

Corporate Profile

Techtronic Industries Co. Ltd. (TTI or the Group) is a world-class supplier of superior home improvement and construction tools with a powerful portfolio of trusted brands and a strong commitment to innovation and quality. TTI's portfolio includes a full line of power equipment products, floor care appliances, laser and electronic products. Our brands include Milwaukee[®], AEG[®] and Ryobi[®] power tools and accessories, Ryobi[®] and Homelite[®] outdoor power equipment and Royal[®], Dirt Devil[®], Regina[®] and Vax[®] floor care appliances.

In addition to our powerful brand offering, TTI is the preferred partner to many leading OEM brands and private label retail brands in North America and Europe.

Our products are sold through home centers, major retailers, full-line tool distributors, and other channels in North America, Europe and Australasia. With fast-expanding operations in these markets, the Group recorded 2004 sales of more than HK\$16.30 billion, delivering another record year with double-digit growth.

TTI is listed on The Stock Exchange of Hong Kong (HKEx: 669) and maintains a Level 1 American Depositary Receipt (ADR) program (ADR: TTNDY). Headquartered in Hong Kong, the Group employs more than 21,000 people worldwide.

contents

01	financial highlights
02	chairman's statement
08	brands overview
	review of operations
12	– power equipment products
18	– floor care appliances
22	– laser & electronic products
24	management's discussion and analysis
30	board of directors
32	senior management
34	directors' report
45	auditors' report
46	financial statements
54	notes to the financial statements
95	notice of annual general meeting
99	financial summary
100	corporate information



The Royal PowerCast[®]

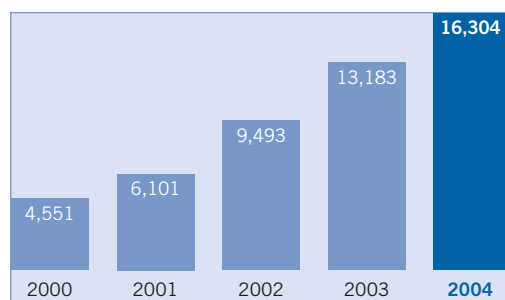
Royal represents the best in vacuum cleaning. This 12-amp all-metal upright has a patented easy-flow dirt path and clean-air motor system. With fingertip controls and a 7-position height adjustment, this model is a true workhorse (front cover).

financial highlights

	2004 HK\$ m	2003 HK\$ m	2004 US\$ m	2003 US\$ m	Changes %
Operations					
Turnover	16,304	13,183	2,090	1,690	+23.7
Earnings before interest and taxation	1,132	820	145	105	+38.1
Profit for the year	938	674	120	86	+39.1
Earnings per share, basic (HK / US cents)	70.11	51.56	8.99	6.61	+36.0
Dividend per share (HK / US cents)	17.00	12.50	2.18	1.60	+36.0
Financial position at year end					
Total assets	13,903	9,646	1,782	1,237	+44.1
Net current assets	3,823	1,985	490	254	+92.6
Shareholders' funds	3,439	2,513	441	322	+36.8
Capital expenditure	312	242	40	31	+28.6
Return on equity (%)	27.3	26.8	27.3	26.8	+1.9
Net book value per share (HK\$ / US\$)	2.54	1.90	0.33	0.24	+34.0

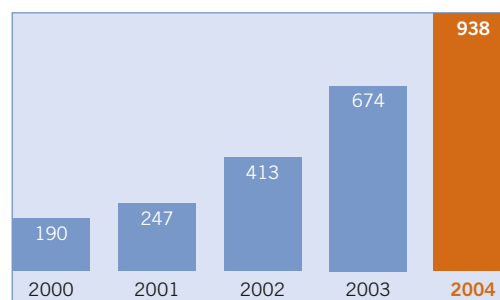
Turnover

HK\$ million



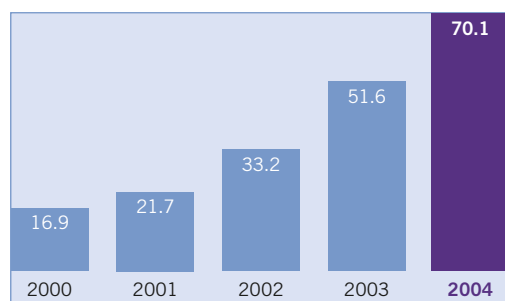
Profit for the year

HK\$ million



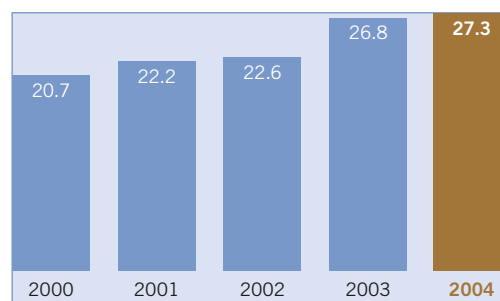
Basic earnings per share

HK cents



Return on equity

%



chairman's statement



- Record results
- Tenth consecutive year of double-digit profit growth
- Improved gross and net margins
- Major product launch successes
- Acquisition of Milwaukee and AEG professional power tools and DreBo accessories businesses

Horst Julius Pudwill
Chairman and Chief Executive Officer

The Group continues to build a portfolio of world-class brands in all geographic markets and delivered record results during 2004. Well-defined strategies and unique performance capabilities in product innovation, marketing, manufacturing and collaborative partnerships led to our tenth consecutive year of double-digit profit growth.

We are truly excited about the acquisition of the highly respected Milwaukee and AEG professional power tool brands and businesses as well as the DreBo® accessories business, completed in January 2005. This acquisition follows our strategy of building leading brands with robust and comprehensive product lines in our core businesses.

Further to our strong organic growth in 2004, the new acquisitions will have a substantial positive impact on the Group's expansion in 2005 and beyond.

TTI possesses unique global strengths that will continue to deliver high performance in our existing and newly acquired brands. We are confident our approach will continue to produce strong results across all divisions.

Our Best Year Ever

Total Group turnover and net profit reached record levels in 2004. Group turnover was HK\$16.30 billion, an increase of 23.7% over our 2003 fiscal year. Net profit was up by 39.1% to HK\$938 million. Earnings per share increased by 36.0% to HK70.11 cents.

The Board is recommending a final dividend of HK12.50 cents per share. Together with the interim dividend of HK4.50 cents per share, this

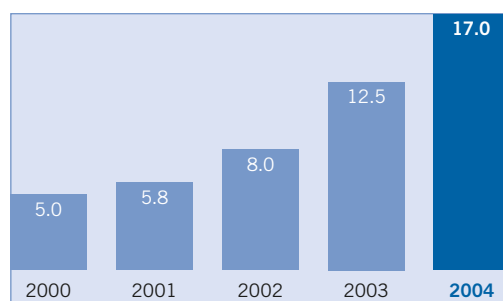
will give a full year dividend of HK17.00 cents per share, against HK12.50 cents in 2003, an increase of 36.0%.

The Group achieved strong organic growth with double-digit increases across all business divisions. Once again, we were able to apply the combined power of strategic product innovation and operational excellence to TTI's stable of well-recognized brands. This included upgrading and expanding our product categories under each brand and adding new product categories within the brands. The introduction of new products coupled with relentless cost containment efforts led to continued improvements in gross and net profit margins despite pressure from rising raw material prices.

The Group is committed to strong financial management practices that enhance long-term shareholder value and enable us to take advantage of attractive market opportunities.

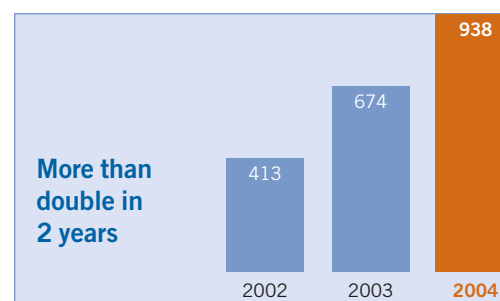
Dividend per share

HK cents

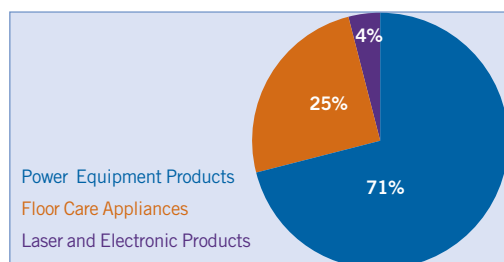


Net profit

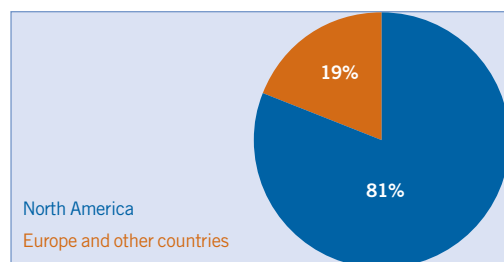
HK\$ million



Turnover by principal activity



Turnover by geographical market location



Consequently, we once again increased our net cash position during 2004 and produced a record year of generating free cash flow. We retained a high level of liquidity and a strong capital base.

Working capital management was sound during the year, with flexible and integrated manufacturing allowing us to maintain stable inventory despite the rapid growth in sales. The Group has a financially strong customer portfolio and prudently manages receivables and payables to minimize finance costs.

The Group delivered higher performance results in all divisions. Sales in the Power Equipment Products division grew 21.5%. Power tool operations performed well, driven by new product launches such as the Ryobi 18-volt One+ System™, successful promotions in the last quarter and increased contributions from Europe. Our outdoor power equipment business achieved double-digit sales growth on the back of strong sales of Ryobi and Homelite products.

Our Floor Care Appliances division continued to strengthen its proprietary brands. We achieved this by striking a good balance between innovation and consumer price-points across the full range of products such as the Dirt Devil Dynamite™ Bagless Quick Vac. Our European operations significantly outperformed the industry as a whole, bringing new products to the consumers and steadily building market strength.

Our Laser and Electronic Products division performed extremely well with the strong support of new and innovative products such as the successful Ryobi AIRgrip™ laser level.

The Group continued to strengthen the original equipment manufacturing (OEM) business. Key alliances with major brand-name companies contributed strong growth driven by our commitment to deliver high quality products at the best cost. Additional OEM opportunities were developed with these companies during 2004, which will provide further growth and profitability going forward.

The Group has defined four key strategies that underlie our success. A decade of double-digit growth demonstrates our strategies are sound and that there are strong prospects for continued expansion.

Sound Strategies

1. Build a portfolio of global brands in targeted categories

Leading brands are more valuable than ever. They command a premium from end users and exceed expectations in quality and satisfaction. The Group is driving this leading brand strategy in all of its divisions. We have successfully acquired and strengthened major brands that either already enjoy prominent consumer recognition and leadership or are moving toward that position.

In January 2005, we further strengthened our portfolio in power tools by adding the Milwaukee and AEG professional power tool and accessory brands. This enhances our reach into the critically important industrial and professional power tool market by providing access to the vast dealer networks and other new distribution channels in North America and Europe. Equally important, the powerful Milwaukee and AEG high-end brands

complement our Ryobi mid-range brand of consumer power tools and accessories.

Our Ryobi brand of outdoor power equipment is performing well in Europe and we added the Ryobi brand to our outdoor power equipment category in North America in 2004. In conjunction with the Homelite brand, the addition of Ryobi outdoor products in North America will allow us to serve a broader customer base.

We also have four highly valued brands in our Floor Care Appliances division. They are Royal, Dirt Devil, Regina and Vax, all well recognized with a strong presence in their respective markets.

2. Exceed industry growth in key markets

The Group has laid the foundation to support its brands and grow market position. We will do this by further strengthening our customer partnerships and by moving closer to the ultimate users through extensive market research and a complete array of dynamic marketing activities.

We focus on building win-win relationships with our customers. Together we concentrate on delivering value to the end user with the aim of creating mutual loyalty by developing the right products and the best retail environment. The positive results from implementing these strategies are that we enjoy product placement in the top retail channels and are now one of the two leading power tool companies in North America.

The Group works hard to maintain leadership in the execution of all marketing activities. We continue to produce strong sales results and enhance our brands in the eyes of both our customers and end users through high-impact advertising, promotions, retail point-of-sale displays and value-added services.

3. Drive innovation in every product category

The Group has always made innovation a core strategy. We understand that the ability to sustain growth depends on being a leader in innovation at all levels. The clear leadership in this respect shown by Milwaukee and AEG, and their superb track records in engineering and manufacturing expertise, were significant factors in our decision to acquire these businesses. An example is Milwaukee's V28™ power tool line with lithium-ion

battery technology, a revolutionary concept that represents a quantum leap in cordless power tool performance.

We also believe in developing innovative products in close association with our partners by identifying localized market trends. For example, we finalized our best-in-class professional pneumatic fastening tools for RIDGID® during the year, launching this new line in North America in the second quarter of 2005. This was the result of extensive local research and development that took into account jobsite conditions and user requirements. It marked our entry into the important pneumatic tool category which has further established RIDGID® as a professional brand among contractors.

4. Create greater efficiency on a global scale

The Group has an extremely efficient supply chain. This has been a major factor in the swift and successful integration of our acquisitions. We are dedicated to maintaining our strengths in world-class quality systems, high-volume manufacturing, and a low-cost supplier base while keeping our operations simple and cost efficient. The Group demonstrated operational performance gains with inventory turnover improving to 62 days in 2004 against 69 days in 2003.

Our recent strategic acquisitions allow us to further maximize synergies amongst brands leading to improved cost savings and faster speed-to-market of new products. We also seek to improve our customer relationships with important initiatives in logistics and inventory management. We will continue to build on this strength as global leadership in operational effectiveness produces higher performance in innovation, competitiveness and shareholder value.

Excellent Prospects

Higher performance demands sound strategies and flawless execution. TTI is structured for continued success in both respects. The Group has the strengths, resources and capabilities to deliver further significant long-term growth by continuing to execute its strategic fundamentals at every level.

We remain totally committed to our customers and partners and are continually seeking new ways of strengthening our relationships. We are dedicated to applying innovation to every aspect of our business and to building the leading brands in our targeted categories and key markets.

I would like to thank my fellow directors, management and employees for their efforts during the year. The unmatched talent and dedication of our employees worldwide is a major factor in our success. I also thank our customers and other business partners, whose continued support is key to the achievement of our full potential. I am confident that TTI will continue generating strong returns for our shareholders through our sound strategies that unleash higher levels of performance.



Horst Julius Pudwill

Chairman and Chief Executive Officer
Techtronic Industries Co. Ltd.

brands overview

exceptional brands

TTI continues to build a robust portfolio of leading global brands in targeted categories. Our powerful brands have captured the imagination and loyalty of end users. Whether it is a homeowner with a Dirt Devil vacuum or a professional contractor with the new Milwaukee V28™ line of tools, they know they can trust TTI brands to deliver superior quality, breakthrough innovation and lasting affordable value.





NOTHING BUT HEAVY DUTY

- The Milwaukee Electric Tool name is synonymous in the trades with “Nothing but Heavy Duty” products.
- Founded in the United States in 1924, Milwaukee Electric Tool Corporation manufactures and markets heavy duty, portable electric power tools and accessories, and is an industry leader in providing excellence in quality, performance, innovation and value to professional contractors and industry worldwide.
- TTI completed its acquisition of Milwaukee Electric Tool Corporation in January 2005.

AEG

ELECTRIC TOOLS

GERMAN TECHNOLOGY[®] FOR PROFESSIONALS

- Today's serious professionals turn to AEG Electric Tools for a complete, finely tuned generation of solutions.
- Founded in Germany in 1887, and manufacturing its first electric tools in 1893, AEG today provides 100 different tool types and 2,500 accessories.
- TTI completed its acquisition of AEG Electric Tools in January 2005.

exceptional performance

TTI is committed to adding depth and breadth to its leading brand categories. Innovation is a core strategy in our company and is driven by extensive market research and a dedication to providing the best solution for any challenge faced by the end user.

Our expectation for our products to deliver higher performance in the field drives higher performance throughout our organization.

brands overview



Homelite®

Simply Reliable.™

- The Homelite brand originated in the 1920s in the United States. Throughout the years, Homelite has delivered many innovative products to homeowners.
- Homelite serves the consumer with innovative products using gasoline engines that meet even the toughest emissions standards.
- TTI acquired Homelite in 2001.

RYOBI®

Pro Features, Affordable Prices.™

- Ryobi is the brand of choice for homeowners, woodworkers, gardening enthusiasts, hobbyists, craftspeople, upscale DIY'ers and remodelers.
- One of the world's largest and most innovative power tool and outdoor power equipment brands, Ryobi specializes in making power tools with pro features at affordable prices.
- TTI markets the Ryobi brand for both power tools and outdoor power equipment in North America, Europe and Australasia.





REGINA.

- The Regina floor care brand originated nearly a century ago when the market for electric floor cleaners first developed.
- Regina became part of the TTI portfolio with the acquisition of Royal Appliance Mfg. Co. in 2003.



Cleaning Power You Can See

- Our premium floorcare brand.
- Vax stands for outstanding quality, durability, and performance.
- Incorporating patented technology, Vax has created state-of-the-art products used in homes all over the world.
- TTI acquired the Vax brand in 1999.



ROYAL®

The First Name in Floor Care

- With models dating back to 1905, Royal is the world's oldest vacuum cleaner manufacturing company and in 2005 celebrates 100 years of innovation and success.
- Royal distributes floor care products to over 1,700 independent dealers in North America.
- Acquired by TTI in 2003, the Royal brand has a solid market presence in North America and Europe.



Nothing Escapes the Power of a Dirt Devil

- A household name and a trusted, leading brand in North America and Europe with tremendous end user loyalty.
- A history of new-to-market product innovation including the patented bag-less filtration technology.
- Dirt Devil became part of the TTI portfolio with the acquisition of Royal Appliance Mfg. Co. in 2003.



power equipment products

The Power Equipment Products division delivered another year of highly successful results through leading innovation, operational excellence and deepening customer alliances. This dynamic combination provided tremendous growth in all key markets and all product segments as well as market position gains in all brand categories. In power tools, the Ryobi and RIDGID® brands played key roles in growing the power tools and accessories businesses achieving double-digit sales growth. In outdoor power equipment, the Group made significant progress, also attaining double-digit sales growth, as it leveraged the power of the Ryobi and Homelite brands in North America and Europe. The Group also continued to strengthen relationships with key customers.

Turnover for the division grew 21.5% to HK\$11.52 billion, accounting for 70.7% of total Group turnover. Operating profits rose by 39.3% to HK\$910 million.



With one of the largest product ranges in the industry, Ryobi is widely accepted by millions of DIY users globally as providing professional features at affordable prices.

*(right) 9" Band Saw
14.4V Cordless Drill/Driver*

(left) The Ryobi Corner Cat™ Finish Sander is the first cordless sander with corded performance, registering 11,000 orbits per minute and equipped with GripZone™, an over-molded ergonomic handle.



Divisional turnover

HK\$ million



Power Tools



Ryobi power tools are an integral part of our leading brand portfolio. Ryobi is a globally recognized brand and exhibited strong performance across targeted markets aided by our dedication to breakthrough product innovation and enhanced operational efficiency.

In North America, the Ryobi brand posted strong growth in the high-end do-it-yourself market through an innovative approach to marketing cordless tools – The Ryobi One+System™ and that increased penetration of the 18-volt battery platform. Available exclusively at The Home Depot, this initiative leverages the consistent Ryobi battery stem design to extend a comprehensive product line that works off the same power platform. The bottom line: One Power Source Endless Possibilities™.

Ryobi's European operations also focused on innovation, successfully launching an assortment of robust new power tools during the year, which expanded the range by 30%. This enabled Ryobi Europe to deliver strong double-digit growth in sales while enhancing the brand's market position. In addition, our strengthened sales and marketing organization implemented aggressive programs that won several new key accounts.

Strategic Alliances

The Group enhanced its North America presence with the RIDGID® line of professional power tools, sold primarily at The Home Depot, making its first full-year contribution. RIDGID® clearly demonstrated its ability to compete aggressively with other professional and contractor brands through product innovation and successful new product introductions, aided by dynamic marketing, and point-of-sale exposure and



(right) Ryobi's 18-volt One+System™ allows new tool users and the existing four million Ryobi tool users the freedom to create tool combinations. High-impact marketing programs achieved end-user awareness, acceptance and brand loyalty. This innovative and comprehensive line of products at affordable prices is revolutionizing purchasing habits.

(left) The Ryobi 14" Cutting Saw delivers a powerful cut and features 0 to 45-degree miter capacity, quick release vice and Soft Start for smoother starting.





(left) Featuring the high performance power of FastenEdge Technology™, RIDGID® introduced new best-in-class pneumatic fastening tools in a move that strengthened the brand's appeal to the professional contractors.

(right) The Sears® Craftsman® Professional 12" Dual Bevel Compound Miter Saw featuring "America's Best Dust Collection System™".



intensive promotional activities. During the year, we announced a new industry-leading three-year service warranty on all TTI manufactured RIDGID® portable electric, cordless, bench top and stationary power tools. The warranty set us apart from competitors by offering service on normal wear items including cordless power tool batteries.

Our commitment to Sears® Holdings Corporation's Craftsman® line of power tools and accessories has ensured this brand continued to perform to expectations driven by innovative new products. Highlights in 2004 include the launch of the new Craftsman® and Craftsman® Professional Miter Saws featuring "America's Best Miter Saw Dust Collection System™". The new dust collection system solved a problem that professionals were fighting for decades. Another key achievement was the substantial growth from new 19.2-volt cordless tools and cordless tool combination kits.

Outlook

The Group's strategies for growth are working and we are exceptionally well positioned to make further significant progress in 2005 in power tools.

We are looking forward to the fast and effective integration of the Milwaukee and AEG brands into our power tool operations. We have already identified major synergies in engineering, manufacturing and supply chain, and moved forward aggressively in these important areas. These powerful brands with their pioneering technology and distribution channel that reach professional contractors will accelerate the growth of our power tool business. The combined effect of these new acquisitions with our powerful new product development engine, which is dedicated to creating new-to-market products, will drive growth in the power tools business across all brands and all categories, including bench top and stationary, corded, cordless, hand tools and accessories.



(above) The new AEG Demolition Hammer delivers the power needed to address tough industrial construction jobs with an innovative Anti-Vibration System and soft grips on all handles.



The Milwaukee V28™ lithium-ion battery is the most talked about innovation in the professional construction market today. Milwaukee delivers first-to-market technology providing twice the run-time of traditional 18-volt batteries at less weight. The new battery meets the need for high current draw, possesses fade-free power and creates the opportunity for many corded products to become cordless.



The Ryobi 18-volt One+ System™ is expected to do well in 2005 following its successful launch in the fourth quarter of 2004 in North America. Our expanding portfolio of global brands in power tools will break new ground and grow our business into new markets. In addition, we are confident our alliances will continue to deliver healthy growth. Evidence of this continued growth is the January 2005 launch of a complete line of seven RIDGID® pneumatic fastening tools – a major new category for the Group that will target professional and high-end users. For the Craftsman® line, work on the innovative new portable and benchtop tools began in 2004 and these products will reach the market in 2005. Robust product innovation, strategic marketing campaigns and the continued strengthening of our customer relationships all bode well for a strong performance in 2005.

Europe is an attractive market that holds great potential for our brands. We expect to increase our presence by strengthening our product platform and leveraging our sales reach through AEG's existing market position and advantages. AEG delivers added depth in product development and technology specifically targeted at the European market. This expanded reach will help capture new market presence in those regions.



(above) Ryobi Log Splitter, splits logs up to 20" long with 4 Ton of RAM Splitting force.

(left) The Homelite VacAttack™ is an all-in-one mulcher, blower and vacuum featuring ZipStart™ technology and a 25cc PowerStroke™ clean-air engine.

Outdoor Power Equipment

RYOBI

A proven leading brand in outdoor power equipment in North America, Ryobi was an important growth driver for our outdoor power equipment business in 2004. After adding the brand to this category and for this market in January 2004, we introduced a new gasoline-driven trimmer range that enhanced Ryobi's already strong position. The brand was introduced with high-impact advertising, dynamic packaging and an in-store field support team that ensured maximum impact at the point-of-sale. The highly featured Ryobi outdoor product line provided a clear trade-up proposition and a compelling value advantage over our competition.

In Europe, demand for Ryobi outdoor power equipment products remained strong, delivering significant gains over the previous year. Growth

was fueled by our gasoline-driven and electric outdoor power equipment ranges, aided by penetration into Eastern European markets.

Homelite®

Homelite enjoys positive consumer acceptance and loyalty as a trusted outdoor power equipment brand in North America and Europe. From chainsaws to outdoor power blowers, the full line of Homelite products satisfies the needs of the end user. This brand strength continued to generate strong demand and, aided by good weather during the key seasons of spring and summer, we saw Homelite achieve considerable revenue growth.

We launched a new line of Expand-It™, the easy-to-use attachments engineered to fit gasoline-driven split boom trimmers. These 'universal fit' attachments can be used with most major gasoline-driven brands with split booms to convert any single-use trimmer into a multi-purpose outdoor tool.



(left) Powerful Ryobi 17" curved-shaft 30cc gas-powered string trimmer.

(below) The Ryobi premium pressure washer sprays water at 3000psi with a flow rate of 2.7 gallons per minute. It also features the exclusive Twist & Store™ handle for easy transportation and convenient storage.



In the face of tougher emission standards set by US authorities that took effect during 2004, we were successful in ensuring our gasoline-driven engines for Homelite and Ryobi products complied fully while also enhancing product performance and improving product quality.

Outlook

Our outdoor power equipment business is driven by high-profile brands that are preferred by end users. We have established comprehensive product platforms and will continue to add depth and breadth to the entire outdoor equipment product line which already offers one of the widest product range in the market. Going forward, there are significant new products already in development that will enhance our outdoor product line in 2005 and beyond, representing tremendous growth potential. A new gasoline-driven pressure washer with truly unique features and user benefits will be launched in the first

quarter of 2005. This product innovation was driven by extensive market research that identified ease of use, low maintenance and high quality as primary consumer needs.

Although US emission regulations will reach their most stringent level in 2005, our engineering teams have designs in place to meet the new US standards. Since these standards mirror European emission regulations that will commence in 2007, we are also confident we will achieve full compliance in Europe going forward.

In Europe, the growth outlook is positive with new Ryobi and Homelite product launches in 2005 to include an expanded gasoline and electric outdoor product line. Investment in our sales force is also expected to strengthen our performance.

floor care appliances

The Floor Care Appliances division recorded an outstanding performance by delivering superior consumer value and maintaining a critical focus on containing costs. Innovation is playing a key role in the success of our proprietary brands, with Dirt Devil making market gains in our important territories of North America and Europe, and Vax significantly improving its position in the UK. With manufacturing now centered in Asia, significant supply chain efficiency gains and cost containment programs are positively impacting margins. Our strategic alliance business also exceeded plan.

Turnover for the division grew 28.1% to HK\$4.08 billion, accounting for 25.0% of total Group turnover. Operating profits rose by 53.2% to HK\$201 million.

The Dirt Devil Vision® is an electronically self-propelled bagless upright vacuum cleaner. It actually helps you push and pull the vacuum, making cleaning easy. The patented bagless filtration technology makes emptying the dust and dirt chamber hassle free without the use of messy bags.

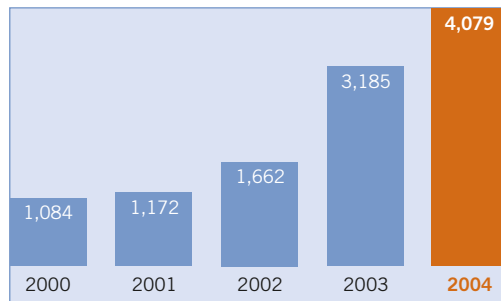


(right) The Dirt Devil Dynamite™ is a lightweight mini-vac that delivers the power of a full-sized vacuum. It has a telescopic handle for easy storage.



Divisional turnover

HK\$ million



The Dirt Devil brand is a household name in North America. Strong consumer support and additional product innovation led to gains in the number of product listings carried at its major retail customers in North America. Dirt Devil attacked increased raw material costs and aggressive price competition by delivering innovative new products and expanding key distribution channel placements, which led to record levels of shipped units. The integration of Dirt Devil North America operations within the Group streamlined the new product development process and all manufacturing is now

located in Asia. The Group has also enhanced inventory management to boost customer service and achieved distribution cost savings through more automated product handling.

The European operation continued to deliver spectacular growth fueled by product innovations and aggressive marketing. The brand continued its positive progress, especially in Germany, where it closed the year by rising to the number one position in the market. Additionally, Dirt Devil has been broadening its reach and is experiencing the same level of success in continental Europe. The success is a result of high-impact advertising, expanded sales coverage, and innovative products like the Centrixx bagless canister, which is the top-selling vacuum in the German market.



(below) Dirt Devil Centrixx bagless canister vacuum features leading cyclonic technology for stronger suction power.





(above) The Dirt Devil Scorpion™ puts the power of an upright in the palm of the user's hand. It features a powerful 5-amp motor that handles the toughest cleaning projects quickly and easily.

(left) The Dirt Devil FloorKeeper™ – a hard-floor cleaner – is an innovative product that allows homeowners to vacuum, wash and then squeegee the floor dry.



Vax continued the excellent performance seen in the first half, with an extended product range, deeper customer relationships and increased advertising to promote brand awareness. Despite a slow market, the UK operation delivered exceptional revenue growth and contributions. In particular, Vax tapped synergies with Dirt Devil by jointly developing products under the Vax brand. As a result, the Vax product range in the UK expanded significantly with new products accounting for more than 60% of turnover during the year. Cost containment programs and investment in value engineering of existing products all positively impacted performance. Through supply chain and productivity gains, we achieved better inventory control, more timely delivery and enhanced service to retailers. By year end, with the benefit of highly successful sales and

marketing campaigns, Vax had gained additional market position in the UK, continuing its consistent improvement over recent years.

In Australia, despite intense competition in the floor care sector, Vax achieved its profit targets with an expanded product range beyond the core carpet deep-cleaning segment. It received national supplier status from its main customer and opened a distribution center in New Zealand. With close links to retailers, Vax continued to make well-informed decisions on marketing, product selection and price-points, while a continuing focus on advertising is maintaining a high level of brand awareness.

Strategic Alliances

We continued to strengthen our original equipment manufacturing (OEM) business, which grew rapidly as we provided customers with well-received products and entered into new contracts with major brand-name companies. These new



The unique Vax MultiPack gained wide acceptance in the market as it offers high consumer value. It features the Vax Rapide XL Carpet Washer and the Vitality Plus cylinder vacuum cleaner.

(far left) Vax Turbo Force™ cyclonic vacuum cleaner with HEPA filtration.



OEM opportunities will have the potential for becoming long-term partnerships. We are committed to our extensive product engineering and world-class manufacturing capabilities to deliver high quality products at the best cost to our customers.

Outlook

Our Floor Care Appliances division exemplifies the combined strength of our core synergies. By enhancing our cost competitiveness and investing in breakthrough innovation, we are well positioned to maintain our trend of strong organic growth.

Dirt Devil will remain focused on introducing exciting innovations to the market and enhancing profitability. In North America, recent efficiency gains and cost reductions achieved in 2004 are providing a firm foundation for increased competitiveness. This division will continue to make improved contributions to earnings with important new product launches, expansion into

new retail channels and increased penetration in existing markets. Dirt Devil in Europe is launching an exciting new Centrixx product range, which introduces an innovative bagless cyclonic technology. Additionally, the brand continues to see geographic expansion opportunities across Europe.

Our Vax operation in the UK will maintain its fast growth on the back of innovative new product development and expanded marketing. Further investment in supply chain, inventory management and after-sales support should help drive additional improvements in service and increase efficiency. Vax, already a significant brand in the UK market, is working hard to improve its position further with high-profile advertising. In Australia, Vax is confident it can achieve continued growth through an expanded product range. In particular, it will focus on new products targeted at the premium consumer segment.

laser & electronic products

The Laser and Electronic Products division showcased the strength that innovation and manufacturing efficiency can deliver to the marketplace. The division once again had an excellent year, maintaining its record of steadily increasing contributions to the Group. This was accomplished through aggressive cost containment, increased manufacturing capacity, and the expansion of product offerings in all categories, including laser layout devices, digital measuring tapes, stud sensors, metal detectors, solar lighting and infant-care products, all contributing to the growth in sales. The award-winning launch of the innovative Ryobi AIRgrip™ laser level was just one example of our continuing ability to bring groundbreaking products to the market.

Turnover increased 37.2% to HK\$701 million, accounting for 4.3% of total Group turnover. Operating profits rose by 44.5% to HK\$146 million.

RYOBI

AIRgrip™
LaserLevel



Revolutionary vacuum technology

The Ryobi AIRgrip™ is the first truly hassle-free laser-level tool. Using revolutionary vacuum technology, it is easy to affix to walls and surfaces without marring. The laser head rotates 360° for straight lines in any direction with the ability to wrap around corners too. This product is perfect for installing chair rails and great for wall alignment jobs.

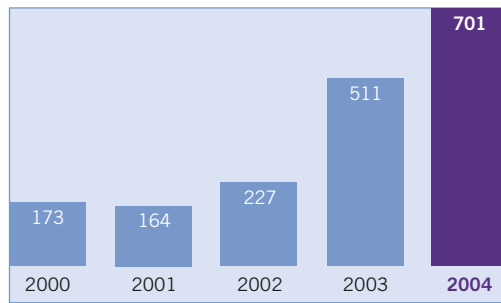
Market reaction

The Ryobi AIRgrip™ has received several top awards in North America. Retailers have also singled out the AIRgrip™ for numerous awards and end users have been purchasing the product at a record pace.



Divisional turnover

HK\$ million



Innovation leadership produces positive market impact

Our Laser and Electronic Products division has created excitement in the hand tool industry by launching the exceptionally innovative Ryobi AIRgrip™ laser level. This product dramatically surpassed all sales goals. Incorporating revolutionary vacuum technology that allows the level to affix itself to walls without marring surfaces, the Ryobi AIRgrip™ significantly enhanced exposure of the Ryobi brand thanks to a long-running TV advertising campaign by The Home Depot that focused on demonstrating the product to millions of viewers.

The division also brought a new product category to market in electronic infant-care. Sales of initial products commenced in the first quarter of 2004 and new models were added throughout the year, leading to very encouraging sales.

There was a strong drive to contain costs during the year, with significant investment in factory automation for enhanced productivity and further vertical integration. This has allowed the business to respond to the large increase in demand and to achieve faster speed-to-market for all our original design manufacturing (ODM) partners. The division converted new product opportunities into sales that exceeded projections. Further investment in TV advertising with our major ODM partners helped to maximize product awareness and sales during the latter part of the year.

Outlook

This division has the brands, alliances, technologies and the marketing acumen to maintain growth momentum into the future. In addition, our operational investments will continue to pay strong dividends in productivity and speed-to-market as we expand our product platforms and strengthen ties with our customers.

The laser and digital measuring tool category is expected to deliver excellent future growth as we build on the success of the Ryobi AIRgrip™. We will develop a full product range within this system with particular focus on converged tools.

In addition, we will continue to expand into other infant-care product categories and are confident the infant-care products will become another key growth engine for the division.

(right) RYOBI offers a complete line of stud sensors and ultrasonic measuring devices. These products locate wood, metal and wiring in walls, measure distance and volume accurately, and add up contiguous lengths.



management's discussion and analysis

Financial Analysis

The Group recorded a 23.7% growth in turnover to HK\$16.30 billion for the year with strong organic growth from all divisions. Net profit increased by 39.1% to HK\$938 million with improved margins of 5.8% (2003: 5.1%).

Earnings per share were HK70.11 cents (2003: HK51.56 cents), an increase of 36.0%. Return on shareholders' funds increased to 27.3% as compared to 26.8% in 2003.

Gross Margin

Gross margin continued to improve, increasing to 30.3% from 29.6% despite higher raw material prices during the year. This reflected the Group's successful and well-balanced strategy to improve margins by continually introducing new products, expanding product categories, capitalizing on the well-recognized brand portfolio, leveraging business volume and economies-of-scale. These initiatives were aided by a highly effective program of ongoing cost improvement at all levels within the Group.

Selling, Distribution, Advertising and Warranty Expenses

Total expenses as a percentage of the Group's turnover improved to 11.8% from 11.9% in 2003. This represented an increase of only 21.7% to HK\$1,917 million on the back of a 23.7% growth in turnover, reflecting the Group's ability to maintain its current cost structure while executing effective sales and marketing programs and improving overall efficiencies.

The Group's branded businesses accounted for 72.2% of total turnover as compared to 68.0% in 2003. The Group considered this increase to be consistent with its growth strategy. The percentage is expected to further increase with the addition of the Milwaukee, AEG and DreBo businesses to the Group's stable of brands.

Research and Development Expenses

Research and development expenses for the year amounted to HK\$339 million, representing 2.1% of turnover, and an increase of 26.4% as compared to the HK\$268 million or 2.0% of turnover in 2003. The Group will continue to invest in the design and development of high quality, innovative products and marketing concepts as it believes this is critical to maintaining long-term growth momentum.

Administrative Expenses

Administrative expenses increased mainly due to the full-year consolidation of Royal and additional goodwill amortized on the Royal acquisition, whereas in 2003, the year in which Royal was acquired, there were only 8 months of consolidation. In respect of the change in accounting policy for goodwill, the Group has not opted for early adoption of the new HKFRS 3 in respect of the 2004 results. Staff costs during the year also increased following the Group's decision to improve overall staff quality and management resources in preparation for the growth challenges ahead.

Taxation

The effective tax rate for the year was 10.0%. The Group will continue to capitalize on its global operations for more effective tax planning.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to HK\$3,439 million as at 31st December, 2004, representing an increase of 36.8% from HK\$2,513 million as reported last year. Book value per share, after the increase in the number of shares issued due to the exercise of options during the year, rose 34.0% to HK\$2.54 as compared to HK\$1.90 in 2003.

Financial Position

As at 31st December, 2004, the Group was in a net cash position of HK\$2,093 million as compared to HK\$740 million in 2003. The Group maintained its high liquidity to meet the cost of the Milwaukee, AEG and DreBo acquisition and the need for additional working capital required after the acquisition. Free cash flow during the year increased from HK\$1.26 billion in 2003 to HK\$1.70 billion, an increase of 35.4%.

Net interest expense amounted to HK\$86 million as compared to HK\$79 million in 2003. The increase of just 9.0% was moderate given the expanded scale of the Group's operations. The Group will maintain efficient working capital management and capitalize on the relatively low interest rates. Interest cover, expressed as a multiple of profit before interest and tax over total net interest expenses, was 13.2 times as compared to 10.4 times reported in 2003.

Issue of Zero Coupon Convertible Bonds

On 16th June, 2004 the Group announced the issue of 5-year Zero Coupon Convertible Bonds at par. The aggregate principal amount of the Bonds was US\$140 million (approximately HK\$1,092 million). The Bonds will be due in 2009 and convertible into Ordinary Shares of the Company. The initial conversion price is HK\$16.56 per share, representing a premium of 38% over the closing price of the share on The Stock Exchange of Hong Kong Limited on 16th June, 2004. Assuming full conversion of the Bonds at the initial conversion price of HK\$16.56 per share, the Bonds will be converted into approximately 65,922,584 shares, representing approximately 4.93% of the issued share capital of the Company as at the date of announcement and approximately 4.71% of the issued share capital of the Company as enlarged by the issue of the conversion shares. 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 holder of each Bond will have the option to require the Company to redeem all or some of the Bonds at 104.59% of their principal amount.

The Bonds issued during the year raised immediate funds and was used for general corporate and working capital purposes including the financing of acquisitions. When converted, the issue will enlarge the shareholder capital base, which in turn will facilitate the development and expansion of the Group.

The issue of the Bonds was successfully closed on 8th July, 2004. No conversions were exercised during the year under review.

Bank Borrowings, Notes Issue

The Group now has a well-balanced and carefully-structured loan portfolio to support its long-term growth strategy and is also able to secure additional financing at favorable terms. Taking advantage of the low interest rate environment, the Group tapped into the capital market with two transactions in 2005 through its wholly-owned entity in the United States. The Group placed US Dollars two hundred million fixed interest rate Notes in two tranches, of US\$150 million for 10 years at 5.44% per annum, and US\$50 million for 7 years at 5.17% per annum, with private investors in the United States. Another US Dollars two hundred million LIBOR-based floating rate transferable term loan was arranged through an elite group of financial institutions for a 3-year period extendable to 5 years. Both issues received overwhelming support and were successfully closed in March 2005. The proceeds were used to refinance existing bank borrowings.

Foreign Exchange Risk Management

The Group's major borrowings are in US Dollars and HK Dollars. Other than the fixed interest rate Notes in issue during the year, all borrowings are based on LIBOR or Hong Kong best lending rates. As the Group's revenues are mainly in US Dollars, and major borrowings and payments are in either US Dollars or HK Dollars, there is a natural hedge mechanism in place and currency risk exposure is relatively low. However, the Group has strengthened its treasury management functions and will continue to manage its currency and interest rate exposures.

Working Capital

The Group's working capital remained strong with net current assets as at 31st December, 2004, of over HK\$3.82 billion, an increase of 92.6% as compared to HK\$1.99 billion in 2003. Current ratio further improved to 1.49 from 1.35 in 2003 and quick ratio was at 1.13 (2003: 0.91).

Inventory level increased by only 11.9% to HK\$2.79 billion, despite a revenue increase of over 23.7%. Raw material and Work in Progress turnover days improved to 17 days as compared to 18 days in 2003. Finished goods turnover days increased by 3 days from 39 days to 42 days as compared to last year. All finished goods were subsequently shipped and delivered in January 2005.

Given the Group's high liquidity, no additional financing of receivables was arranged to contain finance costs. Trade receivables turnover days, therefore, increased from 45 days to 53 days. The Group is

comfortable with current inventory and receivables turnover days, but will continue to improve its efficiency in this regard. During the year, the Group did not experience any material bad debts that required writing off.

As operations continued to expand, the Group managed to leverage its volume and secure favorable payment terms from suppliers and expanded financing arrangements through banks to optimize the current low interest rate environment. The Group has therefore been able to extend its trade credits by an additional 7 days as compared to last year.

Capital Expenditure

Capital expenditure during the year under review amounted to HK\$312 million and was in line with the Group's depreciation charges for the year of HK\$317 million.

Capital Commitment and Contingent Liabilities

As at 31st December, 2004, the capital commitment not provided for in respect of land in Dongguan, Mainland China amounted to approximately HK\$18 million. Total capital commitment in 2004 amounted to HK\$154 million (2003: HK\$89 million).

As at 31st December, 2004, there were no material contingent liabilities or off balance sheet obligations other than trade bills discounted during the ordinary course of business.

Charges

None of the Group's assets are charged or subject to any encumbrance.

Acquisitions

On 28th August, 2004, the Group entered into a Stock Purchase Agreement to 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 "DreBo" accessories businesses, ("the Sold Companies").

The transaction was approved unanimously by all the shareholders present in person or by proxy at the Company's Extraordinary General Meeting held on 3rd January, 2005 and was successfully closed on the same date.

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 Sold Companies and adjustments with respect to related deferred asset accounts and to certain accruals. The purchase price was calculated on the basis of the Sold

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). The parties are in the process of finalizing the closing statements for the Business and if the net tangible assets of the Business as shown in such agreed closing statements are less than US\$285 million (approximately HK\$2,223 million), the purchase price will be reduced by the amount of the shortfall. If the net tangible assets of the Business as shown in such agreed closing statements are greater than US\$285 million (approximately HK\$2,223 million), the purchase price will be increased by the amount of such excess.

The acquisition of the Business will enable the Group to enhance its leadership position in the global power tool industry. Through the acquisition, the Group acquired the Milwaukee brand, a well-established and widely recognized US power tool brand focused on professionals, and will gain access to the AEG brand, a well-recognized European power tool brand also focused on professionals. In addition, the Directors believe that the Sold Companies' engineering and design capability can be leveraged across the Group's existing product portfolio.

Major Customers and Suppliers

For the year ended 31st December, 2004:

- i. The Group's largest customer and five largest customers accounted for approximately 39.8% and 62.8% respectively of the Group's total turnover.
- ii. The Group's largest supplier and five largest suppliers accounted for approximately 4.2% and 18.2% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

According to the knowledge of the directors, none of the directors, their associates or any shareholders who owned more than 5% of TTI's share capital had any interest in the five largest customers or suppliers.

Human Resources

As at 31st December, 2004, the Group employed a total of 21,549 employees in Hong Kong and overseas (2003: 16,000 employees).

The Group continues to provide job-related training to all levels of staff to improve their skills and competencies as it believes that human capital is vital to its continuous growth and profitability.

The Group also offers competitive remuneration packages, discretionary share options and bonuses to all eligible staff based on individual and Group performances.

Investor Relations and Communications

The Group understands the importance of maintaining effective communication with our shareholders and the investment community. Regular meetings with analysts and institutional shareholders were conducted to promote investor relations and communications. The Company also maintains a website (www.ttigroup.com) which is updated on a timely basis to ensure all parties receive our latest corporate information.

Purchase, Sale or Redemption of Shares

There has been no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the year.

Audit Committee

The Audit Committee is chaired by an independent non-executive director and all of the Committee members are independent non-executive directors. All Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. The Audit Committee has reviewed with management the accounting principles and practises adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited final financial statements for the year ended 31st December, 2004.

Dividend

The Directors recommend a final dividend of HK12.50 cents per share. Subject to the approval of the shareholders at the Annual General Meeting to be held on 30th May, 2005. The final dividend will be paid to shareholders listed on the register of members of the Company on 17th June, 2005. It is expected that the final dividend will be paid on or about 29th July, 2005. This payment together with the interim dividend of HK4.50 cents per share paid on 30th September, 2004 makes a total payment of HK17.00 cents per share for 2004, an increase of 36.0% over that declared in 2003.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 13th June, 2005 to Friday, 17th June, 2005, both days inclusive. In order to qualify for the final dividend to be approved at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00p.m. on Friday, 10th June, 2005.

Dividend warrants will be despatched on or around 29th July, 2005 subject to shareholders' approval of payment of the final dividend having been obtained at the Annual General Meeting.

board of directors



Horst Julius Pudwill

Chairman and Chief Executive Officer

Roy Chi Ping Chung

Group Managing Director

Group Executive Directors

Horst Julius Pudwill MSc

Chairman and Chief Executive Officer

Mr Horst Julius Pudwill, aged 59, a founding partner of TTI, has been the Chairman and Chief Executive Officer since 1985. He is responsible for the formulation of TTI's strategic vision, focusing on the continual growth and profitable development of the Group's organization, products and services. He is active in aligning the activities of the Group with customer needs.

His background includes a Master's Degree in Engineering and a General Commercial Degree, together with extensive experience in international business.

Roy Chi Ping Chung MSc

Group Managing Director

Mr Roy Chi Ping Chung, aged 53, a co-founder of TTI, has been the Group Managing Director since 1985. He is responsible for corporate and business management of the Group. He holds a Master of Science Degree in Engineering Business Management from the University of Warwick.

Mr Chung won the 1997 HK Young Industrialists Award, and is currently Deputy Council Chairman of Hong Kong Polytechnic University; Deputy Chairman of Federation of Hong Kong Industries; an Elected Council Member & Executive Committee Member of Hong Kong Management Association; a Member of the Advisory Board for Lingnan University's Faculty of Business; a Council Member of Vocational Training Council. Besides, he is a Director of the HK Safety Institute Ltd & the HK Standards & Testing Centre Ltd; Director of HK Applied Science and Technology Research Institute Co. Ltd (ASTRI) and the Vice-Chairman of Governing Board of Dongguan City Association of Enterprises with Foreign Investment. He is also an Independent Non-executive Director of Kin Yat Holdings Limited and Daka Designs Limited.

Patrick Kin Wah Chan FCCA, FCPA, APVC

Operations Director

Mr. Patrick Kin Wah Chan, aged 45, joined the Group in 1988 and was appointed as Executive Director in 1990. He is now in charge of the manufacturing operations of the Group.

Mr Chan is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, an associate of The Professional Validation Council of Hong Kong Industries, an Executive Committee Member of Hong Kong Electrical Appliances Manufacturers Association.

Frank Chi Chung Chan CPA

Group Chief Financial Officer

Mr Frank Chi Chung Chan, aged 51, joined the Group in 1991 and was appointed as Executive Director in 1992. He is now responsible for the corporate affairs and financial management of the Group.

Mr Chan is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, an associate of the Taxation Institute of Hong Kong and qualified to practise as a Certified Public Accountant in Hong Kong. He is currently an Independent Non-executive Director of Gold Peak Industries (Holdings)

Limited, a company listed on The Stock Exchange of Hong Kong Limited and an Independent Director of Tsit Wing International Holdings Limited, a company listed on The Singapore Exchange Securities Trading Limited.

Non-executive Directors

Dr Akio Urakami Ph.D

Dr Akio Urakami, aged 62, was appointed as a Director in 1989. Dr Urakami, previously an Executive Director of the Company, has been re-designated as a Non-executive Director of the Company with effect from 31st December, 2004. Dr Urakami holds a Ph.D degree in Materials Science from Northwestern University.

Vincent Ting Kau Cheung

Mr. Cheung, aged 63, was appointed as a Director in 1991. Mr. Cheung, previously an Independent Non-executive Director of the Company, has been re-designated as a Non-Executive Director of the Company, both with effect from 30th September, 2004. He is a Non-executive Director of Gold Peak Industries (Holdings) Limited and Paul Y. - ITC Construction Holdings Limited, both of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Cheung is a graduate in law from University College, London and has been a practising solicitor since 1970. He is qualified to practise law in Hong Kong and the UK and he is now the Managing Partner of Vincent T. K. Cheung, Yap & Co.

Independent Non-executive Directors

Christopher Patrick Langley OBE

Mr Christopher Patrick Langley, aged 60, was appointed as an Independent Non-executive Director in May 2001. He was formerly an Executive Director of The Hongkong and Shanghai Banking Corporation Ltd. Mr Langley holds directorships in a number of publicly-listed companies and maintains close ties with the business community in Hong Kong.

Joel Arthur Schleicher CPA, BSB

Mr Joel Arthur Schleicher, aged 53, was appointed as an Non-executive Director in 1998. He has 28 years of management experience in manufacturing and the technology/telecom services sectors.

Mr Schleicher is currently the Chairman and CEO for Integrated Solutions, Inc. and previously served as Chairman and CEO of Interpath Communications, Inc.; as CEO for Expanets, Inc. and President and COO for Nextel Communications, Inc. He presently serves on the Board of Directors for several domestic and international companies. He is also involved with private equity firms, serving as a consultant and advisor.

Manfred Kuhlmann

Mr Kuhlmann, aged 60, was appointed as an Non-executive Director in September 2004. He was a General Manager of Dresdner Bank AG Hong Kong Branch during the period from 1994 to 1998 and was a General Manager of Dresdner Bank AG Dubai before his retirement in August 2004. Mr Kuhlmann is a graduate of the Banking Academy, Hamburg and has extensive experience in the finance and banking industry.

senior management

Asia

Techtronic Industries Co. Ltd.

Roger N. Amrol Jr.

Vice President – Bench Top & Associated Products

Age 36. Joined 2004

David Butts

Senior Vice President – Business Development

Age 46. Joined 1998

Clarence Chi Hong Chan

Group Controller

Age 43. Joined 1995

Alex Chunn

Vice President – Concept Development

Age 42. Joined 1999

Peter Fischer

General Manager – Marketing, Europe

Age 49. Joined 1988

Dr jur. Matthias Hartz

Senior Vice President – Corporate Affairs

Age 46. Joined 2003

Simon I-Nan Lin

General Manager – Sourcing & Procurement

Age 54. Joined 2000

Kam Choi Kan

Senior Engineering Manager – Power Tools

Age 41. Joined 1990

Donald McLamb

Vice President – Advanced Quality Assurance

Age 64. Joined 1993

Stephan H. Pudwill

Director of Business Development

Age 27. Joined 2004

Roger Smith

Vice President – Outsourced Power Tools

Age 54. Joined 2001

Edmund Tak Man Li

Treasurer

Age 42. Joined 2005

Kevin Toohey

Vice President – Cordless Power Tools

Age 50. Joined 1994

Homelite Far East Co. Ltd.

David Brower

General Manager

Age 48. Joined 2005

Mike Ambos

General Manager – Commercial

Age 38. Joined 2003

Andrew Eyre

Director of Product Development

Age 40. Joined 2001

Techtronic Appliances (Hong Kong) Ltd.

Seth Peterson

Vice President

Age 37. Joined 2005

Bob McKee

Vice President – Advanced Quality & Engineering

Age 61. Joined 2003

Timmy Hok Yin Sin

General Manager – Engineering & Development

Age 43. Joined 1993

Gimelli Laboratories Co. Ltd.

Bruno Gimelli

Executive Director

Age 58. Joined 1991

Raymond Kwok Chung Lee

Managing Director

Age 52. Joined 1982

Solar Wide Industrial Ltd.

Hughes Sanoner

President & Chief Executive Officer

Age 39. Joined 1991

North America

Techtronic Industries North America, Inc.

Robert Freitag

President

Age 46. Joined 2000

Jeff Dils

President – Power Tools

Age 44. Joined 2000

Lee E. Sowell

President – Outdoor Power Equipment

Age 48. Joined 2001

Philippe Buisson

Chief Financial Officer

Age 45. Joined 2000

Norman McDonald

Senior Vice President – Operations

Age 47. Joined 2003

Ken Brazell

Vice President – Concept Development

Age 42. Joined 2000

Milwaukee Electric Tool Corporation

Daniel R. Perry

President & Chief Executive Officer

Age 57. Joined 2005

Patricia Grisham

Vice President Finance and

Chief Financial Officer

Age 56. Joined 2005

Harry Peterson

Senior Vice President – Operations

Age 57. Joined 2005

Royal Appliance Mfg. Co.

Paul R. D'Aloia

President

Age 46. Joined 2005

Europe

A & M Electric Tools GmbH

Ake Sundby

President

Age 56. Joined 2005

Horst Garbrecht

Vice President – Operations

Age 39. Joined 2005

DreBo Werkzeugfabrik GmbH

Markus Dreps

Managing Director

Age 34. Joined 2005

Ryobi Technologies SAS

Michel Violleau

President

Age 58. Joined 2001

Ryobi Technologies GmbH

Walter Eichinger

Managing Director

Age 50. Joined 2001

Ryobi Technologies (UK) Ltd.

Mark Pearson

Managing Director

Age 41. Joined 2002

Royal Appliance International GmbH

Ralf Lindner

Managing Director & Chief Executive Officer

Age 46. Joined 1995

Vax Ltd.

Simon Lawson

Managing Director

Age 38. Joined 2003

Australasia

Ryobi Technologies Australia Pty Ltd.

Ryobi Technologies (New Zealand) Ltd.

Stephen Hardy

General Manager

Age 43. Joined 2002

Vax Appliances (Australia) Pty Ltd.

Eddy Baroni

Chief Executive Officer

Age 66. Joined 1999

directors' report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2004.

Principal Activities

The Company acts as an investment holding company and also manufactures and trades electrical and electronic products.

The principal activities of the principal subsidiaries and associates are set out in notes 40 and 41 to the financial statements, respectively.

Results and Appropriations

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 46.

An interim dividend of HK4.50 cents per share amounting to HK\$60,554,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK12.50 cents per share to the shareholders on the register of members on 17th June, 2005, amounting to approximately HK\$169,038,000.

Property, Plant and Equipment

The Group continued to expand its business, and during the year spent approximately HK\$123,232,000 on moulds and tooling and acquired office equipment, furniture and fixtures of approximately HK\$46,591,000, and plant and machinery of approximately HK\$57,591,000. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

Share Capital

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

During the year, the Company issued 2,995,000 shares of HK\$0.20 each and 21,341,000 shares of HK\$0.10 each at a total consideration of approximately HK\$141,261,000 pursuant to the exercise of share options granted by the Company. The shares issued rank *pari passu* in all respects with the existing shares.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors

The directors of the Company during the year and up to the date of this report were:

Group Executive Directors:

Mr Horst Julius Pudwill, *Chairman and Chief Executive Officer*

Mr Roy Chi Ping Chung, *Group Managing Director*

Mr Kin Wah Chan

Mr Chi Chung Chan

Non-executive Directors:

Mr Vincent Ting Kau Cheung (re-designated from Independent Non-executive Director on 30th September, 2004)

Dr Akio Urakami (re-designated from Group Executive Director on 31st December, 2004)

Independent Non-executive Directors:

Mr Joel Arthur Schleicher

Mr Christopher Patrick Langley

Mr Manfred Kuhlmann (appointed on 30th September, 2004)

In accordance with Article 103 of the Company's Articles of Association, Messrs Horst Julius Pudwill, Vincent Ting Kau Cheung, Christopher Patrick Langley and Manfred Kuhlmann will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Terms of Office of Non-executive Directors and Independent Non-executive Directors

The term of office for each of the non-executive directors and independent non-executive directors is the period up to his retirement by rotation in accordance with Article 103 of the Company's Articles of Association.

Directors' and Chief Executive's Interests in Shares

As at 31st December, 2004, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Directors	Capacity/ Nature of interests	Interests in shares (other than pursuant to equity derivatives) ⁽¹⁾	Interests in underlying shares pursuant to equity derivatives ⁽¹⁾	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	Beneficial owner	76,554,000	26,688,000	326,661,794	24.16%
	Interest of spouse	760,000	–	–	–
	Interest of controlled corporation	222,659,794 ⁽²⁾	–	–	–
Mr Roy Chi Ping Chung	Beneficial owner	113,541,948	13,824,000	164,576,978	12.17%
	Interest of spouse	136,000	–	–	–
	Interest of controlled corporation	37,075,030 ⁽³⁾	–	–	–
Mr Kin Wah Chan	Beneficial owner	2,319,000	2,000,000	4,319,000	0.32%
Mr Chi Chung Chan	Beneficial owner	500,000	3,000,000	3,500,000	0.26%
Dr Akio Urakami	Beneficial owner	1,300,000	300,000	1,600,000	0.12%
Mr Vincent Ting Kau Cheung	Beneficial owner	1,920,000	800,000	2,720,000	0.20%
Mr Joel Arthur Schleicher	Beneficial owner	200,000	500,000	700,000	0.05%
Mr Christopher Patrick Langley	Beneficial owner	400,000	300,000	700,000	0.05%

Directors' and Chief Executive's Interests in Shares *(continued)*

Notes:

- (1) Interests in shares and underlying shares stated above represent long positions.

The equity derivatives are physically settled and unlisted.

The interests of the directors of the Company in the underlying shares pursuant to equity derivatives represent options granted to them pursuant to the share option schemes adopted by the Company, details of which are separately disclosed in the section headed "Share Options" below.

- (2) These shares were held by the following companies in which Mr Horst Julius Pudwill has a beneficial interest:

	No. of shares
Sunning Inc.	185,584,764
Cordless Industries Company Limited*	37,075,030
	222,659,794

- (3) These shares were held by Cordless Industries Company Limited* in which Mr Roy Chi Ping Chung has a beneficial interest.

* *Cordless Industries Company Limited is owned as to 70% by Mr Horst Julius Pudwill and as to 30% by Mr Roy Chi Ping Chung.*

Save as disclosed above, none of the directors and the chief executive and their associates of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31st December, 2004.

Share Options

Scheme adopted on 28th November, 1990 and expired on 27th November, 2000 ("Scheme A")

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

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

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

Scheme A expired on 27th November, 2000.

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

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

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

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

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

Share Options *(continued)*

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

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

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

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

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

Share Options (continued)

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

Name of directors	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted before the share subdivision	Exercised before the share subdivision	Addition due to adjustment for the share subdivision made during the year	Granted subsequent to the share subdivision	Exercised subsequent to the share subdivision	Lapsed during the year	Outstanding at end of the year	Subscription price adjusted for the effect of the share subdivision		Exercise period
											price prior to the share subdivision HK\$	price of the share subdivision HK\$	
Mr Horst Julius Pudwill	19.6.2001	Scheme B	2,200,000	-	-	2,200,000	-	4,400,000	-	-	2.2600	1.1300	19.6.2001 - 18.6.2006
	28.6.2002	Scheme C	12,864,000	-	-	12,864,000	-	-	-	25,728,000	7.2000	3.6000	28.6.2002 - 27.6.2007
	19.9.2003	Scheme C	280,000	-	-	280,000	-	-	-	560,000	17.3700	8.6850	19.9.2003 - 18.9.2008
	25.2.2004	Scheme C	-	200,000	-	200,000	-	-	-	400,000	24.3400	12.1700	25.2.2004 - 24.2.2009
Mr Roy Chi Ping Chung	28.6.2002	Scheme C	6,432,000	-	-	6,432,000	-	-	-	12,864,000	7.2000	3.6000	28.6.2002 - 27.6.2007
	19.9.2003	Scheme C	280,000	-	-	280,000	-	-	-	560,000	17.3700	8.6850	19.9.2003 - 18.9.2008
	25.2.2004	Scheme C	-	200,000	-	200,000	-	-	-	400,000	24.3400	12.1700	25.2.2004 - 24.2.2009
Mr Kin Wah Chan	19.9.2003	Scheme C	250,000	-	-	250,000	-	500,000	-	-	17.3700	8.6850	19.9.2003 - 18.9.2008
	25.2.2004	Scheme C	-	500,000	-	500,000	-	-	-	1,000,000	24.3400	12.1700	25.2.2004 - 24.2.2009
	1.3.2004	Scheme C	-	500,000	-	500,000	-	-	-	1,000,000	25.0500	12.5250	1.3.2004 - 28.2.2009
Mr Chi Chung Chan	17.7.2003	Scheme C	500,000	-	-	500,000	-	-	-	1,000,000	15.2500	7.6250	17.7.2003 - 16.7.2008
	19.9.2003	Scheme C	250,000	-	-	250,000	-	-	-	500,000	17.3700	8.6850	19.9.2003 - 18.9.2008
	25.2.2004	Scheme C	-	500,000	-	500,000	-	-	-	1,000,000	24.3400	12.1700	25.2.2004 - 24.2.2009
	1.3.2004	Scheme C	-	250,000	-	250,000	-	-	-	500,000	25.0500	12.5250	1.3.2004 - 28.2.2009
Dr Akio Urakami	6.6.2001	Scheme B	250,000	-	250,000	-	-	-	-	-	2.0920	1.0460	6.6.2001 - 5.6.2006
	30.4.2002	Scheme C	250,000	-	-	250,000	-	500,000	-	-	6.4000	3.2000	30.4.2002 - 29.4.2007
	5.7.2002	Scheme C	100,000	-	-	100,000	-	200,000	-	-	6.7000	3.3500	5.7.2002 - 4.7.2007
	17.7.2003	Scheme C	150,000	-	-	150,000	-	300,000	-	-	15.2500	7.6250	17.7.2003 - 16.7.2008
	25.2.2004	Scheme C	-	150,000	-	150,000	-	-	-	300,000	24.3400	12.1700	25.2.2004 - 24.2.2009
Mr Vincent Ting Kau Cheung	30.4.2002	Scheme C	200,000	-	-	200,000	-	-	-	400,000	6.4000	3.2000	30.4.2002 - 29.4.2007
	17.7.2003	Scheme C	150,000	-	-	150,000	-	-	-	300,000	15.2500	7.6250	17.7.2003 - 16.7.2008
	25.2.2004	Scheme C	-	50,000	-	50,000	-	-	-	100,000	24.3400	12.1700	25.2.2004 - 24.2.2009
Mr Joel Arthur Schleicher	30.4.2002	Scheme C	100,000	-	-	100,000	-	-	-	200,000	6.4000	3.2000	30.4.2002 - 29.4.2007
	17.7.2003	Scheme C	100,000	-	-	100,000	-	-	-	200,000	15.2500	7.6250	17.7.2003 - 16.7.2008
	25.2.2004	Scheme C	-	50,000	-	50,000	-	-	-	100,000	24.3400	12.1700	25.2.2004 - 24.2.2009
Mr Christopher Patrick Langley	30.4.2002	Scheme C	100,000	-	100,000	-	-	-	-	-	6.4000	3.2000	30.4.2002 - 29.4.2007
	17.7.2003	Scheme C	100,000	-	-	100,000	-	-	-	200,000	15.2500	7.6250	17.7.2003 - 16.7.2008
	25.2.2004	Scheme C	-	50,000	-	50,000	-	-	-	100,000	24.3400	12.1700	25.2.2004 - 24.2.2009
Total for directors			24,556,000	2,450,000	350,000	26,656,000	-	5,900,000	-	47,412,000			
Employees	23.7.2001	Scheme B	300,000	-	-	300,000	-	-	-	600,000	2.1160	1.0580	23.7.2001 - 22.7.2006
	30.4.2002	Scheme C	4,130,000	-	1,445,000	2,685,000	-	2,490,000	-	2,880,000	6.4000	3.2000	30.4.2002 - 29.4.2007
	5.7.2002	Scheme C	1,000,000	-	250,000	750,000	-	500,000	-	1,000,000	6.7000	3.3500	5.7.2002 - 4.7.2007
	6.6.2003	Scheme C	50,000	-	-	50,000	-	100,000	-	-	12.0800	6.0400	6.6.2003 - 5.6.2008
	10.6.2003	Scheme C	500,000	-	-	500,000	-	1,000,000	-	-	12.3500	6.1750	10.6.2003 - 9.6.2008
	17.7.2003	Scheme C	10,555,000	-	700,000	9,855,000	-	11,267,000	148,000	8,295,000	15.2500	7.6250	17.7.2003 - 16.7.2008
	13.8.2003	Scheme C	30,000	-	-	30,000	-	60,000	-	-	16.1500	8.0750	13.8.2003 - 12.8.2008
	1.9.2003	Scheme C	32,000	-	-	32,000	-	24,000	-	40,000	17.6500	8.8250	1.9.2003 - 31.8.2008
	19.9.2003	Scheme C	102,000	-	-	102,000	-	-	-	204,000	17.3700	8.6850	19.9.2003 - 18.9.2008
	18.12.2003	Scheme C	74,000	-	-	74,000	-	-	-	148,000	20.7200	10.3600	18.12.2003 - 17.12.2008
	1.3.2004	Scheme C	-	5,683,000	-	5,683,000	-	-	340,000	11,026,000	25.0500	12.5250	1.3.2004 - 28.2.2009
	14.4.2004	Scheme C	-	100,000	-	100,000	-	-	-	200,000	25.9000	12.9500	14.4.2004 - 13.4.2009
	5.5.2004	Scheme C	-	150,000	-	150,000	-	-	-	300,000	22.1000	11.0500	5.5.2004 - 4.5.2009
	7.6.2004	Scheme C	-	-	-	-	-	200,000	-	200,000	-	12.0000	7.6.2004 - 6.6.2009
	25.6.2004	Scheme C	-	-	-	-	-	40,000	-	40,000	-	11.5000	25.6.2004 - 24.6.2009
	10.8.2004	Scheme C	-	-	-	-	-	400,000	-	400,000	-	11.3000	10.8.2004 - 9.8.2009
18.8.2004	Scheme C	-	-	-	-	-	60,000	-	60,000	-	11.2500	18.8.2004 - 17.8.2009	
2.10.2004	Scheme C	-	-	-	-	-	1,000,000	-	1,000,000	-	15.3500	2.10.2004 - 1.10.2009	
13.12.2004	Scheme C	-	-	-	-	-	250,000	-	250,000	-	15.7100	13.12.2004 - 12.12.2009	
Total for employees			16,773,000	5,933,000	2,395,000	20,311,000	1,950,000	15,441,000	488,000	26,643,000			
Others	30.4.2002	Scheme C	250,000	-	250,000	-	-	-	-	-	6.4000	3.2000	30.4.2002 - 29.4.2007
Total for all categories			41,579,000	8,383,000	2,995,000	46,967,000	1,950,000	21,341,000	488,000	74,055,000			
													Percentage to total Company's shares in issue at end of the year
Total under Scheme B			2,750,000	-	250,000	2,500,000	-	4,400,000	-	600,000			0.04%
Total under Scheme C			38,829,000	8,383,000	2,745,000	44,467,000	1,950,000	16,941,000	488,000	73,455,000			5.43%
Total			41,579,000	8,383,000	2,995,000	46,967,000	1,950,000	21,341,000	488,000	74,055,000			5.47%

Share Options *(continued)*

The closing prices of the Company's shares immediately before various dates of grant ranged from HK\$10.8 to HK\$15.5.

The weighted average closing prices of the Company's shares immediately before various dates on which the share options were exercised ranged for HK\$10.57 to HK\$16.70.

The fair values of the share options granted in current year measured as at the various dates of grant ranged from HK\$2.66 to HK\$3.63.

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

Date of grant	Expected life of share options	Expected volatility based on historical volatility of share prices	Hong Kong Exchange Fund Notes rate	Expected annual dividend yield
25.2.2004	3 years	35%	1.678%	1.5%
1.3.2004	3 years	35%	1.718%	1.5%
14.4.2004	3 years	35%	1.872%	1.5%
5.5.2004	3 years	35%	2.736%	1.5%
7.6.2004	3 years	35%	2.962%	1.5%
25.6.2004	3 years	35%	2.798%	1.5%
10.8.2004	3 years	35%	2.865%	1.5%
18.8.2004	3 years	35%	2.630%	1.5%
2.10.2004	3 years	35%	2.325%	1.5%
13.12.2004	3 years	35%	1.862%	1.5%

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.

No charge is recognized in the income statement in respect of the value of share options granted in the year.

Arrangements to Purchase Shares or Debentures

Other than as disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Directors' Interests in Contracts of Significance

No contract of significance, to which the Company, or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial Shareholders' Interests in Shares

As at 31st December, 2004, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Total interests in shares ⁽¹⁾	Approximate aggregate percentage of interests
FMR Corp. ⁽²⁾	160,768,800	11.89%
J.P. Morgan Chase & Co. ⁽³⁾	136,509,220	10.09%

Notes:

- (1) Interests in shares stated above represent long positions.
- (2) The capacity of FMR Corp. in holding the 160,768,800 shares was as Investment Manager.
- (3) The following is a breakdown of the interests in shares of J.P. Morgan Chase & Co.:

Name	Remarks	Total interests in shares		Approximate percentage of interests
		Direct interests	Deemed interests	
J.P. Morgan Chase & Co.	(a)	–	136,509,220	10.094%
JPMorgan Chase Bank, N.A.	(b)	44,197,815	–	3.268%
J.P. Morgan Fleming Asset Management Holdings Inc.	(b)	–	92,311,405	6.826%
J.P. Morgan Fleming Asset Management (Asia) Inc.	(b)	–	92,271,405	6.823%
JF International Management Inc.	(b)	270,000	–	0.020%
JF Asset Management Limited	(b)	83,197,405	5,504,000	6.559%
JF Funds Limited	(b)	–	5,504,000	0.407%
JF Asset Management (Taiwan) Limited	(b)	5,504,000	–	0.407%
Robert Fleming Holdings Ltd	(b)	–	40,000	0.003%
Robert Fleming Asset Management Ltd	(b)	–	40,000	0.003%
J.P. Morgan Fleming Asset Management (UK) Limited	(b)	40,000	–	0.003%
JF Asset Management (Singapore) Limited	(b)	3,300,000	–	0.244%

Substantial Shareholders' Interests in Shares *(continued)*

Remarks:

- (a) J.P. Morgan Chase & Co. is listed on the New York Stock Exchange.

The capacity of J.P. Morgan Chase & Co. in holding the 136,509,220 shares was, as to 92,311,405 shares, as Investment Manager and, as to 44,197,815 shares, as Custodian.

The 136,509,220 shares included a lending pool of 44,197,815 shares.

- (b) JPMorgan Chase Bank, N.A., J.P. Morgan Fleming Asset Management Holdings Inc., J.P. Morgan Fleming Asset Management (Asia) Inc., JF International Management Inc., JF Asset Management Limited, JF Funds Limited, JF Asset Management (Taiwan) Limited, Robert Fleming Holdings Ltd, Robert Fleming Asset Management Ltd, J.P. Morgan Fleming Asset Management (UK) Limited and JF Asset Management (Singapore) Limited, were all direct or indirect subsidiaries of J.P. Morgan Chase & Co. and by virtue of the SFO, J.P. Morgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.

Save as disclosed above, no person was interested in or had a short position in the shares or underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 31st December, 2004.

Corporate Governance

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 to the Rules governing the Listing of Securities on the Stock Exchange.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules governing the Listing of Securities on the Stock Exchange (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Code of Best Practice has been replaced by the Code on Corporate Governance Practices and Corporate Governance Report (Appendices 14 and 23 to the Rules governing the Listing of Securities on the Stock Exchange) with effect from 1st January, 2005. Compliance of the new Code by the Company will be required for accounting periods commencing from 1st January, 2005.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

Donations

During the year, the Group made charitable and other donations totalling HK\$1,340,000.

Post Balance Sheet Event

Details of significant event occurring after the balance sheet date is set out in note 38 to the financial statements.

Auditors

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Horst Julius Pudwill

Chairman and Chief Executive Officer

Hong Kong

7th April, 2005

Deloitte.

德勤

To the members of
Techtronic Industries Company Limited
創科實業有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 46 to 94 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
7th April, 2005

consolidated income statement

for the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000	2004 US\$'000 (Note 42)	2003 US\$'000 (Note 42)
Turnover	5	16,304,140	13,182,808	2,090,274	1,690,104
Cost of sales		(11,363,394)	(9,284,759)	(1,456,845)	(1,190,354)
Gross profit		4,940,746	3,898,049	633,429	499,750
Other operating income		39,688	39,575	5,088	5,074
Interest income	6	52,772	16,743	6,766	2,147
Selling, distribution, advertising and warranty expenses		(1,916,812)	(1,574,549)	(245,745)	(201,865)
Administrative expenses		(1,551,024)	(1,246,615)	(198,850)	(159,822)
Research and development costs		(338,962)	(268,244)	(43,457)	(34,390)
Profit from operations	7	1,226,408	864,959	157,231	110,894
Finance costs	8	(138,880)	(95,731)	(17,805)	(12,273)
Profit before share of results of associates and taxation		1,087,528	769,228	139,426	98,621
Share of results of associates		(845)	(987)	(108)	(127)
Profit before taxation		1,086,683	768,241	139,318	98,494
Taxation	11	(108,829)	(66,811)	(13,952)	(8,566)
Profit before minority interests		977,854	701,430	125,366	89,928
Minority interests		(40,314)	(27,457)	(5,168)	(3,520)
Profit for the year		937,540	673,973	120,198	86,408
Dividends	12	178,998	113,251	22,948	14,519
Earnings per share (HK / US cents)	13				
Basic		70.11	51.56	8.99	6.61
Diluted		68.16	50.37	8.74	6.46

consolidated balance sheet

as at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000	2004 US\$'000 (Note 42)	2003 US\$'000 (Note 42)
Assets					
Non-current assets					
Property, plant and equipment	14	884,618	904,356	113,413	115,943
Goodwill	15	653,504	652,760	83,783	83,687
Negative goodwill	16	(28,868)	(33,175)	(3,701)	(4,253)
Intangible assets	17	232,881	25,154	29,857	3,225
Interests in associates	19	160,442	118,394	20,569	15,179
Investments in securities	20	27,193	41,419	3,486	5,310
Deferred tax assets	30	329,711	273,937	42,271	35,120
Other assets		1,195	1,195	153	153
		2,260,676	1,984,040	289,831	254,364
Current assets					
Inventories	21	2,787,059	2,491,650	357,315	319,442
Trade and other receivables	22	2,762,156	2,197,789	354,123	281,768
Deposits and prepayments		382,421	293,408	49,028	37,616
Bills receivable		256,836	36,409	32,928	4,668
Investments in securities	20	–	5,575	–	715
Tax recoverable		872	51,274	112	6,574
Trade receivables from associates		1,247	48	160	6
Bank balances, deposits and cash		5,452,057	2,586,075	698,982	331,548
		11,642,648	7,662,228	1,492,648	982,337
Current liabilities					
Trade and other payables	23	2,885,506	2,084,198	369,937	267,205
Bills payable		3,719,108	2,809,963	476,809	360,252
Warranty provision	24	241,375	208,552	30,946	26,737
Trade payable to an associate		21,593	3,230	2,768	414
Tax payable		105,092	68,114	13,473	8,733
Obligations under finance leases – due within one year	25	6,266	5,485	803	703
Borrowings – due within one year	27	840,450	497,975	107,750	63,843
		7,819,390	5,677,517	1,002,486	727,887
Net current assets		3,823,258	1,984,711	490,162	254,450
Total assets less current liabilities		6,083,934	3,968,751	779,993	508,814

consolidated balance sheet

	Notes	2004 HK\$'000	2003 HK\$'000	2004 US\$'000 (Note 42)	2003 US\$'000 (Note 42)
Capital and Reserves					
Share capital	28	135,230	132,497	17,337	16,987
Reserves		3,303,436	2,380,387	423,519	305,178
		3,438,666	2,512,884	440,856	322,165
Minority Interests					
		82,032	46,374	10,517	5,945
Non-current Liabilities					
Obligations under finance leases – due after one year	25	8,989	14,261	1,152	1,828
Convertible bonds	26	1,071,993	–	137,435	–
Borrowings – due after one year	27	1,446,292	1,348,497	185,422	172,884
Deferred tax liabilities	30	35,962	46,735	4,611	5,992
		2,563,236	1,409,493	328,620	180,704
		6,083,934	3,968,751	779,993	508,814

The financial statements on pages 46 to 94 were approved and authorized for issue by the Board of Directors on 7th April, 2005 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Roy Chi Ping Chung
Group Managing Director

balance sheet

as at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Assets			
Non-current assets			
Property, plant and equipment	14	218,195	233,659
Intangible assets	17	3,825	5,659
Investments in subsidiaries	18	426,981	402,408
Interests in associates	19	139,166	85,587
Investments in securities	20	5,227	10,454
Other assets		1,195	1,195
		794,589	738,962
Current assets			
Inventories	21	491,189	467,985
Trade and other receivables	22	64,419	42,379
Deposits and prepayments		162,860	78,514
Bills receivable		96,615	12,280
Investments in securities	20	–	5,575
Amounts due from subsidiaries		4,843,002	4,200,897
Bank balances, deposits and cash		3,642,497	1,067,850
		9,300,582	5,875,480
Current liabilities			
Trade and other payables	23	1,237,928	839,598
Bills payable		3,151,033	2,510,640
Amounts due to subsidiaries		872,150	549,641
Amounts due to associates		24,379	3,230
Tax payable		27,343	37,168
Obligations under finance leases – due within one year	25	586	1,963
Borrowings – due within one year	27	407,333	165,815
		5,720,752	4,108,055
Net current assets		3,579,830	1,767,425
Total assets less current liabilities		4,374,419	2,506,387

balance sheet

	Notes	2004 HK\$'000	2003 HK\$'000
Capital and Reserves			
Share capital	28	135,230	132,497
Reserves	29	2,840,786	2,106,955
		2,976,016	2,239,452
Non-current Liabilities			
Obligations under finance leases – due after one year	25	–	595
Convertible bonds	26	1,071,993	–
Borrowings – due after one year	27	312,000	251,334
Deferred tax liabilities	30	14,410	15,006
		1,398,403	266,935
		4,374,419	2,506,387

Chi Chung Chan
Group Executive Director

Roy Chi Ping Chung
Group Managing Director

consolidated statement of changes in equity

for the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2003	129,143	613,499	(16,768)	1,102,063	1,827,937
Exchange differences on translation of overseas operations not recognized in the income statement	–	–	62,287	–	62,287
Shares issued at a premium	3,354	58,584	–	–	61,938
Profit for the year	–	–	–	673,973	673,973
Final dividend – 2002	–	–	–	(65,388)	(65,388)
Interim dividend – 2003	–	–	–	(47,863)	(47,863)
At 1st January, 2004	132,497	672,083	45,519	1,662,785	2,512,884
Exchange differences on translation of overseas operations not recognized in the income statement	–	–	25,979	–	25,979
Shares issued at a premium	2,733	138,528	–	–	141,261
Profit for the year	–	–	–	937,540	937,540
Final dividend – 2003	–	–	–	(118,444)	(118,444)
Interim dividend – 2004	–	–	–	(60,554)	(60,554)
At 31st December, 2004	135,230	810,611	71,498	2,421,327	3,438,666

The Group's retained profits include the Group's share of the post acquisition losses of associates of HK\$14,824,000 (2003: HK\$13,979,000), and the Group's translation reserve of a credit balance of HK\$1,541,000 (2003: HK\$1,541,000) in respect of associates.

consolidated cash flow statement

for the year ended 31st December, 2004

	Note	2004 HK\$'000	2003 HK\$'000	2004 US\$'000 (Note 42)	2003 US\$'000 (Note 42)
Operating Activities					
Profit from operations		1,226,408	864,959	157,231	110,894
Adjustments for:					
Amortization/write off of intangible assets		8,692	7,779	1,114	997
Amortization of goodwill		35,263	25,056	4,521	3,212
Depreciation and amortization on property, plant and equipment		316,509	303,846	40,578	38,955
Impairment loss of investment securities recognized		14,226	14,028	1,825	1,796
Interest income		(52,772)	(16,743)	(6,766)	(2,147)
Loss (profit) on disposal of property, plant and equipment		1,882	(4,304)	241	(552)
Release of negative goodwill to income		(4,307)	(4,306)	(552)	(552)
Operating cash flows before movements in working capital		1,545,901	1,190,315	198,192	152,603
Increase in inventories		(265,316)	(455,063)	(34,015)	(58,341)
Increase in trade and other receivables, deposits and prepayments		(621,895)	(747,305)	(79,730)	(95,808)
(Increase) decrease in bills receivable		(220,369)	225,641	(28,252)	28,928
(Increase) decrease in trade receivables from associates		(1,199)	6,712	(154)	861
Increase in trade and other payables		786,963	186,109	100,893	23,860
Increase in bills payable		909,145	1,196,329	116,557	153,376
Increase in warranty provision		31,523	59,640	4,041	7,646
Increase in trade payable to an associate		18,363	3,230	2,354	414
Cash generated from operations		2,183,116	1,665,608	279,886	213,539
Interest paid		(132,489)	(93,647)	(16,986)	(12,006)
Hong Kong profits tax paid		(105,995)	(30,537)	(13,589)	(3,915)
Overseas tax paid		(37,440)	(59,582)	(4,800)	(7,639)
Hong Kong profits tax refunded		668	–	86	–
Overseas tax refunded		68,779	16,138	8,818	2,069
Net cash from operating activities		1,976,639	1,497,980	253,415	192,048
Investing Activities					
Purchase of property, plant and equipment		(296,061)	(238,299)	(37,957)	(30,551)
Additions to intangible assets		(216,262)	(6,642)	(27,726)	(852)
Purchase of additional interest in a subsidiary		(42,900)	–	(5,500)	–
Advances to associates		(37,043)	(2,116)	(4,749)	(271)
Capital injection to an associate		(5,850)	–	(750)	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	31	–	(818,857)	–	(104,982)
Interest received		52,772	16,743	6,766	2,147
Proceeds from disposal of property, plant and equipment		16,715	94,920	2,143	12,169
Proceeds from disposal of investments in securities		5,575	1,810	715	232
Net cash used in investing activities		(523,054)	(952,441)	(67,058)	(122,108)

	2004 HK\$'000	2003 HK\$'000	2004 US\$'000 (Note 42)	2003 US\$'000 (Note 42)
Financing Activities				
Proceeds from issue of convertible bonds	1,069,770	–	137,150	–
New bank loans obtained	811,412	1,178,302	104,027	151,064
Proceeds from issue of shares	141,261	61,938	18,110	7,941
Increase in trust receipt loans	46,969	14,697	6,022	1,884
Proceeds from issue of fixed interest rate notes	–	1,089,321	–	139,657
Repayment of bank loans	(423,614)	(2,037,364)	(54,309)	(261,201)
Dividend paid	(178,998)	(113,251)	(22,948)	(14,519)
Repayment of obligations under finance leases	(20,046)	(10,169)	(2,570)	(1,304)
Net cash from financing activities	1,446,754	183,474	185,482	23,522
Net increase in cash and cash equivalents	2,900,339	729,013	371,839	93,462
Cash and cash equivalents at beginning of the year	2,444,098	1,753,900	313,346	224,859
Effect of foreign exchange rate changes	(29,919)	(38,815)	(3,836)	(4,975)
Cash and cash equivalents at end of the year	5,314,518	2,444,098	681,349	313,346
Analysis of the Balances of Cash and Cash Equivalents				
Represented by:				
Bank balances, deposits and cash	5,452,057	2,586,075	698,982	331,548
Bank overdrafts	(137,539)	(141,977)	(17,633)	(18,202)
	5,314,518	2,444,098	681,349	313,346

notes to the financial statements

for the year ended 31st December, 2004

1 General

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2 Potential Impact Arising from the Recently Issued Accounting Standards

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

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

3 Significant Accounting Policies

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

Basis of consolidation

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

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

Goodwill

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

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

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

3 Significant Accounting Policies *(continued)*

Negative goodwill

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

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

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

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

Investments in subsidiaries

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

Interests in associates

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

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

Patents, trademarks and manufacture know-how

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

Assets held under finance leases

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

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

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

3 Significant Accounting Policies (continued)

Property, plant and equipment

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

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

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

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

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

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

Impairment

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

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

Investments in securities

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

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

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

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

3 Significant Accounting Policies *(continued)*

Other assets

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

Inventories

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

Research and development costs

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

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

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

Revenue recognition

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

Commission income is recognized when services are provided.

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

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

Taxation

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

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

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

3 Significant Accounting Policies (continued)

Taxation (continued)

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

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

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

Foreign currencies

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

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

Borrowing costs

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

Loan arrangement fees

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

Retirement benefits schemes

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

Convertible bonds

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

4 Business and Geographical Segments

Business segments

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

Income statement

for the year ended 31st December, 2004

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

Inter-segment sales are charged at prevailing market rates.

Result

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

4 Business and Geographical Segments (continued)

Business segments (continued)

Balance sheet

as at 31st December, 2004

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

Other information

for the year ended 31st December, 2004

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

4 Business and Geographical Segments (continued)

Business segments (continued)

Income statement

for the year ended 31st December, 2003

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

Inter-segment sales are charged at prevailing market rates.

Result

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

4 Business and Geographical Segments (continued)

Business segments (continued)

Balance sheet

as at 31st December, 2003

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

Other information

for the year ended 31st December, 2003

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

4 Business and Geographical Segments (continued)

Geographical segments

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

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

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

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

5 Turnover

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

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

6 Interest Income

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

7 Profit from Operations

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

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

8 Finance Costs

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

9 Directors' Emoluments

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

9 Directors' Emoluments (continued)

The emoluments of the directors were within the following bands:

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

10 Employees' Emoluments

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

During each of the two years ended 31st December, 2004 and 2003, no emoluments has been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during those years.

11 Taxation

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

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

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

The tax expenses for the year are reconciled as follows:

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

Details of deferred tax are set out in note 30.

12 Dividends

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

Notes:

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

13 Earnings per Share

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

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

Notes:

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

14 Property, Plant and Equipment

	Land and land use rights and buildings outside Hong Kong HK\$'000	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Moulds and tooling HK\$'000	Vessels HK\$'000	Construction in progress HK\$'000	Total HK\$'000
The Group									
Cost									
At 1st January, 2004	449,114	153,152	418,111	475,397	20,253	1,089,762	3,476	7,676	2,616,941
Currency realignment	4,731	811	3,888	531	282	301	–	–	10,544
Additions	3,127	13,243	46,591	57,591	2,221	123,232	8,359	57,252	311,616
Disposals	(24,731)	(12,553)	(2,428)	(19,944)	(1,586)	(84,421)	–	–	(145,663)
Reclassification	5,342	–	16,670	1,600	–	520	–	(24,132)	–
At 31st December, 2004	437,583	154,653	482,832	515,175	21,170	1,129,394	11,835	40,796	2,793,438
Depreciation and amortization									
At 1st January, 2004	113,765	99,515	273,019	333,404	14,791	874,772	3,319	–	1,712,585
Currency realignment	2,496	614	2,645	399	406	232	–	–	6,792
Provided for the year	19,348	12,663	67,820	61,634	2,628	151,823	593	–	316,509
Eliminated on disposals	(15,020)	(8,596)	(2,224)	(17,306)	(1,579)	(82,341)	–	–	(127,066)
Reclassification	–	–	–	829	–	(829)	–	–	–
At 31st December, 2004	120,589	104,196	341,260	378,960	16,246	943,657	3,912	–	1,908,820
Net book values									
At 31st December, 2004	316,994	50,457	141,572	136,215	4,924	185,737	7,923	40,796	884,618
At 31st December, 2003	335,349	53,637	145,092	141,993	5,462	214,990	157	7,676	904,356

14 Property, Plant and Equipment (continued)

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

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

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

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

15 Goodwill

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

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

16 Negative Goodwill

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

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

17 Intangible Assets

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

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

18 Investments in Subsidiaries

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

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

19 Interests in Associates

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

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

The amounts due from associates are unsecured, bearing interest at LIBOR plus market spread (2003: HIBOR plus market spread) and have no fixed repayment terms. In the opinion of directors, no part of the amounts will be repaid within the next twelve months and the amounts are therefore presented as non-current.

20 Investments in Securities

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

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

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

21 Inventories

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

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

22 Trade and Other Receivables

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

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

23 Trade and Other Payables

The aging analysis of trade payables is as follows:

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

24 Warranty Provision

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

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

25 Obligations under Finance Leases

The maturity of obligations under finance leases is as follows:

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

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

26 Convertible Bonds

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

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

27 Borrowings

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

27 Borrowings (continued)

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

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

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

28 Share Capital

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

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

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

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

29 Reserves

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

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

30 Deferred Tax Assets (Liabilities)

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

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

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

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

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

31 Acquisition of Subsidiaries

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

Net cash outflow arising on acquisition:

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

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

32 Major Non-cash Transactions

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

33 Lease Commitments

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

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

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

34 Contingent Liabilities

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

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

35 Share Options

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

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

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

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

Scheme A expired on 27th November, 2000.

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

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

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

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

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

35 Share Options (continued)

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

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

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

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

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

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

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

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

35 Share Options (continued)

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

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

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

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

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

36 Retirement Benefits Schemes

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

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

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

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

37 Capital Commitments

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

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

38 Post Balance Sheet Event

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

39 Related Party Transactions

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

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

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

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

40 Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Digiwireless Limited	Hong Kong	HK\$2	100	–	Investment holding
Envotech Technology Company Limited	Hong Kong	HK\$2	100	–	Investment holding
Full Team International Limited	Hong Kong	HK\$2	100	–	Investment holding
Homelite Asia (Dongguan) Company Limited	The PRC	US\$2,100,000	–	100	Manufacture of outdoor power equipment products
Homelite Asia Ltd.	The British Virgin Islands (“BVI”)/ The PRC	US\$1	100	–	Trading of outdoor power equipment products
Homelite Consumer Products, Inc.	USA	US\$10	–	100	Trading of outdoor power equipment products
Homelite Far East Co. Ltd.	Hong Kong	HK\$2	100	–	Trading of outdoor power equipment products
Homelite Technologies Ltd.	Bermuda	US\$12,000	100	–	Investment holding
MacEwen Property Co. Inc.	USA	US\$100	100	–	Property holding
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK\$100,000	100	–	Trading of household electronic and electrical products
One World Technologies, Inc.	USA	US\$10	–	100	Investment holding
OWT France SAS	France	€1,750,000	–	100	Investment holding
OWT Industries, Inc.	USA	US\$10	–	100	Manufacture of electric components and power tools products
OWT Taiwan Limited	Taiwan	NT\$5,000,000	100	–	Provision of inspection services
Royal Appliance International GmbH	Germany	€1,050,000	74.9	–	Trading of household electronic and electrical products
Royal Appliance Mfg. Co.	USA	US\$1	–	100	Trading and manufacture of floor care products
Ryobi Technologies Australia Pty Limited	Australia	A\$5,500,000	100	–	Trading of electric power tools products

40 Particulars of Principal Subsidiaries (continued)

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

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

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

41 Particulars of Associates

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

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

42 US Dollar Equivalents

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

43 Comparative Figures

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

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of the Company will be held at Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong, on 30th May, 2005 at 9:30 a.m. for the following purposes:

- (1) To receive and consider the Statement of Accounts and the Reports of the Directors and Auditors for the year ended 31st December, 2004.
- (2) To declare a Final Dividend of HK12.50 cents per share to shareholders whose names appear on the Register of Members of the Company on 17th June, 2005.
- (3) To re-elect retiring Directors and fix the Directors' remuneration.
- (4) To appoint Auditors and fix their remuneration.

As special business, to consider and, if thought fit, pass, with or without amendments, the following resolutions as ordinary resolutions, as indicated below:

Ordinary Resolutions

- (5) **“THAT:**
 - (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers be and it is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers during and after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any bonds, notes, debentures and securities which are convertible into shares of the Company; or (iii) the exercise of any options granted under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries, of options to subscribe for, or rights to acquire, shares of the Company; or (iv) an issue of shares by way of scrip dividends pursuant to the articles of association of the Company from time to time, shall not exceed:
 - (A) in the case of an allotment and issue of shares for cash, 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution; and

(B) in the case of an allotment and issue of shares for a consideration other than cash, 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution (less any shares allotted and issued pursuant to sub-paragraph (A) above),

provided that any shares to be allotted and issued pursuant to the approval in paragraph (a) above shall not be issued at a discount of more than 5% to the Benchmarked Price (as hereinafter defined) of the shares, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

“Benchmarked Price” shall be a price which is the higher of:

- (i) the closing price of the shares of the Company as stated in the Stock Exchange's (as hereinafter defined) daily quotations sheet on the date of signing of the agreement to which the transaction relates; and
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the earliest of:
 - (A) the date of signing of the agreement to which the transaction relates;
 - (B) the date on which the relevant transaction is announced; or
 - (C) the date on which the price of the shares of the Company to be issued pursuant to the transaction is fixed;

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting;

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares of the Company or any class thereof (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlement or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong); and

“Stock Exchange” means The Stock Exchange of Hong Kong Limited.”

- (6) **“THAT:**
- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company on the Stock Exchange (as hereinafter defined) or on any other exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and regulations, be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of share capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution, and the said approval shall be limited accordingly; and
 - (c) for the purposes of this resolution:
 - “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
 - (iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting; and
 - “Stock Exchange” means The Stock Exchange of Hong Kong Limited.”
- (7) **“THAT** conditional upon the passing of the ordinary resolutions numbered 5 and 6 in the notice convening the annual general meeting of the Company at which this resolution is proposed, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said resolution numbered 6 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with the said resolution numbered 5.”
- (8) **“THAT** the existing scheme mandate limit in respect of the granting of options to subscribe for shares of the Company under the share option scheme adopted by the Company on 28th March, 2002 (the “Share Option Scheme”) be refreshed provided that the total number of shares which may be allotted and issued pursuant to the grant or exercise of the options under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme, the old share option scheme of the Company adopted by the Company on 25th May, 2001 which was terminated on 28th March, 2002 and other share option schemes of the Company) shall not exceed 10% of the shares of the Company in issue as at the date of passing of this resolution (the “Refreshed Limit”) and subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to

deal in such number of shares to be issued pursuant to the exercise of the options granted under the Refreshed Limit and in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the directors of the Company be and are hereby authorized to grant options under the Share Option Scheme up to the Refreshed Limit and to exercise all powers of the Company to allot, issue and deal with the shares to be issued pursuant to the exercise of such options.”

By Order of the Board

Chi Chung Chan

Company Secretary

Hong Kong

28th April, 2005

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member.
2. A form of proxy for the meeting is enclosed. In order to be valid, the form of proxy, together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the registered office of the Company at 24/F., CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. The register of members of the Company will be closed from 13th June, 2005 to 17th June, 2005 both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 10th June, 2005.
4. The retiring Directors standing for re-election under item 3 are Mr Horst Julius Pudwill, Mr Vincent Ting Kau Cheung, Mr Christopher Patrick Langley and Mr Manfred Kuhlmann. Details of the retiring Directors standing for re-election will be sent to shareholders of the Company together with the annual report of the Company for the year ended 31st December, 2004.
5. An explanatory statement containing further details regarding item 6 will be sent to shareholders of the Company together with the annual report of the Company for the year ended 31st December, 2004.

As at the date hereof, the Board comprised four Group executive Directors, namely, Mr Horst Julius Pudwill (Chairman and Chief Executive Officer), Mr Roy Chi Ping Chung (Managing Director), Mr Patrick Kin Wah Chan and Mr Frank Chi Chung Chan, two non-executive Directors, namely, Dr Akio Urakami and Mr Vincent Ting Kau Cheung and three independent non-executive Directors, namely, Mr Joel Arthur Schleicher, Mr Christopher Patrick Langley and Mr Manfred Kuhlmann.

financial summary

Results

	Year ended 31st December,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	4,551,482	6,101,140	9,492,938	13,182,808	16,304,140
Profit before share of results of associates and taxation	216,191	270,055	495,780	769,228	1,087,528
Share of results of associates	(1,221)	(300)	121	(987)	(845)
Profit before taxation	214,970	269,755	495,901	768,241	1,086,683
Taxation	(25,949)	(19,517)	(70,246)	(66,811)	(108,829)
Profit before minority interests	189,021	250,238	425,655	701,430	977,854
Minority interests	504	(3,125)	(12,241)	(27,457)	(40,314)
Profit for the year	189,525	247,113	413,414	673,973	937,540
Basic earnings per share (Note i)	16.92 cents	21.74 cents	33.24 cents	51.56 cents	70.11 cents

Assets and Liabilities

	At 31st December,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Total assets	2,992,972	3,807,792	6,423,105	9,646,268	13,903,324
Total liabilities, provisions and minority interests	2,078,976	2,693,087	4,595,168	7,133,384	10,464,658
Shareholders' funds	913,996	1,114,705	1,827,937	2,512,884	3,438,666

Note i: Prior years' amounts have been adjusted for the effect of the share subdivision as described in note 28 to the financial statements.

corporate information

Board of Directors

Group Executive Directors

Mr Horst Julius Pudwill
Chairman and Chief Executive Officer

Mr Roy Chi Ping Chung
Group Managing Director

Mr Patrick Kin Wah Chan
Mr Frank Chi Chung Chan

Non-executive Directors

Mr Vincent Ting Kau Cheung
Dr Akio Urakami

Independent Non-executive Directors

Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley
Mr Manfred Kuhlmann

Financial Calendar 2005

7th April:	Announcement of 2004 annual results
30th May:	Annual General Meeting
10th June:	Last day to register for 2004 final dividend
13th-17th June:	Book closure period
29th July:	Final dividend payment
30th June:	Six months interim period end
31st December:	Financial year end

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Website

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Earning results, annual/interim reports are available online

Listing Information

The Stock Exchange of Hong Kong Limited
Ordinary Shares (code: 669)
Zero Coupon Convertible Bonds 2009 (code: 2591)
ADR Level 1 Programme (code: TTNDY)

Share Registrar and Transfers Office

Secretaries Limited
G/F, Bank of East Asia
Harbour View Centre
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Tel: 852 2980 1888
Fax: 852 2861 0285

ADR Depositary

The Bank of New York

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Citibank N.A.
Standard Chartered Bank
Wachovia Bank, N.A.
Commerzbank A.G.

Solicitors

Vincent T K Cheung Yap & Co

Auditors

Deloitte Touche Tohmatsu

Company Secretary

Mr Frank Chi Chung Chan

Trademarks

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Sears® and Craftsman® brands are registered trademarks of Sears Brands, LLC.

RIDGID® is a registered trademark of Ridgid, Inc., part of Emerson Professional Tools, a business of St. Louis-based Emerson (NYSE: EMR). The orange color used on these products and the combination of orange and grey are trademarks for RIDGID® brand power tools.

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