

# notes to the financial statements

for the year ended 31st December, 2004

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

## 2 Potential Impact Arising from the Recently Issued Accounting Standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3 Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

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

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

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill is capitalized and amortized on a straight-line basis over its estimated useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

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

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognized as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognized as income immediately.

Negative goodwill arising on acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

#### **Investments in subsidiaries**

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

#### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment losses.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment losses.

#### **Patents, trademarks and manufacture know-how**

Patents, trademarks and manufacture know-how are measured initially at purchase cost and amortized on a straight-line basis over their estimated useful lives.

#### **Assets held under finance leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group.

Assets held under finance leases are capitalized at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as an obligation under finance leases. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the term of the relevant lease.

### 3 Significant Accounting Policies (continued)

#### Property, plant and equipment

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

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

Freehold land	Nil
Leasehold land and land use rights	2% or over the term of the relevant lease, if shorter
Buildings	4%
Leasehold improvements	25%
Office equipment, furniture and fixtures	16 <sup>2</sup> / <sub>3</sub> % – 25%
Plant and machinery	25%
Motor vehicles	16 <sup>2</sup> / <sub>3</sub> % – 25%
Moulds and tooling	20% – 33 <sup>1</sup> / <sub>3</sub> %
Vessels	20%

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

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

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.

#### Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

#### Investments in securities

Investments in securities are recognized on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment losses that is other than temporary.

Other investments are measured at fair value, with unrealized gains and losses included in the income statement for the year.

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

#### **Other assets**

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

#### **Inventories**

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

#### **Research and development costs**

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

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred.

#### **Revenue recognition**

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

Commission income is recognized when services are provided.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable.

#### **Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or 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 taxable profit nor the accounting profit.

### 3 Significant Accounting Policies (continued)

#### Taxation (continued)

Deferred tax liabilities are recognized 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement.

#### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expenses in the year in which the operation is disposed of.

#### Borrowing costs

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

#### Loan arrangement fees

Loan arrangement fees are amortized to the income statement over the term of the loan on a straight-line basis to provide a constant periodic rate of charge.

#### Retirement benefits schemes

Retirement benefits arrangements are made in accordance with the relevant laws and regulations. Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due. For defined benefits schemes, the projected future cost of providing retirement benefits is recognized when the employees render services instead of when claims are incurred.

#### Convertible bonds

Convertible bonds are separately disclosed and regarded as a liability. The expenses incurred directly in connection with the issue of the bonds are deferred and are amortized over the period of the bonds so as to produce a constant periodic rate of charge on the carrying amount of the bonds.

## 4 Business and Geographical Segments

### Business segments

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

### Income statement

for the year ended 31st December, 2004

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

Inter-segment sales are charged at prevailing market rates.

### Result

Segment result	910,230	201,269	145,865	–	1,257,364
Amortization of goodwill					(35,263)
Release of negative goodwill to income					4,307
Profit from operations					1,226,408
Finance costs					(138,880)
Share of results of associates					(845)
Profit before taxation					1,086,683
Taxation					(108,829)
Profit after taxation					977,854

**4 Business and Geographical Segments** (continued)

**Business segments** (continued)

**Balance sheet**

as at 31st December, 2004

	Power Equipment Products HK\$'000	Floor Care Appliances HK\$'000	Laser and Electronic Products HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	10,405,833	1,950,652	431,178	12,787,663
Interests in associates				160,442
Unallocated corporate assets				955,219
<b>Consolidated total assets</b>				<b>13,903,324</b>
<b>Liabilities</b>				
Segment liabilities	(5,893,251)	(1,075,362)	(113,950)	(7,082,563)
Unallocated corporate liabilities				(3,300,063)
<b>Consolidated total liabilities</b>				<b>(10,382,626)</b>

**Other information**

for the year ended 31st December, 2004

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

#### 4 Business and Geographical Segments (continued)

##### Business segments (continued)

##### Income statement

for the year ended 31st December, 2003

	Power Equipment Products HK\$'000	Floor Care Appliances HK\$'000	Laser and Electronic Products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Turnover</b>					
External sales	9,486,308	3,185,336	511,164	–	13,182,808
Inter-segment sales	194,995	12,160	53,172	(260,327)	–
Total	9,681,303	3,197,496	564,336	(260,327)	13,182,808

Inter-segment sales are charged at prevailing market rates.

##### Result

Segment result	653,385	131,351	100,973	–	885,709
Amortization of goodwill					(25,056)
Release of negative goodwill to income					4,306
Profit from operations					864,959
Finance costs					(95,731)
Share of results of associates					(987)
Profit before taxation					768,241
Taxation					(66,811)
Profit after taxation					701,430



**4 Business and Geographical Segments** (continued)

**Business segments** (continued)

**Balance sheet**

as at 31st December, 2003

	Power Equipment Products HK\$'000	Floor Care Appliances HK\$'000	Laser and Electronic Products HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	6,766,767	1,536,586	279,725	8,583,078
Interests in associates				118,394
Unallocated corporate assets				944,796
<b>Consolidated total assets</b>				<b>9,646,268</b>
<b>Liabilities</b>				
Segment liabilities	(4,301,394)	(871,477)	(101,084)	(5,273,955)
Unallocated corporate liabilities				(1,813,055)
<b>Consolidated total liabilities</b>				<b>(7,087,010)</b>

**Other information**

for the year ended 31st December, 2003

	Power Equipment Products HK\$'000	Floor Care Appliances HK\$'000	Laser and Electronic Products HK\$'000	Consolidated HK\$'000
Capital additions	155,965	652,333	10,728	819,026
Depreciation and amortization	200,388	127,216	4,244	331,848
Impairment loss of investment securities recognized	14,028	–	–	14,028

#### 4 Business and Geographical Segments (continued)

##### Geographical segments

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

	Turnover		Contribution to results from ordinary activities before taxation	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical market location:				
North America	<b>13,205,612</b>	10,905,833	<b>1,082,567</b>	762,628
Europe and other countries	<b>3,098,528</b>	2,276,975	<b>174,797</b>	123,081
	<b>16,304,140</b>	13,182,808	<b>1,257,364</b>	885,709
Amortization of goodwill			<b>(35,263)</b>	(25,056)
Release of negative goodwill to income			<b>4,307</b>	4,306
Profit from operations			<b>1,226,408</b>	864,959
Finance costs			<b>(138,880)</b>	(95,731)
Share of results of associates			<b>(845)</b>	(987)
Profit before taxation			<b>1,086,683</b>	768,241

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and People's Republic of China ("PRC")	<b>6,616,721</b>	2,866,292	<b>416,540</b>	158,363
North America	<b>4,572,948</b>	4,561,102	<b>101,263</b>	643,780
Europe and other countries	<b>1,597,994</b>	1,155,684	<b>46,082</b>	16,883
	<b>12,787,663</b>	8,583,078	<b>563,885</b>	819,026

## 5 Turnover

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

	<b>2004</b>	2003
	HK\$'000	HK\$'000
Sale of goods	<b>16,254,139</b>	13,143,731
Commission income	<b>9,545</b>	13,095
Royalty income	<b>40,456</b>	25,982
	<b>16,304,140</b>	13,182,808

## 6 Interest Income

	<b>2004</b>	2003
	HK\$'000	HK\$'000
Interest earned on bank deposits	<b>49,180</b>	14,823
Interest earned on amount due from an associate	<b>3,592</b>	1,920
	<b>52,772</b>	16,743

## 7 Profit from Operations

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Amortization of intangible assets	8,692	7,252
Amortization of goodwill	35,263	25,056
Release of negative goodwill to income	(4,307)	(4,306)
Auditors' remuneration	7,863	7,527
Depreciation and amortization on property, plant and equipment		
Owned assets	310,510	292,185
Assets held under finance leases	5,999	11,661
Impairment loss of investment securities recognized	14,226	14,028
Operating lease charges:		
Premises	92,919	80,928
Motor vehicles	27,754	13,357
Plant and machinery	8,433	9,638
Other assets	4,626	5,325
Loss (profit) on disposal of property, plant and equipment	1,882	(4,304)
Research and development costs	338,962	268,702
Less: amounts capitalized	–	(458)
	<b>338,962</b>	<b>268,244</b>
Staff costs		
Directors' remuneration		
Fees	391	196
Other emoluments	33,938	32,067
Others	1,196,185	921,429
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)	16,448	12,583
	<b>1,246,962</b>	<b>966,275</b>

Staff costs disclosed above do not include an amount of HK\$142,905,000 (2003: HK\$117,222,000) relating to research and development activities, which is included under research and development costs.

## 8 Finance Costs

	2004	2003
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	86,759	71,849
Obligations under finance leases	708	1,305
Fixed interest rate notes	45,022	20,493
Amortization of arrangement fees of fixed interest rate notes and convertible bonds	6,391	2,084
	<b>138,880</b>	<b>95,731</b>

## 9 Directors' Emoluments

	2004	2003
	HK\$'000	HK\$'000
Directors' fees:		
Executive	40	40
Non-executive	–	–
Independent non-executive	351	156
	<b>391</b>	<b>196</b>
Other emoluments for group directors:		
Salaries and other benefits	33,878	31,989
Contributions to retirement benefits schemes	60	78
	<b>33,938</b>	<b>32,067</b>
Total emoluments	<b>34,329</b>	<b>32,263</b>

## 9 Directors' Emoluments (continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	4	4
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$5,000,001 to HK\$5,500,000	1	2
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,500,001 to HK\$7,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$11,500,001 to HK\$12,000,000	–	1
HK\$12,000,001 to HK\$12,500,000	1	–

## 10 Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, five (2003: four) were group directors of the Company whose emoluments are included in the disclosures in note 9 above.

During each of the two years ended 31st December, 2004 and 2003, no emoluments has 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.

## 11 Taxation

	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong profits tax	101,954	78,997
Overprovision in prior years	(8,747)	(2,817)
	93,207	76,180
Overseas taxation on profit for the year	63,096	39,902
Underprovision in prior years	4,006	4,897
	67,102	44,799
Deferred tax:		
Current year	(51,480)	(55,991)
Attributable to increase in tax rate	–	1,823
	(51,480)	(54,168)
	108,829	66,811

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

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

The tax expenses for the year are reconciled as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	1,086,683	768,241
Tax at Hong Kong profits tax rate	190,169	134,442
Effect of different tax rates of subsidiaries operating in other jurisdictions	11,306	(15,292)
Tax effect of expenses not deductible for tax purpose	11,471	21,095
Tax effect of income not taxable for tax purpose	(120,773)	(94,618)
Tax effect of tax losses not recognized	24,269	18,589
(Over)underprovision in respect of prior years	(4,741)	2,080
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	–	1,823
Others	(2,872)	(1,308)
Tax expenses for the year	108,829	66,811

Details of deferred tax are set out in note 30.

## 12 Dividends

	<b>2004</b>	2003
	HK\$'000	HK\$'000
Final dividend paid (Note i):		
2003: HK 8.875 cents (2002: HK 5.00 cents) per share	<b>118,444</b>	65,388
Interim dividend paid (Note i):		
2004: HK 4.50 cents (2003: HK 3.625 cents) per share	<b>60,554</b>	47,863
	<b>178,998</b>	113,251

### Notes:

- i. The 2003 final dividend paid at HK17.75 cents, 2003 interim dividend paid at HK7.25 cents and 2002 final dividend paid at the HK10.00 cents per share are adjusted to HK8.875 cents, HK3.625 cents and HK5.00 cents per subdivided share respectively.
- ii. The final dividend in respect of the current financial year of HK12.50 cents per share (2003: HK 8.875 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.



### 13 Earnings per Share

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

	<b>2004</b>	2003
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year	<b>937,540</b>	673,973
		(Note i)
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,337,198,995</b>	1,307,261,026
Effect of dilutive potential ordinary shares:		
Share options	<b>38,266,686</b>	30,652,466
Convertible bonds (Note ii)	–	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,375,465,681</b>	1,337,913,492

Notes:

- i. The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share for the year ended 31st December, 2003 has been adjusted for the share subdivision on 31st May, 2004.
- ii. The computation of diluted earnings per share does not assume the conversion of convertible bonds since the conversion price of the Company's convertible bonds was higher than the average market price of the shares of the Company throughout the year ended 31st December, 2004.

## 14 Property, Plant and Equipment

	Land and land use rights 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 1st January, 2004	449,114	153,152	418,111	475,397	20,253	1,089,762	3,476	7,676	2,616,941
Currency realignment	4,731	811	3,888	531	282	301	–	–	10,544
Additions	3,127	13,243	46,591	57,591	2,221	123,232	8,359	57,252	311,616
Disposals	(24,731)	(12,553)	(2,428)	(19,944)	(1,586)	(84,421)	–	–	(145,663)
Reclassification	5,342	–	16,670	1,600	–	520	–	(24,132)	–
At 31st December, 2004	<b>437,583</b>	<b>154,653</b>	<b>482,832</b>	<b>515,175</b>	<b>21,170</b>	<b>1,129,394</b>	<b>11,835</b>	<b>40,796</b>	<b>2,793,438</b>
<b>Depreciation and amortization</b>									
At 1st January, 2004	113,765	99,515	273,019	333,404	14,791	874,772	3,319	–	1,712,585
Currency realignment	2,496	614	2,645	399	406	232	–	–	6,792
Provided for the year	19,348	12,663	67,820	61,634	2,628	151,823	593	–	316,509
Eliminated on disposals	(15,020)	(8,596)	(2,224)	(17,306)	(1,579)	(82,341)	–	–	(127,066)
Reclassification	–	–	–	829	–	(829)	–	–	–
At 31st December, 2004	<b>120,589</b>	<b>104,196</b>	<b>341,260</b>	<b>378,960</b>	<b>16,246</b>	<b>943,657</b>	<b>3,912</b>	<b>–</b>	<b>1,908,820</b>
<b>Net book values</b>									
At 31st December, 2004	<b>316,994</b>	<b>50,457</b>	<b>141,572</b>	<b>136,215</b>	<b>4,924</b>	<b>185,737</b>	<b>7,923</b>	<b>40,796</b>	<b>884,618</b>
At 31st December, 2003	335,349	53,637	145,092	141,993	5,462	214,990	157	7,676	904,356

14 Property, Plant and Equipment (continued)

	Leasehold 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	Total HK\$'000
<b>The Company</b>							
<b>Cost</b>							
At 1st January, 2004	72,393	64,001	96,437	206,805	9,944	462,107	911,687
Additions	–	1,955	8,162	16,169	432	63,387	90,105
Disposals	–	(6,265)	(626)	(3,352)	(357)	(361)	(10,961)
At 31st December, 2004	<b>72,393</b>	<b>59,691</b>	<b>103,973</b>	<b>219,622</b>	<b>10,019</b>	<b>525,133</b>	<b>990,831</b>
<b>Depreciation and amortization</b>							
At 1st January, 2004	19,669	55,456	64,589	154,223	7,775	376,316	678,028
Provided for the year	2,766	4,578	13,868	26,515	1,157	55,174	104,058
Eliminated on disposals	–	(6,009)	(612)	(2,462)	(357)	(10)	(9,450)
At 31st December, 2004	<b>22,435</b>	<b>54,025</b>	<b>77,845</b>	<b>178,276</b>	<b>8,575</b>	<b>431,480</b>	<b>772,636</b>
<b>Net book values</b>							
At 31st December, 2004	<b>49,958</b>	<b>5,666</b>	<b>26,128</b>	<b>41,346</b>	<b>1,444</b>	<b>93,653</b>	<b>218,195</b>
At 31st December, 2003	52,724	8,545	31,848	52,582	2,169	85,791	233,659

The net book values of the Group's and the Company's property, plant and equipment include amounts of approximately HK\$16,043,000 and HK\$76,000 respectively (2003: HK\$9,139,000 and HK\$6,026,000 respectively) in respect of assets held under finance leases.

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The net book values of land and land use rights and buildings are situated outside Hong Kong and are analyzed as follows:				
Freehold	<b>267,036</b>	282,625	–	–
Medium-term lease	<b>49,958</b>	52,724	<b>49,958</b>	52,724
	<b>316,994</b>	335,349	<b>49,958</b>	52,724

As at 31st December, 2003, the Group pledged certain freehold land and buildings having an aggregate net book value of HK\$14,134,000 to secure general banking facilities granted to the Group. The pledge has been released during the year.

## 15 Goodwill

	<b>The Group</b>
	HK\$'000
<b>Cost</b>	
At 1st January, 2004	783,742
Arising on acquisition of additional interest of a subsidiary	36,007
At 31st December, 2004	<b>819,749</b>
<b>Amortization</b>	
At 1st January, 2004	130,982
Charged for the year	35,263
At 31st December, 2004	<b>166,245</b>
<b>Net book values</b>	
At 31st December, 2004	<b>653,504</b>
At 31st December, 2003	652,760

The amortization period adopted ranges from 9 to 20 years as determined by the estimated foreseeable useful lives of the goodwill arising on past acquisitions.

## 16 Negative Goodwill

	<b>The Group</b>
	HK\$'000
<b>Gross amount</b>	
At 1st January, 2004 and 31st December, 2004	47,379
<b>Released to income</b>	
At 1st January, 2004	14,204
Released in the year	4,307
At 31st December, 2004	<b>18,511</b>
<b>Carrying amounts</b>	
At 31st December, 2004	<b>28,868</b>
At 31st December, 2003	33,175

The negative goodwill is released to income on a straight-line basis over a period of 11 years, being the remaining weighted average useful lives of the depreciable assets acquired.

**17 Intangible Assets**

	Deferred development cost HK\$'000	Patents and trademarks HK\$'000	Manufacture know-how HK\$'000	Total HK\$'000
<b>The Group</b>				
<b>Cost</b>				
At 1st January, 2004	1,773	42,993	3,510	48,276
Currency realignment	157	12	–	169
Additions	50,834	165,428	–	216,262
Write off in the year	–	(12,475)	–	(12,475)
At 31st December, 2004	<b>52,764</b>	<b>195,958</b>	<b>3,510</b>	<b>252,232</b>
<b>Amortization</b>				
At 1st January, 2004	–	22,010	1,112	23,122
Currency realignment	–	12	–	12
Provided for the year	–	7,990	702	8,692
Eliminated on write off	–	(12,475)	–	(12,475)
At 31st December, 2004	–	<b>17,537</b>	<b>1,814</b>	<b>19,351</b>
<b>Net book values</b>				
At 31st December, 2004	<b>52,764</b>	<b>178,421</b>	<b>1,696</b>	<b>232,881</b>
At 31st December, 2003	1,773	20,983	2,398	25,154
<b>The Company</b>				
<b>Cost</b>				
At 1st January, 2004				8,021
Additions				219
At 31st December, 2004				<b>8,240</b>
<b>Amortization</b>				
At 1st January, 2004				2,362
Provided for the year				2,053
At 31st December, 2004				<b>4,415</b>
<b>Net book values</b>				
At 31st December, 2004				<b>3,825</b>
At 31st December, 2003				5,659

All intangible assets of the Group and the Company are amortized on a straight-line basis over 4 to 10 years.

## 18 Investments in Subsidiaries

	The Company	
	2004 HK\$'000	2003 HK\$'000
Investments in unlisted shares, at cost	<b>426,981</b>	402,408

Particulars of the principal subsidiaries of the Company as at 31st December, 2004 are set out in note 40.

## 19 Interests in Associates

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost less impairment loss recognized	–	–	<b>23,790</b>	17,940
Share of net assets	<b>24,628</b>	19,623	–	–
Net amounts due from associates	<b>135,814</b>	98,771	<b>115,376</b>	67,647
	<b>160,442</b>	118,394	<b>139,166</b>	85,587

Particulars of the associates as at 31st December, 2004 are set out in note 41.

The amounts due from associates are unsecured, bearing interest at LIBOR plus market spread (2003: HIBOR plus market spread) and have no fixed repayment terms. 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.

## 20 Investments in Securities

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current assets				
Unlisted investment securities (equity), at cost less impairment loss recognized	<b>27,193</b>	41,419	<b>5,227</b>	10,454
Current assets				
Other investments listed in Hong Kong (equity securities), at market price	–	5,575	–	5,575

The Group's investments above included investments in Nack Products USA Limited ("Nack") and in America Direct, Inc. ("ADI"), with the carrying values of approximately HK\$5,227,000 (2003: HK\$10,454,000) and HK\$2,003,000 (2003: HK\$4,403,000), respectively. The Company's investments included its investment in Nack of the same amount. Both companies are incorporated in the United States of America ("USA"). Nack has the exclusive rights to market and distribute a registered product in the USA, of which the Group holds the manufacturing right. Its principal activity is the marketing and distribution of the registered product and other related products in the USA. ADI is engaged in marketing through a combination of direct response television and retail distribution in the USA and selected international markets.

The Group's investment represents approximately 25% (2003: 25%) of Nack's issued shares held directly by the Company and 26% (2003: 26%) of ADI's common stocks in issue held by a 51% subsidiary of the Company. Both Nack and ADI are not regarded as associates of the Group because the Group has no significant influence over their affairs.

## 21 Inventories

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Raw materials	<b>746,533</b>	599,855	<b>320,333</b>	247,007
Work in progress	<b>61,517</b>	76,298	<b>26,408</b>	60,907
Finished goods	<b>1,979,009</b>	1,815,497	<b>144,448</b>	160,071
	<b>2,787,059</b>	2,491,650	<b>491,189</b>	467,985

The value of inventories carried at net realizable value at the balance sheet date was insignificant.

## 22 Trade and Other Receivables

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

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
0 to 60 days	<b>2,323,226</b>	1,711,577	<b>52,434</b>	39,765
61 to 120 days	<b>264,250</b>	346,828	<b>3,485</b>	2,614
121 days or above	<b>57,009</b>	26,918	<b>8,500</b>	–
Total trade receivables	<b>2,644,485</b>	2,085,323	<b>64,419</b>	42,379
Other receivables	<b>117,671</b>	112,466	–	–
	<b>2,762,156</b>	2,197,789	<b>64,419</b>	42,379

## 23 Trade and Other Payables

The aging analysis of trade payables is as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
0 to 60 days	<b>1,487,387</b>	1,042,276	<b>760,654</b>	444,349
61 to 120 days	<b>211,234</b>	202,605	<b>164,460</b>	127,707
121 days or above	<b>17,907</b>	7,263	<b>10,187</b>	4,247
Total trade payables	<b>1,716,528</b>	1,252,144	<b>935,301</b>	576,303
Other payables	<b>1,168,978</b>	832,054	<b>302,627</b>	263,295
	<b>2,885,506</b>	2,084,198	<b>1,237,928</b>	839,598



## 24 Warranty Provision

	The Group	
	2004 HK\$'000	2003 HK\$'000
At 1st January	<b>208,552</b>	79,315
Currency realignment	<b>1,300</b>	1,737
Additional provision in the year	<b>488,260</b>	387,287
Acquisition of subsidiaries	–	67,860
Utilization of provision	<b>(456,737)</b>	(327,647)
At 31st December	<b>241,375</b>	208,552

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

## 25 Obligations under Finance Leases

The maturity of obligations under finance leases is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>The Group</b>				
Amounts payable under finance leases:				
Within one year	<b>6,814</b>	6,825	<b>6,266</b>	5,485
In the second to fifth year inclusive	<b>9,352</b>	11,154	<b>8,989</b>	7,871
After five years	–	7,283	–	6,390
	<b>16,166</b>	25,262	<b>15,255</b>	19,746
Less: future finance charges	<b>(911)</b>	(5,516)	–	–
Present value of lease obligations	<b>15,255</b>	19,746	<b>15,255</b>	19,746
Less: Amount due within one year shown under current liabilities			<b>(6,266)</b>	(5,485)
Amount due after one year			<b>8,989</b>	14,261
<b>The Company</b>				
Amounts payable under finance leases:				
Within one year	<b>625</b>	2,187	<b>586</b>	1,963
In the second to fifth year inclusive	–	624	–	595
	<b>625</b>	2,811	<b>586</b>	2,558
Less: future finance charges	<b>(39)</b>	(253)	–	–
Present value of lease obligations	<b>586</b>	2,558	<b>586</b>	2,558
Less: Amount due within one year shown under current liabilities			<b>(586)</b>	(1,963)
Amount due after one year			–	595

It is the Group's policy to lease certain of its plant and machinery, fixtures and equipment under finance leases, with lease terms of 3 years. Interest rates are fixed at the contract date and all leases are on a fixed repayment basis.

## 26 Convertible Bonds

	The Group and The Company	
	2004 HK\$'000	2003 HK\$'000
Convertible bonds due 2009	<b>1,092,000</b>	–
Less: Unamortized arrangement fees	<b>(20,007)</b>	–
	<b>1,071,993</b>	–

On 16th June, 2004, the Group announced the issue of 5-year Zero Coupon Convertible Bonds at par, due in July, 2009 (the “Bonds”), for an aggregate principal amount of US\$140,000,000 (approximately HK\$1,092,000,000). The Bonds are convertible, at the option of bondholders, into ordinary shares of HK\$0.10 each of the Company at an initial conversion price of HK\$16.56 per share at any time from 7th August, 2004 to 1st July, 2009. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at 107.76% of its principal amount on the maturity date of 8th July, 2009. However, on or after 8th July, 2007 and prior to the maturity date, the bondholders may, at their option, require the Company to redeem all or some of the Bonds at 104.59% of the principal amount.

## 27 Borrowings

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trust receipt loans	<b>214,981</b>	168,012	–	96,482
Bank loans	<b>838,649</b>	445,078	<b>719,333</b>	320,667
Bank overdrafts	<b>137,539</b>	141,977	–	–
Bank borrowings	<b>1,191,169</b>	755,067	<b>719,333</b>	417,149
Fixed interest rate notes (Note i)	<b>1,095,573</b>	1,091,405	–	–
Total borrowings	<b>2,286,742</b>	1,846,472	<b>719,333</b>	417,149
Analyzed into:				
Secured	–	5,899	–	–
Unsecured	<b>2,286,742</b>	1,840,573	<b>719,333</b>	417,149
	<b>2,286,742</b>	1,846,472	<b>719,333</b>	417,149

## 27 Borrowings (continued)

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

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
On demand or within one year	<b>840,450</b>	497,975	<b>407,333</b>	165,815
In the second year	<b>251,961</b>	23,092	<b>234,000</b>	17,334
In the third to fifth year inclusive	<b>98,758</b>	234,000	<b>78,000</b>	234,000
After five years	<b>1,131,000</b>	1,131,000	–	–
	<b>2,322,169</b>	1,886,067	<b>719,333</b>	417,149
Less: Amount due within one year shown under current liabilities	<b>(840,450)</b>	(497,975)	<b>(407,333)</b>	(165,815)
	<b>1,481,719</b>	1,388,092	<b>312,000</b>	251,334
Less: Unamortized loan arrangement fees	<b>(35,427)</b>	(39,595)	–	–
Amount due after one year	<b>1,446,292</b>	1,348,497	<b>312,000</b>	251,334

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

## 28 Share Capital

	<b>2004</b>	2003	<b>2004</b>	2003
	Number of shares		HK\$'000	HK\$'000
<b>Ordinary shares</b>				
Authorized:				
Shares of HK\$0.20 each at 1st January	<b>800,000,000</b>	800,000,000	<b>160,000</b>	160,000
Increase in authorized share capital	<b>400,000,000</b>	–	<b>80,000</b>	–
Subdivision of one share of HK\$0.20 each into two shares of HK\$0.10 each	<b>1,200,000,000</b>	–	–	–
Shares of HK\$0.10 each (2003: HK\$0.20 each) at 31st December	<b>2,400,000,000</b>	800,000,000	<b>240,000</b>	160,000
Issued and fully paid:				
Shares of HK\$0.20 each at 1st January	<b>662,486,826</b>	645,716,826	<b>132,497</b>	129,143
Issued on exercise of share options	<b>24,336,000</b>	16,770,000	<b>2,733</b>	3,354
Subdivision of one share of HK\$0.20 each into two shares of HK\$0.10 each	<b>665,481,826</b>	–	–	–
Shares of HK\$0.10 each (2003: HK\$0.20 each) at 31st December	<b>1,352,304,652</b>	662,486,826	<b>135,230</b>	132,497

On 28th May, 2004, ordinary resolutions were passed by the shareholders of the Company to approve the increase (the “Increase”) in the authorized share capital of the Company to HK\$240,000,000 and the subdivision (the “Subdivision”) of each issued and unissued shares of HK\$0.20 each in the authorized share capital into two ordinary shares of HK\$0.10 each. The Increase and the Subdivision became effective on 28th and 31st May, 2004 respectively.

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

Details of the share options are set out in note 35.

## 29 Reserves

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>The Company</b>			
At 1st January, 2003	613,499	938,232	1,551,731
Premium on shares issued	58,584	–	58,584
Profit for the year	–	609,891	609,891
Final dividend – 2002	–	(65,388)	(65,388)
Interim dividend – 2003	–	(47,863)	(47,863)
At 1st January, 2004	672,083	1,434,872	2,106,955
Premium on shares issued	138,528	–	138,528
Profit for the year	–	774,301	774,301
Final dividend – 2003	–	(118,444)	(118,444)
Interim dividend – 2004	–	(60,554)	(60,554)
At 31st December, 2004	<b>810,611</b>	<b>2,030,175</b>	<b>2,840,786</b>

As at 31st December, 2004, the Company's reserves available for distribution to shareholders comprised the retained profits of HK\$2,030,175,000 (2003: HK\$1,434,872,000).

### 30 Deferred Tax Assets (Liabilities)

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

	Accelerated tax depreciation HK\$'000	Warranty provision HK\$'000	Employee related provision HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
<b>The Group</b>						
At 1st January, 2003	(46,363)	20,968	11,558	122,098	37,498	145,759
Currency realignment	(20)	208	512	12,590	569	13,859
(Charge) credit to income for the year	41,285	18,721	4,996	(5,868)	(3,143)	55,991
Acquisition of subsidiaries	(10,088)	21,842	9,136	–	(7,474)	13,416
Effect of change in tax rate – (charge) credit to income	(2,033)	–	–	242	(32)	(1,823)
At 1st January, 2004	(17,219)	61,739	26,202	129,062	27,418	227,202
Currency realignment	(36)	(20)	95	13,262	1,766	15,067
(Charge) credit to income for the year	(12,422)	9,206	3,630	5,162	45,904	51,480
At 31st December, 2004	<b>(29,677)</b>	<b>70,925</b>	<b>29,927</b>	<b>147,486</b>	<b>75,088</b>	<b>293,749</b>

	Accelerated tax depreciation HK\$'000
<b>The Company</b>	
At 1st January, 2003	(13,333)
Charge to income for the year	(422)
Effect of change in tax rate – charge to income	(1,251)
At 1st January, 2004	(15,006)
Credit to income for the year	596
At 31st December, 2004	<b>(14,410)</b>

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

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	<b>329,711</b>	273,937	–	–
Deferred tax liabilities	<b>(35,962)</b>	(46,735)	<b>(14,410)</b>	(15,006)
	<b>293,749</b>	227,202	<b>(14,410)</b>	(15,006)

## 31 Acquisition of Subsidiaries

	<b>2004</b>	2003
	HK\$'000	HK\$'000
<b>Net assets acquired</b>		
Property, plant and equipment	–	200,520
Intangible asset	–	13,239
Deferred tax asset	–	23,070
Inventories	–	359,191
Trade and other receivables, deposits and prepayments	–	250,407
Tax recoverable	–	66,680
Bank balances and cash	–	34,790
Trade and other payables	–	(376,739)
Bank overdrafts	–	(1,719)
Bank loans	–	(195,000)
Warranty provision	–	(67,860)
Obligations under finance leases	–	(15,099)
Deferred tax liability	–	(9,654)
	–	281,826
Goodwill arising on acquisition	–	570,102
Cash consideration paid during the year	–	851,928

Net cash outflow arising on acquisition:

	<b>2004</b>	2003
	HK\$'000	HK\$'000
Cash consideration paid during the year	–	(851,928)
Bank balances and cash acquired	–	34,790
Bank overdrafts acquired	–	(1,719)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(818,857)

The subsidiaries acquired in 2003 contributed approximately HK\$1,869,483,000 to the Group's turnover, and approximately HK\$7,847,000 to the Group's profit from operations.



### 32 Major Non-cash Transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of HK\$15,555,000 (2003: HK\$3,983,000).

### 33 Lease Commitments

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

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	<b>86,626</b>	86,195	<b>9,428</b>	14,620
In the second to fifth year inclusive	<b>151,288</b>	154,196	<b>7,251</b>	10,947
After five years	<b>142,876</b>	138,348	<b>16,309</b>	17,016
	<b>380,790</b>	378,739	<b>32,988</b>	42,583

Operating lease payments represent rentals payable by the Group and the Company for certain of its plant and machinery and office properties. Leases are negotiated for a term ranging from 1 year to 15 years.

### 34 Contingent Liabilities

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	<b>24,455</b>	16,904	<b>24,455</b>	16,904
Bills discounted with recourse	<b>207,338</b>	180,133	<b>147,496</b>	7,161
	<b>231,793</b>	197,037	<b>171,951</b>	24,065

In addition, the Company has given guarantees to banks and independent third parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at 31st December, 2004 amounted to HK\$2,135,485,000 (2003: HK\$1,430,535,000).

## 35 Share Options

### **Scheme adopted on 28th November, 1990 and expired on 27th November, 2000 (“Scheme A”)**

In accordance with the Company’s share option scheme adopted pursuant to a resolution passed on 28th November, 1990, the Board of Directors may grant share options to eligible employees, including full-time employees and executive directors of the Company and its subsidiaries, at nil consideration, to subscribe for shares in the Company. The purpose of the scheme is to provide incentives or rewards to directors and eligible employees.

Share options granted must be taken up within 21 days of the date of grant. Any share options granted can be exercised within the period commencing on the first anniversary of the date of grant of such share option and expiring at the close of business on the tenth anniversary thereof.

The subscription price is set at not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the share option. The maximum number of shares in respect of which share options may be granted shall not exceed 10% of the issued share capital of the Company from time to time but excluding shares issued pursuant to the share option scheme, and shall not exceed 1% of the issued share capital in any one financial year. No employee shall be granted an option, if exercised in full, would result in such employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under Scheme A.

Scheme A expired on 27th November, 2000.

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

Following the expiry of Scheme A in November, 2000, a new share option scheme was adopted pursuant to a resolution passed on 25th May, 2001 for the purpose of providing incentives or rewards to directors and eligible persons. Under Scheme B, the Board of Directors of the Company may grant share options to eligible persons, including full-time officers, executive directors and full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company.

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

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

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

**35 Share Options** (continued)

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

Following the termination of Scheme B, a new share option scheme was adopted pursuant to a resolution passed on 28th March, 2002 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on 27th March, 2007. Under Scheme C, the Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

- (i) employees; or
- (ii) non-executive directors (including independent non-executive directors); or
- (iii) suppliers or customers; or
- (iv) any person or entity that provides research, development or other technological support; or
- (v) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 in cash by way of consideration for the grant thereof. Share options may be exercised at any time from the date of grant to the fifth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

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

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

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

Option type	Outstanding at 1.1.2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
Scheme A	400,000	–	100,000	300,000	–
Scheme B	13,750,000	–	10,500,000	500,000	2,750,000
Scheme C	31,921,000	13,439,000	6,170,000	361,000	38,829,000
	46,071,000	13,439,000	16,770,000	1,161,000	41,579,000

### 35 Share Options (continued)

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

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

	Outstanding at 1st January	Granted before the share subdivision	Exercised before the share subdivision	Addition due to adjustment for the share subdivision made during the year	Exercised subsequent to the share subdivision	Outstanding at 31st December
2004	<b>24,556,000</b>	<b>2,450,000</b>	<b>350,000</b>	<b>26,656,000</b>	<b>5,900,000</b>	<b>47,412,000</b>
2003	31,296,000	2,060,000	8,800,000	–	–	24,556,000

The weighted average closing prices of the Company's shares immediately before various dates on which the share options were exercised ranged from HK\$10.57 to HK\$16.70 (2003: ranged from HK\$9.20 to HK\$22.44), which were approximately the fair value of the Company's share at the date of exercise.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognized in the income statement in respect of the value of the option granted in the year.

### 36 Retirement Benefits Schemes

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

The pension costs of the defined benefit scheme are assessed in accordance with an actuarial valuation as at 1st January, 2005 performed by Aon Consulting, an employee benefits consulting group, using the Projected Unit Credit method. No medical trend rate assumption is necessary as at 31st December, 2004 and 2003 since all retirees are assumed to be affected by the fixed dollar subsidy and a discount rate of 6.00% (2003: 6.25%) were assumed for calculating the actuarial valuation.

There are no assets set aside for these benefits and the plan is funded on a pay-as-you-go basis. The accrued benefit costs under such scheme are to be reimbursed by a former shareholder of the overseas subsidiary in accordance with an assignment assumption, reimbursement and indemnification agreement. As such, the overseas subsidiary has set up a receivable and an accrued benefit cost of same amount of approximately HK\$26,000,000 (2003: HK\$27,000,000) as at 31st December, 2004.

### 37 Capital Commitments

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of the purchase of property, plant and equipment:				
Contracted for but not provided	<b>73,762</b>	85,598	<b>22,445</b>	54,206
Authorized but not contracted for	<b>2,067</b>	3,398	–	–

During the year, the Company entered into a contract for acquisition of licence for the Ryobi brand for both outdoor power equipment and power tools in North America with a contract sum of US\$30 million (approximately HK\$234 million). In the opinion of the directors of the Company, the Company has partially obtained the licence as at 31st December, 2004, and therefore, the Group and the Company has an outstanding commitment of US\$10 million (approximately HK\$78 million) in respect of the acquisition of the licence.

### 38 Post Balance Sheet Event

On 3rd January, 2005, an ordinary resolution was passed at an Extraordinary General Meeting of the Company to approve the terms of, and the transactions contemplated under, a conditional stock purchase agreement, dated 28th August, 2004, entered between Atlas Copco AB (“ATCO”), Atlas Copco North America Inc. (“ACNA”) and Atlas Copco Holding GmbH (“ACHG”), all as sellers and the Company, Ryobi Technologies GmbH and Techtronic Industries North America Inc., wholly-owned subsidiaries of the Company, all as purchasers for the acquisition of all the issued and outstanding shares of the sellers, which together comprise ATCO’s electric power tools and accessories businesses, currently conducted under the brand names “Milwaukee” and “AEG” as well as “DreBo” business at a consideration of US\$626.6 million (approximately HK\$4,887.3 million). Details of the acquisition are set out in the circular issued by the Company dated 23rd November, 2004.

### 39 Related Party Transactions

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

	<b>2004</b>	2003
	HK\$'000	HK\$'000
Management fee income	<b>526</b>	300
Management fee expenses	<b>843</b>	852
Interest income received	<b>3,592</b>	1,920
Sales income	<b>729</b>	602
Equipment charge income	<b>973</b>	1,152

The above transactions were carried out based on market price/rate, or where no market price/rate was available, at cost plus a percentage profit markup.

Details of the balances with related parties are set out in the consolidated balance sheet, balance sheet and note 19.

#### 40 Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31st December, 2004 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 %	
Digiwireless Limited	Hong Kong	HK\$2	100	–	Investment holding
Envotech Technology Company Limited	Hong Kong	HK\$2	100	–	Investment holding
Full Team International Limited	Hong Kong	HK\$2	100	–	Investment holding
Homelite Asia (Dongguan) Company Limited	The PRC	US\$2,100,000	–	100	Manufacture of outdoor power equipment products
Homelite Asia Ltd.	The British Virgin Islands (“BVI”)/ The PRC	US\$1	100	–	Trading of outdoor power equipment products
Homelite Consumer Products, Inc.	USA	US\$10	–	100	Trading of outdoor power equipment products
Homelite Far East Co. Ltd.	Hong Kong	HK\$2	100	–	Trading of outdoor power equipment products
Homelite Technologies Ltd.	Bermuda	US\$12,000	100	–	Investment holding
MacEwen Property Co. Inc.	USA	US\$100	100	–	Property holding
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK\$100,000	100	–	Trading of household electronic and electrical products
One World Technologies, Inc.	USA	US\$10	–	100	Investment holding
OWT France SAS	France	€1,750,000	–	100	Investment holding
OWT Industries, Inc.	USA	US\$10	–	100	Manufacture of electric components and power tools products
OWT Taiwan Limited	Taiwan	NT\$5,000,000	100	–	Provision of inspection services
Royal Appliance International GmbH	Germany	€1,050,000	74.9	–	Trading of household electronic and electrical products
Royal Appliance Mfg. Co.	USA	US\$1	–	100	Trading and manufacture of floor care products
Ryobi Technologies Australia Pty Limited	Australia	A\$5,500,000	100	–	Trading of electric power tools products

**40 Particulars of Principal Subsidiaries (continued)**

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Ryobi Technologies Canada Inc.	Canada	C\$600,000	–	100	Trading of electric power tools products
Ryobi Technologies GmbH	Germany	€500,000	100	–	Trading of electric power tools products
Ryobi Technologies (New Zealand) Limited	New Zealand	NZ\$1,165,500	100	–	Trading of electric power tools products
Ryobi Technologies S.A.S. (formerly known as Ryobi Technologies France S.A.)	France	€14,919,832	–	100	Trading of electric power tools products
Ryobi Technologies (UK) Limited	The United Kingdom	£4,000,000	–	100	Trading of electric power tools products
Sang Tech Industries Limited	Hong Kong	HK\$1,000,000	100	–	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK\$2,000,000	100	–	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK\$2,000,000	75.725	–	Manufacture of electronic products
TechPower Engineering Co. Ltd. (formerly known as Premier Appliance Group Limited)	Hong Kong	HK\$2	100	–	Manufacture of components
Techtronic Appliances (Hong Kong) Limited	Hong Kong	HK\$2	–	100	Trading and manufacture of floor care products
Techtronic Industries North America, Inc. (formerly known as OWT Holding, Inc.)	USA	US\$10	2.8	97.2	Investment holding
TTI Investments (Dongguan) Company Limited	Hong Kong	HK\$2	100	–	Investment holding
Vax Appliances (Australia) Pty. Ltd.	Australia	A\$1,200,008	100	–	Assembly and distribution of floor care products
Vax Limited	The United Kingdom	£33,000	100	–	Assembly, procurement and distribution of floor care products

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.



#### 41 Particulars of Associates

Particulars of the associates as at 31st December, 2004 are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Gimelli International (Holdings) Limited	The Cayman Islands	US\$6,250	40.8	–	Investment holding
Gimelli Laboratories Company Limited	Hong Kong	HK\$5,000,000	–	100	Manufacture and trading of electrical and dental care products
Gimelli Produktions A.G.	Switzerland	CHF105,000	–	100	Marketing and research and development
Precision Technology Industries Limited	Bermuda	US\$12,000,000	25	–	Manufacture of power tools products

#### 42 US Dollar Equivalents

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

#### 43 Comparative Figures

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