# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2006*

## 1. General

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

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

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

## 2. Application of New Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a new standard and a number of amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on how the results and the financial position of the Group are prepared and presented.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3] |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2[4] |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives[5] |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment[6] |
| HK(IFRIC)-Int 11 | HKFRS 2 — Group and Treasury Share Transactions[7] |
| HK(IFRIC)-Int 12 | Service Concession Arrangements[8] |

[1] Effective for annual periods beginning on or after 1st January, 2007
[2] Effective for annual periods beginning on or after 1st January, 2009
[3] Effective for annual periods beginning on or after 1st March, 2006
[4] Effective for annual periods beginning on or after 1st May, 2006
[5] Effective for annual periods beginning on or after 1st June, 2006
[6] Effective for annual periods beginning on or after 1st November, 2006
[7] Effective for annual periods beginning on or after 1st March, 2007
[8] Effective for annual periods beginning on or after 1st January, 2008

## 3. 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 Hong Kong Financial Reporting Standards 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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 subsidiaries'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.

On acquisition of additional interests in subsidiaries, goodwill is calculated as the difference between the consideration paid for the additional interest and the fair value of the net assets of the subsidiaries attributable to the additional interest acquired. If the Group's additional interest in the net assets of the subsidiaries exceeds the consideration paid for the additional interest, the excess is recognized immediately in the consolidated income statement.

**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.

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

**Goodwill** *(continued)*

***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 at 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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

**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**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets 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.

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

### 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.

### 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. A reversal of impairment loss is recognized as income immediately.

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 consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

### Lease Prepayments

The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification. Leasehold land where title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and buildings elements in which case, the entire lease is classified as a finance lease.

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

**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, and after taking into account of their estimated residual value, 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 capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is 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 consolidated 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. A reversal of an impairment loss is recognized as income immediately.

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

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

***Financial Assets***

*Available-for-sale investments*

Available-for-sale investments which are interest equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes investments held-for-trading purposes.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

*Trade, bills and other receivables, trade receivables from associates and bank balances*

Trade, bills and other receivables, trade receivables from associates and bank balances 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.

***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.

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

**Financial Instruments** *(continued)*

***Financial Liabilities and Equity*** *(continued)*

*Convertible bonds*

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into their 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 rate 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 the convertible bonds equity reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in the 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 rate 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 swaps) to hedge its exposure against currency risk. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

***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.

Financial liabilities are removed from the balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration 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.

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method.

### Revenue Recognition

Turnover represents the fair value of the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances and commission 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 profit as reported in the consolidated 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.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as a parent 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.

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

**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. 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 case, 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, 2006 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.

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.

**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 the share option reserve will be transferred to retained profits.

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

**Retirement Benefit Schemes**

Retirement benefits arrangements are made in accordance with the relevant laws and regulations. Payments to defined contribution retirement benefit 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 10.00 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.

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are 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, 2006, the carrying amount of goodwill is HK$4,042,996,000. Details of the recoverable amount calculation are disclosed in Note 20.

**Estimated Impairment of Intangible Assets**

During the year, management reconsidered the carrying amount of its intangible assets. In determining whether the intangible asset is impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material loss may arise. Management is confident that the carrying amount of the 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.

**Income Taxes**

As at 31st December, 2006, a deferred tax asset of HK$195,563,000 in relation to unused tax losses and HK$156,598,000 in relation to employee related provisions 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 the deferred tax asset may arise, which would be recognized in the income statement for the period in which such a reversal takes place.

## 5. 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 performance of the Group.

### (a) Currency Risk

The revenue and costs of the Group are primarily denominated in either Hong Kong dollars and US dollars. 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 foreign currency forward contracts match closely with the underlying transactions although hedge accounting has not been adopted.

### (b) Interest Rate Risk

*(i) Cash flow interest rate risk*

The Group's cash flow interest rate risk relates primarily to floating-rate bank borrowings. In relation to these floating-rate borrowings, the Group aims at keeping certain borrowings at fixed rates. In order to achieve this result, the Group maintained a balanced profile in floating and fixed rate borrowings. The management continuously monitors interest rate fluctuations and will consider hedging interest rate risk should the need arise.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short–term bank deposits to interest rate risk is not significant as interest bearing bank balances are within a short maturity period.

*(ii) Fair value interest rate risk*

The Group is exposed to fair value interest rate risk from the fixed interest rate notes. However, the management considered the risk is insignificant to the Group.

### (c) Credit Risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. 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.

The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

### (d) Liquidity Risk

The Group finances its operations by a combination of borrowings and equity. With substantial cash balances 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.

## 5. Financial Risks Management Objectives and Policies *(continued)*

### (e) Fair Value of Financial Instruments

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid and ask prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

## 6. Business and Geographical Segments

### Business Segments

For management purposes, 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, 2006

| | Power Equipment HK$'000 | Floor Care HK$'000 | Laser and Electronics HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| External sales | 17,115,746 | 4,427,949 | 278,902 | — | 21,822,597 |
| Inter-segment sales | 14,914 | 188,768 | 18,331 | (222,013) | — |
| Total | 17,130,660 | 4,616,717 | 297,233 | (222,013) | 21,822,597 |

Inter-segment sales are charged at prevailing market rates.

| | | | | | |
|---|---|---|---|---|---|
| **Result** | | | | | |
| Segment results | 1,462,030 | 156,757 | 36,873 | — | 1,655,660 |
| Finance costs | | | | | (391,679) |
| Share of results of associates | | | | | (895) |
| Profit before taxation | | | | | 1,263,086 |
| Taxation | | | | | (184,017) |
| Profit for the year | | | | | 1,079,069 |

## 6. Business and Geographical Segments *(continued)*

**Business Segments** *(continued)*

**Balance Sheet**

As at 31st December, 2006

| | Power Equipment HK$'000 | Floor Care HK$'000 | Laser and Electronics HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | 13,580,527 | 2,789,125 | 182,057 | 16,551,709 |
| Interests in associates | | | | 192,989 |
| Unallocated corporate assets | | | | 4,575,603 |
| Consolidated total assets | | | | 21,320,301 |
| Liabilities | | | | |
| Segment liabilities | (5,756,797) | (1,393,539) | (172,345) | (7,322,681) |
| Unallocated corporate liabilities | | | | (6,919,645) |
| Consolidated total liabilities | | | | (14,242,326) |

**Other Information**

For the year ended 31st December, 2006

| | Power Equipment HK$'000 | Floor Care HK$'000 | Laser and Electronics HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Capital additions | 665,394 | 89,826 | 12,815 | 768,035 |
| Depreciation and amortization | 433,635 | 98,648 | 9,814 | 542,097 |

## 6. Business and Geographical Segments *(continued)*

**Business Segments** *(continued)*

**Income Statement**

For the year ended 31st December, 2005

| | Power Equipment HK$'000 | Floor Care HK$'000 | Laser and Electronics 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 HK$'000 | Floor Care HK$'000 | Laser and Electronics 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 |

**Balance Sheet**

As at 31st December, 2005

| | Power Equipment HK$'000 | Floor Care HK$'000 | Laser and Electronics HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | 16,758,492 | 2,229,624 | 481,870 | 19,469,986 |
| Interests in associates | | | | 189,453 |
| Unallocated corporate assets | | | | 715,302 |
| 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) |

## 6. Business and Geographical Segments *(continued)*

**Business Segments** *(continued)*

**Other Information**

For the year ended 31st December, 2005

| | Power Equipment HK$'000 | Floor Care HK$'000 | Laser and Electronics 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 |

**Geographical Segments**

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

| | Turnover | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| By geographical market location: | | |
| North America | **16,081,779** | 17,122,079 |
| Europe and other countries | **5,740,818** | 5,236,308 |
| | **21,822,597** | 22,358,387 |

(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 | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong and People's Republic of China ("PRC") | **3,323,091** | 5,846,462 | **416,928** | 535,583 |
| North America | **9,619,512** | 10,366,136 | **155,701** | 3,478,153 |
| Europe and other countries | **3,609,106** | 3,257,388 | **195,406** | 134,672 |
| | **16,551,709** | 19,469,986 | **768,035** | 4,148,408 |

## 7. 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 analysed as follows:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Sale of goods | **21,751,691** | 22,320,353 |
| Commission income | **6,403** | 12,222 |
| Royalty income | **64,503** | 25,812 |
| | **21,822,597** | 22,358,387 |

## 8. Interest Income

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Interest earned on bank deposits | **81,542** | 53,230 |
| Interest earned on amount due from an associate | **9,912** | 7,138 |
| | **91,454** | 60,368 |

## 9. Finance Costs

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank loans and overdrafts wholly repayable within five years | **129,075** | 137,747 |
| Obligations under finance leases | **6,805** | 8,142 |
| Fixed interest rate notes | **228,272** | 180,102 |
| Effective interest expense on convertible bonds | **27,527** | 27,050 |
| | **391,679** | 353,041 |

## 10. Taxation

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong profits tax | **52,813** | 67,955 |
| Under(over)provision in prior years | **3,272** | (3,499) |
| | **56,085** | 64,456 |
| Overseas taxation on profit for the year | **187,453** | 163,776 |
| Underprovision in prior years | **(2,804)** | 5,038 |
| | **184,649** | 168,814 |
| Deferred tax: | | |
| Current year (Note 42) | **(56,717)** | (75,556) |
| | **184,017** | 157,714 |

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:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Profit before taxation | **1,263,086** | 1,216,881 |
| Tax at Hong Kong profits tax rate | **221,040** | 212,954 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **75,955** | 48,505 |
| Tax effect of expenses not deductible for tax purposes | **37,306** | 20,757 |
| Tax effect of income not taxable for tax purposes | **(153,758)** | (124,272) |
| Tax effect of tax losses not recognized | **14,448** | 16,307 |
| Recognition of tax losses previously not recognized | **(10,500)** | (18,098) |
| Under(over)provision in respect of prior years | **468** | 1,539 |
| Others | **(942)** | 22 |
| Tax expenses for the year | **184,017** | 157,714 |

Details of deferred tax are set out in Note 42.

## 11. Profit for the Year

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Amortization of intangible assets | **89,417** | 47,084 |
| Auditors' remuneration | **18,234** | 15,934 |
| Amortization of lease prepayments | **1,402** | 1,402 |
| Depreciation on property, plant and equipment | | |
| Owned assets | **441,970** | 456,449 |
| Assets held under finance leases | **9,308** | 14,729 |
| Exchange (gain)/loss | **(8,438)** | 10,235 |
| Gain on disposal of property, plant and equipment | **(6,926)** | (2,690) |
| Impairment loss of available-for-sale investments | **—** | 13,830 |
| Operating lease expenses recognized in respect of: | | |
| Premises | **125,756** | 114,300 |
| Motor vehicles | **39,439** | 38,582 |
| Plant and machinery | **21,299** | 20,884 |
| Other assets | **23,794** | 24,312 |
| Staff costs | | |
| Directors' remuneration | | |
| Fees | **1,000** | 566 |
| Other emoluments | **48,900** | 38,785 |
| Other staff | **2,006,006** | 2,024,449 |
| Retirement benefits scheme contributions (other than those included in the Directors' emoluments) | | |
| Defined contribution plans | **93,331** | 103,840 |
| Defined benefit plans | **21,102** | 47,877 |
| | **2,170,339** | 2,215,517 |

Staff costs disclosed above do not include an amount of HK$285,968,000 (2005: HK$317,788,000) relating to research and development activities, which is included under research and development costs.

## 12. Directors' Emoluments

The emoluments paid or payable to each of the nine (2005: nine) directors were as follows:

For the year ended 31st December, 2006

| | | Other emoluments | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Share–based payments | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr Horst Julius Pudwill | **—** | **25,516** | **12** | **—** | **25,528** |
| Dr Roy Chi Ping Chung JP | **—** | **8,441** | **12** | **—** | **8,453** |
| Mr Kin Wah Chan | **—** | **5,977** | **12** | **—** | **5,989** |
| Mr Chi Chung Chan | **—** | **6,039** | **12** | **—** | **6,051** |
| Mr Stephan Horst Pudwill | **—** | **1,695** | **12** | **—** | **1,707** |
| Mr Vincent Ting Kau Cheung | **250** | **183** | **—** | **—** | **433** |
| Mr Joel Arthur Schleicher | **250** | **305** | **—** | **—** | **555** |
| Mr Christopher Patrick Langley OBE | **250** | **342** | **—** | **—** | **592** |
| Mr Manfred Kuhlmann | **250** | **342** | **—** | **—** | **592** |
| Total | **1,000** | **48,840** | **60** | **—** | **49,900** |

For the year ended 31st December, 2005

| | | Other emoluments | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Share–based payments | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr Horst Julius Pudwill | 10 | 18,989 | 12 | — | 19,011 |
| Dr 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 OBE | 172 | — | — | — | 172 |
| Mr Manfred Kuhlmann | 172 | — | — | 417 | 589 |
| Total | 566 | 38,320 | 48 | 417 | 39,351 |

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: four) were group directors of the Company whose emoluments are included in Note 12 above.  The emoluments of the remaining one (2005: Nil) individual was as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **4,863** | 2,665 |
| Contributions to retirement benefits schemes | **23** | 12 |
| | **4,886** | 2,677 |

During each of the two years ended 31st December, 2006 and 2005, 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.

## 14. Dividends Paid

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Final dividend paid: | | |
| 2005: HK 12.60 cents (2004: HK 12.50 cents) per share | **184,609** | 169,651 |
| Interim dividend paid: | | |
| 2006: HK 6.50 cents (2005: HK 6.00 cents) per share | **95,236** | 81,818 |
| | **279,845** | 251,469 |

The final dividend in respect of the current financial year of HK 12.60 cents per share (2005: HK 12.60 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

## 15. 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:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Earnings for the purpose of basic earnings per share: | | |
| Profit for the year attributable to equity holders of the parent | **1,071,864** | 1,018,984 |
| Effect of dilutive potential ordinary shares: | | |
| Effective interest on convertible bonds | **22,710** | 22,316 |
| Earnings for the purpose of diluted earnings per share | **1,094,574** | 1,041,300 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,464,595,829** | 1,385,789,675 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **30,435,277** | 41,186,410 |
| Convertible bonds | **65,922,585** | 65,922,585 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,560,953,691** | 1,492,898,670 |

## 16. 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, 2005 | 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 |
| Currency realignment | 40,362 | 1,646 | 20,703 | 66,748 | 1,018 | 46,887 | — | 2,402 | 179,766 |
| Additions | 14,289 | 25,966 | 68,459 | 79,585 | 4,173 | 138,709 | 64 | 141,915 | 473,160 |
| Disposals | (54,540) | (9,661) | (16,186) | (40,285) | (2,428) | (180,563) | — | — | (303,663) |
| Reclassification | 36,492 | 10,335 | 17,504 | 51,565 | (459) | 37,216 | — | (152,653) | — |
| At 31st December, 2006 | **925,539** | **203,719** | **833,147** | **1,956,183** | **33,129** | **2,122,427** | **11,899** | **141,902** | **6,227,945** |
| **Depreciation and Amortization** | | | | | | | | | |
| At 1st January, 2005 | 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 |
| Currency realignment | 20,395 | 541 | 13,386 | 56,495 | 601 | 45,522 | — | — | 136,940 |
| Provided for the year | 31,807 | 17,387 | 87,844 | 116,227 | 3,282 | 193,020 | 1,711 | — | 451,278 |
| Eliminated on disposals | (34,275) | (7,926) | (16,079) | (35,893) | (2,394) | (179,109) | — | — | (275,676) |
| Reclassification | — | 26 | 864 | (878) | (137) | 125 | — | — | — |
| At 31st December, 2006 | **315,013** | **126,956** | **614,096** | **1,464,415** | **23,647** | **1,884,742** | **7,330** | **—** | **4,436,199** |
| **Net Book Values** | | | | | | | | | |
| At 31st December, 2006 | **610,526** | **76,763** | **219,051** | **491,768** | **9,482** | **237,685** | **4,569** | **141,902** | **1,791,746** |
| At 31st December, 2005 | 591,850 | 58,505 | 214,586 | 470,106 | 8,530 | 254,994 | 6,216 | 150,238 | 1,755,025 |

## 16. 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, 2005 | 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 |
| Additions | — | 16,062 | 16,120 | 14,943 | 920 | 37,109 | 85,154 |
| Transfer from (to) subsidiaries | — | 258 | (879) | 13,652 | — | (39,171) | (26,140) |
| Disposals | — | — | (6) | (947) | (1,401) | (973) | (3,327) |
| At 31st December, 2006 | **65,945** | **84,801** | **138,813** | **164,528** | **10,089** | **575,302** | **1,039,478** |
| **Depreciation and Amortization** | | | | | | | |
| At 1st January, 2005 | 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 |
| Provided for the year | 2,638 | 6,136 | 16,576 | 13,883 | 774 | 43,442 | 83,449 |
| Transfer to subsidiaries | — | — | (784) | (1,463) | — | (22,521) | (24,768) |
| Eliminated on disposals | — | — | (5) | (947) | (1,401) | (562) | (2,915) |
| At 31st December, 2006 | **26,035** | **63,320** | **106,477** | **128,551** | **8,651** | **509,691** | **842,725** |
| **Net Book Values** | | | | | | | |
| At 31st December, 2006 | **39,910** | **21,481** | **32,336** | **35,977** | **1,438** | **65,611** | **196,753** |
| At 31st December, 2005 | 42,548 | 11,297 | 32,888 | 19,802 | 1,292 | 89,005 | 196,832 |

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

The net book values of properties shown above comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Land and buildings are situated outside Hong Kong and are analysed as follows: | | | | |
| Freehold | **570,616** | 546,664 | **—** | — |
| Medium-term lease | **39,910** | 45,186 | **39,910** | 42,548 |
| | **610,526** | 591,850 | **39,910** | 42,548 |

The net book values of the Group's and the Company's property, plant and equipment include amounts of approximately HK$137,833,000 and nil respectively (2005: HK$138,189,000 and Nil respectively) in respect of assets held under finance leases.

The gross carrying amount of the Group's and the Company's property, plant and equipment include amounts of approximately HK$1,890,000,000 and HK$249,000,000 respectively in respect of fully depreciated property, plant and equipment that is still in use.

## 17. Lease Prepayments

| | The Group | The Company |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Cost** | | |
| At 1st January, 2005 | 6,449 | 6,449 |
| Currency realignment | (1,240) | — |
| Additions | 63,674 | — |
| At 31st December, 2005 | 68,883 | 6,449 |
| Currency realignment | 2,300 | — |
| At 31st December, 2006 | **71,183** | **6,449** |
| **Amortization** | | |
| At 1st January, 2005 | 1,677 | 1,677 |
| Currency realignment | (25) | — |
| Provided for the year | 1,402 | 129 |
| At 31st December, 2005 | 3,054 | 1,806 |
| Currency realignment | 68 | — |
| Provided for the year | 1,402 | 129 |
| At 31st December, 2006 | **4,524** | **1,935** |
| **Net Book Values** | | |
| At 31st December, 2006 | **66,659** | **4,514** |
| At 31st December, 2005 | 65,829 | 4,643 |

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

## 18. Goodwill

| | The Group HK$'000 |
|---|---|
| **Cost** | |
| At 1st January, 2005 | 653,504 |
| Arising on acquisition of subsidiaries | 3,277,624 |
| Adjustments to consideration on acquisition of subsidiaries in prior years | 12,807 |
| At 31st December, 2005 (as originally stated) | 3,943,935 |
| Adjustments to provisional fair values of subsidiaries acquired in 2005 | 47,032 |
| At 31st December, 2005 (as restated) and at 1st January, 2006 | 3,990,967 |
| Currency realignment | 5,466 |
| Arising on acquisition of additional interest of subsidiaries | 46,563 |
| At 31st December, 2006 | **4,042,996** |

Particulars regarding impairment testing on goodwill are disclosed in Note 20.

## 19. Intangible Assets

| | Deferred development costs HK$'000 | Patents and trademarks HK$'000 | Manufacturing know-how HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **The Group** | | | | |
| **Cost** | | | | |
| At 1st January, 2005 | 52,764 | 195,958 | 3,510 | 252,232 |
| Currency realignment | (5,217) | (6,596) | — | (11,813) |
| Additions | 173,939 | 87,131 | — | 261,070 |
| Acquisition of subsidiaries | 58,988 | 987,805 | — | 1,046,793 |
| Written off in the year | (2,029) | (2,791) | — | (4,820) |
| At 31st December, 2005 | 278,445 | 1,261,507 | 3,510 | 1,543,462 |
| Currency realignment | 5,733 | 2,672 | — | 8,405 |
| Additions | 192,830 | 50,016 | — | 242,846 |
| Written off in the year | — | (4,325) | — | (4,325) |
| At 31st December, 2006 | **477,008** | **1,309,870** | **3,510** | **1,790,388** |
| **Amortization** | | | | |
| At 1st January, 2005 | — | 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 |
| Currency realignment | 1,139 | 1,967 | — | 3,106 |
| Provided for the year | 59,815 | 28,900 | 702 | 89,417 |
| Eliminated on write off | — | (4,325) | — | (4,325) |
| At 31st December, 2006 | **89,415** | **77,574** | **3,218** | **170,207** |
| **Carrying Amounts** | | | | |
| At 31st December, 2006 | **387,593** | **1,232,296** | **292** | **1,620,181** |
| At 31st December, 2005 | 249,984 | 1,210,475 | 994 | 1,461,453 |

## 19. Intangible Assets *(continued)*

| | Deferred development costs HK$'000 | Patents HK$'000 | Total HK$'000 |
|---|---|---|---|
| **The Company** | | | |
| **Cost** | | | |
| At 1st January, 2005 | — | 8,240 | 8,240 |
| Additions | 102,473 | 42,064 | 144,537 |
| At 31st December, 2005 | 102,473 | 50,304 | 152,777 |
| Additions | 108,009 | 6,581 | 114,590 |
| At 31st December, 2006 | **210,482** | **56,885** | **267,367** |
| **Amortization** | | | |
| At 1st January, 2005 | — | 4,415 | 4,415 |
| Provided for the year | — | 9,783 | 9,783 |
| At 31st December, 2005 | — | 14,198 | 14,198 |
| Provided for the year | 20,495 | 12,482 | 32,977 |
| At 31st December, 2006 | **20,495** | **26,680** | **47,175** |
| **Carrying Amounts** | | | |
| At 31st December, 2006 | **189,987** | **30,205** | **220,192** |
| At 31st December, 2005 | 102,473 | 36,106 | 138,579 |

Deferred development costs are internally generated. All the patents and trademarks and manufacturing 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 they expected to contribute to net cash inflows indefinitely. The trademarks will not be amortized until their useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 20.

## 20. 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, 2006 allocated to the following cash-generating units ("CGUs") are as follows:

| | Goodwill HK$'000 | Trademarks HK$'000 |
|---|---|---|
| Power Equipment | **3,421,716** | **234,000** |
| Floor Care | **621,280** | **—** |
| | **4,042,996** | **234,000** |

During the year ended 31st December, 2006, management of the Group determined 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 at 5% and 12% and extrapolated using a steady 3% growth rate.

## 21. Investments in Subsidiaries

| | The Company | |
|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 |
| Investments in unlisted shares, at cost | **630,546** | 551,396 |

Particulars of the principal subsidiaries of the Company as at 31st December, 2006 are set out in Note 51.

## 22. Interests in Associates

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Unlisted shares, at cost less impairment loss recognized | **—** | — | **23,790** | 23,790 |
| Share of net assets | **14,499** | 15,394 | **—** | — |
| Net amounts due from associates | **178,490** | 174,059 | **160,848** | 149,236 |
| | **192,989** | 189,453 | **184,638** | 173,026 |

Particulars of the associates as at 31st December, 2006 are set out in Note 52.

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

## 22. Interests in Associates *(continued)*

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

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Total assets | **122,344** | 160,742 |
| Total liabilities | **(64,348)** | (99,165) |
| Net assets | **57,996** | 61,577 |
| Group's share of net assets of associates | **14,499** | 15,394 |
| Turnover | **234,634** | 274,330 |
| Loss for the year | **(15,005)** | (22,485) |
| Group's share of results of associates for the year | **(895)** | (6,463) |

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 the Gimelli Group companies is nil at both 31st December, 2006 and 31st December, 2005.

## 23. Available-for-sale Investments

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 | 2006 HK$'000 | 2005 HK$'000 |
| Unlisted equity securities and club membership debentures, at cost less impairment loss recognized | **43,315** | 15,558 | **1,195** | 1,195 |

As at the balance sheet date, all available-for-sale investments represent investments in unlisted equity securities and club membership debentures. 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.

## 24. Inventories

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 | 2006 HK$'000 | 2005 HK$'000 |
| Raw materials | **1,175,864** | 1,139,478 | **249,846** | 225,745 |
| Work in progress | **108,834** | 104,442 | **29,215** | 38,443 |
| Finished goods | **2,735,185** | 2,727,296 | **149,744** | 69,495 |
| | **4,019,883** | 3,971,216 | **428,805** | 333,683 |

## 25. 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 | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| 0 to 60 days | **3,143,989** | 2,622,904 | **41,553** | 16,363 |
| 61 to 120 days | **230,131** | 255,728 | **977** | 6,903 |
| 121 days or above | **103,977** | 115,733 | **2,133** | 19,096 |
| Total trade receivables | **3,478,097** | 2,994,365 | **44,663** | 42,362 |
| Other receivables | **348,941** | 270,990 | **—** | — |
| | **3,827,038** | 3,265,355 | **44,663** | 42,362 |

The fair value of the Group's and the Company's trade and other receivables at 31st December, 2006 approximates the corresponding carrying amount.

## 26. Bills Receivable

The fair value of the Group's and the Company's bills receivable at 31st December, 2006 approximates the corresponding carrying amount.

All the Group's and Company's bills receivable at 31st December, 2006 is due within 120 days.

## 27. Amounts Due from (to) Subsidiaries

The fair value of the Company's amounts due from (to) subsidiaries at 31st December, 2006 approximates the corresponding carrying amount.

## 28. Trade Receivables from Associates

The fair value of the Group's trade receivable from associates at 31st December, 2006 approximates the corresponding carrying amount. All the Group's trade receivable from associates at 31st December, 2006 is due within 120 days.

## 29. Held-for-trading Investments in Hong Kong

The Group's held-for-trading investments in Hong Kong at 31st December, 2006 are carried at fair value.

## 30. Bank Balances, Deposits and Cash

Bank balances carry interest at market rates which range from 1.75% to 5.15%. Bank overdrafts carry interest at market rates which range from 4.58% to 6.19%.

## 31. Trade and Other Payables

The aged analysis of trade payables is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| 0 to 60 days | **1,345,473** | 1,552,235 | **403,583** | 453,877 |
| 61 to 120 days | **91,696** | 278,482 | **36,838** | 147,106 |
| 121 days or above | **30,547** | 70,475 | **2,947** | 60,486 |
| Total trade payables | **1,467,716** | 1,901,192 | **443,368** | 661,469 |
| Other payables | **1,650,404** | 1,689,507 | **196,016** | 217,265 |
| | **3,118,120** | 3,590,699 | **639,384** | 878,734 |

The fair value of the Group's and the Company's trade and other payables at 31st December, 2006 approximates the corresponding carrying amount.

## 32. Bills Payable

The fair value of the Group's and the Company's bills payable at 31st December, 2006 approximates the corresponding carrying amount.

All the Group's and Company's bills payable at 31st December, 2006 is due within 120 days.

## 33. Warranty Provision

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| At 1st January | **338,211** | 241,375 |
| Currency realignment | **5,261** | (6,767) |
| Additional provision in the year | **607,031** | 530,336 |
| Acquisition of subsidiaries | **—** | 94,426 |
| Utilization of provision | **(580,865)** | (521,159) |
| At 31st December | **369,638** | 338,211 |

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.

## 34. Trade Payable to an associate/Amounts Due to Associate

The fair value of the Group's and the Company's trade payable to an associate at 31st December, 2006 approximates the corresponding carrying amount.

## 35. 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 ranging from 3 years to 20 years. Interest rates underlying all obligations under finance leases are fixed at the respective contract dates. No arrangements have been entered into for contingent rental payments.

The maturity of obligations under finance leases is as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **The Group** | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | **20,453** | 20,341 | **18,535** | 18,107 |
| In more than one year but not more than two years | **16,585** | 18,464 | **13,614** | 15,686 |
| In more than two years but not more than three years | **14,116** | 14,175 | **11,309** | 11,411 |
| In more than three years but not more than four years | **13,701** | 13,248 | **10,989** | 10,188 |
| In more than four years but not more than five years | **13,682** | 12,284 | **11,063** | 8,903 |
| More than five years | **127,567** | 108,892 | **78,554** | 79,279 |
| | **206,104** | 187,404 | **144,064** | 143,574 |
| Less: future finance charges | **(62,040)** | (43,830) | **—** | — |
| Present value of lease obligations | **144,064** | 143,574 | **144,064** | 143,574 |
| Less: Amount due within one year shown under current liabilities | | | **(18,535)** | (18,107) |
| Amount due after one year | | | **125,529** | 125,467 |

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, 2006, approximates their carrying amount.

## 36. Discounted Bills with Recourse

Bills discounted with a bank at an effective interest rate of 5.88% per annum (2005: 4.32% per annum) have a maturity profile of less than 120 days.

## 37. 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$0.10 each of the Company at an initial conversion price of US$2.1247 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, a liability and an equity element. Upon the application of HKAS 32 Financial Instruments: Disclosure and Presentation, the Bonds were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity as "Convertible bonds equity reserve". The effective interest rate of the liability component is 2.11%.

## 37. Convertible Bonds *(continued)*

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

| | The Group and the Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Liability component at the beginning of the year | **1,078,307** | 1,051,257 |
| Interest charge | **27,527** | 27,050 |
| Liability at the end of the year | **1,105,834** | 1,078,307 |

The fair value of the liability component of the Bonds at 31st December, 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing market interest rate at the balance sheet date, was approximately HK$885,158,000.

## 38. Unsecured Borrowings

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trust receipt loans | **152,416** | 127,672 | **—** | — |
| Bank loans | **2,094,643** | 1,891,735 | **272,223** | 234,000 |
| Bank borrowings | **2,247,059** | 2,019,407 | **272,223** | 234,000 |
| Fixed interest rate notes (Note) | **2,639,143** | 2,640,353 | **—** | — |
| Total borrowings | **4,886,202** | 4,659,760 | **272,223** | 234,000 |

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| On demand or within one year | **421,849** | 434,349 | **38,889** | 234,000 |
| In more than one year but not more than two years | **240,672** | 18,181 | **233,334** | — |
| In more than two years but not more than three years | **1,584,538** | 1,566,877 | **—** | — |
| In more than three years but not more than four years | **—** | — | **—** | — |
| More than five years | **2,639,143** | 2,640,353 | **—** | — |
| | **4,886,202** | 4,659,760 | **272,223** | 234,000 |
| Less: Amount due within one year shown under current liabilities | **(421,849)** | (434,349) | **(38,889)** | (234,000) |
| Amount due after one year | **4,464,353** | 4,225,411 | **233,334** | — |

## 38. Unsecured Borrowings *(continued)*

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

| | 2006 | 2005 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **4.09% to 5.44%** | 4.09% to 5.44% |
| Variable-rate borrowings | **4.49% to 6.77%** | 3.07% to 5.67% |

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

| | HKD'000 | AUD'000 | NZD'000 | EUR'000 |
|---|---|---|---|---|
| As at 31 December 2006 | **2,042,955** | **12,178** | **3,750** | **5,000** |
| As at 31 December 2005 | 1,921,672 | 14,025 | 3,500 | — |

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, being 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 other 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 rates approximate the contracted market rates.

## 39. Share Capital

| | 2006 | 2005 | 2006 | 2005 |
|---|---|---|---|---|
| | Number of shares | | HK$'000 | HK$'000 |
| **Ordinary shares** | | | | |
| Authorized: | | | | |
| Shares of HK$0.10 each | **2,400,000,000** | 2,400,000,000 | **240,000** | 240,000 |
| Issued and fully paid: | | | | |
| Shares of HK$0.10 each at 1st January | **1,461,720,652** | 1,352,304,652 | **146,172** | 135,230 |
| Issued on share placement | **—** | 96,000,000 | **—** | 9,600 |
| Issued on exercise of share options | **3,503,000** | 13,416,000 | **350** | 1,342 |
| Shares of HK$0.10 each at 31st December | **1,465,223,652** | 1,461,720,652 | **146,522** | 146,172 |

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.

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 47.

## 40. Reserves

| | Share premium HK$'000 | Convertible bonds equity reserve HK$'000 | Employee share-based compensation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **The Company** | | | | | |
| 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 1st January, 2006 | 2,732,809 | 26,334 | 6,703 | 2,291,954 | 5,057,800 |
| Premium on shares issued | 22,040 | — | — | — | 22,040 |
| Recognition of equity-settled share based payment | — | — | 7,091 | — | 7,091 |
| Profit for the year | — | — | — | 584,849 | 584,849 |
| Final dividend — 2005 | — | — | — | (184,609) | (184,609) |
| Interim dividend — 2006 | — | — | — | (95,236) | (95,236) |
| At 31st December, 2006 | **2,754,849** | **26,334** | **13,794** | **2,596,958** | **5,391,935** |

As at 31st December, 2006, the Company's reserves available for distribution to shareholders comprised the retained profits of HK$2,596,958,000 (2005: HK$2,291,954,000).

## 41. Retirement Benefits Obligations

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Pension plan obligations (Note i) | **672,117** | 621,737 |
| Post-retirement, medical, dental and life insurance plan obligations (Note ii) | **146,965** | 151,770 |
| Others | **15,005** | 12,830 |
| | **834,087** | 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.

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.

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

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 10.00 and 20.00 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 on 1st January 2007 by BDO Deutsche Warentreuhand Aktiengesellschaft, 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 obligations were carried out on 1st January, 2007 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 2006 | Post-retirement medical, dental and life insurance plan 2006 |
|---|---|---|
| Discount rate | **4.00%** | **5.80%** |
| Expected rate of salary increases | **2.00%** | **N/A** |
| Future pension increases | **2.00%** | **N/A** |
| Medical cost inflation (ultimate) | **N/A** | **5.00%** |

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

| | Pension plan | | Post-retirement medical, dental and life insurance plan | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Current service cost | **(2,952)** | 5,198 | **4,389** | 4,329 |
| Actuarial gain | **—** | — | **(1,619)** | — |
| Interest cost | **14,591** | 29,879 | **6,693** | 8,471 |
| | **11,639** | 35,077 | **9,463** | 12,800 |

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

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

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

| | Pension plan | | Post-retirement medical, dental and life insurance plan | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Present value of unfunded obligations | **672,117** | 621,737 | **146,965** | 151,770 |

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

| | Pension plan | Post-retirement medical, dental and life insurance plan |
|---|---|---|
| | **2006** | **2006** |
| | **HK$'000** | **HK$'000** |
| At 1st January | **621,737** | **151,770** |
| Net liabilities acquired on acquisition of subsidiaries | | |
| Exchange differences | **73,904** | **(425)** |
| Current service cost | **(2,952)** | **4,389** |
| Actuarial gain | **—** | **(1,619)** |
| Interest cost | **14,591** | **6,693** |
| Benefits paid | **(35,163)** | **(13,843)** |
| At 31st December | **672,117** | **146,965** |

One World Technologies, Inc., a subsidiary of the Group in the USA operates another defined benefit scheme. The pension costs of this defined benefit scheme are assessed in accordance with an actuarial valuation as at 1st January, 2007 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, 2006 and 2005 since all retirees are assumed to be affected by the fixed dollar subsidy and a discount rate of 5.80% (2005: 5.50%) was 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 this 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 the same amount of approximately HK$22,000,000 (2005: HK$23,000,000) as at 31st December, 2006.

## 42. Deferred Tax Assets (Liabilities)

The following 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$'000 | Employee related provision HK$'000 | Tax losses HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **The Group** | | | | | | | |
| 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 1st January, 2006 | (103,202) | 95,524 | (5,586) | 155,623 | 199,127 | (209,939) | 131,547 |
| Currency realignment | (2,536) | (6,028) | — | 10,860 | 19,210 | (1,743) | 19,763 |
| (Charge) credit to income for the year | 24,315 | 12,038 | — | (9,885) | (22,774) | 53,023 | 56,717 |
| At 31st December, 2006 | **(81,423)** | **101,534** | **(5,586)** | **156,598** | **195,563** | **(158,659)** | **208,027** |

| | Accelerated tax depreciation HK$'000 | Convertible bonds equity reserve HK$'000 | Total HK$'000 |
|---|---|---|---|
| **The Company** | | | |
| At 1st January, 2005 | (14,410) | (5,586) | (19,996) |
| Charge to income for the year | (338) | — | (338) |
| At 1st January, 2006 | (14,748) | (5,586) | (20,334) |
| Credit to income for the year | 4,840 | — | 4,840 |
| At 31st December, 2006 | **(9,908)** | **(5,586)** | **(15,494)** |

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 purposes:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Deferred tax assets | **706,493** | 646,758 | **—** | — |
| Deferred tax liabilities | **(498,466)** | (515,211) | **(15,494)** | (20,334) |
| | **208,027** | 131,547 | **(15,494)** | (20,334) |

At the balance sheet date, the Group has unused tax losses of HK$1,156 million (2005: HK$1,170 million) available for the offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognized in respect of the tax losses of HK$38 million (2005: HK$32 million) due to the unpredictability of future profit streams.

## 43. 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) |

## 43. Acquisition of Subsidiaries *(continued)*

The goodwill arising on the acquisition of the subsidiaries is attributable to the anticipated profitability of the distribution of the Group's products in 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 for the period between the date of acquisition and the balance sheet date as at 31st December, 2005.

## 44. 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$1,418,000 (2005: HK$7,900,000).

## 45. 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 | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **174,848** | 167,654 | **15,786** | 18,022 |
| In the second to fifth year inclusive | **337,931** | 368,848 | **9,855** | 25,575 |
| After five years | **132,132** | 175,124 | **16,094** | 16,160 |
| | **644,911** | 711,626 | **41,735** | 59,757 |

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

## 46. Contingent Liabilities

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to banks in respect of credit facilities utilized by associates | **36,026** | 30,654 | **36,026** | 30,654 |

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, 2006 amounted to HK$5,546,886,000 (2005: HK$5,467,275,000).

## 47. 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. 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.

Scheme C expired on 27th March, 2007.

## 47. Share Options *(continued)*

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

| Share option holders | Date of share options granted | Share option scheme category | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Outstanding at end of the year | Subscription price HK$ | Exercise period |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Mr Horst Julius Pudwill | 28.6.2002 | Scheme C | 25,728,000 | — | — | 25,728,000 | 3.600 | 28.6.2002 – 27.6.2007 |
| | 19.9.2003 | Scheme C | 560,000 | — | — | 560,000 | 8.685 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 400,000 | — | — | 400,000 | 12.170 | 25.2.2004 – 24.2.2009 |
| Dr Roy Chi Ping Chung JP | 28.6.2002 | Scheme C | 12,864,000 | — | — | 12,864,000 | 3.600 | 28.6.2002 – 27.6.2007 |
| | 19.9.2003 | Scheme C | 560,000 | — | — | 560,000 | 8.685 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 400,000 | — | — | 400,000 | 12.170 | 25.2.2004 – 24.2.2009 |
| Mr Kin Wah Chan | 1.3.2004 | Scheme C | 1,000,000 | — | — | 1,000,000 | 12.525 | 1.3.2004 – 28.2.2009 |
| Mr Chi Chung Chan | 17.7.2003 | Scheme C | 1,000,000 | — | — | 1,000,000 | 7.625 | 17.7.2003 – 16.7.2008 |
| | 19.9.2003 | Scheme C | 500,000 | — | — | 500,000 | 8.685 | 19.9.2003 – 18.9.2008 |
| | 25.2.2004 | Scheme C | 1,000,000 | — | — | 1,000,000 | 12.170 | 25.2.2004 – 24.2.2009 |
| | 1.3.2004 | Scheme C | 500,000 | — | — | 500,000 | 12.525 | 1.3.2004 – 28.2.2009 |
| Mr Stephan Horst Pudwill | 1.3.2004 | Scheme C | 100,000[1] | — | — | 100,000 | 12.525 | 1.3.2004 – 28.2.2009 |
| Mr Joel Arthur Schleicher | 30.4.2002 | Scheme C | 100,000 | — | 100,000 | — | 3.200 | 30.4.2002 – 29.4.2007 |
| | 17.7.2003 | Scheme C | 200,000 | — | — | 200,000 | 7.625 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | — | — | 100,000 | 12.170 | 25.2.2004 – 24.2.2009 |
| Mr Christopher Patrick Langley OBE | 17.7.2003 | Scheme C | 200,000 | — | 100,000 | 100,000 | 7.625 | 17.7.2003 – 16.7.2008 |
| | 25.2.2004 | Scheme C | 100,000 | — | — | 100,000 | 12.170 | 25.2.2004 – 24.2.2009 |
| Mr Manfred Kuhlmann | 7.2.2005 | Scheme C | 100,000 | — | — | 100,000 | 17.750 | 7.2.2005 – 6.2.2010 |
| **Total for directors** | | | **45,412,000[1]** | **—** | **200,000** | **45,212,000** | | |

## 47. Share Options *(continued)*

| Share option holders | Date of share options granted | Share option scheme category | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Outstanding at end of the year | Subscription price HK$ | Exercise period |
|---|---|---|---|---|---|---|---|---|
| **Employees** | 23.7.2001 | Scheme B | 300,000 | — | 300,000 | — | 1.058 | 23.7.2001 – 22.7.2006 |
| | 30.4.2002 | Scheme C | 1,880,000 | — | 665,000 | 1,215,000 | 3.200 | 30.4.2002 – 29.4.2007 |
| | 5.7.2002 | Scheme C | 500,000 | — | 500,000 | — | 3.350 | 5.7.2002 – 4.7.2007 |
| | 17.7.2003 | Scheme C | 3,470,000 | — | 796,000 | 2,674,000 | 7.625 | 17.7.2003 – 16.7.2008 |
| | 19.9.2003 | Scheme C | 204,000 | — | — | 204,000 | 8.685 | 19.9.2003 – 18.9.2008 |
| | 1.3.2004 | Scheme C | 6,879,000 [1] | — | 982,000 | 5,897,000 | 12.525 | 1.3.2004 – 28.2.2009 |
| | 14.4.2004 | Scheme C | 200,000 | — | — | 200,000 | 12.950 | 14.4.2004 – 13.4.2009 |
| | 5.5.2004 | Scheme C | 300,000 | — | — | 300,000 | 11.050 | 5.5.2004 – 4.5.2009 |
| | 7.6.2004 | Scheme C | 200,000 | — | — | 200,000 | 12.000 | 7.6.2004 – 6.6.2009 |
| | 18.8.2004 | Scheme C | 60,000 | — | 60,000 | — | 11.250 | 18.8.2004 – 17.8.2009 |
| | 2.10.2004 | Scheme C | 1,000,000 | — | — | 1,000,000 | 15.350 | 2.10.2004 – 1.10.2009 |
| | 13.12.2004 | Scheme C | 250,000 | — | — | 250,000 | 15.710 | 13.12.2004 – 12.12.2009 |
| | 17.1.2005 | Scheme C | 150,000 | — | — | 150,000 | 16.520 | 17.1.2005 – 16.1.2010 |
| | 7.2.2005 | Scheme C | 100,000 | — | — | 100,000 | 17.750 | 7.2.2005 – 6.2.2010 |
| | 7.4.2005 | Scheme C | 200,000 | — | — | 200,000 | 17.210 | 7.4.2005 – 6.4.2010 |
| | 27.4.2005 | Scheme C | 25,000 | — | — | 25,000 | 17.660 | 27.4.2005 – 26.4.2010 |
| | 10.5.2005 | Scheme C | 200,000 | — | — | 200,000 | 17.200 | 10.5.2005 – 9.5.2010 |
| | 1.6.2005 | Scheme C | 20,000 | — | — | 20,000 | 17.420 | 1.6.2005 – 31.5.2010 |
| | 17.6.2005 | Scheme C | 250,000 | — | — | 250,000 | 17.950 | 17.6.2005 – 16.6.2010 |
| | 27.6.2005 | Scheme C | 500,000 | — | — | 500,000 | 19.200 | 27.6.2005 – 26.6.2010 |
| | 1.1.2006 | Scheme C | — | 300,000 | — | 300,000 | 18.690 | 1.1.2006 – 31.12.2010 |
| | 1.3.2006 | Scheme C | — | 3,564,000 | — | 3,564,000 | 13.970 | 1.3.2006 – 28.2.2011 |
| | 10.3.2006 | Scheme C | — | 150,000 | — | 150,000 | 14.350 | 10.3.2006 – 9.3.2011 |
| | 25.4.2006 | Scheme C | — | 20,000 | — | 20,000 | 13.700 | 25.4.2006 – 24.4.2011 |
| | 15.6.2006 | Scheme C | — | 200,000 | — | 200,000 | 10.270 | 15.6.2006 – 14.6.2011 |
| | 17.6.2006 | Scheme C | — | 350,000 | — | 350,000 | 10.550 | 17.6.2006 – 16.6.2011 |
| | 3.7.2006 | Scheme C | — | 25,000 | — | 25,000 | 10.700 | 3.7.2006 – 2.7.2011 |
| | 4.10.2006 | Scheme C | — | 75,000 | — | 75,000 | 11.628 | 4.10.2006 – 3.10.2011 |
| | 1.11.2006 | Scheme C | — | 1,500,000 | — | 1,500,000 | 11.252 | 1.11.2006 – 31.10.2011 |
| | 3.11.2006 | Scheme C | — | 100,000 | — | 100,000 | 11.480 | 3.11.2006 – 2.11.2011 |
| | 8.11.2006 | Scheme C | — | 30,000 | — | 30,000 | 12.200 | 8.11.2006 – 7.11.2011 |
| | 4.12.2006 | Scheme C | — | 150,000 | — | 150,000 | 10.952 | 4.12.2006 – 3.12.2011 |
| | 13.12.2006 | Scheme C | — | 20,000 | — | 20,000 | 10.560 | 13.12.2006 – 11.12.2011 |
| **Total for employees** | | | 16,688,000[1] | 6,484,000 | 3,303,000 | 19,869,000 | | |
| **Total for all categories** | | | **62,100,000** | **6,484,000** | **3,503,000** | **65,081,000** | | |
| | | | | | | | Percentage to total Company's shares in issue at end of the year | |
| **Total under Scheme B** | | | 300,000 | — | 300,000 | — | 0.00% | |
| **Total under Scheme C** | | | 61,800,000 | 6,484,000 | 3,203,000 | 65,081,000 | 4.44% | |
| **Total** | | | **62,100,000** | **6,484,000** | **3,503,000** | **65,081,000** | **4.44%** | |

## 47. 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 1.1.2006** | **Granted during the year** | **Exercised during the year** | **Lapsed or cancelled during the year** | **Outstanding at 31.12.2006** |
|---|---|---|---|---|---|
| Scheme B | 300,000 | — | 300,000 | — | — |
| Scheme C | 61,800,000 | 6,484,000 | 3,203,000 | — | 65,081,000 |
| | 62,100,000 | 6,484,000 | 3,503,000 | — | 65,081,000 |

| 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 |

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** | **Reclassification** | **Outstanding at 31st December** |
|---|---|---|---|---|---|
| 2006 | **45,312,000** | **—** | **200,000** | **100,000*** | **45,212,000** |

| | 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 |

The weighted average closing price of the Company's shares immediately before various dates on which the share options were exercised was HK$14.81.

No option lapsed or was cancelled during the year.

* Mr Stephan Horst Pudwill has been appointed as a Group Executive Director of the Company since 22nd May, 2006. The 100,000 share options held by him was classified under the category of "Employees" previously.

## 47. Share Options *(continued)*

The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

| Date of grant | Exercise price | Expected life of share options | Expected volatility based on historical volatility of share prices | Hong Kong Exchange Fund Notes rate | Expected annual dividend yield |
|---|---|---|---|---|---|
| 1.1.2006 | 18.6900 | 3 years | 35% | 4.060% | 1.5% |
| 1.3.2006 | 13.9700 | 3 years | 35% | 4.100% | 1.5% |
| 10.3.2006 | 14.3500 | 3 years | 35% | 4.225% | 1.5% |
| 25.4.2006 | 13.7000 | 3 years | 35% | 4.309% | 1.5% |
| 15.6.2006 | 10.2700 | 3 years | 35% | 4.560% | 1.5% |
| 17.6.2006 | 10.5500 | 3 years | 35% | 4.572% | 1.5% |
| 3.7.2006 | 10.7000 | 3 years | 35% | 4.571% | 1.5% |
| 4.10.2006 | 11.6300 | 3 years | 35% | 3.791% | 1.5% |
| 1.11.2006 | 11.2500 | 3 years | 35% | 3.692% | 1.5% |
| 3.11.2006 | 11.4800 | 3 years | 35% | 3.727% | 1.5% |
| 8.11.2006 | 12.2000 | 3 years | 35% | 3.774% | 1.5% |
| 4.12.2006 | 10.9500 | 3 years | 35% | 3.548% | 1.5% |
| 13.12.2006 | 10.5600 | 3 years | 35% | 3.563% | 1.5% |

All the share options are fully vested at grant date.

For the purposes of the calculation of fair value, no adjustment has been made in respect of share options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The weighted average closing price of the Company's shares on various dates of grant was HK$13.00 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 total expense of HK$7,091,000 for the year ended 31st December, 2006 (2005: HK$6,703,000) in relation to share options granted by the Company.

The fair values of the share options granted in the current year measured as at various dates of grant ranged from HK$2.46 to HK$4.72 (2005: ranged from HK$3.78 to HK$4.71) per option. The weighted average fair value of the share options granted in the current year was HK$3.03 per option.

## 48. Capital Commitments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Capital expenditure in respect of the purchase of property, plant and equipment: | | | | |
| Contracted for but not provided | **516,648** | 199,554 | **22,446** | 59,349 |
| Authorized but not contracted for | **103,443** | 68,957 | **—** | — |

## 49. Post Balance Sheet Event

On 21st December, 2006, the Group entered into a purchase agreement to acquire the Hoover floor care business from Whirlpool Corporation.

The total consideration for the purchase consists of the payment of US$107 million (HK$832 million) in cash and certain assumed obligations. The transaction, which is subject to regulatory and antitrust clearance and customary closing conditions, was closed as of 31st January, 2007.

Hoover offers a comprehensive line of products for general and special-purpose vacuuming and carpet washing, including full-size uprights and canisters, deep cleaners, and hard-floor cleaners.

## 50. Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Management fee income | **464** | 456 |
| Management fee expenses | **420** | 420 |
| Interest income received | **9,911** | 7,138 |
| Sales income | **91,308** | 402 |
| Equipment charge income | **2,166** | 897 |
| Commission income received | **—** | 17,287 |
| Royalty income | **46,800** | — |

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Short-term benefits | **122,314** | 129,998 |
| Post-employment benefits | **2,510** | 9,446 |
| Termination benefits | **6,240** | 13,175 |
| Share-based payments | **5,976** | 4,653 |
| | **137,040** | 157,272 |

Details of the balances with related parties are set out in the consolidated balance sheet, balance sheet and Note 22.

## 51. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31st December, 2006 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital | Proportion of nominal value of issued capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| A&M Electric Tools GmbH | Germany | €20,451,675 | — | 100 | Trading and manufacture of power equipment products |
| Digiwireless Limited | Hong Kong | HK$2 | 100 | — | Investment holding |
| DreBo Werkzeugfabrik GmbH | Germany | €1,000,000 | — | 100 | Trading and manufacture of power equipment products |
| Homelite Asia (Dongguan) Company Limited | PRC | US$17,700,000 | — | 100 | Manufacture of outdoor power equipment products |
| Homelite Asia Ltd. | British Virgin Islands ("BVI") | US$1 | — | 100 | Investment holding |
| Homelite Consumer Products, Inc. | USA | US$10 | — | 100 | Trading of outdoor power equipment products |
| Homelite Far East Company Limited | 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 | €2,050,000 | 100 | — | Trading of household electronic and electrical products |
| Royal Appliance Mfg. Co. | USA | US$1 | — | 100 | Trading and manufacture of floor care products |

## 51. Particulars of Principal Subsidiaries *(continued)*

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital | Proportion of nominal value of issued capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| Ryobi Technologies Canada Inc. | Canada | C$600,000 | — | 100 | Trading of electric power equipment products |
| 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 | 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. | Australia | A$5,500,000 | 100 | — | Trading of electric power equipment products |
| Techtronic Industries (Dongguan) Co. Ltd. | PRC | US$12,500,000 | — | 100 | Manufacture of power equipment products |
| Techtronic Industries N.Z. Ltd. | New Zealand | NZ$1,165,500 | 100 | — | Trading of electric power equipment products |
| Techtronic Industries North America, Inc. | USA | US$10 | 98.4 | 1.6 | Investment holding |
| Techtronic Industries (Taiwan) Co. Ltd. | 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 | United Kingdom | £33,000 | 100 | — | Assembly, procurement and distribution of floor care products |

## 51. 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.

## 52. Particulars of Associates

Particulars of the associates as at 31st December, 2006 are as follows:

| Name of associate | Place of incorporation/ operation | Issued and fully paid share capital | Proportion of nominal value of issued capital held by the Company Directly % | Principal activities |
|---|---|---|---|---|
| Gimelli International (Holdings) Limited | The Cayman Islands | US$6,250 | 40.8 | Investment holding |
| Precision Technology Industries Limited | Bermuda | US$12,000,000 | 25 | Manufacture of power equipment products |

## 53. US Dollar Equivalents

These are shown for reference only and have been arrived at based on the fixed exchange rate of HK$7.80 to US$1.00.

## 54. Comparative Figures

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