of the Group for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are reviewed annually.

All Directors are subject to retirement by rotation at least once every three years pursuant to the Company's Articles of Association and the Listing Rules. Any Directors appointed to fill a casual vacancy would be subject to election by shareholders at the first general meeting after their appointment. The biographical details and relevant relationships are set out on pages 28 to 31 of this annual report.

All the Independent Non-executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received an annual confirmation of independence from each of the Independent Non-executive Directors and still considers them to be independent.

### **Compliance with the Codes for Securities Transactions**

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The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific enquiries have been made with all Directors who have confirmed that they have fully complied with the required standards as set out in the Model Code during the year ended December 31, 2010.

The Board has also adopted another 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 Company (the "Code for Securities Transactions by Relevant Employees"). No incident of non-compliance was noted by the Company during the year.

Both the Model Code and the Code for Securities Transactions by Relevant Employees have been published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)).

### **Board Meetings**

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The Board is committed to at least four scheduled meetings in a year and will meet more frequently as and when required. 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 of the Company 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 professional advice on performing their duties at the Company's expense. 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 six meetings during 2010. Attendance records of each Director are set out in the section "Board and Board Committee Meetings in 2010" at the end of this report. The meeting agenda is set by the Chairman in consultation with members of the Board.

Minutes of the Board and Board Committee meetings with sufficient details of matters and concerns discussed are kept in safe custody by the Company Secretary of the Company, are sent to the Directors for record and are open for inspection by the Directors.

## **Board Meetings** *(continued)*

Proposed Board and Board Committee meeting dates for 2011 have been agreed in the last Board meeting held in 2010 to facilitate maximum attendance of Directors.

## **Board Committees**

The Board has delegated various responsibilities to an Audit Committee, a Nomination Committee and a Remuneration Committee. Each of these committees has specific written terms of reference which deal clearly with their authority and duties, which have been published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)). Other than the Nomination Committee, the majority of the members of each committee are Independent Non-executive Directors. This ensures the independence of views and opinions expressed by the Directors at the respective committee meetings. The committees report back to the Board on their activities and decisions on a regular basis. Attendance records of each Board Committee are set out in the section "Board and Board Committee Meetings in 2010".

### **Audit Committee**

The Audit Committee is comprised of three Independent Non-executive Directors and is chaired by Mr Peter David Sullivan with effect from March 24, 2011, with other members being Mr Joel Arthur Schleicher and Mr Manfred Kuhlmann. Mr Christopher Patrick Langley OBE was a member of the Audit Committee until March 24, 2011. The Audit Committee has at all times complied with Rule 3.21 of the Listing Rules with a minimum of three members and each member of the Audit Committee has professional, financial, or accounting qualifications as required under the Listing Rules.

The main objectives of the Audit Committee is to ensure the effectiveness of the internal control system and compliance with the Group's obligations under the Listing Rules and other applicable laws and regulations and to oversee the integrity of the financial statements of the Company.

The Audit Committee is also directly responsible on behalf of the Board for (i) the selection, oversight and remuneration of the Company's external auditor, (ii) the assessment of the independence and qualifications of the external auditor, (iii) the oversight of the performance of the Company's external auditor and (iv) the maintenance of an appropriate relationship with the external auditor.

The Audit Committee held four meetings during 2010 to review with the Group Chief Financial Officer, other senior management and the external auditors, the Group's significant financial matters, internal controls, the Company's accounting principles and practices, risk management, financial reporting matters and findings of internal and external auditors.

### **Nomination Committee**

The Nomination Committee is comprised of four members, and is chaired by Mr Horst Julius Pudwill (Chairman), with the other members being Mr Vincent Ting Kau Cheung (Non-executive Director), Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann.

The main 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. Criteria of selecting and nominating of directors including, among other things, appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and the ability to commit the appropriate time to the Board, are set out in a written policy for the Nomination Committee to adopt when considering nominating a potential candidate to the Board. The Nomination Committee also assesses the independence of the Independent Non-executive Directors.

The Nomination Committee held two meetings during 2010. The work performed by the Nomination Committee during 2010 included:

- review of the existing Nomination Policy
- recommendation to the Board about the re-election of retiring Directors at the 2010 Annual General Meeting
- review of the structure, size and composition of the Board of Directors of the Company

## Board Committees *(continued)*

### Remuneration Committee

The Remuneration Committee is comprised of five members, and is chaired by Mr Vincent Ting Kau Cheung (Non-executive Director), with the other members being Mr Christopher Patrick Langley OBE, Mr Manfred Kuhlmann, Mr Joel Arthur Schleicher and Mr Peter David Sullivan.

The objectives 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 Remuneration Committee held two meetings during 2010. The Remuneration Committee, among other things, reviewed the existing Remuneration Policy during 2010.

### Accountability and Audit

The Board acknowledges its responsibility for overseeing the preparation of the accounts of the Group which give a true and fair view of the Group's state of affairs, results and cash flows for the year.

The Board will present a balanced, clear and understandable assessment of annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to the regulators as well as information required to be disclosed pursuant to statutory requirements.

### Internal Controls

The Board is responsible for the effectiveness of the Group's internal controls and approving and reviewing key internal control policies including delegated authorities, policy on market disclosure and investor relations, non-audit services and treasury management policy. In year ended December 31, 2010, the Board has reviewed the internal control systems of the Group. An internal control system is designed to provide reasonable, but not absolute assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operational systems.

The Board, and in particular the Audit Committee, conducts a continuous review of the effectiveness of the Group's system of internal control that have been put in place. The reviews performed in 2010 included:

- The organization structure and delegated authorities
- The performance and adequacy of accounting and information systems
- The risk management process including formal risk assessment at the enterprise level
- The risk management functions and their performance indicators including discussions with senior management responsible for day-to-day management of significant risks
- The effectiveness of the Company's procedures relating to statutory and regulatory compliance
- The scope and quality of management's ongoing monitoring of risks and system of internal control

### External Auditors

The external auditors of the Group is Deloitte Touche Tohmatsu, and in 2010, Deloitte Touche Tohmatsu provided the following audit and non-audit services to the Group:

Nature of Services	Amount (HK\$ million)
External Audit Services	20.7
Taxation Services	0.9
Other Services	0.1

The other services provided by Deloitte Touche Tohmatsu comprised professional services conducted under the terms of specified engagements.

To ensure the independence of the external auditors, the nature and ratio of annual fees to external auditors for audit services and non-audit services are subject to scrutiny by the Audit Committee. All non-audit services from external auditors are regulated by a Policy on Non-Audit Services published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)).

To enhance independent reporting by external auditors of the Group, the Independent Non-executive Directors and the external auditors of the Group meet without the presence of the management of the Group every year.

## Investor Relations and Shareholder Communications

The Company understands the importance of maintaining effective communication with its shareholders and investors. The Company holds regular meetings with institutional shareholders and analysts and encourages shareholders to attend the Annual General Meeting to communicate with Directors and managements of the Company directly.

The Company's website ([www.ttigroup.com](http://www.ttigroup.com)) contains all of the Company's circulars, announcements, notices and results of general meetings, annual and interim reports, and webcasts of results presentations at press conference which provides timely, efficient and accurate information to the shareholders and investors.

A Policy on Market Disclosure, Investor and Media Relations, published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)), ensures that the Company 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 the Company.

The Company values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome and can be addressed to Investor Relations and Communication by mail or by email to the Company at [ir@tti.com.hk](mailto:ir@tti.com.hk).

## Board and Board Committee Meetings in 2010

A summary of attendance of Board and Board Committee meetings in 2010 are detailed in the following table:

	Meetings attended / Held in 2010			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held during the year	6	4	2	2
<b>Group Executive Directors</b>				
Mr Horst Julius Pudwill	6/6		2/2	
Prof Roy Chi Ping Chung JP	5/6			
Mr Joseph Galli Jr	6/6			
Mr Kin Wah Chan	6/6			
Mr Chi Chung Chan	6/6			
Mr Stephan Horst Pudwill	6/6			
<b>Non-executive Director</b>				
Mr Vincent Ting Kau Cheung	6/6		2/2	2/2
<b>Independent Non-executive Directors</b>				
Mr Joel Arthur Schleicher	6/6	4/4		2/2
Mr Christopher Patrick Langley OBE	6/6	4/4 <sup>(1)</sup>	2/2	2/2
Mr Manfred Kuhlmann	6/6	4/4	2/2	2/2
Mr Peter David Sullivan	5/6	4/4		2/2
Dates of meetings	January 8, 2010 March 4, 2010 April 16, 2010 May 27, 2010 August 19, 2010 October 21, 2010	April 14, 2010 May 27, 2010 August 17, 2010 December 16, 2010	April 15, 2010 August 18, 2010	April 15, 2010 August 18, 2010

Note:

(1) Mr Christopher Patrick Langley OBE ceased to be a member of the Audit Committee on March 24, 2011.

# Director's Report

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The directors have pleasure in presenting their annual report and the audited financial statements for the year ended December 31, 2010.

## Principal Activities

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

The principal activities of the principal subsidiaries and associates are set out in Notes 56 and 57 to the financial statements, respectively.

## Results and Appropriations

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The results of the Group for the year ended December 31, 2010 are set out in the consolidated statement of comprehensive income on page 50.

An interim dividend of HK3.75 cents per share amounting to approximately HK\$60,231,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK6.25 cents per share to the shareholders on the register of members on May 20, 2011, amounting to approximately HK\$100,414,000.

## Property, Plant and Equipment

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The Group continued to expand its business and during the year spent approximately HK\$102,260,000 on moulds and tooling and acquired office equipment, furniture and fixtures for approximately HK\$41,732,000 and plant and machinery for approximately HK\$100,520,000. 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 and Warrants

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Details of movements during the year in the share capital and warrants of the Company are set out in Note 44 to the financial statements.

During the year, holders of unlisted warrants previously issued by the Company, entitling the holder to subscribe for new shares of the Company at an exercise price of HK\$5.10 per share between April 30, 2010 and April 30, 2012 (the "Warrants"), exercised 14,903,600 Warrants at the exercise price resulting in the issuance of 14,903,600 new shares of the Company.

During the year, the Group bought back 40,984,900 warrants from certain Warrants' holders for a consideration of HK\$101,843,000.

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

## Directors

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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*  
Prof Roy Chi Ping Chung JP, *Vice Chairman*  
Mr Joseph Galli Jr, *Chief Executive Officer*  
Mr Kin Wah Chan  
Mr Chi Chung Chan  
Mr Stephan Horst Pudwill

### Non-executive Director:

Mr Vincent Ting Kau Cheung

### Independent Non-executive Directors:

Mr Joel Arthur Schleicher  
Mr Christopher Patrick Langley OBE  
Mr Manfred Kuhlmann  
Mr Peter David Sullivan

In accordance with Article 103 of the Company's Articles of Association, Messrs. Horst Julius Pudwill, Joseph Galli Jr, Christopher Patrick Langley OBE and Peter David Sullivan will retire at the forthcoming Annual General Meeting and, being eligible, 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

As at December 31, 2010, 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 has 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 as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and as adopted by the Company, were as follows:

Name of directors	Capacity/Nature of interests	Interests in shares (other than pursuant to equity derivatives) <sup>(1)</sup>	Interests in underlying shares pursuant to equity derivatives <sup>(1)</sup>	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	Beneficial owner	145,361,000	1,200,000	400,480,794	24.93%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	253,159,794 <sup>(2)</sup>	—		
Prof Roy Chi Ping Chung JP	Beneficial owner	56,405,948	600,000	94,216,978	5.86%
	Interests of spouse	136,000	—		
	Interests of controlled corporation	37,075,030 <sup>(3)</sup>	—		
Mr Joseph Galli Jr	Beneficial owner	814,500	3,500,000	4,314,500	0.27%
Mr Kin Wah Chan	Beneficial owner	—	1,000,000	1,000,000	0.06%
Mr Chi Chung Chan	Beneficial owner	—	1,000,000	1,000,000	0.06%
Mr Stephan Horst Pudwill	Beneficial owner	4,509,500	1,000,000	5,509,500	0.34%
Mr Vincent Ting Kau Cheung	Beneficial owner	1,920,000	400,000	2,320,000	0.14%
Mr Joel Arthur Schleicher	Beneficial owner	100,000	400,000	560,000	0.03%
	Interests of spouse	—	60,000 <sup>(1)</sup>		
Mr Christopher Patrick Langley OBE	Beneficial owner	500,000	400,000	900,000	0.06%
Mr Manfred Kuhlmann	Beneficial owner	—	400,000	400,000	0.02%
Mr Peter David Sullivan	Beneficial owner	—	400,000	400,000	0.02%

### Notes:

- (1) Interests in shares and underlying shares stated above represent long positions of the Company.

The interests of the directors of the Company in the underlying shares pursuant to equity derivatives, which were held as beneficial owner, represent share options granted to them respectively pursuant to the share option schemes adopted by the Company, details of which are separately disclosed in the section headed "Share Options" below. These share options are physically settled and unlisted.

The interests of the spouse of Mr Joel Arthur Schleicher in the underlying shares pursuant to listed equity derivatives represent an interest in 60,000 underlying shares held in the form of 12,000 American Depositary Receipts, each representing 5 shares of the Company.

## Directors' and Chief Executive's Interests

(continued)

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

	No. of shares
Sunning Inc.	216,084,764
Cordless Industries Company Limited *	37,075,030
	253,159,794

- (3) These shares were held by Cordless Industries Company Limited\* in which Prof Roy Chi Ping Chung 羅卓平 has a beneficial interest.

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

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 or the SFO) as at December 31, 2010.

## Share Options

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

Scheme C was adopted pursuant to a resolution passed on March 28, 2002 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme expired on March 27, 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\$1.00 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 quotation 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 30.00% of the issued share capital of the Company from time to time or 10.00% of shares in issue as at the adoption date of Scheme C. No person shall be granted an option which exceeds 1.00% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

### Scheme adopted on May 29, 2007 ("Scheme D")

Following the termination of Scheme C, a new share option scheme was adopted pursuant to a resolution passed on May 29, 2007 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on May 28, 2017. Under Scheme D, 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 Officers); or
- (iii) secondees; or
- (iv) business partners, agents, consultants; or
- (v) suppliers or customers; or
- (vi) any person or entity that provides research, development or other technological support; or
- (vii) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1.00 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 tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

## Share Options *(continued)*

### Scheme adopted on May 29, 2007 (“Scheme D”) *(continued)*

The maximum number of shares in respect of which share options may be granted under Scheme D is not permitted to exceed 30.00% of the issued share capital of the Company from time to time or 10.00% of shares in issue as at the adoption date of Scheme D. No person shall be granted an option which exceeds 1.00% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

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

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	16.11.2009	D	600,000	—	—	—	600,000	6.770	16.11.2009 - 15.11.2019
	26.11.2010	D	—	600,000	—	—	600,000	8.310	26.11.2010 - 25.11.2020
Prof Roy Chi Ping Chung JP	16.11.2009	D	600,000	—	—	—	600,000	6.770	16.11.2009 - 15.11.2019
Mr Joseph Galli Jr	1.11.2006	C	1,500,000	—	—	—	1,500,000	11.252	1.11.2006 - 31.10.2011
	6.3.2007	C	1,000,000	—	—	—	1,000,000	10.572	6.3.2007 - 5.3.2012
	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Kin Wah Chan	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Chi Chung Chan	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Stephan Horst Pudwill	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Joel Arthur Schleicher	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Christopher Patrick Langley OBE	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Manfred Kuhlmann	7.2.2005	C	100,000	—	—	(100,000)	—	17.750	7.2.2005 - 6.2.2010
	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Peter David Sullivan	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
<b>Total for directors</b>			<b>9,800,000</b>	<b>600,000</b>	<b>—</b>	<b>(100,000)</b>	<b>10,300,000</b>		
<b>Employees</b>									
	7.4.2005	C	200,000	—	—	(200,000)	—	17.210	7.4.2005 - 6.4.2010
	17.6.2005	C	250,000	—	—	(250,000)	—	17.950	17.6.2005 - 16.6.2010
	1.1.2006	C	50,000	—	—	—	50,000	18.690	1.1.2006 - 31.12.2010
	1.3.2006	C	2,315,000	—	—	(431,000)	1,884,000	13.970	1.3.2006 - 28.2.2011
	15.6.2006	C	200,000	—	—	—	200,000	10.270	15.6.2006 - 14.6.2011
	17.6.2006	C	350,000	—	—	—	350,000	10.550	17.6.2006 - 16.6.2011
	4.10.2006	C	75,000	—	—	—	75,000	11.628	4.10.2006 - 3.10.2011
	8.11.2006	C	30,000	—	—	—	30,000	12.200	8.11.2006 - 7.11.2011
	4.12.2006	C	150,000	—	—	—	150,000	10.952	4.12.2006 - 3.12.2011
	13.12.2006	C	20,000	—	—	—	20,000	10.560	13.12.2006 - 12.12.2011
	1.1.2007	C	150,000	—	—	—	150,000	10.080	1.1.2007 - 31.12.2011
	6.3.2007	C	4,835,000	—	—	(510,000)	4,325,000	10.572	6.3.2007 - 5.3.2012
	20.7.2007	D	200,000	—	—	—	200,000	10.060	20.7.2007 - 19.7.2017
	24.8.2007	D	2,310,000	—	—	(250,000)	2,060,000	8.390	24.8.2007 - 23.8.2017
	16.10.2007	D	75,000	—	—	—	75,000	8.810	16.10.2007 - 15.10.2017
	7.11.2007	D	40,000	—	—	—	40,000	8.088	7.11.2007 - 6.11.2017
	23.11.2007	D	500,000	—	—	—	500,000	7.578	23.11.2007 - 22.11.2017

## Share Options *(continued)*

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
	14.1.2008	D	1,320,000	—	—	(300,000)	1,020,000	7.566	14.1.2008 - 13.1.2018
	17.4.2008	D	1,925,000	—	—	(100,000)	1,825,000	7.780	17.4.2008 - 16.4.2018
	14.5.2008	D	240,000	—	—	—	240,000	7.500	14.5.2008 - 13.5.2018
	30.5.2008	D	640,000	—	—	—	640,000	7.546	30.5.2008 - 29.5.2018
	1.9.2008	D	150,000	—	—	—	150,000	7.450	1.9.2008 - 31.8.2018
	2.9.2008	D	300,000	—	(300,000)	—	—	7.388	2.9.2008 - 1.9.2018
	11.9.2008	D	50,000	—	—	—	50,000	7.430	11.9.2008 - 10.9.2018
	2.10.2008	D	75,000	—	—	—	75,000	7.068	2.10.2008 - 1.10.2018
	1.12.2008	D	100,000	—	—	—	100,000	2.340	1.12.2008 - 30.11.2018
	16.11.2009	D	7,570,000	—	(145,000)	(90,000)	7,335,000	6.770	16.11.2009 - 15.11.2019
	7.12.2009	D	100,000	—	—	—	100,000	6.790	7.12.2009 - 6.12.2019
	21.12.2009	D	300,000	—	(25,000)	(50,000)	225,000	6.350	21.12.2009 - 20.12.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2009 - 27.12.2019
	13.9.2010	D	—	1,050,000	—	—	1,050,000	7.390	13.9.2010 - 12.9.2020
<b>Total for employees</b>			<b>24,550,000</b>	<b>1,050,000</b>	<b>(470,000)</b>	<b>(2,181,000)</b>	<b>22,949,000</b>		
<b>Total for all categories</b>			<b>34,350,000</b>	<b>1,650,000</b>	<b>(470,000)</b>	<b>(2,281,000)</b>	<b>33,249,000</b>		

The weighted average closing prices of shares on the options grant date during 2010 and 2009 were HK\$7.49 and HK\$6.84 respectively.

The closing price of the Company's shares immediately before various dates of grant ranged from HK\$7.26 to HK\$7.90.

The weighted average closing prices of the Company's shares immediately before various dates during 2010 on which the share options were exercised were HK\$8.15. No share options were exercised in 2009.

The fair values of the share options granted in 2010 and 2009 measured at various dates of grant ranged from HK\$1.89 to HK\$2.14 and HK\$1.65 to HK\$1.75 per option respectively.

## 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.

## Director's 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 Shareholder's Interests

As at December 31, 2010, 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 (L/S/LP)*	Approximate aggregate percentage of interests
Capital Research and Management Company <sup>(1)</sup>	145,857,000 (L)	9.08% (L)
Credit Suisse Group AG <sup>(2)</sup>	81,168,892 (L) 81,250,633 (S)	5.05% (L) 5.06% (S)
FMR LLC <sup>(3)</sup>	162,186,500 (L)	10.09% (L)
Hang Seng Bank Trustee International Limited <sup>(4)</sup>	80,915,000 (L)	5.04% (L)
JP Morgan Chase & Co. <sup>(5)</sup>	178,461,655 (L) 6,414,744 (S) 156,460,911 (LP)	11.11% (L) 0.40% (S) 9.74% (LP)

\* (L/S/LP) represents (Long position/Short position/Lending Pool)

### Notes:

- (1) The capacity of Capital Research and Management Company in holding the 145,857,000 shares of long position was as investment manager. Its 100% controlling shareholder is The Capital Group Companies, Inc.
- (2) The following is a breakdown of the interests in shares of Credit Suisse Group AG:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S)	Deemed interests	(L/S)	
Credit Suisse Group AG	(2a)	—	—	81,168,892	(L)	5.05%
		—	—	81,250,633	(S)	5.06%
Credit Suisse AG	(2b)	33,384,512	(L)	47,784,380	(L)	5.05%
		33,384,512	(S)	47,866,121	(S)	5.06%
Credit Suisse AG, New York Branch	(2b)	9,750	(L)	—	—	0.00%
Credit Suisse International	(2b)	68,123	(L)	—	—	0.00%
Credit Suisse (Hong Kong) Limited	(2b)	155,000	(S)	—	—	0.01%
Credit Suisse Holdings (USA), Inc.	(2b)	—	—	13,738,470	(L)	0.86%
		—	—	13,738,470	(S)	0.86%
Credit Suisse (USA), Inc.	(2b)	—	—	13,738,470	(L)	0.86%
		—	—	13,738,470	(S)	0.86%
Credit Suisse Securities (USA) LLC	(2b)	13,738,470	(L)	—	—	0.86%
		13,738,470	(S)	—	—	0.86%
Credit Suisse Investments (UK)	(2b)	—	—	33,968,037	(L)	2.11%
		—	—	33,972,651	(S)	2.11%
Credit Suisse Investment Holdings (UK)	(2b)	—	—	33,968,037	(L)	2.11%
		—	—	33,972,651	(S)	2.11%
Credit Suisse Securities (Europe) Limited	(2b)	33,968,037	(L)	—	—	2.11%
		33,972,651	(S)	—	—	2.11%

## Substantial Shareholder's Interests *(continued)*

Notes: *(continued)*

Remarks:

- (2a) Credit Suisse Group AG is listed on the Swiss Stock Exchange and listed as ADS on the New York Stock Exchange. The capacity of Credit Suisse Group AG in holding the 81,168,892 shares of long position and 81,250,633 shares of short position was as a controlled corporation.
- (2b) Credit Suisse AG, Credit Suisse AG, New York Branch, Credit Suisse International, Credit Suisse (Hong Kong) Limited, Credit Suisse Holdings (USA), Inc., Credit Suisse (USA), Inc., Credit Suisse Securities (USA) LLC, Credit Suisse Investments (UK), Credit Suisse Investment Holdings (UK) and Credit Suisse Securities (Europe) Limited were all direct or indirect owned by Credit Suisse Group AG and by virtue of the SFO, Credit Suisse Group AG was deemed to be interested in the shares held by these subsidiaries.
- (3) The following is a breakdown of the interests in shares of FMR LLC:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S)	Deemed interests	(L/S)	
FMR LLC	(3a)	—	—	162,186,500	(L)	10.09%
Fidelity Management & Research Company	(3b)	—	—	139,343,000	(L)	8.67%
Fidelity Management Trust Company, Pyramis Global Advisors LLC	(3b)	—	—	22,843,500	(L)	1.42%

Remarks:

- (3a) The capacity of FMR LLC in holding the 162,186,500 shares of long position was as an investment manager.
- (3b) Fidelity Management & Research Company and Fidelity Management Trust Company, Pyramis Global Advisors LLC were all indirect owned by FMR LLC and by virtue of the SFO, FMR LLC was deemed to be interested in the shares held by these subsidiaries.
- (4) The following is a breakdown of the interests in shares of Hang Seng Bank Trustee International Limited:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S)	Deemed interests	(L/S)	
Hang Seng Bank Trustee International Limited	(4a)	—	—	80,915,000	(L)	5.04%
Cheah Company Limited	(4b)	—	—	80,915,000	(L)	5.04%
Cheah Capital Management Limited	(4b)	—	—	80,915,000	(L)	5.04%
Value Partners Group Limited	(4b)	—	—	80,915,000	(L)	5.04%
Value Partners Limited	(4b)	80,915,000	(L)	—	—	5.04%

Remarks:

- (4a) The capacity of Hang Seng Bank Trustee International Limited in holding the 80,915,000 shares of long position was as Trustee (other than bare trustee).
- (4b) Cheah Company Limited, Cheah Capital Management Limited, Value Partners Group Limited and Value Partners Limited were all direct or indirect owned by Hang Seng Bank Trustee International Limited and by virtue of the SFO, Hang Seng Bank Trustee International Limited was deemed to be interested in the shares held by these subsidiaries.

## Substantial Shareholder's Interests *(continued)*

Notes: *(continued)*

(5) 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	(L/S)	Deemed interests	(L/S)	
JPMorgan Chase & Co.	(5a)	—	—	178,461,655	(L)	11.11%
		—	—	6,414,744	(S)	0.40%
		—	—	156,460,911	(LP)	9.74%
JPMorgan Chase Bank, N.A.	(5b)	156,460,911	(L)	5,638,500	(L)	10.09%
		—	—	5,603,000	(S)	0.35%
J.P. Morgan Securities Ltd.	(5b)	5,603,000	(L)	—	—	0.35%
		5,603,000	(S)	—	—	0.35%
J.P. Morgan Chase International Holdings	(5b)	—	—	5,603,000	(L)	0.35%
		—	—	5,603,000	(S)	0.35%
J.P. Morgan Chase (UK) Holdings Limited	(5b)	—	—	5,603,000	(L)	0.35%
		—	—	5,603,000	(S)	0.35%
J.P. Morgan Capital Holdings Limited	(5b)	—	—	5,603,000	(L)	0.35%
		—	—	5,603,000	(S)	0.35%
J.P. Morgan International Finance Limited	(5b)	—	—	5,638,500	(L)	0.35%
		—	—	5,603,000	(S)	0.35%
Bank One International Holdings Corporation	(5b)	—	—	5,638,500	(L)	0.35%
		—	—	5,603,000	(S)	0.35%
J.P. Morgan International Inc.	(5b)	—	—	5,638,500	(L)	0.35%
		—	—	5,603,000	(S)	0.35%
JF Asset Management Limited	(5b)	14,420,500	(L)	—	—	0.90%
JPMorgan Asset Management (Asia) Inc.	(5b)	—	—	15,550,500	(L)	0.97%
JPMorgan Asset Management Holdings Inc.	(5b)	—	—	15,550,500	(L)	0.97%
J.P. Morgan Whitefriars Inc.	(5b)	35,500	(L)	—	—	0.00%
J.P. Morgan Overseas Capital Corporation	(5b)	—	—	35,500	(L)	0.00%
JF International Management Inc.	(5b)	1,130,000	(L)	—	—	0.07%
J.P. Morgan Markets Limited	(5b)	811,744	(L)	—	—	0.05%
		811,744	(S)	—	—	0.05%
Bear Stearns Holdings Limited	(5b)	—	—	811,744	(L)	0.05%
		—	—	811,744	(S)	0.05%
Bear Stearns UK Holdings Limited	(5b)	—	—	811,744	(L)	0.05%
		—	—	811,744	(S)	0.05%
The Bear Stearns Companies LLC	(5b)	—	—	811,744	(L)	0.05%
		—	—	811,744	(S)	0.05%

Remarks:

- (5a) JPMorgan Chase & Co. is listed on New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 178,461,655 shares of long position, 6,414,744 shares of short position and 156,460,911 shares of lending pool respectively was as controlled corporation.
- (5b) JPMorgan Chase Bank, N.A., J.P. Morgan Securities Ltd., J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JF Asset Management Limited, JPMorgan Asset Management (Asia) Inc., JPMorgan Asset Management Holdings Inc., J.P. Morgan Whitefriars Inc., J.P. Morgan Overseas Capital Corporation, JF International Management Inc., J.P. Morgan Markets Limited, Bear Stearns Holdings Limited, Bear Stearns UK Holdings Limited and The Bear Stearns Companies LLC were all direct or indirect owned by JPMorgan Chase & Co. and by virtue of the SFO, JPMorgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.

### **Substantial Shareholder's Interests** *(continued)*

Save as disclosed, no other person was interested in or had a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of the Part XV of the SFO as at December 31, 2010.

### **Sufficiency of Public Float**

The Company has maintained a sufficient public float throughout the year ended December 31, 2010.

### **Donations**

During the year, the Group made charitable and other donations totalling HK\$3,918,000.

### **Auditor**

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

On behalf of the Board

**Horst Julius Pudwill**

*Chairman*

Hong Kong

March 24, 2011

# Independent Auditor's Report

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# Deloitte.

## 德勤

**TO THE MEMBERS OF TECHTRONIC INDUSTRIES COMPANY LIMITED**

創科實業有限公司

(incorporated in Hong Kong with limited liability)

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We have audited the consolidated financial statements of Techtronic Industries Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 50 to 148, which comprise the consolidated and Company’s statement of financial position as at December 31, 2010 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### **Directors’ Responsibility for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance for such control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2010 and of the Group’s profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 24, 2011

# Consolidated Statement of Comprehensive Income

For the year ended December 31, 2010

	Notes	2010 HK\$'000	2009 HK\$'000	2010 US\$'000 (Note 58)	2009 US\$'000 (Note 58)
Turnover	6	<b>26,386,136</b>	23,984,646	<b>3,382,838</b>	3,074,955
Cost of sales		<b>(17,892,053)</b>	(16,489,195)	<b>(2,293,853)</b>	(2,113,999)
Gross profit		<b>8,494,083</b>	7,495,451	<b>1,088,985</b>	960,956
Other income	7	<b>133,208</b>	120,306	<b>17,078</b>	15,424
Interest income	8	<b>16,757</b>	15,781	<b>2,148</b>	2,023
Selling, distribution, advertising and warranty expenses		<b>(3,749,721)</b>	(3,337,076)	<b>(480,733)</b>	(427,830)
Administrative expenses		<b>(2,855,350)</b>	(2,785,092)	<b>(366,070)</b>	(357,063)
Research and development costs		<b>(503,939)</b>	(513,414)	<b>(64,608)</b>	(65,822)
Finance costs	9	<b>(579,549)</b>	(565,500)	<b>(74,301)</b>	(72,500)
Profit before restructuring costs, share of results of associates and taxation		<b>955,489</b>	430,456	<b>122,499</b>	55,188
Restructuring costs	10	<b>(207,890)</b>	—	<b>(26,653)</b>	—
Share of results of associates		<b>(1,207)</b>	(987)	<b>(155)</b>	(127)
Profit before taxation		<b>746,392</b>	429,469	<b>95,691</b>	55,061
Taxation credit	11	<b>548</b>	62,684	<b>70</b>	8,036
Profit for the year	12	<b>746,940</b>	492,153	<b>95,761</b>	63,097
Other comprehensive income					
Exchange differences on translation of foreign operations		<b>14,659</b>	68,769	<b>1,879</b>	8,816
Reclassification adjustment for the cumulative exchange differences included in profit or loss on disposal of a subsidiary		—	85	—	11
Other comprehensive income for the year		<b>14,659</b>	68,854	<b>1,879</b>	8,827
Total comprehensive income for the year		<b>761,599</b>	561,007	<b>97,640</b>	71,924
Profit for the year attributable to:					
Owners of the Company		<b>740,140</b>	490,658	<b>94,890</b>	62,905
Non-controlling interests		<b>6,800</b>	1,495	<b>871</b>	192
		<b>746,940</b>	492,153	<b>95,761</b>	63,097
Total comprehensive income attributable to:					
Owners of the Company		<b>754,812</b>	559,502	<b>96,770</b>	71,731
Non-controlling interests		<b>6,787</b>	1,505	<b>870</b>	193
		<b>761,599</b>	561,007	<b>97,640</b>	71,924
Earnings per share (HK/US cents)					
Basic	16	<b>46.23</b>	31.87	<b>5.93</b>	4.09
Diluted		<b>46.20</b>	31.70	<b>5.92</b>	4.06

# Consolidated Statement of Financial Position

As at December 31, 2010

	Notes	2010 HK\$'000	2009 HK\$'000	2010 US\$'000 (Note 58)	2009 US\$'000 (Note 58)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	17	2,647,610	2,480,579	339,437	318,023
Lease prepayments	18	276,704	275,578	35,475	35,331
Goodwill	19	4,133,099	4,064,484	529,884	521,088
Intangible assets	20	2,756,765	2,607,035	353,431	334,235
Interests in associates	23	187,683	195,649	24,062	25,083
Available-for-sale investments	24	9,879	22,701	1,267	2,911
Deferred tax assets	47	534,511	575,524	68,527	73,785
		<b>10,546,251</b>	10,221,550	<b>1,352,083</b>	1,310,456
<b>Current assets</b>					
Inventories	25	5,027,177	4,766,222	644,510	611,054
Trade and other receivables	26	4,820,304	4,449,644	617,988	570,467
Deposits and prepayments		521,936	517,382	66,915	66,331
Bills receivable	27	303,222	267,752	38,875	34,327
Tax recoverable		85,760	141,446	10,995	18,134
Trade receivables from associates	29	296	13	38	2
Derivative financial instruments	30	84,886	21,913	10,883	2,809
Held-for-trading investments	31	83,706	75,677	10,732	9,702
Bank balances, deposits and cash	32	4,000,566	3,322,753	512,893	425,994
		<b>14,927,853</b>	13,562,802	<b>1,913,829</b>	1,738,820
<b>Current liabilities</b>					
Trade and other payables	33	3,769,467	3,856,835	483,265	494,466
Bills payable	34	430,617	720,550	55,207	92,378
Warranty provision	35	372,073	385,903	47,702	49,475
Trade payable to an associate	36	32,187	5,307	4,127	680
Tax payable		59,110	75,793	7,578	9,717
Derivative financial instruments	30	38,605	7,158	4,949	918
Restructuring provision	37	179,250	9,020	22,981	1,156
Obligations under finance leases					
- due within one year	38	23,110	21,119	2,963	2,708
Discounted bills with recourse	39	3,206,539	2,566,158	411,095	328,995
Unsecured borrowings - due within one year	42	2,816,226	3,004,346	361,055	385,172
Bank overdrafts	32	174,330	214,756	22,350	27,533
		<b>11,101,514</b>	10,866,945	<b>1,423,272</b>	1,393,198
<b>Net current assets</b>		<b>3,826,339</b>	2,695,857	<b>490,557</b>	345,622
<b>Total assets less current liabilities</b>		<b>14,372,590</b>	12,917,407	<b>1,842,640</b>	1,656,078

## Consolidated Statement of Financial Position

As at December 31, 2010

	Notes	2010 HK\$'000	2009 HK\$'000	2010 US\$'000 (Note 58)	2009 US\$'000 (Note 58)
<b>Capital and Reserves</b>					
Share capital	44	160,663	159,125	20,598	20,401
Reserves		8,534,442	7,922,837	1,094,161	1,015,748
Equity attributable to Owners of the Company		8,695,105	8,081,962	1,114,759	1,036,149
Non-controlling interests		116,595	109,808	14,948	14,078
<b>Total equity</b>		<b>8,811,700</b>	8,191,770	<b>1,129,707</b>	1,050,227
<b>Non-current Liabilities</b>					
Obligations under finance leases					
- due after one year	38	44,573	69,826	5,714	8,952
Unsecured borrowings - due after one year	42	3,637,593	2,596,144	466,358	332,839
Convertible bonds	43	992,357	950,202	127,225	121,821
Retirement benefits obligations	46	707,417	737,267	90,694	94,521
Deferred tax liabilities	47	178,950	372,198	22,942	47,718
		5,560,890	4,725,637	712,933	605,851
<b>Total equity and non-current liabilities</b>		<b>14,372,590</b>	12,917,407	<b>1,842,640</b>	1,656,078

The financial statements on pages 50 to 148 were approved and authorised for issue by the Board of Directors on March 24, 2011 and are signed on its behalf by:

**Chi Chung Chan**  
Group Executive Director

**Prof Roy Chi Ping Chung JP**  
Vice Chairman

# Statement of Financial Position

As at December 31, 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	57,734	73,605
Lease prepayments	18	—	—
Intangible assets	20	204,273	315,920
Investments in subsidiaries	22	2,868,121	2,731,772
Loans to subsidiaries	22	2,479,954	1,915,004
Interests in associates	23	192,693	199,275
Available-for-sale investments	24	1,695	1,695
		<b>5,804,470</b>	5,237,271
<b>Current assets</b>			
Inventories	25	36,460	34,576
Trade and other receivables	26	69,913	95,960
Deposits and prepayments		105,605	245,700
Bills receivable	27	82,840	60,693
Amounts due from subsidiaries	28	8,487,167	8,176,719
Derivative financial instruments	30	46,711	13,898
Held-for-trading investments	31	83,427	75,677
Bank balances, deposits and cash	32	1,341,014	977,356
		<b>10,253,137</b>	9,680,579
<b>Current liabilities</b>			
Trade and other payables	33	366,735	350,139
Bills payable	34	335,356	546,635
Warranty provision	35	19,061	86,923
Derivative financial instruments	30	35,563	—
Amounts due to subsidiaries	28	1,186,742	2,929,946
Trade payable to an associate	36	32,187	5,307
Tax payable		4,077	4,926
Obligations under finance leases - due within one year	38	308	548
Discounted bills with recourse	39	2,526,881	1,514,007
Unsecured borrowings - due within one year	42	1,675,563	1,600,121
		<b>6,182,473</b>	7,038,552
<b>Net current assets</b>		<b>4,070,664</b>	2,642,027
<b>Total assets less current liabilities</b>		<b>9,875,134</b>	7,879,298

## Statement of Financial Position

As at December 31, 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>Capital and Reserves</b>			
Share capital	44	160,663	159,125
Reserves	45	6,380,015	6,613,898
		<b>6,540,678</b>	6,773,023
<b>Non-current Liabilities</b>			
Obligations under finance leases - due after one year	38	—	424
Unsecured borrowings - due after one year	42	2,320,306	116,400
Convertible bonds	43	992,357	950,202
Deferred tax liabilities	47	21,793	39,249
		<b>3,334,456</b>	1,106,275
<b>Total equity and non-current liabilities</b>		<b>9,875,134</b>	7,879,298

**Chi Chung Chan**  
Group Executive Director

**Prof Roy Chi Ping Chung JP**  
Vice Chairman

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2010

	Attributable to Owners of the Company								Attributable to non-controlling interests		
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Warrant reserve HK\$'000	Translation reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Share of net assets of subsidiaries HK\$'000	Total HK\$'000
At January 1, 2009	150,125	2,898,646	436	2,285	—	(151,373)	42,389	3,896,627	6,839,135	108,303	6,947,438
Profit for the year	—	—	—	—	—	—	—	490,658	490,658	1,495	492,153
Exchange differences on translation of foreign operations	—	—	—	—	—	68,759	—	—	68,759	10	68,769
Reclassification adjustment for the cumulative exchange differences included in profit or loss on disposal of a subsidiary	—	—	—	—	—	85	—	—	85	—	85
Other comprehensive income for the year	—	—	—	—	—	68,844	—	—	68,844	10	68,854
Total comprehensive income for the year	—	—	—	—	—	68,844	—	490,658	559,502	1,505	561,007
Shares issued at a premium	9,000	596,700	—	—	—	—	—	—	605,700	—	605,700
Transaction costs attributable to issue of shares	—	(15,933)	—	—	—	—	—	—	(15,933)	—	(15,933)
Release of deferred tax liabilities on redemption of convertible bonds	—	—	—	485	—	—	—	—	485	—	485
Transfer to retained profits upon redemption of convertible bonds	—	—	—	(2,770)	—	—	—	2,770	—	—	—
Recognition of equity component of convertible bonds/warrants	—	—	—	115,563	112,494	—	—	—	228,057	—	228,057
Transaction costs attributable to issue of convertible bonds/warrants	—	—	—	(3,852)	(3,750)	—	—	—	(7,602)	—	(7,602)
Deferred tax liability on recognition of equity components of convertible bonds	—	—	—	(42,810)	—	—	—	—	(42,810)	—	(42,810)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	10,800	—	10,800	—	10,800
Lapse of share options	—	—	—	—	—	—	(5,033)	5,033	—	—	—
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(2,597)	(2,597)	—	(2,597)
Final dividend - 2008	—	—	—	—	—	—	—	(45,038)	(45,038)	—	(45,038)
Interim dividend - 2009	—	—	—	—	—	—	—	(47,737)	(47,737)	—	(47,737)
At December 31, 2009	159,125	3,479,413	436	68,901	108,744	(82,529)	48,156	4,299,716	8,081,962	109,808	8,191,770

## Consolidated Statement of Changes in Equity

For the year ended December 31, 2010

	Attributable to Owners of the Company								Attributable to non-controlling interests		
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Warrant reserve HK\$'000	Translation reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Share of net assets of subsidiaries HK\$'000	Total HK\$'000
Profit for the year	—	—	—	—	—	—	—	740,140	740,140	6,800	746,940
Exchange differences on translation of foreign operations	—	—	—	—	—	14,672	—	—	14,672	(13)	14,659
Other comprehensive income for the year	—	—	—	—	—	14,672	—	—	14,672	(13)	14,659
Total comprehensive income for the year	—	—	—	—	—	14,672	—	740,140	754,812	6,787	761,599
Share issued at premium on exercise of options	47	4,027	—	—	—	—	(717)	—	3,357	—	3,357
Share issued at premium on exercise of warrants	1,491	103,517	—	—	(28,998)	—	—	—	76,010	—	76,010
Repurchase of warrants	—	—	—	—	(79,746)	—	—	(22,097)	(101,843)	—	(101,843)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	17,190	—	17,190	—	17,190
Lapse of share options	—	—	—	—	—	—	(6,528)	6,528	—	—	—
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(3,875)	(3,875)	—	(3,875)
Final dividend - 2009	—	—	—	—	—	—	—	(72,277)	(72,277)	—	(72,277)
Interim dividend - 2010	—	—	—	—	—	—	—	(60,231)	(60,231)	—	(60,231)
<b>At December 31, 2010</b>	<b>160,663</b>	<b>3,586,957</b>	<b>436</b>	<b>68,901</b>	<b>—</b>	<b>(67,857)</b>	<b>58,101</b>	<b>4,887,904</b>	<b>8,695,105</b>	<b>116,595</b>	<b>8,811,700</b>

# Consolidated Statement of Cash Flow

For the year ended December 31, 2010

Notes	2010 HK\$'000	2009 HK\$'000	2010 US\$'000 (Note 58)	2009 US\$'000 (Note 58)
<b>Operating Activities</b>				
Profit before taxation	746,392	429,469	95,691	55,061
Adjustments for:				
Amortisation/write-off of intangible assets	330,646	269,246	42,391	34,519
Amortisation of lease prepayments	5,717	2,267	733	291
Depreciation on property, plant and equipment	548,885	534,953	70,370	68,583
Employee share-based expense	17,190	10,800	2,204	1,385
Finance costs	579,549	565,500	74,301	72,500
Impairment loss on available for sale investments recognised	13,363	—	1,713	—
Impairment loss on trade receivables	44,645	64,054	5,724	8,212
Write down of inventories	86,358	71,679	11,072	9,190
Interest income	(16,757)	(15,781)	(2,148)	(2,023)
Loss (gain) on disposal of property, plant and equipment	5,291	(27,946)	678	(3,583)
Gain on disposal of held-for-trading investments	—	(16)	—	(2)
Gain on disposal of a subsidiary	—	(2,851)	—	(366)
Share of the results of associates	1,207	987	155	127
Discount on acquisition taken to income	(4,764)	—	(611)	—
Fair value loss (gain) on interest rate swap	21,695	(3,428)	2,781	(439)
Fair value gain on warrant	(4,306)	—	(552)	—
Fair value gain on foreign currency forward contracts	(44,257)	(11,320)	(5,674)	(1,451)
Fair value gain on held-for-trading investments	(3,100)	(33,692)	(397)	(4,320)
Operating cash flows before movements in working capital	2,327,754	1,853,921	298,431	237,684
Increase in inventories	(345,525)	(287,185)	(44,298)	(36,819)
Increase in trade and other receivables, deposits and prepayments	(420,090)	(700,292)	(53,858)	(89,781)
Increase in bills receivable	(41,305)	(29,210)	(5,295)	(3,745)
(Increase) decrease in trade receivables from associates	(283)	96	(36)	12
Increase in interest rate swap	11	—	1	—
(Increase) decrease in foreign currency forward contracts	(4,669)	53,569	(599)	6,868
(Decrease) increase in trade and other payables	(126,164)	74,101	(16,175)	9,499
(Decrease) increase in bills payable	(289,933)	567,791	(37,171)	72,794
Increase (decrease) in restructuring provision	176,935	(136,828)	22,684	(17,542)
Decrease in warranty provision	(12,009)	(46,044)	(1,540)	(5,903)
Increase in held-for-trading investments	(4,929)	(38,518)	(632)	(4,938)
Increase in trade payable to an associate	26,880	3,900	3,446	500
Decrease (increase) in retirement benefit obligations	19,550	(34,676)	2,506	(4,446)
<b>Cash generated from operations</b>	<b>1,306,223</b>	1,280,625	<b>167,464</b>	164,183

## Consolidated Statement of Cash Flow

For the year ended December 31, 2010

	Notes	2010 HK\$'000	2009 HK\$'000	2010 US\$'000 (Note 58)	2009 US\$'000 (Note 58)
Interest paid		(537,394)	(525,843)	(68,897)	(67,416)
Hong Kong profits tax paid		(55,353)	(34,926)	(7,097)	(4,478)
Overseas tax paid		(102,288)	(135,412)	(13,114)	(17,361)
Hong Kong profits tax refunded		486	1,246	62	160
Overseas tax refunded		44,815	175,624	5,746	22,516
<b>Net Cash from Operating Activities</b>		<b>656,489</b>	<b>761,314</b>	<b>84,164</b>	<b>97,604</b>
<b>Investing Activities</b>					
Acquisition of subsidiaries / business	48	(108,016)	—	(13,848)	—
Purchase of property, plant and equipment		(722,890)	(661,884)	(92,678)	(84,857)
Additions to intangible assets		(415,476)	(433,058)	(53,266)	(55,520)
Purchase of available-for-sale investments		(526)	(5,643)	(67)	(723)
Repayment from associates		6,759	9,692	867	1,242
Interest received		16,757	15,781	2,148	2,023
Proceeds from disposal of property, plant and equipment		14,105	26,636	1,808	3,415
Net cash outflow on disposal of a subsidiary		—	(238)	—	(31)
<b>Net Cash Used in Investing Activities</b>		<b>(1,209,287)</b>	<b>(1,048,714)</b>	<b>(155,036)</b>	<b>(134,451)</b>
<b>Financing Activities</b>					
New bank loans obtained		4,599,969	2,330,935	589,740	298,838
Proceeds from issue of convertible bonds		—	1,170,000	—	150,000
Proceeds from issue of shares		79,367	605,700	10,175	77,653
Repayment of bank loans		(2,165,037)	(3,052,050)	(277,569)	(391,288)
Repayment of fixed interest rate notes		(1,353,923)	—	(173,580)	—
Repayment of convertible bonds		—	(100,805)	—	(12,924)
Repurchase of warrants		(101,843)	—	(13,057)	—
Dividends paid		(132,508)	(92,775)	(16,988)	(11,894)
Acquisition of additional interest in a subsidiary		(3,875)	(2,597)	(497)	(332)
Expenses on issue of convertible bonds		—	(39,001)	—	(5,000)
Expenses on issue of shares		—	(15,933)	—	(2,042)
Repayment of obligations under finance leases		(23,227)	(21,627)	(2,978)	(2,773)
Increase in discounted bills with recourse		640,381	103,547	82,100	13,275
(Decrease) increase in trust receipt loans		(269,781)	360,898	(34,587)	46,269
<b>Net Cash from Financing Activities</b>		<b>1,269,523</b>	<b>1,246,292</b>	<b>162,759</b>	<b>159,782</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>716,725</b>	<b>958,892</b>	<b>91,887</b>	<b>122,935</b>
<b>Cash and Cash Equivalents at Beginning of the Year</b>		<b>3,107,997</b>	<b>2,129,199</b>	<b>398,461</b>	<b>272,974</b>
<b>Effect of Foreign Exchange Rate Changes</b>		<b>1,514</b>	<b>19,906</b>	<b>195</b>	<b>2,552</b>
<b>Cash and Cash Equivalents at End of the Year</b>		<b>3,826,236</b>	<b>3,107,997</b>	<b>490,543</b>	<b>398,461</b>
<b>Analysis of the Balances of Cash and Cash Equivalents</b>					
Represented by:					
Bank balances, deposits and cash		4,000,566	3,322,753	512,893	425,994
Bank overdrafts		(174,330)	(214,756)	(22,350)	(27,533)
		<b>3,826,236</b>	<b>3,107,997</b>	<b>490,543</b>	<b>398,461</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

## 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 consolidated financial statements have been presented in Hong Kong dollars as the Company is a public limited company incorporated in Hong Kong and the principal place of business of the Company is situated in Hong Kong. The functional currency of the Company is United States Dollars.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group and the Company have applied the following new and revised Standards and Interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”):

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK (IFRIC) - Int 17	Distributions of Non-cash Assets to Owners
HK - Int 5	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the adoption of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

### 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) *(continued)*

#### **HKFRS 3 (as revised in 2008) Business Combinations**

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after January 1, 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as ‘minority’ interests) either at fair value or at the non-controlling interests’ share of recognised identifiable net assets of the acquiree.
- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.
- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, the application of HKFRS 3 (as revised in 2008) has not had a material effect on the Group’s consolidated financial statements.

#### **HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements**

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group’s accounting policies for changes in ownership interests in subsidiaries of the Group.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised Standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent. The application of the revised Standard has not resulted in any changes to non-controlling interest. The application of HKAS 27 (as revised in 2008) has not had a material effect on the Group’s consolidated financial statements.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

### Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* (‘HK Int 5’) clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (‘repayment on demand clause’) should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

As at December 31, 2010, a bank loan (that is repayable more than one year after the end of the reporting period but contains a repayment on demand clause) with a carrying amount of HK\$466,800,000 has been classified as a current liability.

The Group and the Company have not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>5</sup>
HKAS 24 (as revised in 2009)	Related Party Disclosures <sup>6</sup>
HKAS 32 (Amendments)	Classification of Rights Issues <sup>7</sup>
HK (IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after July 1, 2010.

<sup>3</sup> Effective for annual periods beginning on or after July 1, 2011.

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2013.

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2012.

<sup>6</sup> Effective for annual periods beginning on or after January 1, 2011.

<sup>7</sup> Effective for annual periods beginning on or after February 1, 2010.

For the year ended December 31, 2010

### 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) *(continued)*

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition. Specifically, under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's and the Company's consolidated financial statements for the financial year ending December 31, 2013 and that the application of the new Standard may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review is completed.

The amendments to HKFRS 7 titled Disclosures - Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's or the Company's disclosures regarding transfers of trade receivables previously effected. However, if the Group or the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the financial performance and financial position of the Group and the Company.

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### 3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

#### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

#### **Allocation of total comprehensive income to non-controlling interests**

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to January 1, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

For the year ended December 31, 2010

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

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

#### Business Combinations

##### Business combinations that took place on or after January 1, 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

#### Business Combinations *(continued)*

##### Business combinations that took place on or after January 1, 2010 *(continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

For the year ended December 31, 2010

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

#### **Business Combinations** *(continued)*

##### **Business combinations that took place prior to January 1, 2010**

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

#### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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

#### Investments in Subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position 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

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of profit or loss 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 recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From January 1, 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over 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.

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

For the year ended December 31, 2010

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

#### Intangible Assets

##### Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 recognised in profit or loss in the period when the asset is derecognised.

##### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

##### Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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

#### **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.

#### **The Group and the Company as lessee**

Assets held under finance leases are recognised as assets of the Group and the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidation statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which economic benefit from the leased assets are consumed. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis except where another systematic basis is more representative of the time pattern in which economic benefit from the leased assets are consumed.

#### **Leasehold land and building**

When a lease includes both land and building elements, the Group and the Company assess the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group or the Company. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

For the year ended December 31, 2010

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

#### Property, Plant and Equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress on tangible and intangible assets other than goodwill, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and defined depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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 derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

#### Impairment Losses

At the end of the reporting period, the Group and the Company review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an 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 recognised 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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

#### **Financial Instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### **Financial Assets**

The Group's and the Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

#### ***Financial assets at fair value through profit or loss***

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

For the year ended December 31, 2010

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

#### Financial Instruments *(continued)*

##### Financial Assets *(continued)*

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates, bills receivable, trade receivables from associates, loans to subsidiaries, amounts due from subsidiaries, bank balances, deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

##### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity 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 the end of each reporting period (see accounting policy in respect of impairment of financial assets below).

##### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and trade receivables from associates, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

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

#### Financial Instruments *(continued)*

##### Financial Assets *(continued)*

##### **Impairment of financial assets** *(continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and trade receivables from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income.

##### 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 and the Company after deducting all of its liabilities.

##### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

For the year ended December 31, 2010

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

#### Financial Instruments *(continued)*

##### Financial liabilities and equity *(continued)*

##### **Convertible bonds**

Convertible bonds issued by the Group and the Company that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion options that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments are classified as an equity instrument. Embedded derivatives, including early redemption options, which are closely related to the liability components are not separately accounted for.

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 gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion 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 amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in the convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in the convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in the convertible bonds equity reserve will be released to retained profits. No gain or loss is recognised 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 gross 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 amortised over the period of the convertible bonds using the effective interest method.

Upon early redemption of the convertible bonds, the early redemption consideration will be allocated to the liability component and equity component using the same allocation basis as when the convertible bonds were originally issued. Differences between the fair value and the carrying amount of the liability component will be recognised in profit or loss. The difference between the early redemption consideration and the fair value of the liability component will be included in equity (convertible bonds equity reserve) and released to retained profits.

##### **Other financial liabilities**

Other financial liabilities (including unsecured borrowings, trade and other payables, bills payable, trade payable to an associate, discounted bills with recourse, bank overdrafts and amounts due to subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

##### **Equity instruments**

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

##### **Share repurchase**

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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

#### Financial Instruments *(continued)*

##### Derivative financial instruments

Derivatives that are not accounted for as eligible hedging instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

##### Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

##### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and 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 recognised in other comprehensive income is recognised in profit or loss. If the Group and the Company retain substantially all the risks and rewards of ownership of a transferred asset, the Group and the Company continue to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

#### Provisions

Provisions are recognised when the Group and the Company have a present obligation as a result of a past event and it is probable that the Group and the Company will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

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

A provision for restructuring is recognised in the consolidated statement of financial position on condition that the Group has a detailed formal plan and has raised a valid expectation to those affected that the plan will be carried out, either by starting to implement that plan or by announcing its main features to those affected.

For a provision in relation to employee termination benefits, the liability and expenses are recognised when the Group committed to terminate the employment of an employee or group of employees before their normal retirement date or provide termination benefits as a result of an offer made to encourage voluntary redundancy.

For the year ended December 31, 2010

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

#### **Inventories**

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

#### **Revenue Recognition**

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold by the Group and the Company to outside customers in the normal course of business, less returns and allowances, and commission income and royalty income received.

Turnover from sales of goods is recognised when goods are delivered and title has passed.

Commission income is recognised when services are provided.

Royalty income is recognised on a time proportion basis in accordance with the terms 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

#### **Taxation** *(continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

#### **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 respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that form part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (translation reserve). Such exchange differences are recognised 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 January 1, 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on acquisitions of foreign operations before January 1, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

#### **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

For the year ended December 31, 2010

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

#### **Equity-Settled Share-Based Payment Transactions**

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of each reporting period, the Group and the Company revise its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised 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 recognised in the employee share-based compensation reserve will be transferred to retained profits.

#### **Retirement Benefit Schemes**

Payments to defined contribution retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All actuarial gains and losses of defined benefit plans are recognised immediately in profit or loss in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

A gain or loss arising on curtailment or settlement of a defined benefit scheme is recognised immediately when the curtailment or settlement occurs.

## 4. Key Sources of Accounting Estimates

In the application of the Group's and the Company's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key Sources of Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of the cash generating units to which goodwill and intangible assets with indefinite useful lives have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2010, the carrying amount of goodwill and intangible assets with indefinite useful lives are approximately HK\$4,133,099,000 (2009: HK\$4,064,484,000) and approximately HK\$1,378,653,000 (2009: HK\$1,375,109,000) respectively. Details of the recoverable amount calculation are disclosed in Note 21.

### Useful Lives and Estimated Impairment of Deferred Development Costs

As at December 31, 2010, the carrying amount of deferred development costs of the Group is HK\$1,122,246,000 (2009: HK\$989,735,000) and HK\$204,241,000 (2009: HK\$315,867,000) for the Company respectively. The estimation of their useful lives impacts the level of annual amortisation recorded. The estimation of their useful lives reflects the directors' best estimate of the periods that future economic benefits will be received through the use of the assets. In determining whether the deferred development costs are impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material loss may arise. Management is confident that the carrying amount of the assets will be recovered in full. This situation will be closely monitored, and adjustments will be made in future periods, if future market activity indicates that such adjustments are appropriate.

For the year ended December 31, 2010

### 4. Key Sources of Accounting Estimates *(continued)*

#### **Useful Lives and Impairment Assessment of Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. As at December 31, 2010, the Group's and the Company's carrying amount of property, plant and equipment are HK\$2,647,610,000 (2009: HK\$2,480,579,000) and HK\$57,734,000 (2009: HK\$73,605,000) respectively. The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life that the Group and the Company place the equipment into production reflects the directors' estimate of the periods that the Group and the Company intend to derive future economic benefits from the use of the Group's and the Company's property, plant and equipment. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate assets' carrying values are written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

#### **Income Taxes**

As at December 31, 2010, a deferred tax asset of HK\$499,301,000 (2009: HK\$494,946,000) in relation to unused tax losses and HK\$99,320,000 (2009: HK\$134,632,000) in relation to employee related provisions has been recognised in the Group's consolidated statement of financial position. The realisability 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 the deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. During the current year, deferred tax assets on tax loss of approximately HK\$14,512,000 was utilised. In 2009, a HK\$147,685,000 deferred tax asset related to unutilised tax loss brought forwards was recognised primarily from our North America floor care operations.

#### **Estimated Impairment of Trade and Other Receivables, Bills Receivables and Trade Receivables from Associates**

When there is objective evidence of an impairment loss, the Group and the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). When the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2010, the Group's and the Company's carrying amount of trade and other receivables, bills receivable and trade receivables/amounts due from associates is HK\$5,302,547,000 (net of allowance for doubtful debts of HK\$121,120,000) (2009: HK\$4,902,893,000 net of allowance for doubtful debts of HK\$117,864,000) and HK\$321,656,000 (net of allowance for doubtful debts of nil) (2009: HK\$332,138,000 net of allowance for doubtful debts of HK\$3,412,000).

## 5. Segment Information

Information reported to the Board of Directors of the Company, being the Chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on the types of goods sold.

The principal categories of goods supplied are “Power Equipment” and “Floor Care and Appliances”. The Group’s operating segment under HKFRS 8 are as follows:

1. Power Equipment - sales of power tools, power tool accessories, outdoor products, and outdoor product accessories for consumer, trade, professional and industrial users. The products are available under the MILWAUKEE®, AEG®, RYOBI® and HOMELITE® brand, plus original equipment manufacturer (“OEM”) customers.
2. Floor Care and Appliances - sales of floor care products and floor care accessories under the HOOVER®, DIRT DEVIL® and VAX® brand, plus OEM customers.

Information regarding the above segments is reported below.

### Segment turnover and results

The following is an analysis of the Group’s turnover and results by operating segment for the year under review:

For the year ended December 31, 2010

	Power Equipment HK\$'000	Floor Care and Appliances HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Segment turnover</b>				
External sales	18,607,603	7,778,533	—	26,386,136
Inter-segment sales	119,980	28,023	(148,003)	—
<b>Total segment turnover</b>	<b>18,727,583</b>	<b>7,806,556</b>	<b>(148,003)</b>	<b>26,386,136</b>
Inter-segment sales are charged at prevailing market rates.				
<b>Result</b>				
Segment results before restructuring costs	1,145,012	390,026	—	1,535,038
Restructuring costs	(207,890)	—	—	(207,890)
Segment results after restructuring costs	937,122	390,026	—	1,327,148
Finance costs				(579,549)
Share of results of associates				(1,207)
Profit before taxation				746,392
Taxation credit				548
<b>Profit for the year</b>				<b>746,940</b>

The accounting policies of the operating segments are the same as the Group’s accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of the share of results of associates and finance costs. This is the measure reported to the Group’s Chief Executive Officer, for the purposes of resource allocation and performance assessment.

The Group allocates fair value change in interest rate swap and foreign currency forward contracts and interest earned on bank deposits to segment results, whereas the related interest rate swap, foreign currency forward contracts and bank balances, deposits and cash are not allocated to the segment assets.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 5. Segment Information *(continued)*

#### Segment assets and liabilities

As at December 31, 2010

	Power Equipment HK\$'000	Floor Care and Appliances HK\$'000	Consolidated HK\$'000
<b>Assets</b>			
Segment assets	16,103,992	4,476,706	20,580,698
Unallocated assets			
Interests in associates			187,683
Deferred tax assets			534,511
Foreign currency forward contracts			80,580
Warrants			4,306
Tax recoverable			85,760
Bank balances, deposits and cash			4,000,566
Consolidated total assets			25,474,104
<b>Liabilities</b>			
Segment liabilities	(6,703,879)	(2,183,881)	(8,887,760)
Unallocated liabilities			
Tax payable			(59,110)
Bank overdrafts			(174,330)
Obligations under finance leases			(67,683)
Interest rate swap			(18,278)
Foreign currency forward contracts			(20,327)
Unsecured borrowings			(6,263,609)
Deferred tax liabilities			(178,950)
Convertible bonds			(992,357)
Consolidated total liabilities			(16,662,404)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates, deferred tax assets, foreign currency forward contracts, interest rate swap, tax recoverable and bank balances, deposits and cash; and
- all liabilities are allocated to operating segments other than tax payable, bank overdrafts, interest rate swap, obligations under finance leases, foreign currency forward contracts, unsecured borrowings (other than trust receipt loans), deferred tax liabilities and convertible bonds.

## 5. Segment Information *(continued)*

### Other segment information

For the year ended December 31, 2010

Amounts included in the measure of segment profit or loss or segment assets:

	Power Equipment HK\$'000	Floor Care and Appliances HK\$'000	Consolidated HK\$'000
Additions to non-current assets (Note)	863,206	277,433	1,140,639
Gain (loss) on disposal of property, plant and equipment	5,077	(10,368)	(5,291)
Write down of inventories	65,052	21,306	86,358
Impairment loss on trade receivables	41,510	3,135	44,645
Depreciation and amortisation	610,348	274,900	885,248

Note: Non-current assets exclude financial instruments and deferred tax assets.

### Segment turnover and results

For the year ended December 31, 2009

	Power Equipment HK\$'000	Floor Care and Appliances HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Segment turnover</b>				
External sales	16,984,394	7,000,252	—	23,984,646
Inter-segment sales	13,827	173,611	(187,438)	—
Total segment turnover	16,998,221	7,173,863	(187,438)	23,984,646
Inter-segment sales are charged at prevailing market rates.				
<b>Result</b>				
Segment results	847,053	148,903	—	995,956
Finance costs				(565,500)
Share of results of associates				(987)
Profit before taxation				429,469
Taxation credit				62,684
Profit for the year				492,153

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 5. Segment Information *(continued)*

#### Segment assets and liabilities

As at December 31, 2009

	Power Equipment HK\$'000	Floor Care and Appliances HK\$'000	Consolidated HK\$'000
<b>Assets</b>			
Segment assets	14,735,817	4,791,250	19,527,067
Unallocated assets			
Interests in associates			195,649
Deferred tax assets			575,524
Foreign currency forward contracts			18,485
Interest rate swap			3,428
Tax recoverable			141,446
Bank balances, deposits and cash			3,322,753
Consolidated total assets			23,784,352
<b>Liabilities</b>			
Segment liabilities	(6,359,671)	(2,381,360)	(8,741,031)
Unallocated liabilities			
Tax payable			(75,793)
Bank overdrafts			(214,756)
Obligations under finance leases			(90,945)
Foreign currency forward contracts			(7,158)
Unsecured borrowings			(5,140,499)
Deferred tax liabilities			(372,198)
Convertible bonds			(950,202)
Consolidated total liabilities			(15,592,582)

#### Other segment information

For the year ended December 31, 2009

Amounts included in the measure of segment profit or loss or segment assets:

	Power Equipment HK\$'000	Floor Care and Appliances HK\$'000	Consolidated HK\$'000
Additions to non-current assets (Note)	780,209	349,847	1,130,056
Gain (loss) on disposal of property, plant and equipment	30,401	(2,455)	27,946
Write down of inventories	32,734	38,945	71,679
Impairment loss on trade receivables	55,891	8,163	64,054
Depreciation and amortisation	606,271	200,195	806,466

Note: Non-current assets exclude financial instruments and deferred tax assets.

## 5. Segment Information *(continued)*

### Turnover from major products

The following is an analysis of the Group's turnover from its major products:

	2010 HK\$'000	2009 HK\$'000
Power Equipment	18,607,603	16,984,394
Floor Care and Appliances	7,778,533	7,000,252
<b>Total</b>	<b>26,386,136</b>	23,984,646

### Geographical information

The Group's turnover from external customers by geographical location, determined based on the location of the customer and information about its non-current assets by geographical location, determined based on the location of the group entity owning the assets are detailed below:

	Turnover from external customers		Non-Current Assets*	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
North America	19,196,753	18,111,933	5,995,913	5,905,245
Europe	5,561,388	4,826,088	675,197	580,103
Other countries	1,627,995	1,046,625	3,143,068	2,942,328
<b>Total</b>	<b>26,386,136</b>	23,984,646	<b>9,814,178</b>	9,427,676

\* Non-current assets exclude financial instruments, deferred tax assets and interests in associates.

### Information about major customer

During the years ended December 31, 2010 and 2009, the Group's largest customer contributed total turnover of HK\$9,617,197,000 (2009: HK\$9,206,667,000), of which HK\$9,331,660,000 (2009: HK\$9,098,922,000) was under the Power Equipment segment and HK\$285,537,000 (2009: HK\$107,745,000) was under the Floor Care and Appliances segment. There is no other customer contributing more than 5% of total turnover.

## 6. Turnover

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

	2010 HK\$'000	2009 HK\$'000
Sale of goods	26,318,500	23,849,196
Commission and royalty income	67,636	135,450
<b>Total</b>	<b>26,386,136</b>	23,984,646

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 7. Other Income

Other income in 2010 mainly comprises of the fair value gain on foreign currency forward contracts, sales of scrap materials, claims and reimbursements from customers and vendors, discount on acquisition taken to income, fair value gain on warrants and fair value gain on held-for-trading investments.

Other income in 2009 mainly comprises of the fair value gain on held-for-trading investments, fair value gain on foreign currency forward contracts, gain on disposal of property, plant and equipment, claims and reimbursements from customers and vendors and fair value gain on interest rate swap.

### 8. Interest Income

Interest income represents interest earned on bank deposits.

### 9. Finance Costs

	2010 HK\$'000	2009 HK\$'000
Interest on:		
Bank borrowings and overdrafts wholly repayable within five years	261,987	330,076
Obligations under finance leases	3,462	6,120
Fixed interest rate notes	173,491	175,653
Effective interest expense on convertible bonds	141,606	86,426
Total borrowing costs	580,546	598,275
Less: amounts capitalised	(997)	(32,775)
	579,549	565,500

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.9% (2009: 5.9%) per annum to expenditure on qualifying assets.

### 10. Restructuring Costs

Restructuring costs mainly represent the Group's labor and staff costs provisions related to the relocation of production from Germany to lower cost locations.

## 11. Taxation Credit

	2010 HK\$'000	2009 HK\$'000
Current tax:		
Hong Kong profits tax	(4,740)	(58,758)
(Under) overprovision in prior years	(11,008)	50,642
	<b>(15,748)</b>	(8,116)
Overseas taxation	(146,950)	(100,143)
Overprovision in prior years	6,204	153,361
	<b>(140,746)</b>	53,218
Deferred tax (Note 47):		
Current year	157,042	17,582
	<b>548</b>	62,684

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year.

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

The tax credits for the year are reconciled as follows:

	2010 HK\$'000	2010 %	2009 HK\$'000	2009 %
Profit before taxation	746,392		429,469	
Tax at Hong Kong profits tax rate	(123,155)	16.5%	(70,862)	16.5%
Effect of different tax rates of subsidiaries operating in other jurisdictions	180,151	(24.1%)	67,037	(15.6%)
Tax effect of expenses not deductible for tax purposes	(35,092)	4.7%	(33,746)	7.9%
Tax effect of income not taxable for tax purposes	46,260	(6.2%)	102,679	(23.9%)
Tax effect of tax losses and deductible temporary differences not recognised	(108,383)	14.5%	(291,399)	67.8%
Recognition of temporary differences previously not recognised	48,217	(6.5%)	82,069	(19.1%)
(Under) overprovision in respect of prior years	(4,804)	0.6%	204,003	(47.5%)
Others	(2,646)	0.4%	2,903	(0.7%)
Tax credit for the year	<b>548</b>	<b>(0.1%)</b>	62,684	(14.6%)

Details of deferred tax are set out in Note 47.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 12. Profit for the Year

	2010 HK\$'000	2009 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortisation of intangible assets	330,646	269,246
Auditors' remuneration	24,383	25,575
Amortisation of lease prepayments	5,717	2,267
Fair value gain on held-for-trading investments	(3,100)	(33,692)
Fair value gain on foreign currency forward contracts	(44,257)	(11,320)
Fair value loss (gain) on interest rate swap	21,695	(3,428)
Fair value gain on a warrant	(4,306)	—
Depreciation and amortisation on property, plant and equipment		
Owned assets	524,696	521,785
Assets held under finance leases	24,189	13,168
Impairment loss on trade receivables	44,645	64,054
Impairment loss on available-for-sale investment	13,363	—
Loss (gain) on disposal of property, plant and equipment	5,291	(27,946)
Gain on disposal of held-for-trading investments	—	(16)
Gain on disposal of a subsidiary	—	(2,851)
Net exchange loss	23,055	55,534
Operating lease expenses recognised in respect of:		
Premises	186,755	173,221
Motor vehicles	91,290	91,643
Plant and machinery	37,240	21,806
Other assets	32,272	33,048
Write down of inventories	86,358	71,679
Staff costs		
Directors' remuneration		
Fees	1,250	1,250
Other emoluments	85,741	74,361
Other staff costs	86,991	75,611
Retirement benefits scheme contributions	3,073,966	2,683,526
(other than those included in the Directors' emoluments)		
Defined contribution plans	(9,527)	29,995
Defined benefit plans (Note 46)	60,979	62,357
	<b>3,212,409</b>	<b>2,851,489</b>

Staff costs disclosed above do not include an amount of HK\$397,294,000 (2009: HK\$469,794,000) relating to research and development activities, which is included under research and development costs.

### 13. Director's Emoluments

The emoluments paid or payable to each of the 11 (2009: 11) directors were as follows:

#### For the year ended December 31, 2010

	Other emoluments					Total HK\$'000
	Fees HK\$'000	Basic salaries and allowances HK\$'000	Contributions to retirement benefits schemes HK\$'000	Bonus paid HK\$'000	Share- based payments HK\$'000	
Mr Horst Julius Pudwill	—	12,148	12	13,400	722	26,282
Mr Joseph Galli Jr	—	9,360	12	18,720	1,045	29,137
Prof Roy Chi Ping Chung JP	—	6,583	12	1,806	627	9,028
Mr Kin Wah Chan	—	4,811	12	1,351	1,045	7,225
Mr Chi Chung Chan	—	4,811	12	1,374	1,045	7,242
Mr Stephan Horst Pudwill	—	1,830	12	295	1,045	3,182
Mr Vincent Ting Kau Cheung	250	190	—	—	418	858
Mr Joel Arthur Schleicher	250	375	—	—	418	1,043
Mr Christopher Patrick Langley OBE	250	350	—	—	418	1,018
Mr Manfred Kuhlmann	250	350	—	—	418	1,018
Mr Peter David Sullivan	250	290	—	—	418	958
<b>Total</b>	<b>1,250</b>	<b>41,104</b>	<b>72</b>	<b>36,946</b>	<b>7,619</b>	<b>86,991</b>

#### For the year ended December 31, 2009

	Other emoluments					Total HK\$'000
	Fees HK\$'000	Basic salaries and allowances HK\$'000	Contributions to retirement benefits schemes HK\$'000	Bonus paid HK\$'000	Share- based payments HK\$'000	
Mr Horst Julius Pudwill	—	12,148	12	13,399	83	25,642
Mr Joseph Galli Jr	—	9,360	12	14,040	138	23,550
Prof Roy Chi Ping Chung JP	—	6,583	12	2,306	83	8,984
Mr Kin Wah Chan	—	4,811	12	976	138	5,937
Mr Chi Chung Chan	—	4,811	12	1,101	138	6,062
Mr Stephan Horst Pudwill	—	1,620	12	685	138	2,455
Mr Vincent Ting Kau Cheung	250	190	—	—	55	495
Mr Joel Arthur Schleicher	250	395	—	—	55	700
Mr Christopher Patrick Langley OBE	250	370	—	—	55	675
Mr Manfred Kuhlmann	250	370	—	—	55	675
Mr Peter David Sullivan	250	131	—	—	55	436
<b>Total</b>	<b>1,250</b>	<b>40,789</b>	<b>72</b>	<b>32,507</b>	<b>993</b>	<b>75,611</b>

The bonus paid were based on performance of the Group.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 14. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, five (2009: three) were group directors of the Company whose emoluments are included in Note 13 above. The emoluments of the remaining two individuals for the year ended December 31, 2009 were as follows:

	2010 HK\$'000	2009 HK\$'000
Basic salaries and allowances	—	5,704
Contributions to retirement benefits schemes	—	55
Bonus paid	—	6,531
Share-based payments	—	69
	—	12,359

The emoluments of these two highest paid individuals for the year ended December 31, 2009 were within the following band:

	No. of persons	
HK\$	2010	2009
6,000,001 - 6,500,000	—	2

During each of the two years ended December 31, 2010 and 2009, 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

	2010 HK\$'000	2009 HK\$'000
Dividends recognised as distributions during the year:		
Final dividend paid:		
2009: HK4.50 cents (2008: HK3.00 cents) per share	72,277	45,038
Interim dividend paid:		
2010: HK3.75 cents (2009: HK3.00 cents) per share	60,231	47,737
	132,508	92,775

The final dividend of HK6.25 cents per share in respect of the year ended December 31, 2010 (2009: final dividend of HK4.50 cents per share in respect of the year ended December 31, 2009) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

## 16. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to Owners of the Company is based on the following data:

	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the year attributable to Owners of the Company	<b>740,140</b>	490,658
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,601,053,496</b>	1,539,717,905
Effect of dilutive potential ordinary shares:		
Share options	<b>963,952</b>	49,116
Warrants	—	7,807,271
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,602,017,448</b>	1,547,574,292

The computation of diluted earnings per share for the year ended December 31, 2010 and December 31, 2009 does not assume the conversion of the Company's convertible bonds since their exercise would result in an increase in earnings per share and does not assume the exercise of the Company's outstanding share options if the exercise price of those options is higher than the average market price for shares for both 2010 and 2009.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 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
<b>The Group</b>									
<b>Cost</b>									
At January 1, 2009	1,058,619	273,495	967,128	1,927,788	35,567	1,588,855	8,373	281,559	6,141,384
Currency realignment	(4,874)	1,327	12,136	3,737	502	3,613	—	217	16,658
Additions	922	11,552	66,603	55,268	2,456	410,938	38	148,884	696,661
Disposal of a subsidiary	(494)	—	(391)	—	(86)	—	—	—	(971)
Disposals	(57,576)	(4,686)	(14,698)	(80,618)	(3,385)	(31,867)	—	(580)	(193,410)
Reclassification	193,815	82,463	43,083	16,173	(137)	13,917	—	(349,314)	—
<b>At December 31, 2009</b>	<b>1,190,412</b>	<b>364,151</b>	<b>1,073,861</b>	<b>1,922,348</b>	<b>34,917</b>	<b>1,985,456</b>	<b>8,411</b>	<b>80,766</b>	<b>6,660,322</b>
Currency realignment	(17,682)	5,143	(5,582)	(21,998)	8	(37,068)	—	1,347	(75,832)
Additions	151,627	8,443	41,732	100,520	5,012	102,260	17,854	297,715	725,163
Acquisition of subsidiaries / business (note 48)	—	—	—	1,301	42	—	—	—	1,343
Disposals	(124)	(34,484)	(44,912)	(189,158)	(3,253)	(95,423)	(8,411)	(15)	(375,780)
Reclassification	9,724	19,149	20,774	4,548	203	25,715	—	(80,113)	—
<b>At December 31, 2010</b>	<b>1,333,957</b>	<b>362,402</b>	<b>1,085,873</b>	<b>1,817,561</b>	<b>36,929</b>	<b>1,980,940</b>	<b>17,854</b>	<b>299,700</b>	<b>6,935,216</b>
<b>Depreciation</b>									
At January 1, 2009	386,741	82,762	705,578	1,268,751	20,755	1,314,638	7,245	—	3,786,470
Currency realignment	(874)	(73)	5,360	268	226	3,496	—	—	8,403
Provided for the year	45,010	28,802	120,654	162,806	5,806	170,748	1,127	—	534,953
Disposal of a subsidiary	(344)	—	(303)	—	(47)	—	—	—	(694)
Eliminated on disposals	(20,575)	(3,153)	(14,031)	(78,340)	(2,270)	(31,020)	—	—	(149,389)
Reclassification	—	(22)	1,147	(1,142)	96	(79)	—	—	—
<b>At December 31, 2009</b>	<b>409,958</b>	<b>108,316</b>	<b>818,405</b>	<b>1,352,343</b>	<b>24,566</b>	<b>1,457,783</b>	<b>8,372</b>	<b>—</b>	<b>4,179,743</b>
Currency realignment	(11,804)	505	(7,072)	(27,037)	(169)	(35,969)	—	—	(81,546)
Provided for the year	45,596	30,556	95,088	131,226	5,058	239,282	2,079	—	548,885
Eliminated on disposals	(124)	(25,861)	(44,160)	(183,707)	(2,608)	(94,640)	(8,376)	—	(359,476)
<b>At December 31, 2010</b>	<b>443,626</b>	<b>113,516</b>	<b>862,261</b>	<b>1,272,825</b>	<b>26,847</b>	<b>1,566,456</b>	<b>2,075</b>	<b>—</b>	<b>4,287,606</b>
<b>Carrying amounts</b>									
<b>At December 31, 2010</b>	<b>890,331</b>	<b>248,886</b>	<b>223,612</b>	<b>544,736</b>	<b>10,082</b>	<b>414,484</b>	<b>15,779</b>	<b>299,700</b>	<b>2,647,610</b>
At December 31, 2009	780,454	255,835	255,456	570,005	10,351	527,673	39	80,766	2,480,579

## 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
<b>The Company</b>							
<b>Cost</b>							
At January 1, 2009	65,945	24,690	116,684	130,757	6,747	259,774	604,597
Additions	—	387	6,255	7,687	—	53,799	68,128
Transfer to subsidiaries	—	—	(34,365)	(86,720)	(1,323)	(234,832)	(357,240)
Disposals	(34,759)	(620)	(846)	(4,558)	(35)	—	(40,818)
At December 31, 2009	31,186	24,457	87,728	47,166	5,389	78,741	274,667
Additions	—	188	9,309	154	100	4,782	14,533
Disposals	—	(57)	(96)	(316)	(435)	(500)	(1,404)
<b>At December 31, 2010</b>	<b>31,186</b>	<b>24,588</b>	<b>96,941</b>	<b>47,004</b>	<b>5,054</b>	<b>83,023</b>	<b>287,796</b>
<b>Depreciation</b>							
At January 1, 2009	31,427	18,787	83,580	89,035	3,913	165,605	392,347
Provided for the year	2,522	3,980	19,761	16,670	1,157	51,096	95,186
Transfer to subsidiaries	—	—	(28,125)	(70,109)	(1,322)	(161,206)	(260,762)
Eliminated on disposals	(19,915)	(610)	(781)	(4,368)	(35)	—	(25,709)
At December 31, 2009	14,034	22,157	74,435	31,228	3,713	55,495	201,062
Provided for the year	1,247	1,863	7,380	6,901	1,082	11,918	30,391
Eliminated on disposals	—	(44)	(96)	(316)	(435)	(500)	(1,391)
<b>At December 31, 2010</b>	<b>15,281</b>	<b>23,976</b>	<b>81,719</b>	<b>37,813</b>	<b>4,360</b>	<b>66,913</b>	<b>230,062</b>
<b>Carrying amounts</b>							
<b>At December 31, 2010</b>	<b>15,905</b>	<b>612</b>	<b>15,222</b>	<b>9,191</b>	<b>694</b>	<b>16,110</b>	<b>57,734</b>
At December 31, 2009	17,152	2,300	13,293	15,938	1,676	23,246	73,605

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

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

The above property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, at the following rates per annum:

Freehold land	Nil
Buildings	4%
Leasehold improvements	6 <sup>2</sup> / <sub>3</sub> % - 25%
Office equipment, furniture and fixtures	10% - 33 <sup>1</sup> / <sub>3</sub> %
Plant and machinery	10% - 25%
Motor vehicles	18% - 25%
Moulds and tooling	20% - 33 <sup>1</sup> / <sub>3</sub> %
Vessels	20%

The net book values of properties shown above comprise:

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Land and buildings are situated outside Hong Kong and are analysed as follows:				
Freehold	<b>704,813</b>	584,281	—	—
Medium-term lease	<b>185,518</b>	196,173	<b>15,905</b>	17,152
	<b>890,331</b>	780,454	<b>15,905</b>	17,152

The net book values of the Group's and the Company's property, plant and equipment include amounts of approximately HK\$62,879,000 and HK\$288,000 respectively (2009: HK\$88,109,000 and HK\$1,647,000 respectively) in respect of assets held under finance leases.

The gross carrying amount of the Group's and the Company's property, plant and equipment include amounts of approximately HK\$2,401,709,000 and HK\$148,948,000 (2009: HK\$2,376,762,000 and HK\$119,808,000) respectively in respect of fully depreciated property, plant and equipment that is still in use.

## 18. Lease Prepayments

	The Group HK\$'000	The Company HK\$'000
<b>Cost</b>		
At January 1, 2009	291,930	6,449
Currency realignment	(874)	—
Additions	337	—
Disposals	(7,524)	(6,449)
At December 31, 2009	283,869	—
Currency realignment	10,325	—
Disposals	(3,090)	—
<b>At December 31, 2010</b>	<b>291,104</b>	<b>—</b>
<b>Amortisation</b>		
At January 1, 2009	8,357	2,193
Currency realignment	(22)	—
Provided for the year	2,267	118
Elimination on disposal	(2,311)	(2,311)
December 31, 2009	8,291	—
Currency realignment	392	—
Provided for the year	5,717	—
<b>At December 31, 2010</b>	<b>14,400</b>	<b>—</b>
<b>Carrying amounts</b>		
<b>At December 31, 2010</b>	<b>276,704</b>	<b>—</b>
At December 31, 2009	275,578	—

All lease prepayments are medium-term leases outside Hong Kong.

## 19. Goodwill

	The Group HK\$'000
<b>Cost</b>	
At January 1, 2009	4,071,585
Currency realignment	(7,101)
At December 31, 2009	4,064,484
Currency realignment	(3,129)
Arising on acquisition of subsidiaries / business (note 48)	71,744
<b>At December 31, 2010</b>	<b>4,133,099</b>

Particulars regarding impairment testing of goodwill are disclosed in Note 21.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 20. Intangible Assets

	Deferred development costs HK\$'000	Patents HK\$'000	Trademarks HK\$'000	Manufacturing know-how HK\$'000	Retailer and service relationships HK\$'000	Total HK\$'000
<b>The Group</b>						
<b>Cost</b>						
At January 1, 2009	1,140,541	233,597	1,494,280	3,510	50,570	2,922,498
Currency realignment	639	(330)	(3,097)	—	(130)	(2,918)
Additions	409,841	23,047	170	—	—	433,058
Written off in the year	—	(3,206)	(1,016)	—	—	(4,222)
At December 31, 2009	1,551,021	253,108	1,490,337	3,510	50,440	3,348,416
Currency realignment	2,310	638	4,941	14	130	8,033
Additions	402,284	12,959	233	—	—	415,476
Written off in the year	—	(340)	(30)	—	—	(370)
Acquisition of subsidiaries / business (note 48)	17,110	37,270	2,095	—	—	56,475
<b>At December 31, 2010</b>	<b>1,972,725</b>	<b>303,635</b>	<b>1,497,576</b>	<b>3,524</b>	<b>50,570</b>	<b>3,828,030</b>
<b>Amortisation</b>						
At January 1, 2009	330,390	101,969	37,552	3,510	2,529	475,950
Currency realignment	498	(55)	(26)	—	(10)	407
Provided for the year	230,398	27,981	8,342	—	2,525	269,246
Eliminated on write off	—	(3,206)	(1,016)	—	—	(4,222)
At December 31, 2009	561,286	126,689	44,852	3,510	5,044	741,381
Currency realignment	(693)	248	23	14	16	(392)
Provided for the year	289,886	29,679	8,556	—	2,525	330,646
Eliminated on write off	—	(340)	(30)	—	—	(370)
<b>At December 31, 2010</b>	<b>850,479</b>	<b>156,276</b>	<b>53,401</b>	<b>3,524</b>	<b>7,585</b>	<b>1,071,265</b>
<b>Carrying Amounts</b>						
<b>At December 31, 2010</b>	<b>1,122,246</b>	<b>147,359</b>	<b>1,444,175</b>	<b>—</b>	<b>42,985</b>	<b>2,756,765</b>
At December 31, 2009	989,735	126,419	1,445,485	—	45,396	2,607,035

## 20. Intangible Assets *(continued)*

	Deferred development costs HK\$'000	Patents HK\$'000	Trademarks HK\$'000	Manufacturing know-how HK\$'000	Total HK\$'000
<b>The Company</b>					
<b>Cost</b>					
At January 1, 2009	552,305	66,592	110,558	71,863	801,318
Additions	—	7,349	—	—	7,349
Transfer to subsidiaries	—	(21,681)	(110,558)	(71,863)	(204,102)
At December 31, 2009	552,305	52,260	—	—	604,565
Additions	651	—	—	—	651
Transfer to subsidiaries	(651)	—	—	—	(651)
<b>At December 31, 2010</b>	<b>552,305</b>	<b>52,260</b>	<b>—</b>	<b>—</b>	<b>604,565</b>
<b>Amortisation</b>					
At January 1, 2009	127,142	52,107	—	—	179,249
Provided for the year	109,296	7,663	—	—	116,959
Transfer to subsidiaries	—	(7,563)	—	—	(7,563)
At December 31, 2009	236,438	52,207	—	—	288,645
Provided for the year	111,626	21	—	—	111,647
<b>At December 31, 2010</b>	<b>348,064</b>	<b>52,228</b>	<b>—</b>	<b>—</b>	<b>400,292</b>
<b>Carrying Amounts</b>					
<b>At December 31, 2010</b>	<b>204,241</b>	<b>32</b>	<b>—</b>	<b>—</b>	<b>204,273</b>
At December 31, 2009	315,867	53	—	—	315,920

The retailer and service relationships were acquired through business combinations which related to the relationships with retailers and service centres.

Deferred development costs are internally generated.

Included in trademarks of the Group, HK\$1,378,653,000 (2009: HK\$1,375,109,000) are trademarks with an indefinite useful life, considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until their useful life is determined to be finite. Instead they will be tested for impairment annually or whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 21.

The above intangible assets, other than trademarks with indefinite useful lives, are amortised on a straight-line basis, at the following rates per annum:

Deferred development costs	20% - 33 $\frac{1}{3}$ %
Patents	10% - 25%
Trademarks with finite useful lives	10% - 25%
Retailer and service relationships	5%

For the year ended December 31, 2010

### 21. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives

As explained in Note 5, the Group uses the types of good sold for operating segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 19 and 20 have been allocated to five major individual cash generating units (CGUs), including four units in the Power Equipment segment and one unit in the Floor Care and Appliances segment. The carrying amounts of goodwill and trademarks as at December 31, 2010 allocated to these units are as follows:

	Goodwill		Trademarks	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Power Equipment – MET	3,138,904	3,130,835	901,756	899,438
Power Equipment – HCP	58,439	58,438	235,717	235,111
Power Equipment – Drebo	192,878	204,176	—	—
Power Equipment – Baja	70,331	70,331	24,896	24,832
Floor Care and Appliances – RAM/Hoover	583,064	537,577	216,284	215,728
Others	89,483	63,127	—	—
	<b>4,133,099</b>	4,064,484	<b>1,378,653</b>	1,375,109

No goodwill impairment has been recognised for the year ended December 31, 2010 and December 31, 2009.

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

#### Power Equipment - MET (“MET”)

The recoverable amount of MET has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10-year period and a discount rate of 10.9% (2009: 11.0%) per annum.

Cash flow projections during the budget period for MET are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimation are based on MET’s past performance, management’s expectation for the market development, the success in reducing the working capital requirements and the success of the cost cutting strategy implemented by the Group with the strategic repositioning plan. Cash flow projections beyond the 10-year period are extrapolated using a steady 3.0% (2009: 3.0%) growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of MET to exceed the aggregate recoverable amount of MET.

#### Power Equipment - HCP (“HCP”)

The recoverable amount of HCP has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 11.0% (2009: 11.0%) per annum.

Cash flow projections during the budget period for HCP are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimation are based on HCP’s past performance, management’s expectation for the market development, the success in new products launched in 2010 and the success of the cost cutting strategy implemented with the strategic repositioning plan. Cash flow projections beyond the 5-year period are extrapolated without considering any growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of HCP to exceed the aggregate recoverable amount of HCP.

## 21. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives *(continued)*

### **Power Equipment - Drebo (“Drebo”)**

The recoverable amount of Drebo has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 12.0% (2009: 11.0%) per annum.

Cash flow projections during the budget period for Drebo are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimation are based on Drebo’s past performance, management’s expectation for the market development, the success in new products launched in 2010 and the cost cutting strategies implemented with the strategic repositioning plan. Cash flow projections beyond the 5-year period are extrapolated without considering any growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Drebo to exceed the aggregate recoverable amount of Drebo.

### **Power Equipment - Baja (“Baja”)**

The recoverable amount of Baja has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 16.0% (2009: 16.0%) per annum.

Cash flow projections during the budget period for Baja are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses and working capital requirements. The assumptions and estimation are based on Baja’s past performance, management’s expectation for the market development and the success of the cost cutting strategies implemented with the strategic repositioning plan. Cash flow projections beyond the 5-year period are extrapolated using a steady 3.0% (2009: Nil) growth rate.

The recoverable amount of Baja is close to its carrying amount.

### **Floor Care and Appliances - RAM/Hoover (“RAM/Hoover”)**

The recoverable amount of RAM/Hoover has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 15.0% (2009: 14.0%) per annum.

Cash flow projections during the budget period for RAM/Hoover are based on management’s estimation of cash inflows/outflows including sales, gross margin, operating expenses, capital expenditures and working capital requirements. The assumptions and estimation are based on RAM/Hoover’s past performance, management’s expectation for the market development, the success in reducing the working capital requirements and the success of the cost cutting strategies implemented with the strategic repositioning plan. Cash flow projections beyond the 5-year period are extrapolated without considering any growth rate.

The recoverable amount of the RAM/Hoover cash generating unit exceeds its carrying amount.

Average gross profit margin was a key assumption used in determining the value in use of the cash generating unit. The average gross profit margin would have to decrease by 2.0% in order for the aggregate of the cash generating unit’s recoverable amount to be equal to its carrying amount. Management considers the average forecast gross profit margin achievable due to the benefits of the strategic repositioning plan and other cost saving measures to be implemented in 2011.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 22. Investments in Subsidiaries/Loans to Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2010 and December 31, 2009 are set out in Note 56.

Loans to subsidiaries are unsecured, bear interest at 5.275% to 10.15% (2009: 7.875% to 10.15%) and are repayable in 2018 and 2020.

### 23. Interests in Associates

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Unlisted shares, at cost less impairment loss recognised	—	—	23,790	23,790
Share of net assets	8,958	10,165	—	—
Amounts due from associates	178,725	185,484	168,903	175,485
	<b>187,683</b>	195,649	<b>192,693</b>	199,275

Particulars of the associates as at December 31, 2010 and December 31, 2009 are set out in Note 57.

The amounts due from associates are unsecured, non-interest bearing and are 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 assets.

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

	2010 HK\$'000	2009 HK\$'000
Total assets	160,394	129,953
Total liabilities	(124,562)	(89,295)
Net assets	35,832	40,658
Group's share of net assets of associates	8,958	10,165
Turnover	264,565	229,803
(Loss) profit for the year	(4,826)	685
Group's share of result of associates for the year	(1,207)	(987)

At the end of the reporting period, amongst the associates, the Group held 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together "Gimelli Group companies"). The Group has discontinued recognising its share of the losses of the Gimelli Group companies. The unrecognised share of profit (loss) for the year and cumulatively, extracted from the relevant management accounts of the associates, are HK\$220,000 (2009: HK\$1,891,000) and (HK\$37,731,000) (2009: (HK\$37,951,000)) respectively.

## 24. Available-for-sale Investments

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Unlisted equity securities and club membership debentures, at cost less impairment loss recognised	<b>9,879</b>	22,701	<b>1,695</b>	1,695

As at December 31, 2010, all available-for-sale investments represent investments in unlisted equity securities and club membership debentures. They are measured at cost less impairment at each reporting 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.

During the year, the Group recognised HK\$13,363,000 impairment on an available-for-sale investment.

## 25. Inventories

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Raw materials	<b>800,179</b>	809,185	—	13,058
Work in progress	<b>135,143</b>	103,091	—	—
Finished goods	<b>4,091,855</b>	3,853,946	<b>36,460</b>	21,518
	<b>5,027,177</b>	4,766,222	<b>36,460</b>	34,576

## 26. Trade and other Receivables

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Trade receivables	<b>4,644,821</b>	4,223,737	<b>69,913</b>	99,372
Less: Allowances for doubtful debts	<b>(121,120)</b>	(117,864)	—	(3,412)
	<b>4,523,701</b>	4,105,873	<b>69,913</b>	95,960
Other receivables	<b>296,603</b>	343,771	—	—
	<b>4,820,304</b>	4,449,644	<b>69,913</b>	95,960

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 26. Trade and other Receivables *(continued)*

The aged analysis of trade receivables, net of allowances for doubtful debts, presented based on the invoice date at the end of the reporting period is as follows:

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
0 to 60 days	4,272,201	3,791,142	66,724	79,077
61 to 120 days	126,453	176,348	—	2,588
121 days or above	125,047	138,383	3,189	14,295
Total trade receivables	4,523,701	4,105,873	69,913	95,960

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with a carrying amount of HK\$125,047,000 (2009: HK\$138,383,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 266 days (2009: 277 days).

The Group has a policy of allowing credit periods ranging from 60 days to 120 days. Trade receivables that were past due but not provided for impairment loss are related to a number of independent customers that have a good track record with the Group. The management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Ageing of trade receivables which are past due but not impaired

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
121 - 365 days	118,783	128,519	110	3,952
1 - 2 years	1,147	846	58	4,212
Over 2 years	5,117	9,018	3,021	6,131
Total	125,047	138,383	3,189	14,295

## 26. Trade and other Receivables *(continued)*

Movement in the allowance for doubtful debts

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	117,864	101,207	3,412	—
Currency realignment	(3,252)	1,675	—	—
Impairment losses recognised on receivables	44,645	64,054	—	3,412
Amounts written off as uncollectible	(23,999)	(27,802)	—	—
Amounts recovered during the year	(14,138)	(21,270)	(3,412)	—
Balance at end of the year	121,120	117,864	—	3,412

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to HK\$121,120,000 (2009: HK\$117,864,000) which have the worst credit scoring attributable under the internal credit scoring system used by the Group. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables (by invoice date)

	2010 HK\$'000	2009 HK\$'000
0 - 120 days	31,881	69,396
121 - 365 days	60,440	32,879
1 - 2 years	23,058	9,758
Over 2 years	5,741	5,831
Total	121,120	117,864

Under certain receivables purchase agreements, a percentage in various pools of trade receivables were factored to banks (the "Factored Trade Receivables"). As the Group still retained the risks associated in respect of default payments, the Group continued to recognise the Factored Trade Receivables in the consolidated statement of financial position. At the end of the reporting period, proceeds from the Factored Trade Receivables of approximately HK\$558,604,000 (2009: HK\$547,744,000) were recognised as liabilities and included in "Unsecured borrowings - due within one year" in the consolidated statement of financial position.

## 27. Bills Receivable

All the Group's and Company's bills receivable at December 31, 2010 and 2009 are due within 120 days.

## 28. Amounts Due from/(to) Subsidiaries

The amounts are unsecured, interest-free and payable on demand.

## 29. Trade Receivables from Associates

The trade receivables from associates are aged less than 30 days and are due within 120 days.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 30. Derivative Financial Instruments

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Assets</b>				
Foreign currency forward contracts	80,580	18,485	42,405	10,470
Interest rate swap	—	3,428	—	3,428
Warrants	4,306	—	4,306	—
	<b>84,886</b>	21,913	<b>46,711</b>	13,898
<b>Liabilities</b>				
Foreign currency forward contracts	20,327	7,158	17,285	—
Interest rate swap	18,278	—	18,278	—
	<b>38,605</b>	7,158	<b>35,563</b>	—

#### Foreign Currency Forward Contracts (not under hedge accounting)

The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Major terms of the foreign currency forward contracts are as follows:

#### The Group

##### 2010

Notional amount	Maturity	Exchange rates
Sell US\$ 250M, Buy RMB	January 3, 2011 to December 26, 2011	RMB 6.5227 to 6.7968 : US\$ 1
Sell EUR 108M, Buy US\$	January 3, 2011 to October 31, 2011	EUR 1.3510 to 1.4000 : US\$ 1
Buy US\$ 65M, Sell RMB	August 29, 2011 to December 27, 2011	RMB 6.4860 to 6.5805 : US\$ 1
Buy US\$ 11.5M, Sell GBP	January 13, 2011 to June 17, 2011	US\$ 1.5855 to 1.5876 : GBP 1
Buy US\$ 30M, Sell GBP	January 12, 2011 to May 18, 2011	US\$ 1.5542 to 1.6219 : GBP 1
Sell US\$ 45M, Buy RMB	October 12, 2011 to December 26, 2011	RMB 6.5227 to 6.5625 : US\$ 1
Buy US\$ 185M, Sell RMB	January 4, 2011 to September 9, 2011	RMB 6.6050 to 6.7260 : US\$ 1
Buy US\$ 85M, Sell HK\$	May 10, 2012	HK\$ 7.7200 : US\$ 1
Buy US\$ 0.79M, Sell NZ\$	January 31, 2011	NZ\$ 1.4085 : US\$ 1

##### 2009

Notional amount	Maturity	Exchange rates
Buy US\$ 90M, Sell RMB	February 24, 2010 to December 2, 2010	RMB 6.5960 to 6.8313 : US\$ 1
Sell US\$ 93M, Buy RMB	February 24, 2010 to September 7, 2011	RMB 6.6850 to 6.9500 : US\$ 1
Buy US\$ 29.5M, Sell GBP	January 14, 2010 to June 25, 2010	US\$ 1.5797 to 1.6818 : GBP 1
Sell CA\$ 9.15M, Buy US\$	January 11, 2010 to June 30, 2010	CA\$ 1.0577 to 1.0810 : US\$ 1
Buy US\$ 5M, Sell AU\$	January 27, 2010	AU\$ 0.8200 : US\$ 1

### 30. Derivative Financial Instruments *(continued)*

#### Foreign Currency Forward Contracts (not under hedge accounting) *(continued)*

##### The Company

##### 2010

Notional amount	Maturity	Exchange rates
Buy US\$ 185M, Sell RMB	January 4, 2011 to September 9, 2011	RMB 6.6050 to 6.7260 : US\$ 1
Buy US\$ 85M, Sell HK\$	May 10, 2012	HK\$ 7.7200 : US\$ 1
Sell EUR 108M, Buy US\$	January 3, 2011 to October 31, 2011	EUR 1.3510 to 1.4000 : US\$ 1
Buy US\$ 65M, Sell RMB	August 29, 2011 to December 27, 2011	RMB 6.4860 to 6.5805 : US\$ 1

##### 2009

Notional amount	Maturity	Exchange rates
Buy US\$ 90M, Sell RMB	February 24, 2010 to December 2, 2010	RMB 6.5960 to 6.8313 : US\$ 1
Sell US\$ 3M, Buy RMB	September 7, 2011	RMB 6.9500 to US\$ 1

#### Interest Rate Swap (not under hedge accounting)

The fair value of the interest rate swap of the Group and the Company is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Major terms of the interest rate swap are as follow:

Notional amount	Maturity	Receive floating	Pay fixed
US\$ 50,000,000	May 4, 2016	LIBOR	3.1%

#### Warrants

At December 31, 2010, the Group and the Company owns 2,222,222 warrants to acquire the ordinary shares of a listed company in US. The fair value of the warrants is determined by an option pricing model.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 31. Held-for-Trading Investments

The Group's and the Company's held-for-trading investments at December 31, 2010 and 2009 are carried at fair value using the market bid prices on the closing date method.

Held-for-trading investments include:

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Equity securities:</b>				
– Unlisted fund with quoted market price	279	—	—	—
– Listed in US	83,427	75,677	83,427	75,677
	<b>83,706</b>	75,677	<b>83,427</b>	75,677

The Group and the Company hold more than 20 per cent of the voting power in the equity securities of a company listed in the US but it has no significant influence over the investee. In making their assessment, the directors considered the definition of significant influence in HKAS 28 Investment in Associates and, in particular, whether the Group has the power to participate in the financial and operating policy decisions of the investee. Considering that the Group has no representative on the investee's board of directors and no right to appoint or remove a director to the board of directors, no exchange of management personnel with the investee nor any participation in the investee's policy-making process, the directors of the Company concluded that the Group and the Company have no significant influence over the investee.

### 32. Bank Balances, Deposits and Cash/Bank Overdrafts

Bank balances carry interest at market rates which range from 0.11% to 0.23% (2009: 0.11% to 0.44%). Bank overdrafts carry interest at market rates which range from 3.25% to 5.00% (2009: 3.25% to 5.00%).

### 33. Trade and other Payables

The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
0 to 60 days	1,692,314	1,769,545	160,527	123,334
61 to 120 days	407,937	554,294	107,356	86,065
121 days or above	59,707	148,124	25,249	34,758
Total trade payables	2,159,958	2,471,963	293,132	244,157
Other payables	1,609,509	1,384,872	73,603	105,982
	<b>3,769,467</b>	3,856,835	<b>366,735</b>	350,139

The credit period on the purchase of goods is ranging from 30 days to 120 days (2009: 30 days to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

### 34. Bills Payable

All the Group's and Company's bills payable at December 31, 2010 and 2009 are due within 120 days.

### 35. Warranty Provision

	The Group 2010 HK\$'000	The Company 2010 HK\$'000
At January 1, 2010	385,903	86,923
Currency realignment	(1,821)	—
Additional provision in the year	787,787	25,315
Utilisation of provision	(799,796)	(93,177)
At December 31, 2010	372,073	19,061

The warranty provision represents management's best estimate of the Group's outstanding liabilities on products sold, based on prior experience and industry averages for defective products. It is expected that the majority of this expenditure will be incurred in the next financial year.

### 36. Trade Payable to an Associate

The trade payable to an associate is aged of less than 120 days and payable within one year.

### 37. Restructuring Provision

	2010 HK\$'000
At January 1, 2010	9,020
Currency realignment	(6,705)
Charge for the year	207,890
Utilisation of provision	(30,955)
At December 31, 2010	179,250

The provision relates to the restructuring of the Group's manufacturing facilities in Germany. The balance of the provision is expected to be utilised in 2011 and there are no significant uncertainties regarding the amounts or timing of these cash flows.

The management of the Group expects that after the completion of the restructuring plan, there will be substantial savings in 2011 and afterwards.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 38. Obligations under Finance Leases

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

The maturity of obligations under finance leases is as follows:

	The Group				The Company			
	Minimum lease payments		Present value of minimum lease payments		Minimum lease payments		Present value of minimum lease payments	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Amounts payable under finance leases:								
Within one year	27,442	28,512	23,110	21,119	314	579	308	548
In more than one year								
but not more than two years	15,143	27,885	12,210	20,927	—	431	—	424
In more than two years								
but not more than three years	8,742	24,120	6,436	18,017	—	—	—	—
In more than three years								
but not more than four years	7,279	7,260	5,454	5,021	—	—	—	—
In more than four years								
but not more than five years	7,279	7,260	5,909	5,440	—	—	—	—
More than five years	17,992	25,206	14,564	20,421	—	—	—	—
	83,877	120,243	67,683	90,945	314	1,010	308	972
Less: future finance charges	(16,194)	(29,298)	—	—	(6)	(38)	—	—
Present value of lease obligations	67,683	90,945	67,683	90,945	308	972	308	972
Less: Amount due within one year shown under current liabilities			(23,110)	(21,119)			(308)	(548)
Amount due after one year			44,573	69,826			—	424

The Group's obligations under finance leases are secured by charges over the leased assets.

### 39. Discounted Bills with Recourse

Bills discounted with a bank at an effective interest rate of 1.78% per annum (2009: 2.40% per annum) have a maturity profile of less than 120 days.

## 40. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt (which includes borrowings, discounted bills with recourse, convertible bonds and obligations under finance leases), net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

### Gearing ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 35% determined as the proportion of net debt to equity. Based on the management's recommendations, the Group expects to decrease its gearing ratio comparable to that of the 2009 level within the next 18 months through the continued generation of cash inflows by growth of the business.

The gearing ratio at the year end was as follows:

	2010 HK\$'000	2009 HK\$'000
Debt (i)	10,336,124	8,874,807
Cash and cash equivalents	(4,000,566)	(3,322,753)
Net debt	6,335,558	5,552,054
Equity (ii)	8,695,105	8,081,962
Net debt to equity ratio	72.86%	68.70%

(i) Debt comprises bank overdrafts, obligations under finance leases, discounted bills with recourse, unsecured borrowings and convertible bonds but excludes bank advance from factored trade receivables as detailed in Notes 32, 38, 39, 42 and 43 respectively.

(ii) Equity includes all capital and reserves attributable to the owners of the Company.

In addition, based on management recommendations, the Group will balance its overall capital structure through the payment of dividends, new share issues and share repurchases as well as the issue of new debt or the redemption of existing debt.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 41. Financial Instruments

#### 41.1 Categories of financial instruments

	2010 HK\$'000	2009 HK\$'000
<b>The Group</b>		
<b>Financial assets</b>		
<i>Fair value through profit or loss</i>		
Held-for-trading investments	<b>83,706</b>	75,677
<i>Derivative financial instruments</i>		
Foreign currency forward contracts	<b>80,580</b>	18,485
Interest rate swap	—	3,428
Warrants	<b>4,306</b>	—
	<b>84,886</b>	21,913
<i>Available-for-sale investments</i>	<b>9,879</b>	22,701
<i>Loans and receivables (including cash and cash equivalents)</i>		
Trade and other receivables	<b>4,820,304</b>	4,449,644
Bills receivable	<b>303,222</b>	267,752
Trade receivables from associates	<b>296</b>	13
Bank balances, deposits and cash	<b>4,000,566</b>	3,322,753
Amount due from associates	<b>178,725</b>	185,484
	<b>9,303,113</b>	8,225,646
<b>Financial liabilities</b>		
<i>Derivative financial instruments</i>		
Foreign currency forward contracts	<b>20,327</b>	7,158
Interest rate swap	<b>18,278</b>	—
	<b>38,605</b>	7,158
<i>Other financial liabilities</i>		
Trade and other payables	<b>3,769,467</b>	3,856,835
Bills payable	<b>430,617</b>	720,550
Trade payable to an associate	<b>32,187</b>	5,307
Obligations under finance leases	<b>67,683</b>	90,945
Discounted bills with recourse	<b>3,206,539</b>	2,566,158
Unsecured borrowings	<b>6,453,819</b>	5,600,490
Bank overdrafts	<b>174,330</b>	214,756
Convertible bonds	<b>992,357</b>	950,202
	<b>15,126,999</b>	14,005,243

## 41. Financial Instruments *(continued)*

### 41.1 Categories of financial instruments *(continued)*

	2010 HK\$'000	2009 HK\$'000
<b>The Company</b>		
<b>Financial assets</b>		
<i>Fair value through profit or loss</i>		
Held-for-trading investments	83,427	75,677
<i>Derivative financial instruments</i>		
Foreign currency forward contracts	42,405	10,470
Interest rate swap	—	3,428
Warrants	4,306	—
	46,711	13,898
<i>Available-for-sale investments</i>	1,695	1,695
<i>Loans and receivables (including cash and cash equivalents)</i>		
Trade and other receivables	69,913	95,960
Bills receivables	82,840	60,693
Amounts due from associates	168,903	175,485
Bank balances, deposits and cash	1,341,014	977,356
Loans to/Amounts due from subsidiaries	10,967,121	10,091,723
	12,629,791	11,401,217
<b>Financial liabilities</b>		
<i>Derivative financial instruments</i>		
Foreign currency forward contract	17,285	—
Interest rate swap	18,278	—
	35,563	—
<i>Other financial liabilities</i>		
Trade and other payables	366,735	350,139
Bills payable	335,356	546,635
Trade payable to an associate	32,187	5,307
Amounts due to subsidiaries	1,186,742	2,929,946
Obligations under finance leases	308	972
Discounted bills with recourse	2,526,881	1,514,007
Unsecured borrowings	3,995,869	1,716,521
Convertible bonds	992,357	950,202
	9,436,435	8,013,729

For the year ended December 31, 2010

## 41. Financial Instruments *(continued)*

### 41.2 Financial Risk Management Objectives and Policies

The Group's Corporate Treasury function provides risk management advice to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These financial risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments or natural hedges to mitigate these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade derivative financial instruments for speculative purposes.

#### 41.2.1 Foreign Currency Risk Management

Subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 24.6% (2009: 22.2%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 18.6% (2009: 14.2%) of costs are denominated in the group entity's respective functional currency.

The carrying amounts of certain significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>The Group</b>				
Foreign Currency				
EURO	<b>86,513</b>	183,004	<b>326,100</b>	400,646
	Liabilities		Assets	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>The Company</b>				
Foreign Currency				
EURO	<b>82,950</b>	195,034	<b>2,265,142</b>	1,709,273

*Note:* For group entities with their functional currency as the United States dollar, monetary assets and monetary liabilities denominated in Hong Kong dollars have no material foreign currency risk exposure as the Hong Kong dollar is pegged with the United States dollar.

## 41. Financial Instruments *(continued)*

### 41.2 Financial Risk Management Objectives and Policies *(continued)*

#### 41.2.1 Foreign Currency Risk Management *(continued)*

##### **Sensitivity analysis**

The Group and the Company are mainly exposed to the effects of fluctuation in the EURO.

The following table details the Group's sensitivity to a 5% increase and decrease in the United States dollar against the EURO without considering the foreign currency forward contracts entered at the end of the reporting period. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and excludes the effect of any foreign currency forward contracts held at year end. A positive number below indicates an increase in pre-tax profit for the year where the United States dollars weakens 5% against the EURO.

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Impact of EURO Profit for the year (i)	11,979	10,882	109,110	75,712

(i) This is mainly attributable to the exposure outstanding on receivables and payables denominated in EURO at the year end.

#### 41.2.2 Interest Rate Risk Management

The Group's and the Company's cash flow interest rate risk relates primarily to variable-rate borrowing (see Note 42 for details of these borrowings) and bank balances, deposits and cash. In relation to these floating-rate borrowings, the Group aims at keeping certain borrowings at fixed rates. In order to achieve this result, the Group may enter into interest rate swap contracts to hedge against part of its exposure to potential variability of cash flows arising from changes in floating rates (see Note 30 for details). The management continuously monitors interest rate fluctuations and will consider further hedging interest rate risk should the need arise.

The Group's and the Company's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's and the Company's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's and the Company's Hong Kong dollar denominated borrowings. In relation to interest bearing bank balances and deposits, the Group considers the interest rate risk is insignificance.

The Group's fair value interest rate risk related primarily to its fixed-rate bank borrowings (see Note 42 for details of these borrowings) and convertible bonds (see Note 43 for details of these bonds).

During the year, the Group obtained new bank borrowings in the amount of HK\$4,600 million (2009: HK\$2,331 million) which are either LIBOR or Hong Kong best lending rates based. The proceeds were used for refinancing of the Group's borrowings including the repayment of fixed interest rate notes of US\$173,580,000, approximately HK\$1,353,922,500, and other secured borrowings.

For the year ended December 31, 2010

### 41. Financial Instruments *(continued)*

#### 41.2 Financial Risk Management Objectives and Policies *(continued)*

##### 41.2.2 Interest Rate Risk Management *(continued)*

###### **Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year without considering the interest rate swaps entered at the end of the reporting period. A 50 basis point increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2010 would decrease/increase by HK\$42,619,000 (2009: decrease/increase by HK\$28,648,000). The Company's profit for the year ended December 31, 2010 would decrease/increase by HK\$32,789,000 (2009: decrease/increase by HK\$16,153,000). This is mainly attributable to the Group's and the Company's exposure to interest rates on its variable-rate borrowings.

The Group's and the Company's sensitivity to interest rates has decreased during the current period mainly due to the decrease in variable rate debt instruments.

##### 41.2.3 Other Price Risk

The Group and the Company are exposed to price risk through its held-for-trading investments and derivative financial instruments.

###### **Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to price risks of equity investments held-for-trading measured at fair value at the reporting date.

If the prices of the respective equity instruments had been 10% higher/lower the post-tax profit for the year ended December 31, 2010 of the Group and the Company would increase/decrease by HK\$8,371,000 (2009: HK\$7,568,000) and HK\$8,343,000 (2009: HK\$7,568,000) as a result of the changes in fair value of held-for-trading investments.

No sensitivity analysis has been disclosed for exposure to the price risk for the warrants held by the Group and the Company as this would not have a material impact on post-tax profit for the year ended December 31, 2010 of the Group and the Company.

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## 41. Financial Instruments *(continued)*

### 41.2 Financial Risk Management Objectives and Policies *(continued)*

#### 41.2.4 Credit Risk Management

As at December 31, 2010, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group and the Company is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities in relation to financial guarantees issued by the Group and the Company as disclosed in Note 51.

In order to minimize the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company review the recoverable amount of each individual trade debt and debt investments at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The credit risk on liquid fund is limited because the counterparties are banks with good reputation.

The Group's concentration of credit risk by geographical locations is mainly in North America, which 69.0% (2009: 64.9%) of the total trade receivables as at December 31, 2010.

The Group has concentration of credit risk at 26.4% (2009: 18.8%) and 48.6% (2009: 35.6%) of the total trade receivables was due from the Group's largest customers and the five largest customers respectively.

For the year ended December 31, 2010

### 41. Financial Instruments *(continued)*

#### 41.2 Financial Risk Management Objectives and Policies *(continued)*

##### 41.2.5 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at December 31, 2010, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK\$363 million (2009: HK\$353 million) and HK\$5,191 million (2009: HK\$4,687 million) respectively.

##### **Liquidity tables**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as well as non-derivative financial assets which are included in the maturity analysis. For non-derivative financial assets, the tables have been drawn up based on the contractual maturities of the undiscounted cash flow of the financial assets unless specified separately. For non-derivative financial liabilities, the tables reflect the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The table includes both interest and principal cash flows. To the extent that the interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the foreign currency exchange rates prevailing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

## 41. Financial Instruments *(continued)*

### 41.2 Financial Risk Management Objectives and Policies *(continued)*

#### 41.2.5 Liquidity Risk Management *(continued)*

##### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand HK\$'000	1-3 months HK\$'000	4 months- 1 year HK\$'000	1-2 years HK\$'000	2+ years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount at December 31, 2010 HK\$'000
<b>The Group</b>								
<b>2010</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (note)	—	83,706	—	—	—	—	83,706	83,706
Available-for-sale investments (note)	—	9,879	—	—	—	—	9,879	9,879
Trade and other receivables	—	3,386,573	322,220	1,111,511	—	—	4,820,304	4,820,304
Bills receivable	—	56,293	106,010	140,919	—	—	303,222	303,222
Trade receivables from associates	—	178	—	118	—	—	296	296
Bank balances, deposits and cash	0.11% - 0.44%	3,349,273	651,592	—	—	—	4,000,865	4,000,566
Amounts due from associates (note)	—	—	—	—	—	178,725	178,725	178,725
		6,885,902	1,079,822	1,252,548	—	178,725	9,396,997	9,396,698
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(1,644,296)	(870,362)	(1,254,809)	—	—	(3,769,467)	(3,769,467)
Bills payable	—	(271,150)	(145,713)	(13,754)	—	—	(430,617)	(430,617)
Trade payable to an associate	—	(32,187)	—	—	—	—	(32,187)	(32,187)
Obligations under finance leases	7.59%	(2,287)	(4,574)	(20,581)	(15,143)	(41,291)	(83,876)	(67,683)
Discounted bills with recourse	1.78%	(1,318,406)	(1,484,165)	(413,204)	—	—	(3,215,775)	(3,206,539)
Variable rate borrowings	0.87% - 4.56%	(831,860)	(1,483,882)	(278,723)	(917,416)	(1,757,360)	(5,269,241)	(5,142,843)
Fixed rate borrowings	6.70% - 7.44%	—	—	(95,553)	(427,092)	(1,108,614)	(1,631,259)	(1,310,976)
Bank overdrafts	3.25% - 5.00%	(174,330)	—	—	—	—	(174,330)	(174,330)
Financial guarantee contracts	—	(13,259)	(17,501)	(1,295)	(41,099)	—	(73,154)	—
Convertible bonds	15.57%	—	—	(99,195)	(99,195)	(1,315,793)	(1,514,183)	(992,357)
		(4,287,775)	(4,006,197)	(2,177,114)	(1,499,945)	(4,223,058)	(16,194,089)	(15,126,999)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 41. Financial Instruments *(continued)*

#### 41.2 Financial Risk Management Objectives and Policies *(continued)*

##### 41.2.5 Liquidity Risk Management *(continued)*

###### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand HK\$'000	1-3 months HK\$'000	4 months- 1 year HK\$'000	1-2 years HK\$'000	2+ years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount at December 31, 2010 HK\$'000
<b>The Group</b>								
<b>2010</b>								
<b>Derivatives - net settlement</b>								
Interest rate swap	—	—	(2,720)	(7,686)	(7,702)	2,296	(15,812)	(18,278)
Foreign currency forward contracts								
- RMB	—	(1,206)	(645)	(8,004)	—	—	(9,855)	(9,855)
- NZD	—	—	(41)	—	—	—	(41)	(41)
		(1,206)	(3,406)	(15,690)	(7,702)	2,296	(25,708)	(28,174)
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
- inflow								
- RMB	—	199,220	398,923	1,378,348	—	—	1,976,491	1,976,491
- GBP	—	77,758	139,963	104,972	—	—	322,693	322,693
- USD	—	31,628	290,620	610,922	—	—	933,170	933,170
- HKD	—	—	—	—	655,432	—	655,432	655,432
	—	308,606	829,506	2,094,242	655,432	—	3,887,786	3,887,786
- outflow								
- RMB	—	(195,022)	(390,044)	(1,365,154)	—	—	(1,950,220)	(1,950,220)
- GBP	—	(75,945)	(136,019)	(101,826)	—	—	(313,790)	(313,790)
- USD	—	(30,946)	(278,512)	(587,969)	—	—	(897,427)	(897,427)
- HKD	—	—	—	—	(656,200)	—	(656,200)	(656,200)
	—	(301,913)	(804,575)	(2,054,949)	(656,200)	—	(3,817,637)	(3,817,637)
		6,693	24,931	39,293	(768)	—	70,149	70,149

## 41. Financial Instruments *(continued)*

### 41.2 Financial Risk Management Objectives and Policies *(continued)*

#### 41.2.5 Liquidity Risk Management *(continued)*

##### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand HK\$'000	1-3 months HK\$'000	4 months- 1 year HK\$'000	1-2 years HK\$'000	2+ years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount at December 31, 2009 HK\$'000
<b>The Group</b>								
<b>2009</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (note)	—	75,677	—	—	—	—	75,677	75,677
Available-for-sale investments (note)	—	22,701	—	—	—	—	22,701	22,701
Trade and other receivables	—	1,949,672	2,097,063	402,909	—	—	4,449,644	4,449,644
Bills receivable	—	43,822	143,830	80,100	—	—	267,752	267,752
Trade receivables from associates	—	13	—	—	—	—	13	13
Bank balances, deposits and cash	0.11% - 0.44%	2,713,464	611,726	—	—	—	3,325,190	3,322,753
Amount due from associates (note)	—	—	—	—	—	185,485	185,485	185,485
		4,805,349	2,852,619	483,009	—	185,485	8,326,462	8,324,025
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(2,238,179)	(1,165,990)	(452,666)	—	—	(3,856,835)	(3,856,835)
Bills payable	—	(397,250)	(323,300)	—	—	—	(720,550)	(720,550)
Trade payable to an associate	—	—	(5,307)	—	—	—	(5,307)	(5,307)
Obligations under finance leases	9.93%	(2,376)	(4,752)	(21,384)	(27,885)	(63,846)	(120,243)	(90,945)
Discounted bills with recourse	2.40%	(879,113)	(1,162,453)	(537,691)	—	—	(2,579,257)	(2,566,158)
Variable rate borrowings	0.70% - 4.06%	(679,481)	(869,801)	(1,297,532)	(127,295)	(13,855)	(2,987,964)	(2,948,638)
Fixed rate borrowings	6.09% - 7.44%	—	—	(377,072)	(177,153)	(2,865,541)	(3,419,766)	(2,651,852)
Bank overdrafts	3.25% - 5.00%	(214,756)	—	—	—	—	(214,756)	(214,756)
Financial guarantee contracts	—	—	—	(24,905)	(36,232)	—	(61,137)	—
Convertible bonds	15.57%	—	—	(98,940)	(98,940)	(1,411,350)	(1,609,230)	(950,202)
		(4,411,155)	(3,531,603)	(2,810,190)	(467,505)	(4,354,592)	(15,575,045)	(14,005,243)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 41. Financial Instruments *(continued)*

#### 41.2 Financial Risk Management Objectives and Policies *(continued)*

##### 41.2.5 Liquidity Risk Management *(continued)*

###### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand HK\$'000	1-3 months HK\$'000	4 months- 1 year HK\$'000	1-2 years HK\$'000	2+ years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount at December 31, 2009 HK\$'000
<b>The Group</b>								
<b>2009</b>								
<b>Derivatives - net settlement</b>								
Interest rate swap	—	—	(2,764)	(6,727)	(3,847)	21,642	8,304	3,428
Foreign currency forward contracts								
- RMB	—	—	497	9,973	—	—	10,470	10,470
- AUD	—	—	(1,990)	—	—	—	(1,990)	(1,990)
	—	—	(4,257)	3,246	(3,847)	21,642	16,784	11,908
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
- inflow								
- RMB	—	—	233,171	461,558	—	—	694,729	694,729
- GBP	—	—	108,560	120,192	—	—	228,752	228,752
- USD	—	—	54,111	12,453	—	—	66,564	66,564
	—	—	395,842	594,203	—	—	990,045	990,045
- outflow								
- RMB	—	—	(232,810)	(465,619)	—	—	(698,429)	(698,429)
- GBP	—	—	(104,786)	(116,336)	—	—	(221,122)	(221,122)
- USD	—	—	(55,079)	(12,568)	—	—	(67,647)	(67,647)
	—	—	(392,675)	(594,523)	—	—	(987,198)	(987,198)
	—	—	3,167	(320)	—	—	2,847	2,847

## 41. Financial Instruments *(continued)*

### 41.2 Financial Risk Management Objectives and Policies *(continued)*

#### 41.2.5 Liquidity Risk Management *(continued)*

##### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand HK\$'000	1-3 months HK\$'000	4 months- 1 year HK\$'000	1-2 years HK\$'000	2+ years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount at December 31, 2010 HK\$'000
<b>The Company</b>								
<b>2010</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (note)	—	83,427	—	—	—	—	83,427	83,427
Available-for-sale investments (note)	—	1,695	—	—	—	—	1,695	1,695
Trade and other receivables	—	40,974	7,155	21,784	—	—	69,913	69,913
Bills receivable	—	320	820	81,700	—	—	82,840	82,840
Bank balances, deposits and cash	0.11% - 0.44%	1,341,014	—	—	—	—	1,341,014	1,341,014
Amounts due from associates (note)	—	—	—	—	—	168,903	168,903	168,903
Loan to/Amounts due from subsidiaries (note)	7.875% - 10.15%	8,397,857	—	—	—	3,038,446	11,436,303	10,967,121
		9,865,287	7,975	103,484	—	3,207,349	13,184,095	12,714,913
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(132,603)	(155,541)	(78,591)	—	—	(366,735)	(366,735)
Bills payable	—	(240,455)	(94,901)	—	—	—	(335,356)	(335,356)
Amounts due to subsidiaries	—	(410,564)	(127,856)	(648,322)	—	—	(1,186,742)	(1,186,742)
Amounts due to associates	—	(32,187)	—	—	—	—	(32,187)	(32,187)
Obligations under finance leases	1.89%	(26)	(52)	(236)	—	—	(314)	(308)
Discounted bills with recourse	1.78%	(1,078,310)	(1,117,792)	(338,049)	—	—	(2,534,151)	(2,526,881)
Unsecured borrowings	0.87% - 4.50%	(1,014,083)	(664,439)	—	(688,643)	(1,738,258)	(4,105,423)	(3,995,869)
Financial guarantee contracts	—	(1,064,868)	(961,460)	(89,327)	(284,220)	(1,080,478)	(3,480,353)	—
Convertible bonds	15.57%	—	—	(99,195)	(99,195)	(1,315,793)	(1,514,183)	(992,357)
		(3,973,096)	(3,122,041)	(1,253,720)	(1,072,058)	(4,134,529)	(13,555,444)	(9,436,435)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 41. Financial Instruments *(continued)*

#### 41.2 Financial Risk Management Objectives and Policies *(continued)*

##### 41.2.5 Liquidity Risk Management *(continued)*

###### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand HK\$'000	1-3 months HK\$'000	4 months- 1 year HK\$'000	1-2 years HK\$'000	2+ years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount at December 31, 2010 HK\$'000
<b>The Company</b>								
<b>2010</b>								
<b>Derivatives - net settlement</b>								
Interest rate swap	—	—	(2,720)	(7,686)	(7,702)	2,296	(15,812)	(18,278)
Foreign currency forward contracts - RMB	—	(1,206)	(645)	(8,004)	—	—	(9,855)	(9,855)
	—	(1,206)	(3,365)	(15,690)	(7,702)	2,296	(25,667)	(28,133)
<b>Derivatives - gross settlement</b>								
Foreign currency forward contracts								
- inflow								
- USD	—	31,628	290,620	610,922	—	—	933,170	933,170
- HKD	—	—	—	—	655,432	—	655,432	655,432
	—	31,628	290,620	610,922	655,432	—	1,588,602	1,588,602
- outflow								
- USD	—	(30,946)	(278,512)	(587,969)	—	—	(897,427)	(897,427)
- HKD	—	—	—	—	(656,200)	—	(656,200)	(656,200)
	—	(30,946)	(278,512)	(587,969)	(656,200)	—	(1,553,627)	(1,553,627)
		682	12,108	22,953	(768)	—	34,975	34,975

## 41. Financial Instruments *(continued)*

### 41.2 Financial Risk Management Objectives and Policies *(continued)*

#### 41.2.5 Liquidity Risk Management *(continued)*

##### *Liquidity tables (continued)*

	Weighted average effective interest rate %	Less than 1 month/ on demand HK\$'000	1-3 months HK\$'000	4 months- 1 year HK\$'000	1-2 years HK\$'000	2+ years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount at December 31, 2009 HK\$'000
<b>The Company</b>								
<b>2009</b>								
<b>Non-derivative financial assets</b>								
Held-for-trading investments (note)	—	75,677	—	—	—	—	75,677	75,677
Available-for-sale investments (note)	—	—	—	—	1,695	—	1,695	1,695
Trade and other receivables	—	30,946	30,031	34,983	—	—	95,960	95,960
Bills receivable	—	(124)	11,580	49,237	—	—	60,693	60,693
Bank balances, deposits and cash	0.11% - 0.44%	977,356	—	—	—	—	977,356	977,356
Amounts due from associates (note)	—	—	—	—	—	175,485	175,485	175,485
Loan to/Amounts due from subsidiaries (note)	7.875% - 10.15%	8,176,720	—	—	—	2,284,084	10,460,804	10,091,723
		9,260,575	41,611	84,220	1,695	2,459,569	11,847,670	11,478,589
<b>Non-derivative financial liabilities</b>								
Trade and other payables	—	(111,502)	(156,804)	(79,119)	(2,462)	(252)	(350,139)	(350,139)
Bills payable	—	(356,337)	(190,298)	—	—	—	(546,635)	(546,635)
Amounts due to subsidiaries	—	(1,488,460)	(275,005)	(1,166,481)	—	—	(2,929,946)	(2,929,946)
Amounts due to associates	—	—	(5,307)	—	—	—	(5,307)	(5,307)
Obligations under finance leases	3.86%	(48)	(96)	(435)	(431)	—	(1,010)	(972)
Discounted bills with recourse	2.40%	(232,631)	(937,385)	(353,289)	—	—	(1,523,305)	(1,514,007)
Unsecured borrowings	0.70% - 4.06%	(220,526)	(839,741)	(551,819)	(119,170)	—	(1,731,256)	(1,716,521)
Financial guarantee contracts	—	(1,429,574)	(283,184)	(382,498)	(247,102)	(2,460,362)	(4,802,720)	—
Convertible bonds	15.57%	—	—	(98,940)	(98,940)	(1,411,350)	(1,609,230)	(950,202)
		(3,839,078)	(2,687,820)	(2,632,581)	(468,105)	(3,871,964)	(13,499,548)	(8,013,729)
<b>Derivatives - net settlement</b>								
Interest rate swaps	—	—	(2,764)	(6,727)	(3,847)	21,642	8,304	3,428
Foreign currency forward contracts	—	—	497	9,973	—	—	10,470	10,470
		—	(2,267)	3,246	(3,847)	21,642	18,774	13,898

*Note:* Maturities are based on the management's estimation of the expected realisation of these financial assets.

Bank loans with a repayment on demand clause are included in the "less than 1 month/ on demand" time band in the above maturity analysis. As at December 31, 2010, the aggregate undiscounted principal amounts of these bank loans amount to HK\$466,800,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid one year after the reporting date in accordance with the scheduled repayments dates set out in the loan agreements.

### 41. Financial Instruments *(continued)*

#### 41.2 Financial Risk Management Objectives and Policies *(continued)*

##### 41.2.5 Liquidity Risk Management *(continued)*

The amounts included above for financial guarantee contracts are the maximum amounts the Group and the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group and the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amount included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

#### 41.3 Fair Value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contract;
- the fair value of the interest rate swap is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from noted interest rate.
- the fair value of the warrants is measured using the Black-Scholes option pricing model where the main assumptions include the volatility of the share price and the life of the warrants.
- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Other than the convertible bonds, the fair value of financial assets and financial liabilities carried at amortised costs approximate to their carrying amounts.

##### Fair value measurements recognised in the statement of financial position

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments that are measured subsequent to initial recognition at fair value:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or, liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 41. Financial Instruments *(continued)*

### 41.3 Fair Value *(continued)*

Fair value measurements recognised in the statement of financial position *(continued)*

	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
<b>The Group</b>			
<b>2010</b>			
<b>Financial assets</b>			
Foreign currency forward contracts	—	80,580	80,580
Warrants	—	4,306	4,306
Held-for-trading investments	83,706	—	83,706
<b>Total</b>	<b>83,706</b>	<b>84,886</b>	<b>168,592</b>
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(20,327)	(20,327)
Interest rate swap	—	(18,278)	(18,278)
<b>Total</b>	<b>83,706</b>	<b>46,281</b>	<b>129,987</b>
<b>2009</b>			
<b>Financial assets</b>			
Foreign currency forward contracts	—	18,485	18,485
Interest rate swap	—	3,428	3,428
Held-for-trading investments	75,677	—	75,677
<b>Total</b>	<b>75,677</b>	<b>21,913</b>	<b>97,590</b>
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(7,158)	(7,158)
<b>Total</b>	<b>75,677</b>	<b>14,755</b>	<b>90,432</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 41. Financial Instruments *(continued)*

#### 41.3 Fair Value *(continued)*

Fair value measurements recognised in the statement of financial position *(continued)*

	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
<b>The Company</b>			
<b>2010</b>			
<b>Financial assets</b>			
Foreign currency forward contracts	—	42,405	42,405
Warrants	—	4,306	4,306
Held-for-trading investments	83,427	—	83,427
<b>Total</b>	<b>83,427</b>	<b>46,711</b>	<b>130,138</b>
<b>Financial liabilities</b>			
Foreign currency forward contracts	—	(17,285)	(17,285)
Interest rate swap	—	(18,278)	(18,278)
<b>Total</b>	<b>83,427</b>	<b>11,148</b>	<b>94,575</b>
<b>2009</b>			
<b>Financial assets</b>			
Foreign currency forward contracts	—	10,470	10,470
Interest rate swap	—	3,428	3,428
Held-for-trading investments	75,677	—	75,677
<b>Total</b>	<b>75,677</b>	<b>13,898</b>	<b>89,575</b>

### 42. Unsecured Borrowings

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Trust receipt loans	190,210	459,991	124,827	333,947
Bank advance from factored trade receivables	558,604	547,744	—	—
Bank loans	4,394,029	1,940,903	3,871,042	1,382,574
Bank borrowings	5,142,843	2,948,638	3,995,869	1,716,521
Fixed interest rate notes (Note)	1,310,976	2,651,852	—	—
<b>Total borrowings</b>	<b>6,453,819</b>	<b>5,600,490</b>	<b>3,995,869</b>	<b>1,716,521</b>

## 42. Unsecured Borrowings (continued)

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

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Fixed rate</b>				
On demand or within one year	—	191,490	—	—
In more than one year but not more than two years	<b>230,499</b>	—	—	—
In more than two years but not more than five years	<b>1,080,477</b>	1,304,453	—	—
More than five years	—	1,155,909	—	—
<b>Floating rate</b>				
On demand or within one year	<b>2,816,226</b>	2,812,856	<b>1,675,563</b>	1,600,121
In more than one year but not more than two years	<b>659,767</b>	122,860	<b>653,456</b>	116,400
In more than two years but not more than five years	<b>1,666,850</b>	12,922	<b>1,666,850</b>	—
	<b>6,453,819</b>	5,600,490	<b>3,995,869</b>	1,716,521
Less: Amount due within one year shown under current liabilities	<b>(2,816,226)</b>	(3,004,346)	<b>(1,675,563)</b>	(1,600,121)
Amount due after one year	<b>3,637,593</b>	2,596,144	<b>2,320,306</b>	116,400

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

	2010	2009
Effective interest rate:		
Fixed-rate borrowings	<b>6.70% to 7.44%</b>	6.09% to 7.44%
Variable-rate borrowings	<b>0.87% to 4.56%</b>	0.70% to 4.06%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HK\$'000
As at December 31, 2010	1,214,763
As at December 31, 2009	537,563

*Note:* In 2003, the Group issued fixed interest rate notes, through its wholly-owned entity in the US, for an aggregate principal amount of US\$145,000,000. The notes were issued in two fixed rate tranches, being US\$120,000,000 for 10 years at 6.70% (2009: 6.70%) per annum and US\$25,000,000 for 7 years at 6.09% (2009: 6.09%) per annum. The proceeds were used to refinance existing medium term debts and for general working capital purposes. During the year, the Group early repaid US\$75,000,000 of first tranche and US\$25,000,000 of second tranche.

In 2005, the Group issued additional fixed interest rate notes, through its wholly-owned entity in the US, 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 7.44% (2009: 7.44%) per annum and US\$50,000,000 for 7 years at 7.17% (2009: 7.17%) per annum. The proceeds were used to finance the acquisition of subsidiaries. During the year, the Group early repaid US\$54,250,000 of first tranche and US\$20,000,000 of second tranche.

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

For the year ended December 31, 2010

### 43. Convertible Bonds

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

	The Group and The Company	
	2010 HK\$'000	2009 HK\$'000
Liability component at the beginning of the year	950,202	100,805
Effective interest expense	141,606	86,426
Issue of convertible bonds	—	910,544
Repayment / interest payment	(99,451)	(147,573)
Liability component at the end of the year	992,357	950,202

The fair value of the liability component on initial recognition of the convertible bonds at December 31, 2010, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate at the end of the reporting period date, was approximately HK\$1,194,842,000 (2009: HK\$1,073,083,000).

In 2004, the Group issued 5-year zero coupon convertible bonds at par, due in July, 2009 (the “Convertible Bonds 2009”), for an aggregate principal amount of US\$140,000,000 (approximately HK\$1,092,000,000). The Convertible Bonds 2009 are convertible, at the option of bondholders, into ordinary shares of HK\$0.10 each of the Company at an initial conversion price of US\$2.1247 per share, subject to anti-dilutive adjustment, at any time from August 7, 2006 to July 1, 2009.

The Convertible Bonds 2009 contain two components, a liability and an equity element. The equity element is presented in equity as “Convertible bonds equity reserve”. The effective interest rate of the liability component is 2.11%.

On July 8, 2007, the bondholders early redeemed part of the Convertible Bonds 2009 with a principal amount of US\$127,850,000 (approximately HK\$997,230,000) at 104.59%. The remaining Convertible Bonds were redeemed at 107.76% of the principal amount of US\$12,150,000 on the maturity date of July 8, 2009.

In 2009, the Group issued two tranches of 5-year 8.5% coupon convertible bonds with an aggregate principal amount of US\$150,000,000 (approximately HK\$1,170,000,000 (“Convertible Bonds 2014”)) and 55,888,500 detachable warrants (“Warrants 2012”). Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds 2014 will be redeemed at their principal amount on the maturity date at April 30, 2014. The Warrants 2012 are detachable from the Convertible Bonds 2014 (see Note 44 for details of the warrants).

The holders of the Convertible Bonds 2014 have the right to convert all or any portion of the Convertible Bonds 2014 into shares of the Company at an initial conversion price of HK\$5.20 (to be converted to United States dollars at the fixed exchange rate of HK\$7.75 = US\$1.0) per share, subject to anti-dilutive adjustment, from October 30, 2010 to April 20, 2014 (“Conversion Rights”). The conversion will result in the Company issuing a fixed number of shares of the Company in settlement of a fixed amount of cash.

At the option of the Convertible Bond 2014’s holders, on April 30, 2012, the holders may redeem Convertible Bond 2014 at the principal amount plus accrued interest to the date of redemption. The embedded options are closely related to the liability component of Convertible Bond 2014 and hence not separately accounted for.

The fair value of the liability component on initial recognition was estimated at the issue date using an equivalent market interest rate for a similar bond without the Conversion Rights and Warrants 2012. The residual amount was assigned as the equity component, representing the estimated fair value of the Warrants 2012 with the remaining balance is allocated to the Conversion Rights and included in shareholders’ equity.

The weighted average effective interest rate of the Convertible Bonds 2014 is 15.57%.

## 44. Share Capital

	<b>2010</b> Number of shares	2009 Number of shares	<b>2010</b> HK\$'000	2009 HK\$'000
<b>Ordinary shares</b>				
Authorised:				
Shares of HK\$0.10 each	<b>2,400,000,000</b>	2,400,000,000	<b>240,000</b>	240,000
Issued and fully paid:				
At the beginning of the year	<b>1,591,252,152</b>	1,501,252,152	<b>159,125</b>	150,125
Issue of shares upon exercise of warrants	<b>14,903,600</b>	—	<b>1,491</b>	—
Issue of shares upon exercise of share options	<b>470,000</b>	—	<b>47</b>	—
Issue of shares by private placement	—	90,000,000	—	9,000
At the end of the year	<b>1,606,625,752</b>	1,591,252,152	<b>160,663</b>	159,125

Warrants 2012 are detachable from Convertible Bonds 2014. Each Warrants 2012 entitles its holder to convert a warrant at an exercise price of HK\$5.10 for one ordinary share of the Company, at any time from April 30, 2010 to April 30, 2012.

During the year, holders of Warrants 2012, exercised 14,903,600 Warrants 2012 resulting in the issuance of 14,903,600 new shares of the Company.

During the year, the Group bought back 40,984,900 Warrants 2012 from the Warrant holders for a consideration of HK\$101,843,000.

At December 31, 2010, the Company has no warrants outstanding (2009: 55,888,500 Warrants 2012 to be exercised on or before April 30, 2012).

Details of the share options are set out in Note 52.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 45. Reserves

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Warrant reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>The Company</b>							
At January 1, 2009	2,898,646	436	2,285	—	42,389	3,030,871	5,974,627
Loss for the year and other comprehensive loss	—	—	—	—	—	(37,651)	(37,651)
Share issued at premium	596,700	—	—	—	—	—	596,700
Transaction costs attributable to issue of shares	(15,933)	—	—	—	—	—	(15,933)
Release of deferred tax liabilities on redemption of convertible bonds	—	—	485	—	—	—	485
Transfer to retained profits upon redemption of convertible bonds	—	—	(2,770)	—	—	2,770	—
Recognition of equity component of convertible bonds/warrants	—	—	115,563	112,494	—	—	228,057
Transaction costs attributable to issue of convertible bonds/warrants	—	—	(3,852)	(3,750)	—	—	(7,602)
Deferred tax liability on recognition of equity components of convertible bonds	—	—	(42,810)	—	—	—	(42,810)
Recognition of equity settled share-based payments	—	—	—	—	10,800	—	10,800
Lapse of share options	—	—	—	—	(5,033)	5,033	—
Final dividend - 2008	—	—	—	—	—	(45,038)	(45,038)
Interim dividend - 2009	—	—	—	—	—	(47,737)	(47,737)
At December 31, 2009	3,479,413	436	68,901	108,744	48,156	2,908,248	6,613,898
Loss for the year and other comprehensive loss	—	—	—	—	—	(94,551)	(94,551)
Share issued at premium	4,027	—	—	—	(717)	—	3,310
Share issued at a premium on warrants exercised	103,517	—	—	(28,998)	—	—	74,519
Repurchase of warrants	—	—	—	(79,746)	—	(22,097)	(101,843)
Recognition of equity settled share-based payments	—	—	—	—	17,190	—	17,190
Lapse of share options	—	—	—	—	(6,528)	6,528	—
Final dividend - 2009	—	—	—	—	—	(72,277)	(72,277)
Interim dividend - 2010	—	—	—	—	—	(60,231)	(60,231)
<b>At December 31, 2010</b>	<b>3,586,957</b>	<b>436</b>	<b>68,901</b>	<b>—</b>	<b>58,101</b>	<b>2,665,620</b>	<b>6,380,015</b>

As at December 31, 2010, the Company's reserves available for distribution to shareholders comprised the retained profits of HK\$2,665,620,000 (2009: HK\$2,908,248,000).

## 46. Retirement Benefits Obligations

### Defined Contribution Plans:

The Company and its subsidiaries operating in Hong Kong have participated in the Mandatory Provident Fund Schemes (“MPF Schemes”) registered under the Mandatory Provident Fund Ordinance since December 2000.

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group’s overseas subsidiaries operate a number of defined contribution schemes. Contributions to the defined contribution schemes applicable to each year are made at a certain percentage of the employees’ payroll.

### Defined benefits Plans:

The Group operates several defined benefit plans for qualifying employees of its subsidiaries in Germany and the US, of which these plans cover substantially all remaining employees that are not covered by defined contribution plans. The major defined benefit plans are as follows:

	2010 HK\$'000	2009 HK\$'000
Pension plan obligations (Note i)	587,755	618,350
Post-retirement, medical and dental plan obligations (Note ii)	13,150	24,011
Life and medical insurance plan (Note ii)	16,769	15,787
Post-employment benefit plan obligations (Note iii)	85,004	73,694
Others	4,739	5,425
	<b>707,417</b>	<b>737,267</b>

*Note i:* Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the employees are entitled to retirement benefits varying between 10 and 20 per cent of final salary (based on the average of the last three years) on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out on November 2, 2010, by BDO Deutsche Warentreuhand Aktiengesellschaft, Germany.

*Note ii:* Post-retirement, medical and dental plan obligations/ Life and medical insurance plan

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on November 2, 2010 by Willis North America, Inc.

*Note iii:* Post-employment plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on December 31, 2010 by CBIZ Benefits & Insurance Services.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

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

The main actuarial assumptions used were as follows:

	Pension plan		Post-retirement medical, and dental plan		Life & Medical Insurance plan		Post-employment benefit plan	
	2010	2009	2010	2009	2010	2009	2010	2009
Discount rate	5.00%	5.60%	3.75%	4.25%	2.50%	5.25%	5.06%	5.55%
Expected rate of salary increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A	N/A	N/A	N/A	4.00%	4.00%
Future pension increases	2.00%	2.00%	N/A	N/A	N/A	N/A	N/A	N/A
Medical cost inflation (ultimate)	N/A	N/A	5.00%	5.00%	5.00%	5.00%	N/A	N/A

The effect of an increase of one percentage point in the assumed medical cost inflation on current service cost and interest cost accumulated post-employment benefit obligations are as follows:

	Pension plan		Post-retirement medical, and dental plan		Life & Medical Insurance plan		Post-employment benefit plan	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current service cost and interest cost	N/A	N/A	10	20	32	45	N/A	N/A
Accumulated post-employment benefit obligation for medical costs	N/A	N/A	254	476	1,290	864	N/A	N/A

Amounts recognised in profit or loss in respect of the plans are as follows:

	Pension plan		Post-retirement medical, and dental plan		Life & Medical Insurance plan		Post-employment benefit plan	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current service cost	4,435	4,212	—	—	—	—	—	—
Actuarial loss (gain)	12,721	36,054	(4,166)	(1,167)	1,970	(16,713)	5,658	6,506
Expected return on plan assets	—	—	—	—	—	—	21	(18)
Curtailment gain	—	—	—	—	—	—	—	—
Interest cost	33,266	27,689	884	1,512	784	963	5,427	5,924
Past service cost	—	—	—	—	—	—	—	(2,605)
	50,422	67,955	(3,282)	345	2,754	(15,750)	11,106	9,807

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

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

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the plans is as follows:

	Pension plan		Post-retirement medical, and dental plan		Life & Medical Insurance plan		Post-employment benefit plan	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Present value of funded obligations	—	—	—	—	—	—	<b>103,072</b>	102,932
Present value of plan assets	—	—	—	—	—	—	<b>(18,068)</b>	(29,238)
Present value of unfunded obligations	<b>587,755</b>	618,350	<b>13,150</b>	24,011	<b>16,769</b>	15,787	—	—
	<b>587,755</b>	618,350	<b>13,150</b>	24,011	<b>16,769</b>	15,787	<b>85,004</b>	73,694

Movements in the present value of the defined benefit obligations in the current year were as follows:

	Pension plan		Post-retirement medical, and dental plan		Life & Medical Insurance plan		Post-employment benefit plan	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At January 1	<b>618,350</b>	599,682	<b>24,011</b>	32,410	<b>15,787</b>	32,803	<b>102,932</b>	105,836
Exchange differences	<b>(43,729)</b>	4,281	<b>49</b>	(73)	<b>42</b>	(180)	<b>4,002</b>	(269)
Current service cost	<b>4,435</b>	4,212	—	—	—	—	—	—
Actuarial loss (gain)	<b>12,721</b>	36,054	<b>(4,166)</b>	(1,167)	<b>1,970</b>	(16,713)	<b>5,658</b>	6,506
Interest cost	<b>33,266</b>	27,689	<b>884</b>	1,512	<b>784</b>	963	<b>5,427</b>	5,924
Past service cost	—	—	—	—	—	—	—	(2,605)
Benefit paid	<b>(37,288)</b>	(53,568)	<b>(7,628)</b>	(8,671)	<b>(1,814)</b>	(1,086)	<b>(14,947)</b>	(12,460)
At December 31	<b>587,755</b>	618,350	<b>13,150</b>	24,011	<b>16,769</b>	15,787	<b>103,072</b>	102,932

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

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

Movements in the fair value of the plan assets in the current year were as follows:

	Pension plan		Post-retirement medical, and dental plan		Life & Medical Insurance plan		Post-employment benefit plan	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At January 1	N/A	N/A	N/A	N/A	N/A	N/A	29,238	10,652
Exchange differences	N/A	N/A	N/A	N/A	N/A	N/A	62	(52)
Returns from plan assets	N/A	N/A	N/A	N/A	N/A	N/A	(21)	18
Contribution from employer	N/A	N/A	N/A	N/A	N/A	N/A	3,736	31,080
Benefit paid	N/A	N/A	N/A	N/A	N/A	N/A	(14,947)	(12,460)
At December 31	N/A	N/A	N/A	N/A	N/A	N/A	18,068	29,238

The plan assets of the post-employment benefit plan are cash in a Federated Money Market Fund with an expected return of 4% (2009: 4%).

The Group expects to make a contribution of HK\$23,310,000 (2009: HK\$31,040,000) to the defined benefit plans during the next financial year.

### 47. Deferred Tax Assets (Liabilities)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

	Accelerated	Warranty	Convertible	Employee	Tax	Inventory	Others	Total
	tax		bonds					
	depreciation	provision	equity	provision		and LIFO		
	HK\$'000	HK\$'000	reserve	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>								
At January 1, 2009	(27,021)	42,781	(485)	49,681	340,696	61,711	(250,373)	216,990
Currency realignment	198	649	—	434	6,565	1,466	1,767	11,079
Charge to equity	—	—	(42,325)	—	—	—	—	(42,325)
(Charge) credit to profit or loss	(86,475)	(7,932)	5,150	84,517	147,685	(106,455)	(18,908)	17,582
At December 31, 2009	<b>(113,298)</b>	<b>35,498</b>	<b>(37,660)</b>	<b>134,632</b>	<b>494,946</b>	<b>(43,278)</b>	<b>(267,514)</b>	<b>203,326</b>
Currency realignment	(526)	402	—	549	(4,759)	131	2,378	(1,825)
(Charge) credit to profit or loss	37,070	(9,968)	6,955	(35,861)	9,114	32,500	117,232	157,042
Acquisition of subsidiaries / business (note 48)	—	—	—	—	—	—	(2,982)	(2,982)
<b>At December 31, 2010</b>	<b>(76,754)</b>	<b>25,932</b>	<b>(30,705)</b>	<b>99,320</b>	<b>499,301</b>	<b>(10,647)</b>	<b>(150,886)</b>	<b>355,561</b>

## 47. Deferred Tax Assets (Liabilities) (continued)

	Tax loss HK\$'000	Accelerated tax depreciation HK\$'000	Convertible bonds equity reserve HK\$'000	Total HK\$'000
<b>The Company</b>				
At January 1, 2009	—	(12,741)	(485)	(13,226)
Charge to equity	—	—	(42,325)	(42,325)
Credit to profit or loss	—	11,152	5,150	16,302
At December 31, 2009	—	<b>(1,589)</b>	<b>(37,660)</b>	<b>(39,249)</b>
(Charge) credit to profit or loss	<b>15,701</b>	<b>(5,200)</b>	<b>6,955</b>	<b>17,456</b>
<b>At December 31, 2010</b>	<b>15,701</b>	<b>(6,789)</b>	<b>(30,705)</b>	<b>(21,793)</b>

Note: Included in others are the deferred tax impact of the restructuring provision, intellectual properties and other temporary differences. The comparative amounts for the year ended December 31, 2009 have been reclassified to reflect a reclassification between the major deferred tax asset and liability categories for the year ended December 31, 2010.

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Deferred tax assets	<b>534,511</b>	575,524	—	—
Deferred tax liabilities	<b>(178,950)</b>	(372,198)	<b>(21,793)</b>	(39,249)
	<b>355,561</b>	203,326	<b>(21,793)</b>	(39,249)

At the end of the reporting period, the Group has unused tax losses of HK\$3,211 million (2009: HK\$2,476 million) available for the offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of tax losses of HK\$1,500 million (2009: HK\$758 million) due to the unpredictability of future profit streams.

As at December 31, 2009, the Group recognised deferred tax assets in various tax jurisdictions, including the United States of America, Germany, the United Kingdom and New Zealand amounting to HK\$486,303,000. The realisation of the deferred tax assets was based on tax planning opportunities available to the Group that will create taxable profit in which the unused tax losses or unused tax credits can be utilised in the future.

For the year ended December 31, 2010

### 48. Acquisition of subsidiaries / business

In January 2010, the Group acquired 100% equity interest of Coldfire Technology, LLC (“Coldfire”) for a cash consideration of approximately HK\$30.7 million. Coldfire is engaged in commercial cryogenic processing and included in the Power Equipment segment.

In July 2010, the Group acquired certain assets, liabilities and business from Nutek, LLC (“Nutek”) for a total consideration of approximately HK\$66.6 million, inclusive of a contingent consideration payable at fair value of HK\$13.4 million at the date of acquisition determined based on a percentage on the gross profit of future products sold until 2014. The acquired business from Nutek is engaged in manufacturing and trading of cleaning and lubrication products and included in the Floor Care and Appliances segment.

In September 2010, the Group acquired 100% equity interest of Mobiltron Worldwide Trading (Shanghai) Co., Ltd. for a cash consideration of approximately HK\$24.8 million. Mobiltron is engaged in trading of power tools in the PRC and included in the Power Equipment segment.

	Fair value HK\$'000
<b>Net Assets Acquired</b>	
Property, plant and equipment	1,343
Intangible assets	56,475
Inventories	4,230
Trade and other receivables, deposits and prepayments	10,178
Bank balances and cash	730
Trade and other payables	(14,828)
Deferred tax liabilities	(2,982)
	55,146
Discount on acquisition taken to income	(4,764)
Goodwill arising on acquisition of subsidiaries / business	71,744
Contingent consideration arrangement	(13,380)
Cash consideration paid during the year	108,746
Net cash outflow arising on acquisition:	
Cash consideration paid during the year	108,746
Bank balances and cash acquired	(730)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	108,016

#### 48. Acquisition of subsidiaries / business *(continued)*

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

Goodwill arising on the acquisition of the business of Nutek is expected to be deductible for tax purpose.

The acquisition of Coldfire was a bargain purchase and gave rise to a discount on acquisition of approximately HK\$4.8 million and this amount had been included as other income.

Acquisition-related costs are insignificant and have been excluded from the consideration transferred and have been recognised as an expense in the current year.

The subsidiaries acquired contributed approximately HK\$15,120,000 to the Group's turnover, and approximately HK\$2,113,000 gain to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date as at December 31, 2010.

The revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for the acquisitions that occurred during the year has been as of the beginning of the annual reporting period is not presented as it was impracticable to obtain various values in various acquirees' operations prior to the acquisition.

#### 49. Major Non-Cash Transactions

During the year ended December 31, 2010, 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\$2,272,000 (2009: HK\$35,113,000).

#### 50. Lease Commitments

At the end of the reporting period, the Group and the Company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Within one year	172,439	181,303	7,968	6,290
In the second to fifth year inclusive	470,076	307,623	4,708	—
After five years	200,687	220,760	—	—
	843,202	709,686	12,676	6,290

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

For the year ended December 31, 2010

### 51. Contingent Liabilities

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Guarantees given to banks in respect of credit facilities utilised by associates	<b>73,154</b>	61,137	<b>73,154</b>	61,137

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 utilised by the subsidiaries as at December 31, 2010 amounted to HK\$3,407,199,000 (2009: HK\$4,741,583,000).

### 52. Share Options

#### Scheme adopted on March 28, 2002 ("Scheme C") and terminated on March 27, 2007

Scheme C was adopted pursuant to a resolution passed on March 28, 2002 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme expired on March 27, 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, subject to vesting conditions 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.

## 52. Share Options *(continued)*

### **Scheme adopted on May 29, 2007 (“Scheme D”)**

Following the termination of Scheme C, a new share option scheme was adopted pursuant to a resolution passed on May 29, 2007 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on May 28, 2017. Under Scheme D, 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 officers); or
- (iii) secondees; or
- (iv) business partners, agents, consultants; or
- (v) suppliers or customers; or
- (vi) any person or entity that provides research, development or other technological support; or
- (vii) 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, subject to vesting conditions from the date of grant to the tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; 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 D 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 D. 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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 52. Share Options *(continued)*

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

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period
<b>Directors</b>									
Mr Horst Julius Pudwill	16.11.2009	D	600,000	—	—	—	600,000	6.770	16.11.2009 - 15.11.2019
	26.11.2010	D	—	600,000	—	—	600,000	8.310	26.11.2010 - 25.11.2020
Prof Roy Chi Ping Chung JP	16.11.2009	D	600,000	—	—	—	600,000	6.770	16.11.2009 - 15.11.2019
Mr Joseph Galli Jr	1.11.2006	C	1,500,000	—	—	—	1,500,000	11.252	1.11.2006 - 31.10.2011
	6.3.2007	C	1,000,000	—	—	—	1,000,000	10.572	6.3.2007 - 5.3.2012
	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Kin Wah Chan	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Chi Chung Chan	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Stephan Horst Pudwill	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 - 15.11.2019
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Joel Arthur Schleicher	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Christopher Patrick Langley OBE	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Manfred Kuhlmann	7.2.2005	C	100,000	—	—	(100,000)	—	17.750	7.2.2005 - 6.2.2010
	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
Mr Peter David Sullivan	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 - 15.11.2019
<b>Total for directors</b>			<b>9,800,000</b>	<b>600,000</b>	<b>—</b>	<b>(100,000)</b>	<b>10,300,000</b>		

## 52. Share Options *(continued)*

The following table discloses movements in the Company's share options during the year: *(continued)*

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HK\$	Exercise period	
Employees	7.4.2005	C	200,000	—	—	(200,000)	—	17.210	7.4.2005 - 6.4.2010	
	17.6.2005	C	250,000	—	—	(250,000)	—	17.950	17.6.2005 - 16.6.2010	
	1.1.2006	C	50,000	—	—	—	50,000	18.690	1.1.2006 - 31.12.2010	
	1.3.2006	C	2,315,000	—	—	(431,000)	1,884,000	13.970	1.3.2006 - 28.2.2011	
	15.6.2006	C	200,000	—	—	—	200,000	10.270	15.6.2006 - 14.6.2011	
	17.6.2006	C	350,000	—	—	—	350,000	10.550	17.6.2006 - 16.6.2011	
	4.10.2006	C	75,000	—	—	—	75,000	11.628	4.10.2006 - 3.10.2011	
	8.11.2006	C	30,000	—	—	—	30,000	12.200	8.11.2006 - 7.11.2011	
	4.12.2006	C	150,000	—	—	—	150,000	10.952	4.12.2006 - 3.12.2011	
	13.12.2006	C	20,000	—	—	—	20,000	10.560	13.12.2006 - 12.12.2011	
	1.1.2007	C	150,000	—	—	—	150,000	10.080	1.1.2007 - 31.12.2011	
	6.3.2007	C	4,835,000	—	—	(510,000)	4,325,000	10.572	6.3.2007 - 5.3.2012	
	20.7.2007	D	200,000	—	—	—	200,000	10.060	20.7.2007 - 19.7.2017	
	24.8.2007	D	2,310,000	—	—	(250,000)	2,060,000	8.390	24.8.2007 - 23.8.2017	
	16.10.2007	D	75,000	—	—	—	75,000	8.810	16.10.2007 - 15.10.2017	
	7.11.2007	D	40,000	—	—	—	40,000	8.088	7.11.2007 - 6.11.2017	
	23.11.2007	D	500,000	—	—	—	500,000	7.578	23.11.2007 - 22.11.2017	
	14.1.2008	D	1,320,000	—	—	(300,000)	1,020,000	7.566	14.1.2008 - 13.1.2018	
	17.4.2008	D	1,925,000	—	—	(100,000)	1,825,000	7.780	17.4.2008 - 16.4.2018	
	14.5.2008	D	240,000	—	—	—	240,000	7.500	14.5.2008 - 13.5.2018	
	30.5.2008	D	640,000	—	—	—	640,000	7.546	30.5.2008 - 29.5.2018	
	1.9.2008	D	150,000	—	—	—	150,000	7.450	1.9.2008 - 31.8.2018	
	2.9.2008	D	300,000	—	(300,000)	—	—	7.388	2.9.2008 - 1.9.2018	
	11.9.2008	D	50,000	—	—	—	50,000	7.430	11.9.2008 - 10.9.2018	
	2.10.2008	D	75,000	—	—	—	75,000	7.068	2.10.2008 - 1.10.2018	
	1.12.2008	D	100,000	—	—	—	100,000	2.340	1.12.2008 - 30.11.2018	
	16.11.2009	D	7,570,000	—	(145,000)	(90,000)	7,335,000	6.770	16.11.2009 - 15.11.2019	
	7.12.2009	D	100,000	—	—	—	100,000	6.790	7.12.2009 - 6.12.2019	
	21.12.2009	D	300,000	—	(25,000)	(50,000)	225,000	6.350	21.12.2009 - 20.12.2019	
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2009 - 27.12.2019	
	13.9.2010	D	—	1,050,000	—	—	1,050,000	7.390	13.9.2010 - 12.9.2020	
	<b>Total for employees</b>			<b>24,550,000</b>	<b>1,050,000</b>	<b>(470,000)</b>	<b>(2,181,000)</b>	<b>22,949,000</b>		
	<b>Total for all categories</b>			<b>34,350,000</b>	<b>1,650,000</b>	<b>(470,000)</b>	<b>(2,281,000)</b>	<b>33,249,000</b>		

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 52. 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 January 1, 2010	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding at December 31, 2010
Scheme C	11,225,000	—	—	(1,491,000)	9,734,000
Scheme D	23,125,000	1,650,000	(470,000)	(790,000)	23,515,000
	<b>34,350,000</b>	<b>1,650,000</b>	<b>(470,000)</b>	<b>(2,281,000)</b>	<b>33,249,000</b>
<b>Exercisable at the end of the year</b>					<b>23,784,000</b>

Option type	Outstanding at January 1, 2009	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding at December 31, 2009
Scheme C	21,615,000	—	—	(10,390,000)	11,225,000
Scheme D	9,000,000	15,200,000	—	(1,075,000)	23,125,000
	30,615,000	15,200,000	—	(11,465,000)	34,350,000
<b>Exercisable at the end of the year</b>					<b>16,508,333</b>

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

	Outstanding at January 1	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at December 31
<b>2010</b>	<b>9,800,000</b>	<b>600,000</b>	<b>—</b>	<b>(100,000)</b>	<b>10,300,000</b>
	Outstanding at January 1	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at December 31
2009	6,200,000	7,200,000	—	(3,600,000)	9,800,000

## 52. Share Options *(continued)*

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

Date of grant	Exercise price HK\$	Expected life of share options	Expected volatility based on historical volatility of share prices	Hong Kong Exchange Fund Notes rate	Expected annual dividend yield
<b>For the year ended December 31, 2010</b>					
13.9.2010	7.390	3 years	41%	0.578%	1.5%
26.11.2010	8.310	3 years	41%	0.755%	1.5%
<b>For the year ended December 31, 2009</b>					
16.11.2009	6.770	3 years	41%	0.793%	1.5%
7.12.2009	6.790	3 years	41%	0.817%	1.5%
21.12.2009	6.350	3 years	41%	0.947%	1.5%
28.12.2009	6.390	3 years	41%	1.101%	1.5%

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The weighted average closing price of the Company's shares on various dates of grant was HK\$7.49 (2009: HK\$6.84) 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 estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised a total expense of HK\$17,190,000 for the year ended December 31, 2010 (2009: HK\$10,800,000) 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\$1.89 to HK\$2.14 (2009: ranged from HK\$1.65 to HK\$1.75) per option. The weighted average fair value of the share options granted in the current year was HK\$1.98 (2009: HK\$1.75) per option.

The share options are vested in whole or in parts over 3 years from the date of grant.

## 53. Capital Commitments

	The Group		The Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Capital expenditure in respect of the purchase of property, plant and equipment and a licence:				
Contracted for but not provided	101,277	68,744	11,774	7,092
Authorised but not contracted for	6,565	13,773	—	—

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 54. Event After The Reporting Period

On February 25, 2011, the Company has entered into an up to US\$160,000,000 dual-tranche term loan. Tranche A, represents 62.5% of the loan with a final maturity in 2015. Tranche B, representing the balance of 37.5%, with a final maturity in 2013. Both tranches will be used to refinance existing borrowings.

### 55. Related Party Transactions

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

	2010 HK\$'000	2009 HK\$'000
Management fee expenses	—	70
Sales income	155	248
Equipment charge income	1,034	1,917
Purchases	170,074	61,616

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

	2010 HK\$'000	2009 HK\$'000
Short-term benefits	158,218	141,025
Post-employment benefits	937	1,142
Share-based payments	11,797	1,374
	170,952	143,541

Details of the balances with related parties are set out in the consolidated statement of financial position Note 22, 23, 28, 29 and 36.

## 56. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at December 31, 2010 and December 31, 2009 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 Industries S.à.r.l.	Luxembourg	EUR 412,600	—	100	Investment holding
AC (Macao Commercial Offshore) Limited	Macau	MOP 780,000	—	100	Trading of power equipment and floor care products
AEG Electric Tools GmbH	Germany	EUR 20,452,500	—	100	Trading and manufacture of power equipment products
Baja, Inc.	US	US\$ 17.36	100	—	Trading of outdoor power equipment products
Digiwireless Limited	Hong Kong	HK\$ 2	100	—	Investment holding
DreBo Werkzeugfabrik GmbH *	Germany	EUR 1,000,000	—	100	Trading and manufacture of power equipment products
Homelite Asia Limited	British Virgin Islands ("BVI")	US\$ 1	—	100	Trading of outdoor power equipment products
Homelite Consumer Products, Inc.	US	US\$ 10	—	100	Trading of outdoor power equipment products
Hoover Inc.	US	US\$ 1	—	100	Trading and manufacture of floor care products
MacEwen Property Co., Inc.	US	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	US	US\$ 1,000	—	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	US	US\$ 10	—	100	Investment holding
OWT France S.A.S.	France	EUR 1,750,000	—	100	Investment holding
OWT Industries, Inc.	US	US\$ 10	—	100	Manufacture of electric components and power equipment products

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 56. 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 %	
Royal Appliance International GmbH	Germany	EUR 2,050,000	100	—	Trading of household electronic and electrical products
Royal Appliance Mfg. Co.	US	US\$ 1	—	100	Trading and manufacture of floor care products
Sang Tech Industries Limited	Hong Kong	HK\$ 1,000,000	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$ 2,000,000	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK\$ 2,000,000	75.725	—	Manufacture of electronic products
Techtronic Appliances International Ltd.	BVI	US\$ 1	—	100	Investment holding
Techtronic Floor Care Technology Limited	BVI	US\$ 1	100	—	Investment and intellectual properties holding
Techtronic Industries (Dongguan) Co. Ltd.	PRC	US\$ 47,000,000	—	100	Manufacture of power equipment, floor care and outdoor power equipment products
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT\$5,000,000	100	—	Provision of inspection services
Techtronic Industries (UK) Ltd (formerly known as Ryobi Technologies (UK) Ltd)	United Kingdom	GBP 4,000,000	—	100	Trading of electric power equipment products
Techtronic Industries Australia Pty. Limited	Australia	AU\$ 19,400,000	—	100	Trading of electric power equipment products
Techtronic Industries Central Europe GmbH*	Germany	EUR 25,600	—	100	Trading of electric power equipment product
Techtronic Industries ELC GmbH*	Germany	EUR 25,000	—	100	Trading of electric power equipment products and outdoor power equipment products

## 56. 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 %	
Techtronic Industries France SAS	France	EUR 14,919,832	—	100	Trading of electric power equipment products
Techtronic Industries Germany Holding GmbH	Germany	EUR 25,000	—	100	Investment holding
Techtronic Industries Mexico, S.A. de C.V.	Mexico	MXN 50,000 (Serie I) MXN 722,095 (Serie II)	—	100	Trading of power equipment, floor care and outdoor power equipment products
Techtronic Industries N.Z. Limited	New Zealand	NZ\$ 1,165,500	100	—	Trading of electric power equipment products
Techtronic Industries North America, Inc.	US	US\$ 10	98.4	1.6	Investment holding
Techtronic Outdoor Products Technology Limited	Bermuda	US\$ 12,000	100	—	Investment and intellectual properties holding
Techtronic Power Tools Technology Limited	BVI	US\$ 1	100	—	Investment and intellectual properties holding
Techtronic Trading Limited (formerly known as Homelite Far East Company Limited)	Hong Kong	HK\$ 2	100	—	Trading of outdoor power equipment products
TTI Investments (Dongguan) Company Limited	Hong Kong	HK\$ 2	100	—	Investment holding
Vax Appliances (Australia) Pty. Ltd.	Australia	AU\$ 3,200,008 (ordinary shares) AU\$13,900,000 (Class A Redeemable Preference Shares)	100	—	Investment holding
Vax Limited	United Kingdom	GBP 30,000 (Ordinary A shares) GBP 2,500 (Ordinary B shares)	100	—	Assembly, procurement and distribution of floor care products

\* Exempt from the obligation to publish local financial statements.

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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

### 57. Particulars of Associates

Particulars of the associates as at December 31, 2010 and December 31, 2009 are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Principal activities
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	40.8	Investment holding
Precision Technology Industries Limited	Bermuda	US\$12,000,000	25.0	Manufacture of power equipment products

### 58. Presentation and Functional Currencies

The functional currency of the Company is United States dollars. The presentation currency of the Group is Hong Kong dollars as the Company is a public limited company incorporated in Hong Kong. The financial statements include the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows which are presented in the functional currency of the Company for reference only which have been arrived at based on the fixed exchange rate of HK\$7.8 to US\$1.0.

# Financial Summary

## Results

	Year ended December 31,				
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
Turnover	21,822,597	24,774,987	26,615,319	23,984,646	<b>26,386,136</b>
Profit before restructuring and relocation costs, share of results of associates, goodwill impairment and taxation	1,263,981	912,460	950,712	430,456	<b>955,489</b>
Restructuring and relocation costs	—	(743,018)	(717,971)	—	<b>(207,890)</b>
Goodwill impairment	—	—	(78,000)	—	<b>—</b>
Share of results of associates	(895)	(270)	(3,077)	(987)	<b>(1,207)</b>
Profit before taxation	1,263,086	169,172	151,664	429,469	<b>746,392</b>
Taxation (charge) credit	(184,017)	(38,999)	40,171	62,684	<b>548</b>
Profit for the year	1,079,069	130,173	191,835	492,153	<b>746,940</b>
Attributable to:					
Owners of the Company	1,071,864	125,257	174,807	490,658	<b>740,140</b>
Non-controlling interests	7,205	4,916	17,028	1,495	<b>6,800</b>
Profit for the year	1,079,069	130,173	191,835	492,153	<b>746,940</b>
Basic earnings per share	73.18 cents	8.41 cents	11.64 cents	31.87 cents	<b>46.23 cents</b>

## Assets and Liabilities

	Year ended December 31,				
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
Total assets	21,320,301	24,969,446	21,789,047	23,784,352	<b>25,474,104</b>
Total liabilities	14,242,326	17,958,018	14,841,609	15,592,582	<b>16,662,404</b>
	7,077,975	7,011,428	6,947,438	8,191,770	<b>8,811,700</b>
Equity attributable to Owners of the Company	6,996,530	6,920,125	6,839,135	8,081,962	<b>8,695,105</b>
Non-controlling interests	81,445	91,303	108,303	109,808	<b>116,595</b>
	7,077,975	7,011,428	6,947,438	8,191,770	<b>8,811,700</b>

# Corporate Information

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## Board of Directors

### Group Executive Directors

Mr Horst Julius Pudwill  
*Chairman*

Prof Roy Chi Ping Chung JP  
*Vice Chairman*

Mr Joseph Galli Jr  
*Chief Executive Officer*

Mr Patrick Kin Wah Chan  
Mr Frank Chi Chung Chan  
Mr Stephan Horst Pudwill

### Non-executive Director

Mr Vincent Ting Kau Cheung

### Independent Non-executive Directors

Mr Joel Arthur Schleicher  
Mr Christopher Patrick Langley OBE  
Mr Manfred Kuhlmann  
Mr Peter David Sullivan

## Financial Calendar 2011

March 24	: Announcement of 2010 annual results
May 17	: Last day to register for 2010 final dividend
May 18 - 20	: Book closure period
May 20	: Annual General Meeting
June 30	: Six months interim period end
July 8	: Final dividend payment
December 31	: Financial year end

## Investor Relations Contact

Investor Relations and Communications  
Techtronic Industries Co. Ltd.  
24/F., CDW Building  
388 Castle Peak Road  
Tsuen Wan, N.T.  
Hong Kong  
email: [ir@tti.com.hk](mailto:ir@tti.com.hk)

## Website

[www.ttigroup.com](http://www.ttigroup.com)  
Earnings results, annual/interim reports are available online.

## List Information

The Stock Exchange of Hong Kong Limited  
Ordinary Shares (stock code: 669)  
ADR Level 1 Programme (symbol: TTNDY)

## Share Registrar and Transfer Office

Tricor Secretaries Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Hong Kong  
Tel: (852) 2980 1888

## ADR Depositary

The Bank of New York

## Principal Bankers

Bank of America, N.A.  
Bank of China  
Citic Bank International Limited  
Hang Seng Bank Ltd.  
The Hongkong and Shanghai Banking Corporation Limited  
Standard Chartered Bank

## Solicitors

Vincent T K Cheung Yap & Co

## Auditor

Deloitte Touche Tohmatsu

## Company Secretary

Mr Frank Chi Chung Chan

## Trademarks

All trademarks used are intellectual property of their respective owners and are protected under trademark law.

AEG® is a registered trademark and its use is pursuant to a License granted by AB Electrolux (publ).

RYOBI® is a registered trademark and its use is pursuant to a License granted by Ryobi Limited.

RIDGID® is a registered trademark of Ridgid, Inc., part of Emerson Professional Tools, a business of St. Louis-based Emerson (NYSE: EMR).

## Asia

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### ► Hong Kong

#### **Techtronic Industries Co. Ltd.** **Techtronic Trading Ltd.**

24/F, CDW Building  
388 Castle Peak Road  
Tsuen Wan, N.T.  
T (852) 2402 6888  
F (852) 2413 5971

#### **Solar Wide Industrial Ltd.**

18/F, CDW Building  
388 Castle Peak Road,  
Tsuen Wan, N.T.,  
T (852) 2480 0888  
F (852) 2480 1320  
www.solarwide.com.hk

#### **South Asian Pacific Co Ltd.**

18/F, CDW Building  
388 Castle Peak Road,  
Tsuen Wan, N.T.,  
T (852) 2492 2181  
F (852) 2490 4778  
www.sap.com.hk

### ► Greater China

#### **Techtronic Industries** **(Dongguan) Co. Ltd.**

No.1, Chuang Ke Road,  
Hou Jie Town Industrial Park,  
Hou Jie Town, Dongguan City,  
Guang Dong Province 523945  
T (86-769) 8272 8888  
F (86-769) 8558 2575

#### **Solar Wide Assembly Factory**

Heng Xing Industrial Zone  
No.38, Xia Shi Jia Road,  
Jiang Shi Village Road,  
Gong Ming Town, Bao An Country,  
Shenzhen 518106  
T (86-755) 2755 5286  
F (86-755) 2755 5605

## Australasia

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### ► Australia

#### **Techtronic Industries** **Australia Pty. Ltd.**

Level 1 - 660 Doncaster Road  
Doncaster, VIC 3108  
T (61-3) 9840 3200  
F (61-3) 9840 6133

### ► New Zealand

#### **Techtronic Industries N.Z. Limited**

27 Clemow Drive  
Mt. Wellington  
Auckland  
T (64-9) 573 0230  
F (64-9) 573 0231

## North America

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### ► United States

#### **Milwaukee Electric** **Tool Corporation**

13135 W. Lisbon Road  
Brookfield, WI 53005  
T (1-262) 781 3600  
F (1-262) 790 6333  
www.milwaukeeetool.com

#### **Techtronic Industries** **North America, Inc.**

1428 Pearman Dairy Road  
Anderson, South Carolina 29625  
T (1-864) 226 6511  
F (1-864) 261 9435  
www.ttigroupna.com  
www.ryobitools.com

#### **Homelite Consumer Products, Inc.**

1428 Pearman Dairy Road  
Anderson, South Carolina 29625  
T (1-864) 226 6511  
F (1-864) 261 9435  
www.homelite.com

#### **OWT Industries, Inc.**

255 Pumpkintown Hwy.  
Pickens, South Carolina 29671  
USA  
T (1-864) 878 6331  
F (1-864) 878 7504

#### **TTI Floor Care North America, Inc.**

7005 Cochran Road,  
Glenwillow, Ohio 44139  
T (1-440) 996 2000  
F (1-440) 996 2027  
www.ttifloorcare.com

### ► Canada

#### **Techtronic Industries Canada, Inc.**

7303 Warden Avenue, Suite 202  
Markham, ON L3R 5Y6  
T (1-905) 479 4355  
Toll free 1 800 268 4015  
F (1-905) 948 2346

## Latin America

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### ► Mexico

#### **Techtronic Industries Mexico,** **S.A. de C.V.**

Ave. Santa Fe 481- 6 Piso Col.  
Cruz Manca  
05349 México, D.F.  
T (52) (55) 4160 3544

### ► Argentina

#### **Techtronic Industries Argentina**

Edif. Uruguay Norte,  
Uruguay 2602 -4to Piso of 12  
(B1643EKP) Beccar, San Isidro,  
Bs.As, Argentina  
T (54) (11) 6091 2216

### ► Brazil

#### **Techtronic Industries** **do Brasil Ltda.**

Rua Vicente de Paula Souza  
e Silva, 402. Bairro Assunção  
São Bernardo do Campo – SP  
CEP: 09861-690  
T (55) (11) 2311 3334

## Europe

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### ► France

#### **Techtronic Industries** **France S.A.S.**

Le Grand Roissy  
Z.A. du Gué  
35, rue de Guivry  
B. P. 5 77990  
T (33-1) 6094 6970  
F (33-1) 6094 6979  
www.ryobi-europe.com

### ► United Kingdom

#### **Techtronic Industries (UK) Ltd.**

Medina House  
Field House Lane  
Marlow, Buckinghamshire  
SL7 1TB  
T (44-1628) 894 400  
F (44-1628) 894 401  
www.ryobipower.co.uk

### **Vax Ltd.**

Quillgold House, Kingswood Road  
Hampton Lovett, Droitwich  
Worcestershire WR9 0QH  
T (44-1905) 795 959  
F (44-1905) 795 958  
www.vax.co.uk

### ► Germany

#### **Royal Appliance International** **GmbH**

Jagenbergstr. 19  
41468 Neuss  
T (49-2131) 6090 0  
F (49-2131) 6090 6095  
www.dirt-devil.de

#### **AEG Electric Tools GmbH**

Max-Eyth-Str. 10  
D-71364 Winnenden  
T (49) 0 71 95 120  
F (49) 0 71 95 12666  
www.aeg-pt.com

#### **DreBo Werkzeugfabrik GmbH**

Ulrichstrasse 22  
D-88361 Altshausen  
T (49) 0 7584 29000  
F (49) 0 7584 290049  
www.drebo.de

### ► Nordic

#### **Techtronic Industries Nordic**

Stamholmen 147, 4.,  
DK-2650 Hvidovre  
T +45 43 56 55 55  
F +45 43 56 55 56

## Middle East, Africa & Indian Subcontinent

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#### **Techtronic Industries** **Middle East & Africa FZCO**

P.O. Box 61254,  
Jebel Ali Free Zone,  
South Side, Dubai  
United Arab Emirates  
T (9714) 886 1399  
F (9714) 886 1400

