



Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is a listed public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Twinning Wealth Limited, incorporated in the British Virgin Islands.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and associate are set out in notes 37 and 17, respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

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

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These 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 as modified for the revaluation of certain property 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 31 December each year.

The results of subsidiaries 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.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.



Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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 plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

Revenue recognition

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

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

Property, plant and equipment

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

Land use rights are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.



Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of land use rights is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation and amortisation is provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line basis, on the following rates per annum:

Land use rights and buildings	Over the unexpired lease terms
Moulds	20%
Plant and machinery	10%
Leasehold improvements, furniture and fixtures	20 – 33 $\frac{1}{3}$ %
Computer equipment	20%
Motor vehicles	20 – 33 $\frac{1}{3}$ %

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

Know-how, patents and trademarks

Know-how, patents and trademarks are measured initially at cost less impairment, if any, and amortised on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.



Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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 recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKAS, in which case the impairment loss is treated as a revaluation decrease under that HKAS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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, unless the relevant asset is carried at a revalued amount under another HKAS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKAS.

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 net 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 recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Leases where substantially all the risks and rewards of ownership remains with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.



Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 recognised for all taxable temporary differences, and deferred tax assets are recognised 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 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.

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.

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 profits 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 realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense as they fall due.

4. TURNOVER

Turnover represents the amounts received and receivable for sales of power tools to outside customers, less returns and allowances during the year.

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION

The Group is engaged in the manufacture and distribution of power tools and air tools. The nature of the products and the production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Directors consider that geographical segments by location of customers are the primary source of the Group's risk and returns.

Segment information by location of customers is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Europe		
Germany	131,934	112,131
Other European countries	98,549	71,022
Total	230,483	183,153
Asia	27,402	35,290
Australia	43,978	15,422
North America and other continents	15,706	8,873
Total	317,569	242,738
Segment results		
Europe		
Germany	12,463	12,347
Other European countries	25,514	16,922
Total	37,977	29,269
Asia	5,818	3,788
Australia	2,639	748
North America and other continents	757	822
Total	47,191	34,627
Unallocated corporate income and expenses	(29,639)	(24,260)
Profit from operations	17,552	10,367
Finance costs	(1,416)	(549)
Share of result of an associate	5,301	5,320
Profit before taxation	21,437	15,138
Taxation	(3,611)	(3,308)
Profit before minority interest	17,826	11,830
Minority interest	356	265
Net profit for the year	18,182	12,095

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (continued)

	2004 HK\$'000	2003 HK\$'000
Segment assets ^(Note)		
Europe		
Germany	31,082	2,502
Other European countries	11,786	12,640
Total	42,868	15,142
Asia	13,861	18,288
Australia	2,734	6,556
North America and other continents	1,888	473
Unallocated assets	349,146	303,956
	410,497	344,415
Segment liabilities		
Europe		
Germany	7,948	8,078
Other European countries	8,507	7,037
Total	16,455	15,115
Asia	233	304
Australia	–	745
North America and other continents	501	–
Unallocated liabilities	167,935	162,145
	185,124	178,309

Note:

The Group's production facilities are located in the People's Republic of China excluding Hong Kong (the "PRC"). The customers utilise the Group's resources in a similar manner. Accordingly, the only separate assets are trade receivables.

Other information:

Allowances for doubtful debts of HK\$2,389,000 (2003: nil) are attributable to the customers located in Asia.

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (continued)

Business segments

The Group's operations can be divided into manufacturing and outsourcing of goods. The following table provides an analysis of the Group's turnover by business segments of the Group:

	Turnover by business segments	
	2004 HK\$'000	2003 HK\$'000
Manufacturing	174,134	115,632
Outsourcing	143,435	127,106
	<u>317,569</u>	<u>242,738</u>

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment by business segments:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Outsourcing	8,175	6,762	–	–
Manufacturing	246,005	211,983	11,837	33,241
Unallocated	156,317	125,670	134	492
	<u>410,497</u>	<u>344,415</u>	<u>11,971</u>	<u>33,733</u>

Notes to the Financial Statements

For the year ended 31 December 2004

6. OTHER OPERATING INCOME

	2004 HK\$'000	2003 <i>HK\$'000</i>
Interest income from banks	240	119
Interest income from an associate	636	–
Exchange gain	3,048	5,629
Compensation income <i>(Note)</i>	3,833	–
Sundry income	736	1,359
	<hr/> 8,493 <hr/>	<hr/> 7,107 <hr/>

Note: It represents the compensation received in relation to the Settlement Agreement as set out in note 20.

7. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Directors' emoluments <i>(note 8)</i>	1,486	1,460
Other staff costs	13,378	8,983
Contributions to retirement schemes for other staff	1,817	897
	<hr/> 16,681 <hr/>	<hr/> 11,340 <hr/>
Total staff costs	16,681	11,340
Auditors' remuneration	940	938
Depreciation and amortisation of property, plant and equipment	6,938	4,787
(Gain) loss on disposals of property, plant and equipment	(281)	697
Amortisation of intangible assets (included in cost of sales)	621	–
Cost of inventories recognised as expenses	269,757	210,211
Allowances for doubtful debts	2,389	–
	<hr/> 2,389 <hr/>	<hr/> – <hr/>

Notes to the Financial Statements

For the year ended 31 December 2004

8. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2003: five) directors were as follows:

Year ended 31 December 2004

	Executive Directors			Independent Non-executive Directors			Total
	Chen Wai Yuk	Wang Shu	Chen Wai Wah	Ho Hao Veng	Wei Tong Li	Hui Chuen Fan, Matthew	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	-	-	-	-	-	25	25
Other emoluments:							
Salaries and other benefits	1,040	130	260	-	-	-	1,430
Contributions to retirement benefits scheme	12	7	12	-	-	-	31
Total emoluments	1,052	137	272	-	-	25	1,486

Year ended 31 December 2003

	Executive Directors			Independent Non-executive Directors		Total
	Chen Wai Yuk	Wang Shu	Chen Wai Wah	Ho Hao Veng	Wei Tong Li	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	-	-	-	-	-	-
Other emoluments:						
Salaries and other benefits	1,040	130	260	-	-	1,430
Contributions to retirement benefits scheme	12	6	12	-	-	30
Total emoluments	1,052	136	272	-	-	1,460

Notes to the Financial Statements

For the year ended 31 December 2004

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: three) were Directors of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining three (2003: two) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	849	897
Contributions to retirement benefits scheme	25	24
Total emoluments	874	921

During the years ended 31 December 2004 and 2003, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived any emoluments during the years ended 31 December 2004 and 2003.

10. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years.

11. TAXATION

	2004 HK\$'000	2003 HK\$'000
PRC income tax	555	259
Share of taxation attributable to an associate	2,029	2,243
Deferred tax credit <i>(Note 29)</i>	(84)	–
Deferred taxation on undistributed earnings of an associate <i>(Note 29)</i>	1,111	806
	3,611	3,308

The Company's subsidiary, Jiangsu Golden Harbour Enterprise Limited ("Golden Harbour"), operating in the PRC is eligible for exemption from the PRC income tax for the year ended 31 December 2002 and 2003, followed by a 50% reduction in the PRC income tax for the next three years. The PRC income tax is calculated at the applicable rates on the assessable profits for the year.

Notes to the Financial Statements

For the year ended 31 December 2004

11. TAXATION (continued)

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Deferred tax charged to the income statement represents the withholding tax on the undistributed earnings of the associate shared by the Group. Deferred tax relating to the revaluation of the Group's properties has been charged directly to equity.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Profit before taxation	<u>21,437</u>	<u>15,138</u>
Tax at the income tax rate of 33% (2003: 33%)	7,074	4,996
Tax effect of expenses not deductible for tax purpose	4,207	3,105
Tax effect of income not taxable for tax purpose	(14,655)	(11,994)
Tax effect of tax losses not recognised	5,596	5,908
Effect of different tax rates of an associate operating in other jurisdiction	<u>278</u>	<u>487</u>
Tax expense for the year	<u>2,500</u>	<u>2,502</u>

Notes to the Financial Statements

For the year ended 31 December 2004

12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid of HK1.2 cent (2003: HK1 cent) per share	4,743	3,360
Final dividend proposed of HK1.3 cent (2003: HK0.5 cent) per share	4,870	2,013
	<u>9,613</u>	<u>5,373</u>

The final dividend of HK1.3 cent (2003: HK0.5 cent) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$18,182,000 (2003: HK\$12,095,000) and on the weighted average number of 385,210,120 (2003: 336,489,042) shares in issue.

Notes to the Financial Statements

For the year ended 31 December 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Land use rights HK\$'000	Buildings HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP									
COST OR VALUATION									
At 1 January 2004	25,183	47,874	46,783	22,943	1,953	6,270	1,761	3,212	155,979
Additions	-	-	3,614	3,514	3,776	155	280	632	11,971
Disposals	-	(868)	-	(153)	-	-	-	(1,198)	(2,219)
Reclassifications	-	3,144	(5,347)	2,114	-	-	89	-	-
At 31 December 2004	25,183	50,150	45,050	28,418	5,729	6,425	2,130	2,646	165,731
Comprising:									
At cost	-	50,150	45,050	28,418	5,729	6,425	2,130	2,646	140,548
At valuation - 28 February 2002	25,183	-	-	-	-	-	-	-	25,183
	25,183	50,150	45,050	28,418	5,729	6,425	2,130	2,646	165,731
DEPRECIATION AND AMORTISATION									
At 1 January 2004	(530)	(2,411)	-	(1,972)	(851)	(3,758)	(523)	(1,919)	(11,964)
Charge for the year	(530)	(735)	-	(2,224)	(1,598)	(1,026)	(418)	(407)	(6,938)
Elimination on disposals	-	256	-	15	-	-	-	1,066	1,337
At 31 December 2004	(1,060)	(2,890)	-	(4,181)	(2,449)	(4,784)	(941)	(1,260)	(17,565)
NET BOOK VALUES									
At 31 December 2004	24,123	47,260	45,050	24,237	3,280	1,641	1,189	1,386	148,166
At 31 December 2003	24,653	45,463	46,783	20,971	1,102	2,512	1,238	1,293	144,015

Notes to the Financial Statements

For the year ended 31 December 2004

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The land use rights and the buildings are situated in the PRC under medium-term leases. During 2001, the PRC government granted a piece of land in Nantong, Jiangsu Province to the Group without consideration, the Group has recorded such grant at a nominal amount of HK\$1.

On 28 February 2002, the land use rights were revalued on an open market value by DTZ Debenham Tie Leung Limited, an independent valuer. The Directors have considered that there is no material difference between the carrying value and fair value of the land use rights as at 31 December 2004.

If the land use rights had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation of HK\$222,000 (2003: HK\$242,000).

15. INTANGIBLE ASSETS

THE GROUP

	Patents, trademark and know-how <i>HK\$'000</i>
COST	
At 1 January 2004 and 31 December 2004	9,319
AMORTISATION	
At 1 January 2004	–
Charge for the year	621
At 31 December 2004	621
NET BOOK VALUES	
At 31 December 2004	8,698
At 31 December 2003	9,319

In the opinion of the Directors, the intangible assets are amortised over their estimated economic life of 15 years.

Notes to the Financial Statements

For the year ended 31 December 2004

16. INVESTMENT IN A SUBSIDIARY

THE COMPANY 2004 and 2003 HK\$'000

Unlisted investment, at cost	<u>80,000</u>
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Details of the subsidiaries are set out in note 37.

17. INTEREST IN AN ASSOCIATE

THE GROUP

	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u>7,422</u>	<u>3,770</u>
Goodwill on acquisition of an associate	13,695	13,695
Less: Accumulated amortisation	<u>(1,370)</u>	<u>(685)</u>
	<u>12,235</u>	<u>13,010</u>
	19,747	<u>16,780</u>

At 31 December 2004, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of incorporation and operation	Class of shares held	Proportion of issued share capital held by the Group	Nature of business
SBW Technische Gerate GmbH ("SBW")	Incorporation	Germany	Ordinary	50%	Distribution of power tools

The goodwill on acquisition of an associate arose on the acquisition of SBW is capitalised and amortised on a straight-line basis over its estimated useful economic life of 20 years. Amortisation charged in the current year amounting to HK\$685,000 (2003: HK\$685,000) has been included in the amount reported as share of result of an associate in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

17. INTEREST IN AN ASSOCIATE (continued)

The Group's entitlement to share in the profits of its associate is in proportion to its ownership interest. The financial information of the associate, which is derived from audited financial statements, made up to 31 December 2004, is as follows:

Results for the year ended 31 December 2004:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Turnover	253,785	206,507
Profit before taxation	11,354	13,562
Profit before taxation attributable to the Group	<u>5,677</u>	<u>6,781</u>

Financial position as at 31 December 2004:

	HK\$'000	<i>HK\$'000</i>
Current assets	131,610	104,904
Current liabilities	<u>(114,194)</u>	<u>(95,321)</u>
Net assets	<u>17,416</u>	<u>9,583</u>
Net assets attributable to the Group	<u>8,708</u>	<u>4,792</u>

18. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Raw materials	20,443	10,618
Work in progress	14,242	6,582
Finished goods	<u>3,369</u>	<u>3,589</u>
	<u>38,054</u>	<u>20,789</u>

The inventories are stated at cost.

Notes to the Financial Statements

For the year ended 31 December 2004

19. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit period of 20-120 days to its trade customers.

In addition, for certain customers with long-established relationship and good past repayment history, a longer credit period may be granted.

The following is an aged analysis of trade receivables at the reporting date:

	2004	2003
	HK\$'000	HK\$'000
Within 30 days	14,421	9,714
Between 31 to 60 days	4,223	9,260
Between 61 to 90 days	904	7,319
Between 91 to 120 days	496	580
Over 120 days	10,236	13,586
	<hr/>	<hr/>
Trade receivables	30,280	40,459
Other receivables	20,172	8,867
	<hr/>	<hr/>
	50,452	49,326
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Notes to the Financial Statements

For the year ended 31 December 2004

20. AMOUNT DUE FROM A COMPANY OWNED BY A FORMER DIRECTOR

Particulars of an amount due from a company owned by a former director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong, are as follows:

	31.12.2004 HK\$'000	1.1.2004 HK\$'000	Maximum balance outstanding during the year ended 31 December 2004 HK\$'000
Nantong Alluck Tools Co., Ltd ("Alluck")	<u>-</u>	<u>8,698</u>	<u>8,698</u>

Alluck is the successor of the Subcontractors in relation to the Settlement Agreement.
(Note)

The amount is unsecured, interest free and is repayable on demand.

Note:

In September 2001, Golden Harbour, an indirectly wholly owned subsidiary of the Company, entered into two subcontracting agreements ("Subcontracting Agreement") with each of Hai An Xian Electronic Meter Factory ("Hai An") and Hai An Xian Tian Yuan Power Tools Manufacture Company Limited ("Tian Yuan") for the production by Hai An and Tian Yuan (together the "Subcontractors") of certain of the Group's power tools for a period of two years commencing from 1 October 2001 to 30 September 2003. On 9 April 2003, the Directors of the Company (the "Directors") announced that the Subcontracting Agreements were formally terminated by Golden Harbour on 4 April 2003 as a result of the breaches of the Subcontracting Agreements by the Subcontractors. The Subcontractors have been withholding various inventories of Golden Harbour and subsequently, the Directors have been carrying out investigation into whether any accounts receivable as recorded in the books of Golden Harbour had been collected by the Subcontractors. In order to assist the Group in resolving the above issues, the Board has referred the matter to the relevant governmental authorities, including the People's Government of each of Hai An county and Nan Tong City with a view to resolving the matters satisfactorily through the assistance of the governmental authorities in the PRC. Golden Harbour and the Subcontractors have entered into an agreement on 22 September 2003 (the "Settlement Agreement") relating to the issues as mentioned above. Golden Harbour received approximately HK\$12,531,000 in relation to the above settlement during the year and recorded a compensation income of HK\$3,833,000 in other operating income.

21. LOAN TO AN ASSOCIATE

In the opinion of the Directors, the loan to an associate is unsecured, bears commercial interest rate (2003: interest free) and is repayable on demand.

Notes to the Financial Statements

For the year ended 31 December 2004

22. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure bank facilities granted to the Group.

23. BANK BALANCES AND CASH

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank balances and cash denominated in Renminbi	23,496	16,394	–	–
Other currencies	37,327	18,944	194	24
	60,823	35,338	194	24

Renminbi is generally regarded as a currency that cannot be freely converted to other currencies.

24. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date:

	2004 HK\$'000	2003 HK\$'000
Within 30 days	57,174	32,423
Between 31 to 60 days	9,243	12,366
Between 61 to 90 days	13,464	4,442
Between 91 to 120 days	6,589	1,703
Over 120 days	6,570	15,210
Trade payables	93,040	66,144
Other payables	11,079	16,608
	104,119	82,752

25. UNSECURED BANK BORROWINGS

The unsecured bank borrowings carry interest at commercial rates and are repayable within one year.

Notes to the Financial Statements

For the year ended 31 December 2004

26. SHARE CAPITAL

	Number of shares		Value	
	2004	2003	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1 January 2004 and 31 December 2004	2,000,000,000	2,000,000,000	200,000	200,000
Issued and fully paid:				
At 1 January 2004	344,500,000	336,000,000	34,450	33,600
Issue of shares for acquisition of intangible assets and raw materials	–	8,500,000	–	850
Issue of new shares	58,000,000	–	5,800	–
Repurchase of shares	(27,860,000)	–	(2,786)	–
At 31 December 2004	374,640,000	344,500,000	37,464	34,450

Notes:

- On 11 December 2003, 8,500,000 ordinary shares of HK\$0.10 each were issued at HK\$1.47 per share for acquisition of the intangible assets and raw materials from a third party.
- Pursuant to the placing and subscription agreement dated 29 January 2004, the Sole Bookrunner and Lead Manager had placed the 58,000,000 shares held by Twinning Wealth Limited, a company wholly and beneficially owned by Ms Chen Wai Yuk, the Chairman and an Executive Director (the "Vendor"), of HK\$0.10 each at the price of HK\$1.37 per share (the "Placing Price") to several independent individuals or institutional investors. Accordingly, the Company allotted and issued to the Vendor, the new shares of 58,000,000 ordinary shares of HK\$0.10 each at the subscription price of HK\$1.37 per share, which is equivalent to the Placing Price. The whole process of above placing and subscription of shares was completed on 11 February 2004. The net proceeds from the subscription were used for the expansion of the Group's production capacity and its general working capital requirements.

Notes to the Financial Statements

For the year ended 31 December 2004

26. SHARE CAPITAL (continued)

Note: (continued)

3. During the year, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of purchase	No. of ordinary shares of HK\$0.1 each	Highest price/share HK\$	Lowest price/share HK\$	Aggregate consideration HK\$'000
April 2004	732,000	1.13	1.08	804
May 2004	2,608,000	1.15	1.09	2,891
June 2004	3,928,000	1.15	1.09	4,434
July 2004	5,384,000	1.13	1.10	6,004
August 2004	4,400,000	1.15	1.13	5,031
September 2004	4,292,000	1.04	0.99	4,341
October 2004	5,216,000	1.05	0.98	5,250
November 2004	200,000	0.97	0.97	194
December 2004	1,100,000	0.90	0.85	959
	<u>27,860,000</u>			<u>29,908</u>

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

All the above shares issued by the Company rank pari passu with the then existing shares in all respects.

Notes to the Financial Statements

For the year ended 31 December 2004

27. RESERVES

	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY			
At 1 January 2003	112,221	481	112,702
Share premium arising on acquisition of intangible assets and raw materials	11,645	–	11,645
Profit for the year	–	33,218	33,218
Dividends paid	–	(6,720)	(6,720)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	123,866	26,979	150,845
Premium arising on placing of shares	73,660	–	73,660
Share issue expenses	(2,160)	–	(2,160)
Repurchase of shares	(27,122)	–	(27,122)
Loss for the year	–	(2,767)	(2,767)
Dividends paid	–	(6,330)	(6,330)
	<hr/>	<hr/>	<hr/>
At 31 December 2004	168,244	17,882	186,126

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that, immediately following the distribution and dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to HK\$186,126,000 (2003: HK\$150,845,000).

28. OTHER PAYABLE

The amount represents the remaining consideration due to the shareholders of SBW of EUR 1,000,000, which is interest free, for the acquisition of a 50% interest in SBW as agreed in the joint venture agreement dated 23 August 2002. The shareholders of SBW have agreed not to demand repayment of the investment costs within one year from the balance sheet date. Accordingly, the amount was classified as a non-current liability.

Notes to the Financial Statements

For the year ended 31 December 2004

29. DEFERRED TAXATION

The following is the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	Undistributed earnings of an associate <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
At 1 January 2003	–	7,730	7,730
Charge to income statement for the year	806	–	806
Exchange differences	–	73	73
	<hr/>	<hr/>	<hr/>
At 31 December 2003	806	7,803	8,609
Charge to income statement for the year	1,111	(84)	1,027
	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>1,917</u>	<u>7,719</u>	<u>9,636</u>

At the balance sheet date, the Group has estimated unused tax losses of HK\$38,690,000 (2003: HK\$21,732,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire in year 2008.

The Company has no significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2004

30. OPERATING LEASES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid under operating leases during the year:		
– Office and factory premises	288	288
– Machinery and equipment	92	92
	<u>380</u>	<u>380</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Office and factory premises		Machinery and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	180	288	92	92
In the second to fifth year inclusive	323	503	138	230
	<u>503</u>	<u>791</u>	<u>230</u>	<u>322</u>

Lease for office premise is negotiated for an average term of two years and rentals are fixed for an average of two years. Leases of factory premises, machinery and equipment will be negotiated after the lease term of eight years.

At the balance sheet date, the Company had no commitments under operating leases.

Notes to the Financial Statements

For the year ended 31 December 2004

31. MAJOR NON-CASH TRANSACTIONS

On 21 November 2003, the Group entered into agreements to acquire the intangible assets amounting to HK\$9,319,000 and raw materials of HK\$3,176,000 from a third party, satisfied by the issue of 8,500,000 new shares of the Company. The transactions were completed on 11 December 2003 and the market value of the Company's shares was HK\$1.47 per share at that date.

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	11,308	13,122	–	–
Guarantees given to banks for banking facilities utilised by subsidiaries	–	–	65,655	13,866

33. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	10,345	10,166

At the balance sheet date, the Company had no capital commitment.



Notes to the Financial Statements

For the year ended 31 December 2004

34. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 11 April 2002 for the primary purpose of providing incentives to eligible participants, who contribute to the success of the Group's operations, and will expire on 10 April 2012. Eligible participants include directors, eligible employees and other eligible parties.

From the date of the adoption of the Scheme to 31 December 2004, no options were granted. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. Options granted to substantial shareholders or independent non-executive directors or to any of their respective associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted may be accepted within 21 days from the date of grant, upon payment of a nominal consideration of HK\$1. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors of the Company, and may not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the share.

35. RETIREMENT BENEFITS SCHEMES

The Group operates retirement schemes and a central provident fund scheme covering their employees in Hong Kong. The Group has joined the MPF Scheme for qualifying employees of the Group in Hong Kong. Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling. The calculation of contributions for PRC eligible staff is based on 20% of the applicable payroll costs.

Total contributions to retirement benefits schemes charged to the income statement amounted to HK\$1,848,000 (2003: HK\$927,000).

Notes to the Financial Statements

For the year ended 31 December 2004

36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with its related parties:

- (a) During the year, the Group sold goods to an associate amounting to HK\$131,590,000 (2003: HK\$88,619,000). The transactions are carried out on terms similar to those applicable to transactions with unrelated parties.
- (b) A corporate guarantee was given by a related company owned by a Director of the Company, Chen Wai Yuk, amounted to HK\$26,415,000 in respect of credit facilities granted to the Group. This guarantee has been released in April 2004.

37. PARTICULARS OF SUBSIDIARIES AT 31 DECEMBER 2004

Name	Form of business structure	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Chief Wealth International Corp.	Corporation	British Virgin Islands	Share US\$1	-	100%	Investment holding
Gerrards Agents Limited	Corporation	British Virgin Islands	Share US\$1	-	100%	Commission agency for overseas sales
Gerrards (Commercial Offshore de Macau) Ltd.	Offshore company	Macau	Quoted capital MOP100,000	-	100%	Trading of power tools and air tools
Glory In Group Limited	Corporation	British Virgin Islands	Shares US\$50,000	-	100%	Investment holding
江蘇鑫港企業有限公司 Jiangsu Golden Harbour Enterprise Ltd.	Wholly foreign owned enterprise ("WFOE")	PRC	Registered capital US\$12,000,000	-	100%	Manufacture and distribution of power tools
江蘇鑫城企業有限公司 Jiangsu Newairy Technology Ltd.	WFOE	PRC	Registered capital US\$2,600,000 (Note a)	-	100%	Manufacture of power tools and air tools

Notes to the Financial Statements

For the year ended 31 December 2004

37. PARTICULARS OF SUBSIDIARIES AT 31 DECEMBER 2004 (continued)

Name	Form of business structure	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Rainy Company Inc.	Corporation	British Virgin Islands	Share US\$1	-	100%	Investment holding
SBW (HK) Ltd.	Corporation	Hong Kong	Ordinary shares HK\$100	-	100%	Financing
蘇州東欣工具有限公司 Suzhou Dong Xin Tools Co., Ltd.	Sino-foreign equity joint venture	PRC	Registered capital US\$556,000	-	91%	Manufacture and distribution of power tools
United Win International Corporation	Corporation	British Virgin Islands	Shares US\$100	100%	-	Investment holding
Wang Sing Products Limited	Corporation	Hong Kong	Ordinary shares HK\$1,000,000	-	100%	Trading of power tools and air tools
海安巨泉實業有限公司 Haian Juquan Industry Company Limited	WFOE	PRC	Registered capital HK\$48,000,000 (Note b)	-	100%	Not yet commenced business

Notes:

- (a) The paid up capital was US\$1,150,000 at 31 December 2004.
- (b) The paid up capital was HK\$30,600,000 at 31 December 2004.