1. General

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company is 24/F., CDW Building, 388 Castle Peak Road, Tsuen Wan, N.T., Hong Kong.

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

The financial statements have been presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1st January, 2005 and for goodwill and negative goodwill previously recognized and brought forward as at 1st January, 2005. The principal effects of the application of transitional provisions of HKFRS 3 to the Group are summarized below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalized and amortized over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalized on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortization of HK$166,245,000 with a corresponding decrease in the cost of goodwill (see Note 19). The Group has discontinued amortizing such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 3 for the financial impact).

In the current year, the Group has also applied HKAS 21 *The Effects of Changes in Foreign Exchange Rates* which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st January, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired a foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 31st December, 2005. This change in accounting policy has had no material effect on results for the current year.

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies *(continued)*

Excess of the Group's Interest in the Net Fair Value of Acquiree's Identifiable Assets, Liabilities and Contingent Liabilities over Cost (previously known as "Negative Goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognized immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognized all negative goodwill on 1st January, 2005. A corresponding adjustment to the Group's retained earnings of HK$28,868,000 has been made.

Share-based Payments

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group has not applied HKFRS 2 with respect to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 had vested before 1st January, 2005 in accordance with the relevant transitional provisions (see Note 3 for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

Convertible Loan Notes

The principal impact of HKAS 32 on the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortized cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. Comparative profit for 2004 has also been restated in order to reflect the increase in effective interest on the liability component (see Note 3 for the financial impact).

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies *(continued)*

Financial Instruments *(continued)*

Classification and Measurement of Financial Assets and Financial Liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On 31st December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealized gains or losses included in profit or loss. From 1st January, 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale investments" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale investments" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively. "Available-for-sale investments" that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortized cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. As a result of this change in accounting policy, the investments in securities of HK$27,193,000 as at 1st January, 2005 have been reclassified as "available-for-sale investments".

Derivatives and Hedging

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognized in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Group has applied the relevant transitional provisions in HKAS 39. The adoption of HKAS 39 has had no material effect on the Group's retained profits and results for the current year.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognized, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1st January, 2005 onwards. As a result, the Group's bills receivables discounted with full recourse which were derecognized prior to 1st January, 2005 have not been restated. As at 31st December, 2005, the Group's bills receivables discounted with full recourse have not been derecognized. Instead, the related borrowings of HK$136,773,000 have been recognized on the balance sheet date. This change in accounting policy has had no material effect on results for the current year.

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies *(continued)*

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to lease prepayment under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

3. Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies in Note 2 on the results for the current and prior year are as follows:

	2005	2004
	HK$'000	HK$'000
Non-amortization of goodwill (Note)	**200,685**	–
Decrease in negative goodwill released to income	**(4,307)**	–
Decrease in depreciation of property, plant and equipment	**1,402**	129
Increase in amortization of lease prepayment	**(1,402)**	(129)
Recognition of share-based payments as expenses	**(6,703)**	–
Increase in effective interest expense on the liability component of convertible bonds	**(22,604)**	(11,184)
Increase (decrease) in profit for the year	**167,071**	(11,184)

Note: The amount included amortization of goodwill amounting to HK$163,881,000 arising on acquisition of subsidiaries in current year provided that HKFRS 3 had not been adopted. The goodwill had been amortized over its estimated useful life of 20 years.

3. Summary of the Effects of the Changes in Accounting Policies *(continued)*

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarized below:

	As at 31st December, 2004 (Originally stated) HK$'000	Adjustments HK$'000	As at 31st December, 2004 (As restated) HK$'000	Adjustments HK$'000	As at 1st January, 2005 (As restated) HK$'000
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	884,618	(4,772)	879,846	–	879,846
Lease prepayment	–	4,772	4,772	–	4,772
Impact of HKFRS 3:					
Derecognition of negative goodwill	(28,868)	–	(28,868)	28,868	–
Impact of HKAS 32 and HKAS 39:					
Investments in securities	27,193	–	27,193	(27,193)	–
Available-for-sale investments	–	–	–	27,193	27,193
Convertible bonds	(1,071,993)	20,736	(1,051,257)	–	(1,051,257)
Deferred tax liabilities	(35,962)	(5,586)	(41,548)	–	(41,548)
Other assets and liabilities	3,745,710	–	3,745,710	–	3,745,710
Total effects on assets and liabilities	3,520,698	15,150	3,535,848	28,868	3,564,716
Share capital	135,230	–	135,230	–	135,230
Convertible bonds equity reserve	–	26,334	26,334	–	26,334
Retained profits	2,421,327	(11,184)	2,410,143	28,868	2,439,011
Other reserves	882,109	–	882,109	–	882,109
Minority interests	–	82,032	82,032	–	82,032
Total effects on equity	3,438,666	97,182	3,535,848	28,868	3,564,716
Minority interests	82,032	(82,032)	–	–	–

The Group has not early applied the new standards and interpretations that have been issued but are not yet effective at 31st December, 2005. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost convention except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of Consolidation

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalized goodwill arising on acquisitions, the Group has discontinued amortization from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

4. Significant Accounting Policies *(continued)*

Discount on Acquisitions

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognized immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in Note 2 above, all negative goodwill as at 1st January, 2005 has been derecognized with a corresponding adjustment to the Group's retained profits.

Investments in Subsidiaries

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

Interests in Associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Intangible Assets

On initial recognition, intangible assets acquired separately and from business combinations are recognized at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The intangible assets with definite useful lives are amortized on a straight-line basis over 4 to 10 years. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Research and Development Expenditure

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

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortization and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

4. Significant Accounting Policies *(continued)*

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Property, Plant and Equipment

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

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

Freehold land	Nil
Buildings	4%
Leasehold improvements	2.5% – 25%
Office equipment, furniture and fixtures	10% – $33^1/_3$%
Plant and machinery	10% – 25%
Motor vehicles	18% – 25%
Moulds and tooling	20% – $33^1/_3$%
Vessels	20%

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

4. Significant Accounting Policies *(continued)*

Property, Plant and Equipment *(continued)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognized.

Impairment Losses other than Goodwill and Intangible Assets with Indefinite Lives

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

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

Financial Instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument.

Financial Assets

Available-for-sale investments

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Trade, bills and other receivables, deposits and trade receivables from associates

Trade, bills and other receivables, deposits and trade receivables from associates are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Cash and cash equivalents

Cash and cash equivalents are subject to an insignificant risk of changes in value.

4. Significant Accounting Policies *(continued)*

Financial Liabilities and Equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Convertible Bonds

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortized cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

Trade, bills and other payables, trade payable to an associate and borrowings

Trade, bills and other payables, trade payable to an associate and borrowings are initially measured at their fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Equity Instruments

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

Derivative Financial Instruments

The Group uses derivative financial instruments (primarily forward contract and currency swap) to hedge its exposure against currency risk. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

There are three types of hedge relationships, including fair value hedges, cash flow hedges and net investment hedges. Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

4. Significant Accounting Policies *(continued)*

Derecognition *(continued)*

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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

Other Assets

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

Inventories

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

Revenue Recognition

Turnover represents fair value of net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances and commission income and royalty income received.

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

Commission income is recognized when services are provided.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Taxation

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

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

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

4. Significant Accounting Policies *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1st January, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Borrowing Costs

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

4. Significant Accounting Policies *(continued)*

Retirement Benefits Schemes

Retirement benefits arrangements are made in accordance with the relevant laws and regulations. Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the amended benefits become vested. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The amount recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Equity-settled Share-based Payment Transactions

For share options granted to employees of the Group, the fair value of services received determined by reference to the fair value of share options granted at the grant date is recognized as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (employee share-based compensation reserve).

At the time when the share options are exercised, the amount previously recognized in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, management makes various estimates and judgments (other than those involving estimates) based on past experience, expectations of the future and other information. The key sources affect the amounts recognized in the financial information as disclosed below.

Estimated Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2005, the carrying amount of goodwill is HK$3,943,935,000. Details of the recoverable amount calculation are disclosed in Note 22.

Estimated Impairment of Intangible Assets

During the year, management reconsidered the carrying amount of its intangible assets. The relevant project continues to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments will be made in future periods, if future market activity indicates that such adjustments are appropriate.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(continued)*

Income Taxes

As at 31st December, 2005, a deferred tax asset of HK$199,127,000 in relation to unused tax losses has been recognized in the Group's balance sheet. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax asset may arise, which would be recognized in the income statement for the period in which such a reversal takes place.

6. Financial Risks Management Objectives and Policies

The Group maintains an overall risk management programme which seeks to minimize the potential impacts of the financial exposures on the financial performance of the Group.

Currency Risk

The revenue and costs of the Group are primarily denominated in either Hong Kong dollar and US dollar. Several overseas subsidiaries of the Company have sales and assets denominated in foreign currencies which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts and options are employed to hedge against the committed and highly probable foreign currency transactions in accordance with the Group's risk management policies. The terms of the hedging instruments match closely with the underlying hedged transactions.

The Group's borrowings were predominantly denominated in HK dollar or US dollar. The Group generally endeavors to naturally hedge the foreign currency assets of the overseas subsidiaries by having the subsidiaries to arrange borrowings in their local currencies, wherever appropriate.

Interest Rate Risk

The Group is exposed to interest rate risk in respect of its interest-bearing borrowings as the Group does not have any substantial long-term interest-bearing assets at the balance sheet date. The Group has short-term and long-term interest-bearing assets at the balance sheet date. The Group has short-term and long-term borrowings which included floating rate loans and fixed rate bonds. By maintaining a balanced profile in maturities and interest rates for its borrowings, the Group ensures that its exposure to fluctuations in interest rates is minimized.

The interest rate and terms of repayment of long-term and short-term borrowings of the Group are disclosed in Note 33 to the financial statements.

Credit Risk

Credit risk arises when the counterparty to a transaction is unwilling or unable to fulfill its obligations with the result that the Group suffers a financial loss. The Group performs comprehensive credit evaluations to assess the financial conditions of its prospective customers before entering into business relations with them. The credit risk is minimized by the Group's credit control procedures for monitoring and reporting such risk on a regular basis.

Liquidity Risk

The Group finances its operations by a combination of borrowings and equity. During the year, the Group arranged a syndicated bank loan with an initial term of 3 years extendable to 5 years in the total amount of US$200,000,000 and issued notes with terms of 7 years and 10 years in the total amount of US$200,000,000. The Company issued 96,000,000 new shares at HK$19.25 through private placement in the total amount of HK$1,848,000,000.

With substantial cash balance and adequate banking facilities at the balance sheet date, the Group's liquidity position remains strong. The Group has sufficient financial resources to meet its commitments and working capital requirements.

7. Business and Geographical Segments

Business Segments

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

Income Statement

For the year ended 31st December, 2005

	Power Equipment Products HK$'000	Floor Care Appliances HK$'000	Laser and Electronic Products HK$'000	Eliminations HK$'000	Consolidated HK$'000
Turnover					
External sales	17,176,671	4,525,858	655,858	–	22,358,387
Inter-segment sales	187,074	25,718	221,922	(434,714)	–
Total	17,363,745	4,551,576	877,780	(434,714)	22,358,387

Inter-segment sales are charged at prevailing market rates.

	Power Equipment Products HK$'000	Floor Care Appliances HK$'000	Laser and Electronic Products HK$'000	Eliminations HK$'000	Consolidated HK$'000
Result					
Segment results	1,237,379	199,786	139,220	–	1,576,385
Finance costs					(353,041)
Share of results of associates					(6,463)
Profit before taxation					1,216,881
Taxation					(157,714)
Profit for the year					1,059,167

7. Business and Geographical Segments *(continued)*

Business Segments *(continued)*

Balance Sheet

As at 31st December, 2005

	Power Equipment Products HK$'000	Floor Care Appliances HK$'000	Laser and Electronic Products HK$'000	Consolidated HK$'000
Assets				
Segment assets	13,388,572	1,655,609	481,870	15,526,051
Interests in associates				189,453
Unallocated corporate assets				4,659,237
Consolidated total assets				20,374,741
Liabilities				
Segment liabilities	(6,424,536)	(1,004,834)	(87,630)	(7,517,000)
Unallocated corporate liabilities				(6,624,732)
Consolidated total liabilities				(14,141,732)

Other Information

For the year ended 31st December, 2005

	Power Equipment Products HK$'000	Floor Care Appliances HK$'000	Laser and Electronic Products HK$'000	Consolidated HK$'000
Capital additions	4,070,172	62,329	15,907	4,148,408
Depreciation and amortization	415,105	96,126	8,433	519,664
Impairment loss of investment securities recognized	13,830	–	–	13,830

7. Business and Geographical Segments *(continued)*

Business Segments *(continued)*

Income Statement

For the year ended 31st December, 2004

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

Inter-segment sales are charged at prevailing market rates.

Result					
Segment results	910,230	201,269	145,865	–	1,257,364
Amortization of goodwill					(35,263)
Release of negative goodwill to income					4,307
Finance costs					(150,064)
Share of results of associates					(845)
Profit before taxation					1,075,499
Taxation					(108,829)
Profit for the year					966,670

7. Business and Geographical Segments *(continued)*

Business Segments *(continued)*

Balance Sheet

As at 31st December, 2004

	Power Equipment Products HK$'000	Floor Care Appliances HK$'000	Laser and Electronic Products HK$'000	Consolidated HK$'000 (As restated)
Assets				
Segment assets	10,405,833	1,950,652	431,178	12,787,663
Interests in associates				160,442
Unallocated corporate assets				955,219
Consolidated total assets				13,903,324
Liabilities				
Segment liabilities	(5,893,251)	(1,075,362)	(113,950)	(7,082,563)
Unallocated corporate liabilities				(3,284,913)
Consolidated total liabilities				(10,367,476)

Other Information

For the year ended 31st December, 2004

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

7. Business and Geographical Segments *(continued)*

Geographical Segments

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

	Turnover		Contribution to results from ordinary activities before taxation	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000 (As restated)
By geographical market location:				
North America	**17,122,079**	13,205,612	**1,385,239**	1,082,567
Europe and other countries	**5,236,308**	3,098,528	**191,146**	174,797
	22,358,387	16,304,140	**1,576,385**	1,257,364
Amortization of goodwill			**–**	(35,263)
Release of negative goodwill to income			**–**	4,307
Finance costs			**(353,041)**	(150,064)
Share of results of associates			**(6,463)**	(845)
Profit before taxation			**1,216,881**	1,075,499

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong and People's Republic of China ("PRC")	**5,820,443**	6,616,721	**535,583**	416,540
North America	**6,646,528**	4,572,948	**3,478,153**	101,263
Europe and other countries	**3,059,080**	1,597,994	**134,672**	46,082
	15,526,051	12,787,663	**4,148,408**	563,885

8. Turnover

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

	2005 HK$'000	2004 HK$'000
Sale of goods	**22,320,353**	16,254,139
Commission income	**12,222**	9,545
Royalty income	**25,812**	40,456
	22,358,387	16,304,140

9. Interest Income

	2005 HK$'000	2004 HK$'000
Interest earned on bank deposits	**53,230**	49,180
Interest earned on amount due from an associate	**7,138**	3,592
	60,368	52,772

10. Finance Costs

	2005 HK$'000	2004 HK$'000 (As restated)
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**137,747**	86,759
Obligations under finance leases	**8,142**	708
Fixed interest rate notes	**180,102**	49,190
Effective interest expense on convertible bonds	**27,050**	13,407
	353,041	150,064

11. Taxation

	2005 HK$'000	2004 HK$'000
Current tax:		
Hong Kong profits tax	**67,955**	101,954
Net overprovision in prior years	**(3,499)**	(8,747)
	64,456	93,207
Overseas taxation on profit for the year	**163,776**	63,096
Net underprovision in prior years	**5,038**	4,006
	168,814	67,102
Deferred tax:		
Current year	**(75,556)**	(51,480)
	157,714	108,829

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

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

The tax expenses for the year are reconciled as follows:

	2005 HK$'000	2004 HK$'000 (As restated)
Profit before taxation	**1,216,881**	1,075,499
Tax at Hong Kong profits tax rate	**212,954**	188,212
Effect of different tax rates of subsidiaries operating in other jurisdictions	**48,505**	11,306
Tax effect of expenses not deductible for tax purpose	**20,757**	13,428
Tax effect of income not taxable for tax purpose	**(124,272)**	(120,773)
Tax effect of tax losses not recognized	**16,307**	24,269
Recognition of tax losses previously not recognized	**(18,098)**	–
Under(over) provision in respect of prior years	**1,539**	(4,741)
Others	**22**	(2,872)
Tax expenses for the year	**157,714**	108,829

Details of deferred tax are set out in Note 37.

12. Profit for the Year

	2005 HK$'000	2004 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Amortization of intangible assets	**47,084**	8,692
Amortization of goodwill	**–**	35,263
Release of negative goodwill to income	**–**	(4,307)
Auditors' remuneration	**15,934**	7,863
Amortization of lease prepayment	**1,402**	129
Depreciation and amortization on property, plant and equipment		
Owned assets	**456,449**	310,381
Assets held under finance leases	**14,729**	5,999
Impairment loss of investment securities	**–**	14,226
Impairment loss of available-for-sale investments	**13,830**	–
Operating lease expense recognized in respect of:		
Premises	**114,300**	92,919
Motor vehicles	**38,582**	27,754
Plant and machinery	**20,884**	8,433
Other assets	**24,312**	4,626
(Gain) loss on disposal of property, plant and equipment	**(2,690)**	1,882
Staff costs		
Directors' remuneration		
Fees	**566**	391
Other emoluments	**38,785**	33,938
Other staff	**2,077,257**	1,196,185
Retirement benefits schemes contributions (other than those included in the Directors' emoluments)	**98,909**	16,448
	2,215,517	1,246,962

Staff costs disclosed above do not include an amount of HK$317,788,000 (2004: HK$142,905,000) relating to research and development activities, which is included under research and development costs.

13. Directors' Emoluments

The emoluments paid or payable to each of the 9 (2004: 9) directors were as follows:

For the year ended 31st December, 2005

		Other emoluments			
	Fees	Salaries and other benefits	Contributions to retirement benefits schemes	Share-based payments	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Horst Julius Pudwill	10	18,989	12	–	19,011
Mr Roy Chi Ping Chung JP	10	7,868	12	–	7,890
Mr Kin Wah Chan	10	5,726	12	–	5,748
Mr Chi Chung Chan	10	5,737	12	–	5,759
Mr Vincent Ting Kau Cheung	10	–	–	–	10
Dr Akio Urakami	–	–	–	–	–
Mr Joel Arthur Schleicher	172	–	–	–	172
Mr Christopher Patrick Langley	172	–	–	–	172
Mr Manfred Kuhlmann	172	–	–	417	589
Total	566	38,320	48	417	39,351

For the year ended 31st December, 2004

		Other emoluments		
	Fees	Salaries and other benefits	Contributions to retirement benefits schemes	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000
Mr Horst Julius Pudwill	10	12,135	12	12,157
Mr Roy Chi Ping Chung JP	10	7,118	12	7,140
Mr Kin Wah Chan	10	5,483	12	5,505
Mr Chi Chung Chan	10	5,446	12	5,468
Mr Vincent Ting Kau Cheung	–	–	–	–
Dr Akio Urakami	–	3,696	12	3,708
Mr Joel Arthur Schleicher	156	–	–	156
Mr Christopher Patrick Langley	156	–	–	156
Mr Manfred Kuhlmann	39	–	–	39
Total	391	33,878	60	34,329

14. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2004: five) were group directors of the Company whose emoluments are included in Note 13 above. The emoluments of the remaining one (2004: Nil) individual was as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**2,665**	–
Contributions to retirement benefits schemes	**12**	–
	2,677	–

During each of the two years ended 31st December, 2005 and 2004, no emoluments have been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during those years.

15. Dividends Paid

	2005 HK$'000	2004 HK$'000
Final dividend paid:		
2004: HK 12.50 cents (2003: HK 8.875 cents (Note i)) per share	**169,651**	118,444
Interim dividend paid:		
2005: HK 6.00 cents (2004: HK 4.50 cents) per share	**81,818**	60,554
	251,469	178,998

The final dividend in respect of the current financial year of HK12.60 cents per share (2004: HK12.50 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

Note: The 2003 final dividend paid at HK 17.75 cents was adjusted to HK 8.875 cents per subdivided share.

16. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2005 HK$'000	2004 HK$'000 (As restated)
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to equity holders of the parent	**1,018,984**	926,356
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**22,316**	11,061
Earnings for the purpose of diluted earnings per share	**1,041,300**	937,417
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,385,789,675**	1,337,198,995
Effect of dilutive potential ordinary shares:		
Share options	**41,186,410**	38,266,686
Convertible bonds	**65,922,585**	26,296,987
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,492,898,670**	1,401,762,668

The following table summarizes the impact of change in accounting policies on both basic and diluted earnings per share:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 HK cents	2004 HK cents	**2005** HK cents	2004 HK cents
Reported figures before adjustments	**61.47**	70.11	**57.31**	68,16
Adjustments arising from changes in accounting policies (see Note 3)	**12.06**	(0.83)	**12.44**	(1.29)
	73.53	69.28	**69.75**	66.87

17. Property, Plant and Equipment

	Freehold land and buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Moulds and tooling HK$'000	Vessels HK$'000	Construction in progress HK$'000	Total HK$'000
The Group									
Cost									
At 1st January, 2004									
– as originally stated	449,114	153,152	418,111	475,397	20,253	1,089,762	3,476	7,676	2,616,941
Effect of change in accounting policies	(6,448)	–	–	–	–	–	–	–	(6,448)
At 1st January, 2004									
– as restated	442,666	153,152	418,111	475,397	20,253	1,089,762	3,476	7,676	2,610,493
Currency realignment	4,731	811	3,888	531	282	301	–	–	10,544
Additions	3,127	13,243	46,591	57,591	2,221	123,232	8,359	57,252	311,616
Disposals	(24,731)	(12,553)	(2,428)	(19,944)	(1,586)	(84,421)	–	–	(145,663)
Reclassification	5,342	–	16,670	1,600	–	520	–	(24,132)	–
At 31st December, 2004	431,135	154,653	482,832	515,175	21,170	1,129,394	11,835	40,796	2,786,990
Currency realignment	(55,048)	(1,745)	(19,337)	(80,404)	(1,087)	(58,083)	–	(2,266)	(217,970)
Additions	1,278	22,769	112,911	127,517	7,430	178,914	–	82,415	533,234
Acquisition of subsidiaries	571,356	14,549	168,688	1,327,128	4,977	836,921	–	90,371	3,013,990
Disposals	(74,713)	(14,793)	(13,633)	(115,322)	(1,923)	(17,178)	–	–	(237,562)
Reclassification	14,928	–	11,206	24,476	258	10,210	–	(61,078)	–
At 31st December, 2005	**888,936**	**175,433**	**742,667**	**1,798,570**	**30,825**	**2,080,178**	**11,835**	**150,238**	**5,878,682**
Depreciation and Amortization									
At 1st January, 2004									
– as originally stated	113,765	99,515	273,019	333,404	14,791	874,772	3,319	–	1,712,585
Effect of change in accounting policies	(1,548)	–	–	–	–	–	–	–	(1,548)
At 1st January, 2004									
– as restated	112,217	99,515	273,019	333,404	14,791	874,772	3,319	–	1,711,037
Currency realignment	2,497	614	2,645	399	406	232	–	–	6,793
Provided for the year	19,219	12,663	67,820	61,634	2,628	151,823	593	–	316,380
Eliminated on disposals	(15,020)	(8,596)	(2,224)	(17,306)	(1,579)	(82,341)	–	–	(127,066)
Reclassification	–	–	–	829	–	(829)	–	–	–
At 31st December, 2004	118,913	104,196	341,260	378,960	16,246	943,657	3,912	–	1,907,144
Currency realignment	(26,180)	(1,114)	(13,116)	(70,687)	(795)	(53,979)	–	–	(165,871)
Provided for the year	36,553	12,959	86,064	125,834	4,134	203,927	1,707	–	471,178
Acquisition of subsidiaries	187,560	5,568	139,396	995,950	3,952	747,099	–	–	2,079,525
Eliminated on disposals	(19,696)	(4,681)	(13,633)	(113,479)	(1,242)	(15,588)	–	–	(168,319)
Reclassification	(64)	–	(11,890)	11,886	–	68	–	–	–
At 31st December, 2005	**297,086**	**116,928**	**528,081**	**1,328,464**	**22,295**	**1,825,184**	**5,619**	**–**	**4,123,657**
Net Book Values									
At 31st December, 2005	**591,850**	**58,505**	**214,586**	**470,106**	**8,530**	**254,994**	**6,216**	**150,238**	**1,755,025**
At 31st December, 2004	312,222	50,457	141,572	136,215	4,924	185,737	7,923	40,796	879,846

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

	Buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Moulds and tooling HK$'000	Total HK$'000
The Company							
Cost							
At 1st January, 2004							
– as originally stated	72,393	64,001	96,437	206,805	9,944	462,107	911,687
Effect of change in accounting policies	(6,448)	–	–	–	–	–	(6,448)
At 1st January, 2004							
– as restated	65,945	64,001	96,437	206,805	9,944	462,107	905,239
Additions	–	1,955	8,162	16,169	432	63,387	90,105
Disposals	–	(6,265)	(626)	(3,352)	(357)	(361)	(10,961)
At 31st December, 2004	65,945	59,691	103,973	219,622	10,019	525,133	984,383
Additions	–	10,334	21,007	12,143	709	53,922	98,115
Transfer to subsidiaries	–	(1,544)	(1,398)	(91,800)	–	(81)	(94,823)
Disposals	–	–	(4)	(3,085)	(158)	(637)	(3,884)
At 31st December, 2005	**65,945**	**68,481**	**123,578**	**136,880**	**10,570**	**578,337**	**983,791**
Depreciation and Amortization							
At 1st January, 2004							
– as originally stated	19,669	55,456	64,589	154,223	7,775	376,316	678,028
Effect of change in accounting policies	(1,548)	–	–	–	–	–	(1,548)
At 1st January, 2004							
– as restated	18,121	55,456	64,589	154,223	7,775	376,316	676,480
Provided for the year	2,638	4,578	13,868	26,515	1,157	55,174	103,930
Eliminated on disposals	–	(6,009)	(612)	(2,462)	(357)	(10)	(9,450)
At 31st December, 2004	20,759	54,025	77,845	178,276	8,575	431,480	770,960
Provided for the year	2,638	4,462	13,770	13,253	861	58,079	93,063
Transfer to subsidiaries	–	(1,303)	(921)	(71,739)	–	(27)	(73,990)
Eliminated on disposals	–	–	(4)	(2,712)	(158)	(200)	(3,074)
At 31st December, 2005	**23,397**	**57,184**	**90,690**	**117,078**	**9,278**	**489,332**	**786,959**
Net Book Values							
At 31st December, 2005	**42,548**	**11,297**	**32,888**	**19,802**	**1,292**	**89,005**	**196,832**
At 31st December, 2004	45,186	5,666	26,128	41,346	1,444	93,653	213,423

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

The net book values of property shown above comprise:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
		(As restated)		(As restated)
Land and buildings are situated outside Hong Kong and are analyzed as follows:				
Freehold	**546,664**	267,036	**–**	–
Medium-term lease	**45,186**	45,186	**42,548**	45,186
	591,850	312,222	**42,548**	45,186

The net book values of the Group's and the Company's property, plant and equipment include amounts of approximately HK$138,189,000 and nil respectively (2004: HK$16,043,000 and HK$76,000 respectively) in respect of assets held under finance leases.

18. Lease Prepayment

	The Group	The Company
	HK$'000	HK$'000
Cost		
At 1st January, 2004	–	–
Recognized upon application of HKAS 17	6,449	6,449
At 31st December, 2004	6,449	6,449
Currency realignment	(1,240)	–
Additions	63,674	–
At 31st December, 2005	**68,883**	**6,449**
Amortization		
At 1st January, 2004	–	–
Recognized upon application of HKAS 17	1,677	1,677
At 31st December, 2004	1,677	1,677
Currency realignment	(25)	–
Provided for the year	1,402	129
At 31st December, 2005	**3,054**	**1,806**
Net Book Values		
At 31st December, 2005	**65,829**	**4,643**
At 31st December, 2004	4,772	4,772

All lease prepayment are medium-term lease outside Hong Kong.

19. Goodwill

	The Group HK$'000
Cost	
At 1st January, 2004	783,742
Arising on acquisition of additional interest of a subsidiary	36,007
At 1st January, 2005	819,749
Arising on acquisition of subsidiaries	3,277,624
Adjustments to considerations on acquisition of subsidiaries in prior years	12,807
Elimination of accumulated amortization upon application of HKFRS 3	(166,245)
At 31st December, 2005	**3,943,935**
Amortization	
At 1st January, 2004	130,982
Charged for the year	35,263
At 1st January, 2005	166,245
Elimination of accumulated amortization upon application of HKFRS 3	(166,245)
At 31st December, 2005	**–**
Carrying Amounts	
At 31st December, 2005	**3,943,935**
At 31st December, 2004	653,504

Particulars regarding impairment testing on goodwill are disclosed in Note 22.

Until 31st December, 2004, the goodwill was amortized over its estimated useful life, ranging from 9 to 20 years.

20. Negative Goodwill

	The Group HK$'000
Gross Amount	
At 1st January, 2004 and 31st December, 2004	47,379
Derecognized upon the application of HKFRS 3	(47,379)
At 31st December, 2005	–
Released to Income	
At 1st January, 2004	14,204
Released in the year	4,307
At 31st December, 2004	18,511
Derecognized upon the application of HKFRS 3	(18,511)
At 31st December, 2005	–
Carrying Amounts	
At 31st December, 2005	–
At 31st December, 2004	28,868

As explained in Note 2, all negative goodwill arising on acquisition prior to 1st January, 2005 was derecognized as a result of the application of HKFRS 3.

21. Intangible Assets

	Deferred development cost HK$'000	Patents and trademarks HK$'000	Manufacture know-how HK$'000	Total HK$'000
The Group				
Cost				
At 1st January, 2004	1,773	42,993	3,510	48,276
Currency realignment	157	12	–	169
Additions	50,834	165,428	–	216,262
Write off in the year	–	(12,475)	–	(12,475)
At 31st December, 2004	52,764	195,958	3,510	252,232
Currency realignment	(5,217)	(6,596)	–	(11,813)
Additions	138,009	123,061	–	261,070
Acquisition of subsidiaries	58,988	987,805	–	1,046,793
Write off in the year	(2,029)	(2,791)	–	(4,820)
At 31st December, 2005	**242,515**	**1,297,437**	**3,510**	**1,543,462**
Amortization				
At 1st January, 2004	–	22,010	1,112	23,122
Currency realignment	–	12	–	12
Provided for the year	–	7,990	702	8,692
Eliminated on write off	–	(12,475)	–	(12,475)
At 31st December, 2004	–	17,537	1,814	19,351
Currency realignment	(701)	(2,042)	–	(2,743)
Provided for the year	21,965	24,417	702	47,084
Acquisition of subsidiaries	7,197	13,899	–	21,096
Eliminated on write off	–	(2,779)	–	(2,779)
At 31st December, 2005	**28,461**	**51,032**	**2,516**	**82,009**
Carrying Amounts				
At 31st December, 2005	**214,054**	**1,246,405**	**994**	**1,461,453**
At 31st December, 2004	52,764	178,421	1,696	232,881

21. Intangible Assets *(continued)*

	Deferred development cost HK$'000	Patents HK$'000	Total HK$'000
The Company			
Cost			
At 1st January, 2004	–	8,021	8,021
Additions	–	219	219
At 31st December, 2004	–	8,240	8,240
Additions	102,473	42,064	144,537
At 31st December, 2005	**102,473**	**50,304**	**152,777**
Amortization			
At 1st January, 2004	–	2,362	2,362
Provided for the year	–	2,053	2,053
At 31st December, 2004	–	4,415	4,415
Provided for the year	–	9,783	9,783
At 31st December, 2005	**–**	**14,198**	**14,198**
Carrying Amounts			
At 31st December, 2005	**102,473**	**36,106**	**138,579**
At 31st December, 2004	–	3,825	3,825

Deferred development costs are internally generated. All the patents and trademarks and manufacture know-how were acquired from third parties.

The above intangible assets, other than trademarks, of the Group and the Company have definite useful lives and are amortized on a straight-line basis over 4 to 10 years.

The trademarks are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortized until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in Note 22.

22. Impairment Testing on Goodwill And Intangible Assets with Indefinite Useful Lives

The carrying amounts of goodwill and trademarks with indefinite useful lives as at 31st December, 2005 allocated to the following cash-generating units ("CGUs") are as follows:

	Goodwill HK$'000	Trademarks HK$'000
Power Equipment Products	3,369,920	195,000
Floor Care Appliances	574,015	–
	3,943,935	195,000

During the year ended 31st December, 2005, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trademarks with indefinite useful lives.

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

The recoverable amount of the CGUs are determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate ranging from 5% to 12% and extrapolated using a steady 3.6% growth rate.

23. Investments in Subsidiaries

	The Company	
	2005 HK$'000	2004 HK$'000
Investments in unlisted shares, at cost	**551,396**	426,981

Particulars of the principal subsidiaries of the Company as at 31st December, 2005 are set out in Note 45.

24. Interests in Associates

	The Group		**The Company**	
	2005 HK$'000	2004 HK$'000	**2005** HK$'000	2004 HK$'000
Unlisted shares, at cost less impairment loss recognized	**–**	–	**23,790**	23,790
Share of net assets	**15,394**	22,938	**–**	–
Net amounts due from associates	**174,059**	137,504	**149,236**	115,376
	189,453	160,442	**173,026**	139,166

Particulars of the associates as at 31st December, 2005 are set out in Note 46.

24. Interests in Associates *(continued)*

The amounts due from associates are unsecured, bear interest at LIBOR plus 2% and repayable on demand. In the opinion of directors, no part of the amounts will be repaid within the next twelve months and the amounts are therefore presented as non-current.

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

	2005	2004
	HK$'000	HK$'000
Total assets	**160,742**	156,123
Total liabilities	**(99,165)**	(64,372)
Net assets	**61,577**	91,751
Group's share of net assets of associates	**15,394**	22,938
Revenue	**274,330**	232,851
Loss for the year	**(22,485)**	(12,731)
Group's share of result of associates for the year	**(6,463)**	(845)

At the balance sheet date, amongst the associates, the Group held 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together "Gimelli Group companies"). The carrying value of the Group's interests in Gimelli Group companies is nil at both 31st December, 2005 and 31st December, 2004. During the year, the Group did not share the profits of Gimelli Group companies of HK$3,368,000 (2004: loss) as Gimelli Group companies was having net liabilities.

25. Available-for-sale Investments

	The Group
	2005
	HK$'000
Unlisted equity securities, at cost less impairment loss recognized	**13,363**

As at the balance sheet date, all available-for-sale investments represent investments in unlisted equity securities. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The Group's investments above included investments in Nack Products USA Limited ("Nack") and in America Direct, Inc. ("ADI"), with nil carrying values (2004: HK$5,227,000 and HK$2,003,000, respectively). The Company's investments included its investment in Nack of the same amount. Both companies are incorporated in the United States of America ("USA"). Nack has the exclusive rights to market and distribute a registered product in the USA, of which the Group holds the manufacturing right. Its principal activity is the marketing and distribution of the registered product and other related products in the USA. ADI is engaged in marketing through a combination of direct response television and retail distribution in the USA and selected international markets.

The Group's investment represents approximately 25% (2004: 25%) of Nack's issued shares held directly by the Company and 26% (2004: 26%) of ADI's common stocks in issue held by a 51% subsidiary of the Company. Both Nack and ADI are not regarded as associates of the Group because the Group has no significant influence over their affairs as there is no director representative in their board.

26. Investments In Securities

Investment securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investment securities were reclassified to available-for-sale investments under HKAS 39 (see Note 3 for details).

	The Group	The Company
	2004	2004
	HK$'000	HK$'000
Unlisted equity securities at cost less impairment loss recognized	27,193	5,227

27. Inventories

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Raw materials	**1,139,478**	746,533	**225,745**	320,333
Work in progress	**104,442**	61,517	**38,443**	26,408
Finished goods	**2,727,296**	1,979,009	**69,495**	144,448
	3,971,216	2,787,059	**333,683**	491,189

28. Trade and Other Receivables

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

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
0 to 60 days	**2,622,904**	2,323,226	**16,363**	52,434
61 to 120 days	**255,728**	264,250	**6,903**	3,485
121 days or above	**115,733**	57,009	**19,096**	8,500
Total trade receivables	**2,994,365**	2,644,485	**42,362**	64,419
Other receivables	**270,990**	117,671	**–**	–
	3,265,355	2,762,156	**42,362**	64,419

The fair value of the Group's and the Company's trade and other receivables at 31st December, 2005 approximates the corresponding carrying amount.

29. Trade and Other Payables

The aged analysis of trade payables is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
0 to 60 days	**1,552,235**	1,487,387	**453,877**	760,654
61 to 120 days	**278,482**	211,234	**147,106**	164,460
121 days or above	**70,475**	17,907	**60,486**	10,187
Total trade payables	**1,901,192**	1,716,528	**661,469**	935,301
Other payables	**1,689,507**	1,168,978	**217,265**	302,627
	3,590,699	2,885,506	**878,734**	1,237,928

The fair value of the Group's and the Company's trade and other payables at 31st December, 2005 approximates the corresponding carrying amount.

30. Warranty Provision

	The Group	
	2005	2004
	HK$'000	HK$'000
At 1st January	**241,375**	208,552
Currency realignment	**(6,767)**	1,300
Additional provision in the year	**530,336**	488,260
Acquisition of subsidiaries	**94,426**	–
Utilization of provision	**(521,159)**	(456,737)
At 31st December	**338,211**	241,375

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

31. Obligations under Finance Leases

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

The maturity of obligations under finance leases is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
The Group				
Amounts payable under finance leases:				
Within one year	**20,341**	6,814	**18,107**	6,266
In more than one year but not more than two years	**18,464**	5,571	**15,686**	5,294
In more than two years but not more than three years	**14,175**	3,722	**11,411**	3,642
In more than three years but not more than four years	**13,248**	39	**10,188**	34
In more than four years but not more than five years	**12,284**	20	**8,903**	19
More than five years	**108,892**	–	**79,279**	–
	187,404	16,166	**143,574**	15,255
Less: future finance charges	**(43,830)**	(911)	**–**	–
Present value of lease obligations	**143,574**	15,255	**143,574**	15,255
Less: Amount due within one year shown under current liabilities			**(18,107)**	(6,266)
Amount due after one year			**125,467**	8,989
The Company				
Amounts payable under finance leases:				
Within one year	**–**	625	**–**	586
Less: future finance charges	**–**	(39)	**–**	–
Present value of lease obligations	**–**	586	**–**	586
Less: Amount due within one year shown under current liabilities			**–**	(586)
Amount due after one year			**–**	–

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at 31st December, 2005 approximates their carrying amount.

32. Convertible Bonds

On 16th June, 2004, the Group announced the issue of 5-year Zero Coupon Convertible Bonds at par, due in July, 2009 (the "Bonds"), for an aggregate principal amount of US$140,000,000 (approximately HK$1,092,000,000). The Bonds are convertible, at the option of bondholders, into ordinary shares of HK$0.1 each of the Company at an initial conversion price of HK$16.56 per share at any time from 7th August, 2005 to 1st July, 2009. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at 107.76% of its principal amount on the maturity date of 8th July, 2009. However, on or after 8th July, 2007 and prior to the maturity date, the bondholders may, at their option, require the Company to redeem all or some of the Bonds at 104.59% of the principal amount.

The Bonds contain two components, liability and equity elements. Upon the application of HKAS 32 *Financial Instruments: Disclosure and Presentation* (see Note 3 for details), the Bonds were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component is 2.11%.

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

	The Group and The Company	
	2005	2004
	HK$'000	HK$'000
Liability component at the beginning of the year	**1,051,257**	–
Issue of the Bonds	**–**	1,037,850
Interest charge	**27,050**	13,407
Liability at the end of the year	**1,078,307**	1,051,257

The fair value of the liability component of the Bonds at 31st December, 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate at the balance sheet date, was approximately HK$920,689,000.

33. Unsecured Borrowings

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Trust receipt loans	**127,672**	214,981	**–**	–
Bank loans	**1,891,735**	838,649	**234,000**	719,333
Bank overdrafts	**238,928**	137,539	**–**	–
Bank borrowings	**2,258,335**	1,191,169	**234,000**	719,333
Fixed interest rate notes (Note)	**2,640,353**	1,095,573	**–**	–
Total borrowings	**4,898,688**	2,286,742	**234,000**	719,333

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

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
On demand or within one year	**673,277**	840,450	**234,000**	407,333
In more than one year but not more than two years	**18,181**	251,961	**–**	234,000
In more than two years but not more than three years	**1,566,877**	95,961	**–**	78,000
In more than three years but not more than four years	**–**	2,797	**–**	–
More than five years	**2,640,353**	1,095,573	**–**	–
	4,898,688	2,286,742	**234,000**	719,333
Less: Amount due within one year shown under current liabilities	**(673,277)**	(840,450)	**(234,000)**	(407,333)
Amount due after one year	**4,225,411**	1,446,292	**–**	312,000

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

	2005	2004
Effective interest rate:		
Fixed-rate borrowings	**4.09% to 5.44%**	4.09% to 4.70%
Variable-rate borrowings	**3.07% to 5.67%**	1.80% to 3.79%

The Group's major borrowings are denominated in US dollar.

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

In 2005, the Group issued another fixed interest rate notes, through its wholly-owned entity in the USA, for an aggregate principal amount of US$200,000,000. The notes were issued in two fixed rate tranches, of US$150,000,000 for 10 years at 5.44% per annum, and US$50,000,000 for 7 years at 5.17% per annum. The proceeds were used to finance the acquisition of subsidiaries.

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

34. Share Capital

	2005	2004	2005	2004
	Number of shares		HK$'000	HK$'000
Ordinary shares				
Authorized:				
Shares of HK$0.1 (2004: HK$0.2) each at 1st January	**2,400,000,000**	800,000,000	**240,000**	160,000
Increase in authorized share capital	**–**	400,000,000	**–**	80,000
Subdivision of one share of HK$0.2 each into two shares of HK$0.1 each	**–**	1,200,000,000	**–**	–
Shares of HK$0.1 each at 31st December	**2,400,000,000**	2,400,000,000	**240,000**	240,000
Issued and fully paid:				
Shares of HK$0.1 (2004: HK$0.2) each at 1st January	**1,352,304,652**	662,486,826	**135,230**	132,497
Issued on share placement	**96,000,000**	–	**9,600**	–
Issued on exercise of share options	**13,416,000**	24,336,000	**1,342**	2,733
Subdivision of one share of HK$0.2 each into two shares of HK$0.1 each	**–**	665,481,826	**–**	–
Shares of HK$0.1 each at 31st December	**1,461,720,652**	1,352,304,652	**146,172**	135,230

On 8th September, 2005, the Group placed an aggregate of 96,000,000 shares to independent investors at a price of HK$19.25 per share. The new shares placed represent approximately 7.05% of the issued share capital of the Company of 1,361,898,652 shares at the date of placement and approximately 6.58% of the issued capital of the Company of 1,457,898,652 shares as enlarged by the placement.

On 28th May, 2004, ordinary resolutions were passed by the shareholders of the Company to approve the increase (the "Increase") in the authorized share capital of the Company to HK$240,000,000 and the subdivision (the "Subdivision") of each issued and unissued shares of HK$0.2 each in the authorized share capital into two ordinary shares of HK$0.1 each. The Increase and the Subdivision became effective on 28th and 31st May, 2004 respectively.

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

Details of the share options are set out in Note 42.

35. Reserves

	Share premium HK$'000	Convertible bonds equity reserve HK$'000 (As restated)	Employee share-based compensation reserve HK$'000	Retained profits HK$'000 (As restated)	Total HK$'000 (As restated)
The Company					
At 1st January, 2004	672,083	–	–	1,434,872	2,106,955
Premium on shares issued	138,528	–	–	–	138,528
Recognition of equity component of convertible bonds	–	31,920	–	–	31,920
Recognition of deferred tax liabilities on convertible bonds	–	(5,586)	–	–	(5,586)
Profit for the year	–	–	–	763,117	763,117
Final dividend – 2003	–	–	–	(118,444)	(118,444)
Interim dividend – 2004	–	–	–	(60,554)	(60,554)
At 1st January, 2005	810,611	26,334	–	2,018,991	2,855,936
Premium on shares issued	1,956,700	–	–	–	1,956,700
Transaction costs attributable to issue of new shares	(34,502)	–	–	–	(34,502)
Recognition of equity – settled share based payment	–	–	6,703	–	6,703
Profit for the year	–	–	–	524,432	524,432
Final dividend – 2004	–	–	–	(169,651)	(169,651)
Interim dividend – 2005	–	–	–	(81,818)	(81,818)
At 31st December, 2005	**2,732,809**	**26,334**	**6,703**	**2,291,954**	**5,057,800**

As at 31st December, 2005, the Company's reserves available for distribution to shareholders comprised the retained profits of HK$2,291,954,000 (2004: HK$2,018,991,000 as restated).

36. Retirement Benefits Obligations

	The Group	
	2005 HK$'000	2004 HK$'000
Pension plan obligations (Note i)	**621,737**	–
Post-retirement, medical, dental and life insurance plan obligations (Note ii)	**151,770**	–
Others	**12,830**	–
	786,337	–

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

36. Retirement Benefits Obligations *(continued)*

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

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. Under the plan, the employees are entitled to retirement benefits varying between 10 and 20 per cent of final salary on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 1st January 2006 by BDO Deutsche Warentreuhand Aktiengescllschaft, Germany.

Note ii: Post-retirement, medical, dental and life insurance plan obligations

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the USA operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligation were carried out on 1st January, 2006 by Mercer Human Resource Consulting. There are no assets segregated and restricted for these benefits and the plans are funded on a pay-as-you-go basis.

The main actuarial assumptions used were as follows:

	Pension plan **2005**	Post-retirement, medical, dental and life insurance plan **2005**
Discount rate	**5.00%**	**5.50%**
Expected rate of salary increases	**3.00%**	**N/A**
Future pension increases	**2.00%**	**N/A**
Medical cost inflation (ultimate)	**N/A**	**5.00%**

Amounts recognized in income in respect of the plans are as follows:

	Pension plan **2005** HK$'000	Post-retirement, medical, dental and life insurance plan **2005** HK$'000
Current service cost	**5,198**	**4,329**
Interest cost	**29,879**	**8,471**
	35,077	**12,800**

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

36. Retirement Benefits Obligations *(continued)*

The amount included in the balance sheet arising from the Group's obligation in respect of the plans are as follows:

	Pension plan 2005 HK$'000	Post-retirement, medical, dental and life insurance plan 2005 HK$'000
Present value of unfunded obligations	**621,737**	**151,770**

Movements in the net liability in the current year were as follows:

	Pension plan 2005 HK$'000	Post-retirement, medical, dental and life insurance plan 2005 HK$'000
At 1st January	**–**	**–**
Net liability acquired on acquisition of subsidiaries	**711,429**	**155,563**
Exchange differences	**(91,780)**	**–**
Amounts charged to income	**35,077**	**12,800**
Benefits paid	**(32,989)**	**(16,593)**
At 31st December	**621,737**	**151,770**

One World Technologies, Inc., a subsidiary of the Group in USA operates another defined benefit scheme. The pension costs of the defined benefit scheme are assessed in accordance with an actuarial valuation as at 1st January, 2006 performed by Aon Consulting, an employee benefits consulting group, using the Projected Unit Credit method. No medical trend rate assumption is necessary as at 31st December, 2005 and 2004 since all retirees are assumed to be affected by the fixed dollar subsidy and a discount rate of 5.5% (2004: 6.0%) were assumed for calculating the actuarial valuation.

There are no assets set aside for these benefits and the plan is funded on a pay-as-you-go basis. The accrued benefit costs under such scheme are to be reimbursed by a former shareholder of the overseas subsidiary in accordance with an assignment assumption, reimbursement and indemnification agreement. As such, the overseas subsidiary has set up a receivable and an accrued benefit cost of same amount of approximately HK$23,000,000 (2004: HK$26,000,000) as at 31st December, 2005.

37. Deferred Tax Assets (Liabilities)

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

	Accelerated tax depreciation HK$'000	Warranty provision HK$'000	Convertible bonds equity reserve HK$'000 (As restated)	Employee related provision HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000 (As restated)
The Group							
At 1st January, 2004	(17,219)	61,739	–	26,202	129,062	27,418	227,202
Currency realignment	(36)	(20)	–	95	13,262	1,766	15,067
Charge to equity for the year	–	–	(5,586)	–	–	–	(5,586)
(Charge) credit to income for the year	(12,422)	9,206	–	3,630	5,162	45,904	51,480
At 1st January, 2005	(29,677)	70,925	(5,586)	29,927	147,486	75,088	288,163
Acquisition of subsidiaries	(119,720)	27,920	–	125,890	19,483	(251,430)	(197,857)
Currency realignment	2,616	(876)	–	(10,276)	(8,680)	(17,099)	(34,315)
(Charge) credit to income for the year	43,579	(2,445)	–	10,082	40,838	(16,498)	75,556
At 31st December, 2005	**(103,202)**	**95,524**	**(5,586)**	**155,623**	**199,127**	**(209,939)**	**131,547**

	Accelerated tax depreciation HK$'000	Convertible bonds HK$'000 (As restated)	Total HK$'000 (As restated)
The Company			
At 1st January, 2004	(15,006)	–	(15,006)
Charge to equity for the year	–	(5,586)	(5,586)
Charge to income for the year	596	–	596
At 1st January, 2005	(14,410)	(5,586)	(19,996)
Charge to income for the year	(338)	–	(338)
At 31st December, 2005	**(14,748)**	**(5,586)**	**(20,334)**

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

	The Group		The Company	
	2005 HK$'000	2004 HK$'000 (As restated)	**2005** HK$'000	2004 HK$'000 (As restated)
Deferred tax assets	**646,758**	329,711	**–**	–
Deferred tax liabilities	**(515,211)**	(41,548)	**(20,334)**	(19,996)
	131,547	288,163	**(20,334)**	(19,996)

38. Acquisition of Subsidiaries

The Group completed the purchase from Atlas Copco AB ("ATCO") all of ATCO's electric power tools and accessories business ("the Business") conducted under the brand names "Milwaukee®" and "AEG®" as well as the "DreBo®" accessories businesses, ("the Acquired Companies"), with unanimous approval by all the shareholders present in person or by proxy at the Company's Extraordinary General Meeting on 3rd January, 2005.

The purchase price for the Business, which was paid in cash at the closing of the transaction, was US$627 million (approximately HK$4,887 million), consisting of the pre-adjustment purchase price of US$713 million (approximately HK$5,560 million), reduced by an agreed pre-closing adjustment of US$86 million (approximately HK$672 million) in respect of a portion of the accrued and unfunded post-retirement liabilities of certain of the Acquired Companies and adjustments with respect to related deferred asset accounts and to certain accruals. The purchase price was calculated on the basis of the Acquired Companies having no indebtedness or cash and their net tangible assets (excluding, among other things, cash and amounts in respect of pre-agreed adjustments) being US$285 million (approximately HK$2,223 million). On 31st October, 2005, the Group and ATCO concluded that there will be no adjustments to the purchase price and the acquisition completed.

	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net Assets Acquired			
Property, plant and equipment	951,927	(17,462)	934,465
Intangible assets	88,948	936,749	1,025,697
Deferred tax assets	293,484	–	293,484
Inventories	873,050	10,163	883,213
Trade and other receivables, deposits and prepayments	1,153,104	–	1,153,104
Bills receivables	71,874	–	71,874
Tax recoverable	2,176	–	2,176
Bank balances and cash	211,585	–	211,585
Trade and other payables	(1,185,318)	–	(1,185,318)
Tax payable	(79,263)	–	(79,263)
Warranty provision	(94,426)	–	(94,426)
Obligations under finance leases	(147,948)	–	(147,948)
Deferred tax liabilities	(491,341)	–	(491,341)
Retirement benefit obligations	(874,012)	–	(874,012)
	773,840	929,450	1,703,290
Goodwill arising on acquisition			3,277,624
Cash consideration paid during the year			4,980,914
Net cash outflow arising on acquisition:			
Cash consideration paid during the year			(4,980,914)
Bank balances and cash acquired			211,585
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(4,769,329)

The goodwill arising on the acquisition of the subsidiaries is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

The subsidiaries acquired contributed approximately HK$5,940,957,000 to the Group's turnover, and approximately HK$354,605,000 to the Group's profit before taxation and interest or the period between the date of acquisition and the balance sheet date.

39. Major Non-cash Transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of HK$7,900,000 (2004: HK$15,555,000).

40. Lease Commitments

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

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	**167,654**	86,626	**18,022**	9,428
In the second to fifth year inclusive	**368,848**	151,288	**25,575**	7,251
After five years	**175,124**	142,876	**16,160**	16,309
	711,626	380,790	**59,757**	32,988

Operating lease payments represent rentals payable by the Group and the Company for certain of its plant and machinery and office properties. Leases are negotiated for a term ranging from 1 year to 10 years.

41. Contingent Liabilities

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantees given to banks in respect of credit facilities utilized by associates	**30,654**	24,455	**30,654**	24,455
Bills discounted with recourse	**–**	207,338	**–**	147,496
	30,654	231,793	**30,654**	171,951

In addition, the Company has given guarantees to banks and independent third parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at 31st December, 2005 amounted to HK$5,467,275,000 (2004: HK$2,135,485,000).

42. Share Options

Scheme adopted on 25th May, 2001 and terminated on 28th March, 2002 ("Scheme B")

In accordance with the Company's share option scheme adopted pursuant to a resolution passed on 25th May, 2001, the Board of Directors of the Company may grant share options to eligible persons, including full-time officers, Executive Directors and full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company. The purpose of the scheme is to provide incentives or rewards to directors and eligible persons.

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

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

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

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

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

(i) employees; or

(ii) Non-executive Directors (including Independent Non-executive Directors); or

(iii) suppliers or customers; or

(iv) any person or entity that provides research, development or other technological support; or

(v) shareholders.

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

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

42. Share Options *(continued)*

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

Name of directors	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Mr Horst Julius Pudwill	28.6.2002	Scheme C	25,728,000	–	–	–	25,728,000	3.6000	28.6.2002 – 27.6.2007
	19.9.2003	Scheme C	560,000	–	–	–	560,000	8.6850	19.9.2003 – 18.9.2008
	25.2.2004	Scheme C	400,000	–	–	–	400,000	12.1700	25.2.2004 – 24.2.2009
Mr Roy Chi Ping Chung JP	28.6.2002	Scheme C	12,864,000	–	–	–	12,864,000	3.6000	28.6.2002 – 27.6.2007
	19.9.2003	Scheme C	560,000	–	–	–	560,000	8.6850	19.9.2003 – 18.9.2008
	25.2.2004	Scheme C	400,000	–	–	–	400,000	12.1700	25.2.2004 – 24.2.2009
Mr Kin Wah Chan	25.2.2004	Scheme C	1,000,000	–	1,000,000	–	–	12.1700	25.2.2004 – 24.2.2009
	1.3.2004	Scheme C	1,000,000	–	–	–	1,000,000	12.5250	1.3.2004 – 28.2.2009
Mr Chi Chung Chan	17.7.2003	Scheme C	1,000,000	–	–	–	1,000,000	7.6250	17.7.2003 – 16.7.2008
	19.9.2003	Scheme C	500,000	–	–	–	500,000	8.6850	19.9.2003 – 18.9.2008
	25.2.2004	Scheme C	1,000,000	–	–	–	1,000,000	12.1700	25.2.2004 – 24.2.2009
	1.3.2004	Scheme C	500,000	–	–	–	500,000	12.5250	1.3.2004 – 28.2.2009
Dr Akio Urakami	25.2.2004	Scheme C	300,000	–	300,000	–	–	12.1700	25.2.2004 – 24.2.2009
Mr Vincent Ting Kau Cheung	30.4.2002	Scheme C	400,000	–	400,000	–	–	3.2000	30.4.2002 – 29.4.2007
	17.7.2003	Scheme C	300,000	–	300,000	–	–	7.6250	17.7.2003 – 16.7.2008
	25.2.2004	Scheme C	100,000	–	100,000	–	–	12.1700	25.2.2004 – 24.2.2009
Mr Joel Arthur Schleicher	30.4.2002	Scheme C	200,000	–	100,000	–	100,000	3.2000	30.4.2002 – 29.4.2007
	17.7.2003	Scheme C	200,000	–	–	–	200,000	7.6250	17.7.2003 – 16.7.2008
	25.2.2004	Scheme C	100,000	–	–	–	100,000	12.1700	25.2.2004 – 24.2.2009
Mr Christopher Patrick Langley	17.7.2003	Scheme C	200,000	–	–	–	200,000	7.6250	17.7.2003 – 16.7.2008
	25.2.2004	Scheme C	100,000	–	–	–	100,000	12.1700	25.2.2004 – 24.2.2009
Mr Manfred Kuhlmann	7.2.2005	Scheme C	–	100,000	–	–	100,000	17.7500	7.2.2005 – 6.2.2010
Total for directors			47,412,000	100,000	2,200,000	–	45,312,000		

42. Share Options *(continued)*

	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding at end of the year	Subscription price HK$	Exercise period
Employees	23.7.2001	Scheme B	600,000	–	300,000	–	300,000	1.0580	23.7.2001 – 22.7.2006
	30.4.2002	Scheme C	2,880,000	–	1,000,000	–	1,880,000	3.2000	30.4.2002 – 29.4.2007
	5.7.2002	Scheme C	1,000,000	–	500,000	–	500,000	3.3500	5.7.2002 – 4.7.2007
	17.7.2003	Scheme C	8,295,000	–	4,793,000	20,000	3,482,000	7.6250	17.7.2003 – 16.7.2008
	1.9.2003	Scheme C	40,000	–	40,000	–	–	8.8250	1.9.2003 – 31.8.2008
	19.9.2003	Scheme C	204,000	–	–	–	204,000	8.6850	19.9.2003 – 18.9.2008
	18.12.2003	Scheme C	148,000	–	148,000	–	–	10.3600	18.12.2003 – 17.12.2008
	1.3.2004	Scheme C	11,026,000	–	3,995,000	64,000	6,967,000	12.5250	1.3.2004 – 28.2.2009
	14.4.2004	Scheme C	200,000	–	–	–	200,000	12.9500	14.4.2004 – 13.4.2009
	5.5.2004	Scheme C	300,000	–	–	–	300,000	11.0500	5.5.2004 – 4.5.2009
	7.6.2004	Scheme C	200,000	–	–	–	200,000	12.0000	7.6.2004 – 6.6.2009
	25.6.2004	Scheme C	40,000	–	40,000	–	–	11.5000	25.6.2004 – 24.6.2009
	10.8.2004	Scheme C	400,000	–	400,000	–	–	11.3000	10.8.2004 – 9.8.2009
	18.8.2004	Scheme C	60,000	–	–	–	60,000	11.2500	18.8.2004 – 17.8.2009
	2.10.2004	Scheme C	1,000,000	–	–	–	1,000,000	15.3500	2.10.2004 – 1.10.2009
	13.12.2004	Scheme C	250,000	–	–	–	250,000	15.7100	13.12.2004 – 12.12.2009
	17.1.2005	Scheme C	–	150,000	–	–	150,000	16.5200	17.1.2005 – 16.1.2010
	7.2.2005	Scheme C	–	100,000	–	–	100,000	17.7500	7.2.2005 – 6.2.2010
	7.4.2005	Scheme C	–	200,000	–	–	200,000	17.2100	7.4.2005 – 6.4.2010
	27.4.2005	Scheme C	–	25,000	–	–	25,000	17.6600	27.4.2005 – 26.4.2010
	10.5.2005	Scheme C	–	200,000	–	–	200,000	17.2000	10.5.2005 – 9.5.2010
	1.6.2005	Scheme C	–	20,000	–	–	20,000	17.4200	1.6.2005 – 31.5.2010
	17.6.2005	Scheme C	–	250,000	–	–	250,000	17.9500	17.6.2005 – 16.6.2010
	27.6.2005	Scheme C	–	500,000	–	–	500,000	19.2000	27.6.2005 – 26.6.2010
Total for employees			26,643,000	1,445,000	11,216,000	84,000	16,788,000		
Total for all categories			74,055,000	1,545,000	13,416,000	84,000	62,100,000		

42. Share Options *(continued)*

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

Option type	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding at 31.12.2005
Scheme B	600,000	–	300,000	–	300,000
Scheme C	73,455,000	1,545,000	13,116,000	84,000	61,800,000
	74,055,000	1,545,000	13,416,000	84,000	62,100,000

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

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

	Outstanding at 1st January	Granted during the year	Exercised during the year	Outstanding at 31st December
2005	**47,412,000**	**100,000**	**2,200,000**	**45,312,000**

	Outstanding at 1st January	Granted before the share subdivision	Exercised before the share subdivision	Addition due to adjustment for the share subdivision made during the year	Exercised subsequent to the share subdivision	Outstanding at 31st December
2004	24,556,000	2,450,000	350,000	26,656,000	5,900,000	47,412,000

The weighted average closing prices of the Company's shares immediately before various dates on which the share options were exercised ranged from HK$16.52 to HK$19.97 (2004: ranged from HK$10.57 to HK$16.70), which were approximately the fair value of the Company's share at the date of exercise.

42. Share Options *(continued)*

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model and details of Company's share options were as follows:

Date of grant	Exercise price	based on Expected life of share options	Expected volatility Hong Kong historical volatility of share prices	Expected Exchange Fund Notes rate	annual dividend yield
17.1.2005	16.5200	3 years	35%	1.993%	1.5%
7.2.2005	17.7500	3 years	35%	2.148%	1.5%
7.4.2005	17.2100	3 years	35%	3.437%	1.5%
27.4.2005	17.6600	3 years	35%	2.877%	1.5%
10.5.2005	17.2000	3 years	35%	3.003%	1.5%
1.6.2005	17.4200	3 years	35%	3.137%	1.5%
17.6.2005	17.9500	3 years	35%	3.178%	1.5%
27.6.2005	19.2000	3 years	35%	3.137%	1.5%

The weighted average closing prices of the Company's Shares on dates of grant ranged from HK$16.40 to HK$19.20 per option.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimated, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognized the total expense of HK$6,703,000 for the year ended 31st December, 2005 (2004: nil) in relation to share options granted by the Company.

The fair values of the share options granted in the current year measured as at various dates of grant ranged from HK$3.78 to HK$4.71 (2004: ranged from HK$2.66 to HK$3.63) per option. The weighted average fair value of the share options granted in the current year was HK$4.34 per option.

43. Capital Commitments

	The Group		**The Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Capital expenditure in respect of the purchase of property, plant and equipment and licence:				
Contracted for but not provided	**199,554**	151,762	**59,349**	22,445
Authorized but not contracted for	**68,957**	2,067	**–**	–

44. Related Party Transactions

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

	2005	2004
	HK$'000	HK$'000
Management fee income	**456**	526
Management fee expenses	**420**	843
Interest income received	**7,138**	3,592
Sales income	**402**	729
Equipment charge income	**897**	973
Commission income received	**17,287**	–

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	HK$'000	HK$'000
Short-term benefits	**129,998**	75,065
Post-employment benefits	**9,446**	717
Termination benefits	**13,175**	5,720
Share-based payments	**4,653**	–
	157,272	81,502

Details of the balances with related parties are set out in the consolidated balance sheet, balance sheet and Note 24.

45. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
A&M Electric Tools GmbH	Germany	€20,451,675	–	100	Trading and manufacture of power equipment products
DreBo Werkzeugfabrik GmbH	Germany	€1,000,000	–	100	Trading and manufacture of power equipment products
Digiwireless Limited	Hong Kong	HK$2	100	–	Investment holding
Homelite Asia (Dongguan) Company Limited	The PRC	US$2,100,000	–	100	Manufacture of outdoor power equipment products
Homelite Asia Ltd.	The British Virgin Islands (“BVI”)/ The PRC	US$1	–	100	Investment holding
Homelite Consumer Products, Inc.	USA	US$10	–	100	Trading of outdoor power equipment products
Homelite Far East Co. Ltd.	Hong Kong	HK$2	100	–	Trading of outdoor power equipment products
Homelite Technologies Ltd.	Bermuda	US$12,000	100	–	Investment holding
MacEwen Property Co. Inc.	USA	US$100	100	–	Property holding
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK$100,000	100	–	Trading of household electronic and electrical products
Milwaukee Electric Tool Corporation	USA	US$50,000,000	–	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	USA	US$10	–	100	Investment holding
OWT France SAS	France	€1,750,000	–	100	Investment holding
OWT Industries, Inc.	USA	US$10	–	100	Manufacture of electric components and power equipment products
Royal Appliance International GmbH	Germany	€1,050,000	74.9	–	Trading of household electronic and electrical products
Royal Appliance Mfg. Co.	USA	US$1	–	100	Trading and manufacture of floor care products
Ryobi Technologies Canada Inc.	Canada	C$600,000	–	100	Trading of electric power equipment products

45. Particulars of Principal Subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Ryobi Technologies GmbH	Germany	€500,000	100	–	Trading of electric power equipment products
Ryobi Technologies S.A.S.	France	€14,919,832	–	100	Trading of electric power equipment products
Ryobi Technologies (UK) Limited	The United Kingdom	£4,000,000	–	100	Trading of electric power equipment products
Sang Tech Industries Limited	Hong Kong	HK$1,000,000	100	–	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK$2,000,000	100	–	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK$2,000,000	75.725	–	Manufacture of electronic products
Techpower Engineering Company Limited	Hong Kong	HK$2	100	–	Manufacture of components
Techtronic Appliances (Hong Kong) Limited	Hong Kong	HK$2	–	100	Trading and manufacture of floor care products
Techtronic Appliances International Ltd	BVI	US$1	–	100	Investment holding
Techtronic Industries Australia Pty. Ltd. (formerly known as "Ryobi Technologies Australia Pty Limited".)	Australia	A$5,500,000	100	–	Trading of electric power equipment products
Technologies Industries N.Z. Ltd (formerly known as "Ryobi Technologies (New Zealand) Limited")	New Zealand	NZ$1,165,500	100	–	Trading of electric equipment products
Techtronic Industries North America, Inc.	USA	US$10	98.4	1.6	Investment holding
Techtronic Industries (Dongguan) Co. Ltd.	The PRC	US$12,500,000	–	100	Manufacture of power equipment products
Techtronic Industries (Taiwan) Co. Ltd. (formerly known as "OWT Taiwan Limited")	Taiwan	NT$5,000,000	100	–	Provision of inspection services
TTI Investments (Dongguan) Company Limited	Hong Kong	HK$2	100	–	Investment holding
Vax Appliances (Australia) Pty. Ltd.	Australia	A$1,200,008	100	–	Assembly and distribution of floor care products
Vax Limited	The United Kingdom	£33,000	100	–	Assembly, procurement and distribution of floor care products

45. Particulars of Principal Subsidiaries *(continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

46. Particulars of Associates

Particulars of the associates as at 31st December, 2005 are as follows:

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

47. US Dollar Equivalents

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

48. Comparative Figures

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