

# Notes to the Financial Statements (Unaudited)

For the six months period ended 30th June 2003

## 1. Basis of preparation

The unaudited interim results of the Group, which are not statutory financial statements, have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” (“SSAP 25”), issued by the Hong Kong Society of Accountants on a basis consistent with the accounting policies adopted in the report and financial statements for the year ended 31st December 2002, except for the change in accounting policy for taxation, consistent with SSAP 12 (Revised) “Income taxes”. Comparative figures are extracts from the Group’s interim report for the six months ended 30th June 2002 and annual financial statements for the year ended 31st December 2002, as restated.

## 2. Adoption of new and revised Statements of Standard Accounting Practice

In current period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the income statement liability method, i.e. liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly, the opening retained profits as at 1st January 2003 have been increased by HK\$ 25,585,000 (2002: HK\$ 21,002,000), which is the cumulative effect of the change in policy on the results for periods prior to 2003. The effect of the change to income tax for the six months ended 30th June 2002 is HK\$146,000.

## 3. Accounting policy

### 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 period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor that accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement.

#### 4. Segment information

	Six months period ended 30th June			
	Turnover		Contribution to profit from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (As restated)
By principal activity:				
Manufacture and trading of				
Power tools and outdoor power equipment	3,692,934	3,263,923	239,699	205,360
Floor care appliances	1,121,715	694,927	53,372	22,227
	<b>4,814,649</b>	3,958,850	<b>293,071</b>	227,587
By geographical market location:				
North America	3,784,207	3,307,651	230,073	200,009
Europe	766,976	506,408	46,205	16,847
Other countries	263,466	144,791	16,793	10,731
	<b>4,814,649</b>	3,958,850	<b>293,071</b>	227,587

#### 5. Profit from operations

	Six months period ended 30th June	
	2003 HK\$'000	2002 HK\$'000 (As restated)
Profit from operations is arrived after charging (crediting):		
Depreciation of property, plant and equipment	137,085	127,889
Amortisation of intangible assets	2,531	383
Amortisation of goodwill	7,596	912
Release of negative goodwill to income	(2,152)	(2,154)
Staff costs	372,031	292,943

#### 6. Taxation

	Six months period ended 30th June	
	2003 HK\$'000	2002 HK\$'000 (As restated)
The total tax charge comprises:		
Hong Kong profits taxation	23,009	13,877
Overseas taxation	7,266	1,043
Deferred taxation	162	146
	<b>30,437</b>	15,066

Hong Kong profits tax is calculated at the rate of 17.5% (2002:16.0%) on the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset realised.

## 7. Earnings per share

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

	Six months period ended 30th June	
	2003 HK\$'000	2002 HK\$'000 (As restated)
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the period	<b>210,823</b>	169,901
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>647,740,882</b>	598,395,714
Effect of dilutive potential ordinary shares:		
Options	<b>14,712,064</b>	9,583,121
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>662,452,946</b>	607,978,835

## 8. Trade and other receivables

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

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
0 – 60 days	<b>1,306,254</b>	992,138
61– 120 days	<b>160,379</b>	145,061
121 days or above	<b>35,236</b>	23,472
Total trade receivables	<b>1,501,869</b>	1,160,671
Other receivables	<b>83,365</b>	52,763
	<b>1,585,234</b>	1,213,434

## 9. Trade, bills and other payables

The ageing analysis of trade payables is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000 (As restated)
0 – 60 days	<b>1,089,318</b>	619,751
61– 120 days	<b>54,323</b>	175,476
121 days or above	<b>19,084</b>	25,841
Total trade payables	<b>1,162,725</b>	821,068
Bills payables	<b>1,280,533</b>	1,613,634
Other payables	<b>700,351</b>	640,962
	<b>3,143,609</b>	3,075,664

## 10. Long term liability

On 30th June 2003, the Group announced its debut issue of fixed interest rate note, through its wholly-owned entity in the United States, for an aggregate principal amount of US\$145 million. The Notes were issued in two fixed rate tranches, of US\$120 million for 10 years at 4.7% per annum, and US\$25 million for 7 years at 4.09 % per annum.

The proceeds of the Notes will be applied to refinance existing medium term debts and for general working capital purposes.

**11. Share capital**

	Number of Shares		Share Capital	
	30th June 2003	31st December 2002	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Ordinary shares of HK\$0.20 each Authorised	800,000,000	800,000,000	160,000	160,000
Issued and fully paid:				
At 1st January	645,716,826	574,516,826	129,143	114,903
Issue of shares during the period	8,165,000	11,200,000	1,633	2,240
Issued on share placement	–	60,000,000	–	12,000
	<b>653,881,826</b>	645,716,826	<b>130,776</b>	129,143

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

**12. Acquisition of subsidiaries**

The Group completed the acquisition of Royal Appliance Mfg. Co. ("Royal") on 23rd April 2003 (US Time). The total consideration was US\$105.6 million (approximately HK\$823.7 million), financed by internal resources and bank borrowings.

	HK\$'000
Net cash outflow arising on acquisition:	
Cash consideration and related expenses paid in acquisition	(844,900)
Bank balances and cash acquired	34,603
	<b>(810,297)</b>

Details of transactions are set out in a circular issued by the Group dated 6th March, 2003.

**13. Capital commitments**

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Capital expenditure contracted for but not provided for:		
Purchase of property, plant and equipment	104,342	27,633
Acquisition of associates	29,250	29,250
	<b>133,592</b>	56,883
Capital expenditure authorised but not contracted for:		
Purchase of property, plant and equipment	16,701	10,737

**14. Contingent liabilities**

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Guarantees given to banks in respect of credit facilities utilised by associates	25,597	27,367
Bills discounted with recourse	171,500	188,779
	<b>197,097</b>	216,146