THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Techtronic Industries Company Limited (the "Company"), you should at once hand this circular with the enclosed form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

TECHTRONIC INDUSTRIES COMPANY LIMITED
創 科 實 業 有 限 公 司
(Incorporated in Hong Kong with limited liability)

MAJOR TRANSACTION
– PROPOSED ACQUISITION OF
ROYAL APPLIANCE MANUFACTURING CO.
BY WAY OF MERGER

A notice convening an extraordinary general meeting of the Company to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 31st March, 2003 at 9:30 a.m. (the "Extraordinary General Meeting") is set out on pages 127 and 128 of this circular. Whether or not you propose to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy to the Company's registered office at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion of the form of proxy shall not preclude you from attending and voting at the Extraordinary General Meeting or any adjourned meeting should you so wish.

6th March, 2003

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquiror"	RAMC Holdings, Inc., a corporation incorporated in the State of Delaware, the US and a direct wholly-owned subsidiary of the Company
"Affiliate"	in relation to any corporation means another corporation that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first corporation
"Board"	the board of Directors
"Closing"	closing of the Merger Agreement
"Company"	Techtronic Industries Company Limited, a public company limited by shares incorporated in Hong Kong, the Shares of which are listed on the Stock Exchange
"Directors"	the directors of the Company
"Dissenting Shares"	Royal Common Shares which are outstanding immediately prior to the Effective Time and held by persons who shall have properly demanded payment of the fair cash value of such Royal Common Shares in accordance with section 1701.85 of the OGCL
"Effective Time"	the time on which the Merger becomes effective in accordance with the OGCL
"Enlarged Group"	the Group as enlarged upon the implementation of the Merger
"Extraordinary General Meeting"	the extraordinary general meeting of the Company to be convened to approve the Merger
"GAAP"	generally accepted accounting principles
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	3rd March, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Merger"	the merger of Merger Sub into Royal upon and subject to the terms and conditions of the Merger Agreement
"Merger Agreement"	the agreement and plan of merger dated as of 17th December, 2002 among Royal, the Company, the Acquiror and Merger Sub
"Merger Consideration"	US$7.37 in cash for each issued and outstanding Royal Common Share
"Merger Sub"	TIC Acquisition Corp., a corporation incorporated in the State of Ohio, the US and an indirect wholly-owned subsidiary of the Company
"NYSE"	New York Stock Exchange
"OGCL"	Ohio General Corporation Law
"Option Shares Merger Consideration"	a cash amount equal to the product of the excess, if any, of the Merger Consideration minus the exercise price, if any, of each Royal Stock Option multiplied by the aggregate number of Royal Common Shares issuable upon the exercise in full of such Option at the Effective Time
"Royal"	Royal Appliance Manufacturing Co., a limited liability corporation incorporated in the State of Ohio, the US and whose shares of common stock are listed and traded on NYSE
"Royal Common Shares"	the shares of common stock, without par value, of Royal
"Royal Group"	Royal and its subsidiaries
"Royal Shareholders"	holders of Royal Common Shares
"Royal Special Shareholders Meeting"	the special meeting of Royal Shareholders to be held on or around 15th April, 2003 for the purpose of considering, and if thought fit, approving the Merger

"Royal Stock Option"	each unexercised option, warrant, phantom stock award or other security of Royal (including any stock option granted to directors, consultants and employees of Royal)
"Royal Stock Option Plans"	all incentive plans adopted by Royal for the purpose of granting options, warrants, phantom stock awards or other securities to directors, consultants and employees of Royal
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"SEC"	the Securities and Exchange Commission of the US
"Shares"	shares of HK$0.20 each in the capital of the Company
"Shareholders"	holders of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	United States of America
"HK$"	the lawful currency of Hong Kong
"US$"	the lawful currency of US

Unless otherwise specified, where financial information in this circular has been converted from US dollars into Hong Kong dollars, it has been converted at the exchange rate of US$1:HK$7.8. Such conversion has been made solely for the convenience of readers and should not be construed as a representation that such amounts have been, could have been or could be converted into Hong Kong dollars at such rate or at any rate or at all.

TECHTRONIC INDUSTRIES COMPANY LIMITED
創科實業有限公司
(Incorporated in Hong Kong with limited liability)

Executive Directors:
Mr. Horst Julius Pudwill
(Chairman and Chief Executive Officer)
Mr. Roy Chi Ping Chung
(Managing Director)
Mr. Kin Wah Chan
Mr. Chi Chung Chan
Dr. Akio Urakami

Non-executive Director:
Mr. Susumu Yoshikawa

Independent Non-executive Directors:
Mr. Vincent Ting Kau Cheung
Mr. Joel Arthur Schleicher
Mr. Christopher Patrick Langley

Registered Office:
24th Floor
CDW Building
388 Castle Peak Road
Tsuen Wan
New Territories
Hong Kong

6th March, 2003

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
– PROPOSED ACQUISITION OF
ROYAL APPLIANCE MANUFACTURING CO.
BY WAY OF MERGER

INTRODUCTION

On 18th December, 2002, the Board announced that the Company, Royal, the Acquiror and Merger Sub have, on 17th December, 2002, entered into the Merger Agreement whereby, the parties have agreed, subject to certain conditions, that at the Effective Time:

(a) Royal will become an indirect wholly-owned subsidiary of the Company through the merger of Merger Sub with and into Royal as a result of which the separate corporate existence of Merger Sub will cease and Royal will continue as the surviving corporation;

(b) each issued and outstanding Royal Common Share (other than (i) any Royal Common Shares held by Royal in its treasury, (ii) any Royal Common Shares owned by Royal and any direct or indirect wholly-owned subsidiary of Royal or owned by the Acquiror or any affiliate of the Acquiror and (iii) any Dissenting Shares) will be converted into the right to receive the Merger Consideration in cash; and

(c) each outstanding Royal Stock Option will be extinguished and converted into the right to receive the Option Shares Merger Consideration in cash.

As the estimated total consideration for the Merger represents more than 50% but less than 100% of the latest published unaudited consolidated net tangible assets of the Company for the six months ended 30th June, 2002, the Merger constitutes a major transaction for the Company under the Listing Rules and will require the approval by the Shareholders at the Extraordinary General Meeting.

The purpose of this circular is to provide you with further information relating to the Merger and to seek your approval of the Merger at the Extraordinary General Meeting.

THE MERGER AGREEMENT

Date of agreement : 17th December, 2002

Parties : 1. Company;
2. Royal;
3. Acquiror, a direct wholly-owned subsidiary of the Company; and
4. Merger Sub, an indirect wholly-owned subsidiary of the Company.

Royal and its shareholders are independent of and not connected with the directors, chief executive and substantial shareholders of the Company and its subsidiaries or any of their respective associates (as defined in the Listing Rules). To the best of the Directors' knowledge, neither Royal nor its shareholders hold any Shares at the Latest Practicable Date.

None of the directors of the Group, the Company and its subsidiaries hold any Royal Common Shares or Royal Stock Options at the Latest Practicable Date.

The following is a summary of the principal terms and conditions of the Merger Agreement:

(a) The Merger

As at the Effective Time, by virtue of OGCL, Merger Sub will be merged with and into Royal and the corporate existence of Merger Sub will cease thereafter. Royal will be the surviving corporation in the Merger and the corporate existence of Royal, with all its purposes, objects, rights, privileges, powers, immunities and franchises, will continue and be unaffected by the Merger, subject to paragraph (c) below.

After the Merger, Royal's results and assets and liabilities will be consolidated into the financial statements of the Company using the acquisition accounting method. Goodwill of approximately HK$558.5 million representing the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of Royal at the date of acquisition, will arise on consolidation of Royal. In accordance with the accounting policies of the Group, such goodwill will be capitalised and amortised on a straight-line basis over its useful economic life of 20 years. Such goodwill will also be presented separately in the balance sheet of the Group.

The Merger will become effective at such time as a Certificate of Merger in such form as is required by and executed in accordance with the relevant provisions of the OGCL is duly filed with the Secretary of State of the State of Ohio, the US or at such later date or time as Royal and the Acquiror shall agree and specify in such Certificate of Merger. It is expected that the Certificate of Merger will be filed with the Secretary of State of the State of Ohio, the US after the approval of the Merger by the requisite majority of Royal Shareholders at the Royal Special Shareholders Meeting on or around 15th April, 2003. The expected effective date of the Merger, being at or around the same time as Closing, will be before 30th April, 2003.

The Merger Agreement provides that the directors and officers of Merger Sub immediately before the Effective Time will become the directors and officers, respectively of Royal after the Merger. Upon Closing, all the existing five non-executive directors of Royal will resign from the board of Royal. Mr. Michael J. Merriman is the only executive director of Royal who will remain as an executive director, the Chief Executive Officer and President of Royal after Closing. Further information on Mr. Merriman is set out in the paragraph headed "Information on Royal" below. Save as aforesaid, there is no intention to change any of the existing directors and officers of Royal upon Closing.

(b) Articles of incorporation and By-laws

By virtue of the Merger, the articles of incorporation and by-laws of Merger Sub shall be the articles of incorporation and by-laws, respectively of Royal as the surviving corporation until thereafter changed or amended in the manner as provided in the Merger Agreement or by applicable law.

The articles of incorporation and by-laws of Merger Sub will become the articles of incorporation and by-laws of Royal as the surviving corporation, since the existing articles of incorporation and by-laws of Royal are suitable for corporations quoted on NYSE and are unduly restrictive for the Acquiror after the Merger. There is no intention to make any major changes to the articles of incorporation and by-laws of Merger Sub after the Merger.

(c) Effect of the Merger on capital stock and stock options

At the Effective Time, by virtue of the Merger:

(i) *Cancellation of Royal's treasury stock and Royal-owned stock*

Each Royal Common Share that is owned by Royal and any direct or indirect wholly-owned subsidiary of Royal or owned by the Acquiror or an Affiliate of the Acquiror or held in the treasury of Royal shall automatically be cancelled and retired and shall cease to exist, and no consideration will be payable in exchange therefor.

As at the Latest Practicable Date, 13,102,507 Royal Common Shares were held by Royal in its treasury. Save as aforesaid, no Royal Common Share is owned by Royal or any direct or indirect wholly-owned subsidiary of Royal or owned by the Acquiror or an Affiliate of the Acquiror.

(ii) *Conversion of Royal Common Shares*

As at the Latest Practicable Date, 12,816,452 Royal Common Shares (excluding those held by Royal in its treasury) were issued and outstanding. Each issued and outstanding Royal Common Share (other than the Dissenting Shares) shall be automatically converted into the right to receive the Merger Consideration of US$7.37 in cash payable by the Company or its exchange agent in the manner described in sub-paragraph (vi) below.

(iii) *Royal Stock Option Plans*

Royal shall take all actions necessary to ensure that, at the Effective Time, each outstanding Royal Stock Option, vested or unvested, exercisable or non-exercisable, shall be extinguished and converted into the right to receive the Option Shares Merger Consideration. Based on the average exercise price of approximately US$3.98 per share, the Option Shares Merger Consideration will amount to approximately US$3.39 per share in cash payable by the Company or its exchange agent in the manner described in sub-paragraph (vi) below. The holders of Royal Stock Options have no right to vote on the Merger and there is no alternative compensation arrangement for them under the Royal Stock Option Plans or the OGCL.

Unlike holders of Dissenting Shares, holders of Royal Stock Options have no right to demand the fair value of their options under the OGCL. Any holder of Royal Stock Options who does not wish to receive the Option Shares Merger Consideration may take one of the following courses of action.

Firstly, he may convert his Royal Stock Options into Royal Common Shares and vote such shares for the Merger at the Royal Special Shareholders Meeting and receive the Merger Consideration.

Secondly, he may convert his Royal Stock Options into Royal Common Shares and vote such shares against the Merger at the Royal Special Shareholders Meeting and demand the fair value of his shares under the OGCL as mentioned in paragraph (vii) below.

Thirdly, he may convert his Royal Stock Options and dispose the resultant Royal Common Shares in the market.

Any holder of Royal Stock Options who fails to take any of the above actions before the Effective Time will receive the Option Shares Merger Consideration upon the Merger becoming effective. As advised by Royal's management, the Directors expect that very few holders of Royal Stock Options will take any of the above courses of action in light of the fact that such holders will have to finance the exercise monies personally or by borrowings and the Merger Consideration is higher than the exercise prices of the outstanding Royal Stock Options and the current market price of the Royal Common Shares.

Without prejudice to the existing rights of holders of outstanding Royal Stock Options, the Royal Stock Option Plans shall terminate at the Effective Time so that no further grant of Royal Stock Options can be made thereunder and the provisions in any other plan, program or arrangement providing for the issuance or grant of any other interest in respect of the capital stock of Royal or any subsidiary of Royal shall be terminated at the Effective Time. Under the terms of Royal Stock Option Plans and any other stock option plan, program or arrangement of Royal, the board of Royal has the right to administer and terminate the future operation of the Royal Stock Option Plans and such other stock option plan, program or arrangement.

(iv) *Cancellation and retirement of Royal Common Shares*

At the Effective Time, all Royal Common Shares (other than shares to be cancelled in accordance with paragraph (i) above and Dissenting Shares as described in paragraph (vii) below) shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such Royal Common Shares shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration, without interest, upon surrender of such certificate.

(v) *Capital stock of Merger Sub*

Each common share of Merger Sub issued and outstanding immediately before the Effective Time will be converted into one Royal Common Share.

(vi) *Payment Procedures*

Before the Effective Time, Merger Sub will deposit the estimated total consideration to be paid in the Merger of approximately US$105.5 million (or HK$822.9 million) with an exchange agent acceptable to Royal and the Company. As soon as practicable after the Effective Time, the Company or the exchange agent will send to each Royal Shareholder and holder of Royal Stock Options a letter of transmittal and instructions to effect the surrender of the share certificates or other documentation that represent shares or options, warrants, phantom stock rights or any other security of Royal entitled to receive payment under the Merger Agreement, if any, in exchange for payment of the consideration offered in respect of these shares or options, warrants, phantom stock rights or other security entitled to receive payment under the Merger Agreement.

Each Royal Shareholder and holder of Royal Stock Options will be entitled to receive the consideration offered to Royal Shareholders and holder of Royal Stock Options, after giving effect to any required tax withholdings, only upon surrender to the exchange agent of the relevant share certificates, together with a properly completed letter of transmittal. The Company will not pay interest on the consideration offered to Royal Shareholders and holder of Royal Stock Options. The exchange agent will not make payments to any person who is not the registered holder of the certificates surrendered unless the certificate is properly endorsed or otherwise in proper form for transfer. Furthermore, the person requesting the payment will be required to pay any transfer or other taxes required as a result of this payment to a person other than the registered holder of the certificate surrendered, or establish to the satisfaction of the exchange agent that the tax has been paid or is not payable.

(vii) *Dissenting Shares*

Dissenting Shares shall not be converted into or represented the right to receive the Merger Consideration, but shall be converted into the right to receive such consideration as may be determined to be due with respect to such Dissenting Shares pursuant to section 1701.85 of the OGCL. Section 1701.85 of the OGCL provides that within 10 days after the approval of the Merger by Royal Shareholders at the Royal Special Shareholders Meeting, any Royal Shareholder who does not vote in favour of the Merger can file a written demand, stating what he or she or it believes to be the fair value of his or her or its Dissenting Shares. If such Royal Shareholder and Royal fail to reach agreement as to the fair value of the Dissenting Shares within 3 months after the written demand, either party may apply to the Ohio courts for a determination of the fair value of such Dissenting Shares. Under the OGCL, the parties to the agreement are Royal and the holder of Dissenting Shares. However, as the prospective ultimate holding company of Royal, Royal will have proper regard to the views of the Company throughout the negotiation of the fair value between Royal and the holder of Dissenting Shares. Upon determination of the fair value by the Ohio courts, it is Royal, and not the Company, which will be obliged by law to pay such fair value to the holder of Dissenting Shares. The cost of such application is to be borne by the holder of the Dissenting Shares. If any holder of Dissenting Shares fails to apply to the Ohio courts within the period prescribed by the OGCL, his dissenter's rights will lapse and he will receive the Merger Consideration instead.

(viii) *No Further Ownership Rights in Royal*

After the Effective Time, the Royal Shareholders (including holders of Dissenting Shares) will no longer have any rights as a shareholder, except for the right to either exercise dissenters' rights as permitted under the OGCL as mentioned in paragraph (vii) above or surrender his, her or its certificates representing the Royal Common Shares in exchange for the right to receive the consideration offered to Royal Shareholders represented by the delivered certificates at the time of surrender. The Company or Royal as the surviving corporation shall be under no further liability to pay the Merger Consideration or (where appropriate) the Option Shares Merger Consideration to any holders of Royal Common Shares or Royal Stock Options who shall fail to surrender their share certificates or (where appropriate) option certificates to Royal as the surviving corporation on the expiry of 5 years after the Effective Time (or such earlier date as shall be prescribed by US laws regarding forfeiture of abandoned property by US government entities).

After the Effective Time, no transfer of Royal Common Shares shall be made on the share transfer books of Royal except as contemplated by the Merger Agreement. Any certificates representing Royal Common Shares presented after the Effective Time for transfer will be cancelled and exchanged for the right to receive the consideration offered to Royal Shareholders.

(d) Consideration

As at the Latest Practicable Date, (i) 12,816,452 Royal Common Shares (excluding those held by Royal in its treasury) were issued and outstanding and (ii) 2,758,540 unissued Royal Common Shares were subject to outstanding Royal Stock Options. The outstanding Royal Stock Options are exercisable at an average exercise price of approximately US$3.98 per share. The exercise prices of the Royal Stock Options have been fixed in accordance with the terms of the Royal Stock Option Plans before the date of the Merger Agreement and the average exercise of the Royal Stock Options of US$3.98 per share is approximately 46% lower than the Merger Consideration.

Assuming that there will be no Dissenting Shares and based on the Merger Consideration and the Option Shares Merger Consideration, the Directors estimate that the total consideration payable by the Company under the Merger will not be more than US$105.5 million (or HK$822.9 million) and the costs and expenses (including accounting and legal fees) for the Merger will be approximately US$2 million (or HK$15.6 million). **Shareholders should note that the total consideration payable by the Company may be higher or lower depending on whether there will be any Dissenting Shares and the fair value as agreed by the parties or determined by the Ohio courts (as applicable).** The Company will make such further announcement to update Shareholders regarding the outcome of the Royal Special Shareholders Meeting, any Dissenting Shares and the final amount payable by the Company under the Merger as soon as such information becomes available.

The Merger Consideration of US$7.37 per Royal Common Share has been determined with reference to the historical earnings before interest tax depreciation and amortisation of Royal and represents:

(i) a premium of approximately 23.24% above the closing price of US$5.98 per Royal Common Share as quoted on NYSE on 16th December, 2002;

(ii) a premium of 42.25% above the average closing price of US$5.181 per Royal Common Share as quoted on NYSE for 10 consecutive trading days ending on 16th December, 2002;

(iii) a premium of approximately 0.96% above the closing price of US$7.30 per Royal Common Share as quoted on NYSE as at the Latest Practicable Date;

(iv) a premium of approximately 0.83% above the average closing price of US$7.309 per Royal Common Share as quoted on NYSE for 10 consecutive trading days ending on the Latest Practicable Date;

(v) a premium of approximately 136.22% above the audited consolidated net tangible asset value per Royal Common Share (on the basis of 12,365,700 Royal Common Shares were issued and outstanding) of approximately US$3.12 as at 31st December, 2001; and

(vi) a premium of approximately 155.90% above the unaudited consolidated net tangible asset value per Royal Common Share (on the basis of 13,102,800 Royal Common Shares were issued and outstanding) of approximately US$2.88 as at 30th September, 2002.

The Merger Consideration also represents a price earnings multiple of 10.68 times the projected earnings of Royal for the year ended 31st December, 2002.

The Directors (including the independent non-executive Directors) consider that such premium is fair and reasonable having regard to the brand portfolios of Royal, including the Dirt Devil®, Royal® and Telezapper® brandnames, which are reputable and well established brand names. The principal products marketed and sold under the Dirt Devil® and Royal® brandnames include upright and hand held vacuum cleaners, canister vacuum cleaners and stick vacuum cleaners. The principal products marketed and sold under the Telezapper® brandname include a telephone attachment that helps block unwanted telemarketing calls and removes consumers' phone numbers from telemarketers' computerised dialing lists. North America is the principal market for Royal's products.

When determining the Merger Consideration, the Company also had due regard to the latest financial position and trading prospects of Royal as disclosed in its quarterly report for the quarter ended 30th September, 2002 (including the legal proceedings instituted by or against the Royal Group as disclosed in the paragraph headed "Information on Royal" below and the section headed "Litigation" in Appendix IV to this circular). As advised by the management of Royal, Royal has a good defence under each of the legal proceedings pending against it and/or its subsidiaries.

Subject to the Merger becoming effective, the Merger Consideration and the Option Shares Merger Consideration (as applicable) will be payable in cash to the Royal Shareholders (other than holders of the Dissenting Shares) and holders of Royal Stock Options (as applicable) as soon as reasonably practicable after the Effective Time. Further details of the payment procedures are set out in sub-paragraph (vi) of the paragraph headed "Effect of the Merger on capital stock and stock options" above.

The Company will finance the consideration for the Merger from its internal resources and by bank borrowings. As at the Latest Practicable Date, the Directors have not yet reached a final decision on the financing split between internal resources and bank borrowings. Taking into account that the Group had cash in hand and at bank of approximately HK$1,794 million as at 31st December, 2002, the Group would be able to finance the estimated total consideration for the Merger completely from its internal cash resources.

(e) Effect of Dissenting Shares on the Merger

As mentioned above, the final consideration payable by the Company under the Merger may be subject to adjustment as a result of the existence of Dissenting Shares (if any). As at the Latest Practicable Date, the Company is unable to estimate, with any reasonable degree of certainty, the amount to be paid for the Dissenting Shares (if any) as the outcome of the Royal Special Shareholders Meeting is still unknown. Upon the Merger becoming effective, the rights of the Royal Shareholders will be automatically converted into the right to receive the Merger Consideration or (where appropriate) the fair value of the Dissenting Shares as determined by the Ohio courts.

Based on the foregoing, the Directors consider that the existence of Dissenting Shares (if any) will not affect the percentage of shareholding of the Acquiror in Royal or the timetable for the implementation of the Merger.

Shareholders should note that the Acquiror has the right to terminate the Merger Agreement in the event that the number of Dissenting Shares is greater than the total number of Royal Common Shares outstanding immediately prior to the Effective Time. Even if the number of Dissenting Shares is less than 10% of the total number of Royal Common Shares outstanding immediately prior to the Effective Time so that the Acquiror cannot terminate the Merger Agreement, the fair value of the Dissenting Shares will be determined by the Ohio courts based on objective factors such as Royal's historical share prices, earnings per share and net tangible asset per share rather than subjective factors. Since the Merger Consideration is higher than Royal's historical share prices and net tangible asset per share, the Directors expect that the fair value of the Dissenting Shares (if any) as determined by the Ohio courts should not deviate substantially from the Merger Consideration. Accordingly, the Directors consider that the existence of Dissenting Shares (if any) and any related legal costs and expenses will not alter the classification of the Merger from a "major transaction" to a "very substantial acquisition" under the Listing Rules.

(f) Conditions

The Merger Agreement is subject to the satisfaction or waiver by the parties thereto of the following principal conditions:

(i) the approval of the Merger by Royal Shareholders at the Royal Special Shareholders Meeting and the approval of the Shareholders at the Extraordinary General Meeting;

(ii) all consents, approvals and actions of, filings with and notices to any governmental entity required of Royal, the Acquiror, Merger Sub, or any of their subsidiaries to consummate the Merger and the other transactions contemplated by the Merger Agreement (including the filing of the Certificate of Merger with the Secretary of State of the State of Ohio, the US as mentioned in paragraph (a) above), the failure of which to be obtained or taken is reasonably expected to have a material adverse effect on Royal as the surviving corporation and its subsidiaries, taken as a whole, shall have been obtained in form and substance reasonably satisfactory to the Acquiror;

(iii) no judgment, order, decree, statute, law, ordinance, rule or regulation, entered, enacted, promulgated, enforced or issued by any court or other governmental entity of competent jurisdiction or other legal restraint or prohibition (the "Restraints") affecting the Closing or seeking to prohibit the transactions contemplated under the Merger Agreement shall be in effect; provided that the parties asserting this condition shall have used its commercially reasonable efforts to prevent the entry of any such Restraints and to appeal as promptly as possible any such Restraints that may be entered;

(iv) the waiting or similar period (including any extension thereof) applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and any applicable foreign anti-trust laws shall have expired or been terminated; and

(v) the Acquiror shall have received evidence, in form and substance reasonably satisfactory to it, that the number of Dissenting Shares shall constitute no greater than 10% of the total number of Royal Common Shares outstanding immediately prior to the Effective Time. The number of Dissenting Shares will be known on the day of the Royal Special Shareholders Meeting and in any event not more than 10 days thereafter.

Conditions (i), (ii), (iv) and (v) are not intended to be waived by the parties to the Merger Agreement. As at the Latest Practicable Date, condition (iv) has been fulfilled.

(g) Royal Shareholders' approval

As provided in the OGCL and Royal's articles of incorporation, the Merger will be subject to approval by two-thirds of the Royal Shareholders present and voting at the Royal Special Shareholders Meeting.

Richmont Capital Partners I, L.P. and E. Patrick Nalley, individually and as Trustee of the Eldon P. Nalley U/T/A dated 18th January, 1993, being the holders of an aggregate of 3,989,900 Royal Common Shares (representing approximately 31.13% of all the Royal Common Shares in issue as at the Latest Practicable Date), who are independent third parties not connected with the Directors, chief executive and substantial shareholders of the Company and its subsidiaries or any of their respective associates, have undertaken to the Company to vote in favour of the Merger so long as the board of directors of Royal continues to recommend that Royal Shareholders vote in favour of the Merger.

(h) Closing

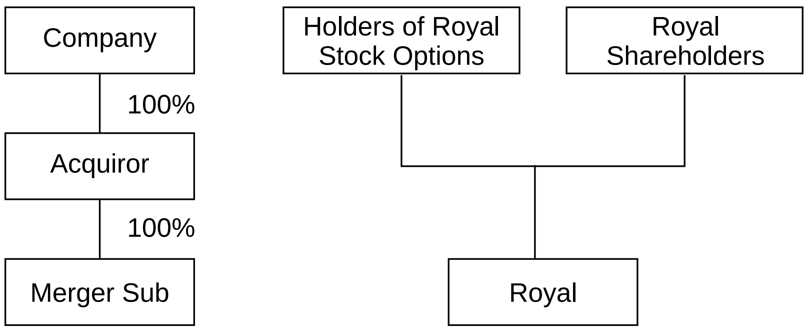
Closing will take place at 10:00 a.m. (US time) on a date to be specified by the parties, which shall be no later than the second business day after satisfaction or waiver (subject to applicable law) of the conditions (excluding conditions (if any) that, by their terms, cannot be satisfied until the date of Closing) set out above, unless another time or date is agreed to by the parties hereto.

It is expected that Closing will take place on or before 30th April, 2003.

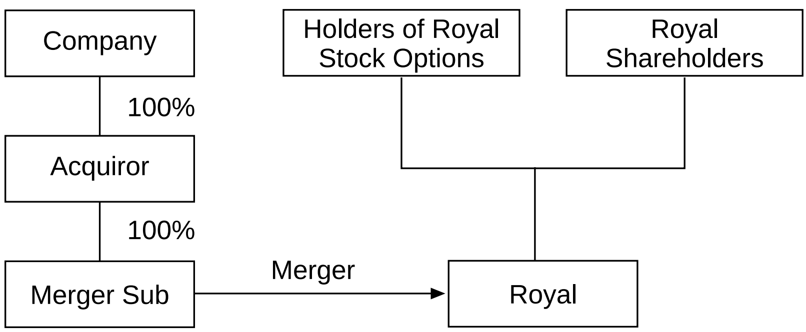
CORPORATE STRUCTURE OF THE GROUP BEFORE AND AFTER THE MERGER

The following sets out a simplified corporate structure of the Group before and after the Merger:

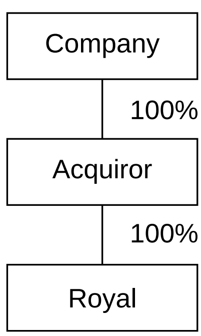
Before the Merger



Interim (i.e. the merger of Merger Sub with and into Royal)



After the Merger



INFORMATION ON THE ACQUIROR AND MERGER SUB

The Acquiror is a limited liability corporation incorporated in the State of Delaware, the US on 9th December, 2002 for the purpose of becoming the holding company of Royal after the Merger and is a direct wholly-owned subsidiary of the Company. Merger Sub is a limited liability corporation incorporated in the State of Ohio, the US on 6th December, 2002 for the purpose of implementing the Merger in accordance with the requirements of the OGCL and is an indirect wholly-owned subsidiary of the Company. Save for entering into the Merger Agreement and the transactions contemplated thereunder, none of the Acquiror and Merger Sub has carried on any business since their respective dates of incorporation. Other than directors and officers, none of the Acquiror and Merger Sub has any employees. Mr. Horst Julius Pudwill and Mr. Roy Chi Ping Chung, being the Chairman and Chief Executive Officer and the Managing Director of the Company respectively, are the existing directors of Acquiror and Merger Sub.

INFORMATION ON ROYAL

Royal is a limited liability corporation incorporated in the State of Ohio, the US and primarily develops, assembles, sources, and markets vacuum cleaners and other cleaning appliances for home and commercial use under the Dirt Devil® and Royal® brand names, as well as the Telezapper® call-blocking device. The authorised capital stock of Royal consists of (i) 101,000,000 Royal Common Shares and (ii) 1,000,000 shares of preferred stock. As at the Latest Practicable Date: (i) 12,816,452 Royal Common Shares were issued and outstanding; (ii) 13,102,507 Royal Common Shares were held by Royal in its treasury; and (iii) 2,758,540 unissued Royal Common Shares were subject to outstanding Royal Stock Options. None of the shares of preferred stock of Royal were issued as at the Latest Practicable Date. Save as aforesaid, Royal did not have any outstanding warrants, options or convertible securities as at the Latest Practicable Date. The Royal Common Shares have been quoted on NYSE under the symbol "RAM" since 1992. Based on the closing price of US$7.30 per Royal Common Share as quoted on NYSE as at the Latest Practicable Date and 12,816,452 Royal Common Shares in issue, the total market capitalisation of Royal (assuming none of the Royal Stock Options were exercised as at the Latest Practicable Date) was approximately US$93,560,099 (or HK$729,768,772). Following the Merger, Royal will have no shareholder other than the Acquiror and accordingly, the listing of the Royal Common Shares on NYSE will be withdrawn thereafter. **It is expected that Royal will be delisted on or around 30th April, 2003 on the assumption that the Royal Special Shareholders Meeting will be held on or around 15th April, 2003. The Directors believe the delisting of Royal Common Shares on NYSE will not have any material adverse impact on the Group.**

The audited consolidated net income before and after tax and the audited consolidated net tangible assets of Royal Group for the three years ended 31st December, 2001 as extracted from Royal's annual report for the year ended 31st December, 2001 and the audited consolidated net income before and after tax of Royal for the year ended 31st December, 2002 as extracted from the annual results of Royal for the year ended 31st December, 2002 as announced on 13th February, 2003, were as follows:

	Year ended							
	31st December, 2002		**31st December, 2001**		**31st December, 2000**		**31st December, 1999**	
	US$	*HK$*	*US$*	*HK$*	*US$*	*HK$*	*US$*	*HK$*
Net income before tax	14,909,000	116,290,200	14,382,000	112,179,600	7,464,000	58,219,200	20,292,000	158,277,600
Net income after tax	9,565,000	74,607,000	9,324,000	72,727,200	5,939,000	46,324,200	12,682,000	98,919,600
Net tangible assets	*(Note)*	*(Note)*	38,622,000	301,251,600	31,053,000	242,213,400	44,669,000	348,418,200

Note: Royal has not published its audited balance sheet as at the Latest Practicable Date.

Royal has to file its annual report for the year ended 31st December, 2002, comprising its audited consolidated balance sheet as at 31st December, 2002, its audited consolidated statement of operations and its audited consolidated cash flow statement for the year ended 31st December, 2002 together with the relevant notes thereto, to the SEC on or before 31st March, 2003. As at the Latest Practicable Date, Royal has not filed its latest annual report to the SEC. **The Company will make timely disclosure of the financial information of Royal as disclosed in such annual report by way of an announcement together with comments from the Directors on the Merger as a result of such updated financial information of Royal.**

As disclosed in the annual report of Royal for the year ended 31st December, 2001, certain customers of the Royal Group, including Kmart, have filed for protection under the applicable bankruptcy laws of the US. As advised by Royal's management, the amounts due from these bankrupt customers have been fully provided for under the general doubtful debt reserves of Royal. Based on the foregoing, the Directors consider that such doubtful debts should not have a material adverse impact on the financial position of the Royal Group.

As mentioned above, the existing directors of Merger Sub, namely Mr. Horst Julius Pudwill and Mr. Roy Chi Ping Chung, will become the directors of Royal upon the Merger becoming effective. In addition, all the existing five non-executive directors of Royal will resign upon Closing. Mr. Michael J. Merriman is the only executive director of Royal who will remain as an executive director, the Chief Executive Officer and President of Royal after Closing. Save as aforesaid, there is no intention to change the directors, officers and staff of Royal or the business of Royal after Closing.

Mr. Michael J. Merriman, aged 46, joined Royal in 1992 as Vice President of Finance and became a director of Royal in 1993. He was appointed the Chief Executive Officer and President of Royal in 1995. Mr. Merriman is responsible for the overall management of the operations, marketing, sales and engineering, finance, quality and information technology of Royal. Prior to joining Royal, he worked for 14 years with the international accounting firm, Arthur Andersen & Co. He was a partner and certified public accountant in the firm's Special Services division from 1990 to May 1992, where he provided business consulting services to high growth companies. From 1983 to 1990, Mr. Merriman managed merger, acquisition and audit engagements in the firm's closely-held business division. For the past five years, Mr. Merriman has served on WalMart's Supplier Council, which is comprised of 12 key supplier executives. Mr. Merriman is also a director of National City Bank's Ohio bank board. Mr. Merriman is a member of Leadership Cleveland and serves on the following non-profit boards: past national chairman of Students in Free Enterprise (SIFE), the Vacuum Cleaner Manufacturers Association (VCMA), and trustee of The Singing Angels. Mr. Merriman graduated magna cum laude from John Carroll University with a BS in Business Administration and also serves on the University's Board of Trustees. Royal has a service agreement with Mr. Merriman, which will be amended to reflect the change in control of Royal after Closing. The service agreement is a 1-year agreement commencing from 14th March, 2002, which extends automatically unless notice is served by either party. Mr. Merriman's current annual salary under the service agreement is US$420,000 (or HK$3,276,000). Moreover, his benefits under the service agreement include the use of a company car, participation in bonus programs, club membership and other typical benefits such as medical, vacation and retirement matching contributions. Under the bonus program, the amount of bonus is determined with reference to the earnings before interest, tax, depreciation and amortisation (EBITDA) of Royal for the year ending 31st December, 2003 subject to a maximum of US$3.5 million (or HK$27.3 million). Mr. Merriman is entitled to 34% of the total amount of bonus payable by Royal under the bonus program.

Royal is one of the Group's customers and its business complements with the Group's existing floor care business. The Group's sales to Royal for the two years ended 31st December, 2001 and the six months ended 30th June, 2002 were approximately HK$304,729,000, HK$336,190,000 and HK$176,678,000 respectively. The profit (before interest and tax) attributable to the Group's sales to Royal for the two years ended 31st December, 2001 and the six months ended 30th June, 2002 were approximately HK$13,080,000, HK$19,529,000 and HK$5,782,000 respectively. The Directors believe that the Merger paves way for a horizontal integration of the Group's existing floor care business in terms of expansion of the Group's product development, marketing and logistics capabilities in the floor care market.

Litigation of the Royal Group

The Hoover Company ("Hoover") filed a lawsuit in federal court, in the Northern District of Ohio (case #1:00cv0347), against Royal on 4th February, 2000, under the patent, trademark, and unfair competition laws of the US. The Complaint asserted that Royal's Dirt Devil Easy Steamer infringed three utility patents and two design patents held by Hoover, and also that the Easy Steamer design infringed the trade dress of Hoover's carpet extractor products. Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:01cv2775), against Hoover on 10th December, 2001, under the patent, trademark and unfair competition laws of the US. The Complaint asserted that Hoover infringed certain patents relating to bagless technology held by Royal. As advised by Royal's management, no provision was made by Royal for this lawsuit in its financial statements for the two years ended 31st December, 2001 as it was not certain, based on available information at the relevant year end date, whether this lawsuit would crystallise into a liability to Royal. On 17th October, 2002, Royal and Hoover reached a settlement of all patent-related litigation described above. Hoover has granted rights to Royal with regard to its existing carpet extractor patents. Royal has granted rights to Hoover with regard to its existing bagless upright vacuum cleaner patents. The settlement includes cash payments to Royal.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv0338), against Bissell Homecare, Inc. ("Bissell") on 22nd February, 2002, under the patent, trademark and unfair competition laws of the US. The Complaint asserts that Bissell infringes certain patents relating to bagless technology held by Royal. Royal has already proven the validity of the patents of its bagless vacuum technology by obtaining favourable settlements from Hoover as mentioned above. Royal seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Royal and the amount of damages will be determined by the relevant US courts. As advised by Royal's management, Royal's attorneys and Bissell's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. As advised by Royal's management, if Royal were to lose this lawsuit, which Royal's management believes to be unlikely, it would not have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Bissell Homecare, Inc. ("Bissell") filed a lawsuit in federal court, in the Eastern District of Michigan (case #1:02cv71079), against Royal on 20th March, 2002, under the patent, trademark and unfair competition laws of the US. On 25th April, 2002, Royal filed a Motion to Transfer the case from the Eastern District of Michigan to the Northern District of Ohio. On 19th June, 2002, the Court transferred the case to the Northern District of Ohio. On 15th July, 2002 the case (now 1:02cv1358) was assigned to Judge Leslie Wells in the Northern District of Ohio. The Complaint asserts that Royal's Dirt Devil Easy Steamer and Platinum Force Extractor infringes certain patents held by Bissell. As advised by Royal's management, these products account for less than 10% of the total revenue and profit of Royal. Bissell seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Bissell and the amount of damages will be determined by the relevant US courts. As further advised by Royal's management, Bissell's attorneys and Royal's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. Royal is vigorously defending the suit and believes it is without merit. According to the opinion of Royal's legal advisers, Royal's management believes that Royal has a good defence against this lawsuit. In addition, Royal's management believes that its claims against Bissell for infringement of Royal's bagless vacuum technology as mentioned above would more than offset Bissell's claims against Royal under this lawsuit. As further advised by Royal's management, no provision was made by Royal for this lawsuit in its financial statements for the year ended 31st December, 2002 as it was not certain, based on all available information on 31st December, 2002, whether this lawsuit would crystallise into a liability of Royal. Nevertheless, if Bissell were to prevail on all of its claims, it would have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv1127), against White Consolidated, Ltd. (Eureka) on 14th June, 2002, under the patent, trademark and unfair competition laws of the US. The Complaint asserts that Eureka infringes certain patents relating to bagless technology held by Royal. Royal has already proven the validity of the patents of its bagless vacuum technology by obtaining favourable settlements from Hoover as mentioned above. Royal seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Royal and the amount of damages will be determined by the relevant US courts. As advised by Royal's management, Royal's attorneys and Eureka's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. As further advised by Royal's management, if Royal were to lose this lawsuit, which Royal's management believes to be unlikely, it would not have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv2249) against Euro-Pro Corporation and Sanyo North America Corporation (together referred to as "Defendants") on 15th November, 2002, under the patent, trademark and unfair competition laws of the US. The Complaint asserts that the Defendants infringe certain patents relating to bagless technology held by Royal. Royal has already proven the validity of the patents of its bagless vacuum technology by obtaining favourable settlements from Hoover as mentioned above. Royal seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Royal and the amount of damages will be determined by the relevant US courts. As advised by Royal's management, Royal's attorneys and the Defendants' attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. As further advised by Royal's management, if Royal were to lose this lawsuit, which Royal's management believes to be unlikely, it would not have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Phone Zap, LLC ("Phone Zap") filed a lawsuit in US District Court, District of Columbia (case #1:03cv00013), against Royal and Privacy Technologies, Inc., a subsidiary of Royal, on 6th January, 2003, under the patent, trademark and unfair competition laws of the US. No specific amount of damages has been quantified by Phone Zap and the amount of damages will be determined by the relevant US courts. The Complaint asserts trademark infringement by Royal and Privacy Technologies, Inc. with its Telezapper® trademark. As advised by Royal's management, these products account for approximately 30% of the total revenue and profit of Royal. As further advised by Royal's management, Phone Zap's attorneys and Royal's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. Royal is vigorously defending the suit and believes it is without merit. According to the opinion of Royal's legal advisers, Royal's management believes that there are significant weaknesses in Phone Zap's lawsuit. To begin with, Phone Zap's trademark application appears to be invalid. Even assuming that such trademark application is valid, Phone Zap has to prove that customers were misled by Royal's products and thought that they were buying Phone Zap's products, which are not even available at retail. Accordingly, the Directors consider the chance of Phone Zap being prevailed on all of its claims to be low. As further advised by Royal's management, no provision was made by Royal for this lawsuit in its financial statements for the year ended 31st December, 2002 as it was not certain, based on all available information on 31st December, 2002, whether this lawsuit would crystallise into a liability of Royal. Nevertheless, if Phone Zap were to prevail on all of its claims, it would have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Royal is involved in various other claims and litigation arising in the ordinary and normal course of business and the amount of each such claims and litigation does not exceed US$100,000 (or HK$780,000). Royal has product liability and general liability insurance policies in amounts that should cover such claims and Royal's management believes such insurance coverage to be reasonable. There can be no assurance, however, that such insurance will be adequate to cover all potential product or other liability claims against Royal. In the opinion of Royal's management, the ultimate resolution of these actions will not materially affect the consolidated financial position, results of operations or cash flows of Royal.

REASONS FOR AND BENEFITS OF THE MERGER

The Group is principally engaged in the manufacturing and trading of electrical and electronic products mainly in North America and Europe.

The Directors (including the independent non-executive Directors) consider that the terms of the Merger Agreement, which have been concluded after arm's length negotiation between the parties on normal commercial terms after taking into account the established brand portfolios of Royal and the latest financial position and trading prospects of Royal (including the legal proceedings instituted by and against the Royal Group as disclosed in the paragraph headed "Information on Royal" above and the section headed "Litigation" in Appendix IV to this circular), are fair and reasonable so far as the Company and its shareholders are concerned.

The Directors (including the independent non-executive Directors) believe that the Merger represents a significant step in the Company's world-wide branding strategy, which began with its acquisitions of the Ryobi® brand for power tools in most of the world's markets (further details of which were announced by the Company in June and July, 2000), and the Homelite® brand for lawn and garden tools (further details of which were contained in the interim report of the Company for the six months ended 30th June, 2002). By integrating forward from its strong position as a high-quality, low-cost original equipment manufacturer (OEM) to become a brand marketing company in key markets worldwide (such as the US, Europe and Asia), the Company expects to create additional business opportunities at both the manufacturing and retail distribution levels. The Royal acquisition extends this strategy into floor care, and greatly strengthens the Company's product development, marketing and logistics capabilities in this industry, while adding several respected brand names to its portfolio.

The Merger will enable the Company to integrate and expand the existing product development and supply link between Royal and the Company. Following the Merger, the Company expects to expand its role as a manufacturer of Royal products by using existing production facilities and capabilities of the Group. Following the Merger, the Company also intends to pursue potential cross-marketing synergies with the major retailers of its power tool and floor care lines of business in the US and European markets, as well as potential operational synergies in logistics and customer service.

BUSINESS REVIEW AND PROSPECTS

As disclosed in the interim report of the Group for the six month period ended 30th June, 2002, the Group acquired, in March 2002, two power-tools companies in Australasia from Ryobi Limited as well as the perpetual rights for the Royal® brandname in Australia and New Zealand. In July 2002, the Group's 40.8% associated company, Gimelli Laboratories Company Limited, acquired an 18.8% investment in a German brandname company, Medisana AG. Had the Merger been completed before 31st December, 2002, the Merger would be the fourth acquisition by the Group in the last financial year. The acquisitions of the Royal® brand power-tools business and the Homelite® brand outdoor products business were very successful and these businesses delivered strong growth in sales in the US in the last financial year. The Group also saw the successful integration of the two newly acquired power-tools companies in Australasia with its existing power-tools operations and these companies also started to contribute to the Group in the second half of the last financial year.

The forward looking economic environment shows resilience as the important North American economy delivered moderate growth and Europe remains mixed across the different countries. The Group has taken the view that its brand names, marketing, and product focus are right for this uncertainty. The Group has a low cost structure, with manufacturing infrastructure in Greater China. The Group nurtures strong relationships with the high volume retailers of power tools and outdoor products. The Ryobi® and Homelite® brands are well recognized and value positioned. The floor care appliance division and solar and electronic measuring division maintain partnerships with the leading brand name companies in their respective industries. The addition of the Dirt Devil®, Royal® and Telezapper® brandnames will further strengthen the Group's brand portfolio and market profile in the US and European markets. With this platform of better-value products, strong customers, and powerful brands, the Group is well positioned to deliver growth in uncertainty.

FINANCIAL EFFECTS OF THE MERGER

(a) Net tangible assets

Set out in section 1 of Appendix III to this circular is the pro forma statement of adjusted combined net tangible assets of the Enlarged Group. On the basis set out in that Appendix, the pro forma adjusted unaudited combined net tangible assets of the Enlarged Group per Share will be approximately HK$1.50 (based on 645,716,826 Shares in issue as at the Latest Practicable Date). This represents a downward adjustment of approximately 36.97% when compared with the pro forma adjusted unaudited consolidated net tangible assets of the Group per Share of approximately HK$2.38 (based on 645,716,826 Shares in issue as at the Latest Practicable Date).

The net tangible assets of the Enlarged Group has been reduced by approximately HK$567.4 million, representing the goodwill arising from the Merger of approximately HK$558.5 million and the unrealised profit on inventories purchased from the Group which were still held by Royal as at 30th June, 2002 of approximately HK$8.9 million.

Shareholders should note that the goodwill arising on acquisition of Royal of approximately HK$558.5 million has been calculated with reference to the unaudited net tangible assets of the Royal Group as at 30th June, 2002. Accordingly, the final amount of goodwill may be subject to higher or lower depending on the latest financial figures of the Royal Group after Closing.

(b) Gearing

Before the Merger, based on the unaudited consolidated financial statements of the Group as at 30th June, 2002, the gearing ratio (as measured by total net bank borrowings as a percentage of shareholders' funds) of the Group was approximately 20.46%. After the Merger and assuming the Company shall finance the estimated total consideration for the Merger of approximately US$105.5 million (or HK$822.9 million) completely from its internal cash resources, the gearing ratio calculated on the same basis will be increased to approximately 88.36%. The increase in gearing ratio after the Merger is mainly attributed to the rate of increase in the Group's total net bank borrowings is greater than the rate of increase in Group's shareholders' funds. **Shareholders should note that the gearing ratio after the Merger has been calculated on the assumption that the Company has not incurred any bank borrowings to finance the Merger. Accordingly, the gearing ratio after the Merger will be higher in the event that the Company shall finance the consideration for the Merger partly from its internal resources and partly by bank borrowings.** The Directors expect that such increase in gearing will be temporary in nature and the gearing of the Enlarged Group will be reduced to an acceptable level by the end of the year ending 31st December, 2003 through the strong internally generated cashflows of the Enlarged Group.

(c) Earnings

Set out in section 3 of Appendix III to this circular is the pro forma statement of combined results of the Enlarged Group prepared on the basis that the Merger was implemented on 1st July, 2001 and Royal was a wholly-owned subsidiary of the Company throughout the twelve month period ended 30th June, 2002. On the basis set out in that Appendix, the pro forma adjusted unaudited combined profit after taxation and minority interests of the Enlarged Group was approximately HK$324,331,000, representing a pro forma earnings per Share of approximately HK55.35 cents (using the weighted average of 585,957,761 Shares in issue for the twelve month period ended 30th June, 2002). This represents an increase of approximately 3.89% when compared with the earnings per Share of the Group for the twelve month period ended 30th June, 2002 of approximately HK53.28 cents, which was calculated based on the unaudited consolidated profit after taxation and minority interests of the Group for the twelve month period ended 30th June, 2002 of HK$312,172,000 and the weighted average of 585,957,761 Shares in issue for the twelve month period ended 30th June, 2002.

Shareholders should have regard to the following matters when interpreting the pro forma earnings per Share of the Enlarged Group:

(i) **The pro forma profit for the year and the related pro forma earnings per Share of the Enlarged Group as shown in section 3 of Appendix III to this circular have been calculated on the basis that the Group will finance the consideration for the Merger entirely from its internal resources. No interest/finance cost has been included in the calculation of such pro forma figures since the Company has not yet reached a final decision on the financing split between internal resources and bank borrowings and accordingly, the Company cannot quantify the exact interest/finance cost of such bank borrowings. In view of the above, the pro forma earnings per Share of the Enlarged Group may be subject to adjustment in the event that the Group shall finance the consideration for the Merger partly from its internal resources and partly by bank borrowings. The Group has received interest on its cash balances at prevailing bank deposit rates and has paid interest on its bank borrowings at LIBOR plus market spread;**

(ii) Royal's net sales for the year ended 31st December, 2002 was approximately 7.5% lower than the previous corresponding period due to lower average selling prices of its products. It is expected that Royal's net sales will be improved in the financial year ending 31st December, 2003 since Royal will benefit from new products launched in the market as well as a lower cost base as a result of economies of scale after the Merger;

(iii) certain of Royal's customers, including Kmart, have filed for protection under the applicable bankruptcy laws of the US. As advised by Royal's management, the amounts due from these bankrupt customers have been fully provided for under the general doubtful debt reserves of Royal. Based on the above, the Directors consider that these doubtful debts should not have a material adverse impact on the financial position of the Royal Group;

(iv) Royal recorded earnings of US$3,371,000 (or HK$26,293,800) in the fourth quarter of 2002 from the settlement of the lawsuit brought by The Hoover Company in the federal court, in the Northern District of Ohio (case #1:00cv0347) on 4th February, 2000. Further details of this lawsuit are set out in the paragraph headed "Information on Royal" above and the section headed "Litigation" in Appendix IV to this circular. The earnings arising from the settlement of this lawsuit are not expected to recur in the future; and

(v) Goodwill arising on acquisition of Royal will amount to approximately HK$558.5 million which will translate into an annual amortisation expense of approximately HK$27.9 million. Nevertheless, the Directors believe that such annual amortisation expense will be absorbed by an overall improvement of the earnings of the Group's floor care division as a result of greater economies of scale and a better product pipeline.

The Directors consider that the Merger will serve to broaden the Group's income base and contribute towards its profits going forward. The Directors further consider that the improvement in the earnings of the Group in the long term will militate against the reduction of the net tangible asset backing and the increase in the gearing of the Group in the short term.

EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 31st March, 2003 at 9:30 a.m. is set out on pages 127 and 128 of this circular. At the Extraordinary General Meeting, an ordinary resolution will be proposed to approve the Merger.

A form of proxy for use by the Shareholders at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's registered office at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

The Company and the Directors have confirmed that no Shareholder will be required to abstain from voting on the Merger as required under the Listing Rules.

RECOMMENDATION

The Directors (including the independent non-executive Directors) believe that the Merger is in the best interest of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting to approve the Merger.

The executive Directors and their respective associates (as defined in the Listing Rules), beneficially holding a total of 201,324,871 Shares, which represented approximately 31.18% of the existing issued share capital of the Company as at the Latest Practicable Date, have indicated that they intend to vote such Shares in favour of the resolution to approve the Merger at the Extraordinary General Meeting.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices and the notice of the Extraordinary General Meeting set out in this circular.

By Order of the Board
Techtronic Industries Company Limited
Horst Julius Pudwill
Chairman and Chief Executive Officer

Under Rule 14.16(4) of the Listing Rules, a circular issued in connection with a major transaction (as defined in Rule 14.09 of the Listing Rules) must contain an accountants' report on the business, company or companies being acquired unless it is a listed company which is being acquired, in which case the inclusion of the last published balance sheet and of three years' profits (after the deduction of all charges, except taxation which charge shall be shown separately) taken from the published accounts of the company to be acquired, will suffice. The accounts on which any such accountants' report is based must relate to a financial period which must have ended not more than six months before the date of the circular.

Under Rule 4.03 of the Listing Rules, all accountants' report must be prepared by professional accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors of a company and who are independent both of the issuer and of any other company concerned to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the guideline on independence (Statement 1.203) issued by the Hong Kong Society of Accountants, provided that, **in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of accountants which is not so qualified but which is acceptable to the Stock Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.**

Under Rule 4.04(2) of the Listing Rules, the accountants' report must include the results of any business or subsidiary acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up **in respect of each of the three financial years immediately preceding the issue of the listing document** or in respect of each of the financial years since commencement of such business or the incorporation or other establishment of such subsidiary (as the case may be) if this occurred less than three years prior to such issue or shorter period as may be acceptable to the Stock Exchange.

Under Rule 4.11 of the Listing Rules, the financial history of results and the statement of assets and liabilities included in the accountants' report must normally be drawn up in conformity with:

(a) accounting standards adopted by the Hong Kong Society of Accountants and laid down in the Statements of Standard Accounting Practice issued from time to time by that Society; or

(b) International Accounting Standards ("IAS") as promulgated from time to time by the International Accounting Standards Committee. Listed issuers and listing applicants, which adopt IAS, are required:

(i) to disclose and explain differences of accounting practice between IAS and generally accepted accounting principles in Hong Kong, which have a significant effect on their financial statements (the "Hong Kong Accounting Standards"); and

(ii) to compile a statement of the financial effect of any such material differences.

Royal's management has issued a formal statement to the Company that it will not, at any time before Closing, grant the Company or its auditors access to its books and records for the purpose of preparing any new or additional financial statements of Royal for inclusion in the Company's circular on the grounds that such new or additional financial statements as audited under Hong Kong Accounting Standards will be contrary to its previous filings with the SEC and may be a violation of the relevant US laws and regulations. Royal's management has further stated that Royal does not agree to the engagement by the Company of its independent accountants, namely PricewaterhouseCoopers LLP. or its Hong Kong office, as the Company's reporting accountants for the purpose of preparing any new or additional financial statements of Royal for inclusion in the Company's circular on the grounds that PricewaterhouseCoopers LLP. are currently involved in completing their work on the audit of Royal's financial statements for the year ended 31st December 2002 which must, under US law, be filed with the SEC before 31st March, 2002 and that any diversion of effort or resources would severely impair Royal's ability to comply with such legal requirement. **As a result, it is impractical for the Company to appoint qualified professional accountants where they could prepare an accountants' report on Royal for the three financial years immediately preceding the issue of the circular drawing up in conformity with Hong Kong Accounting Standards with reported period ended not more than 6 months before the date of the circular. Accordingly, the Company has made an application for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 14.16(4), 4.03, 4.04(2) and 4.11 of the Listing Rules.**

Under the relevant securities laws and regulations of the US, Royal has to file its annual report (on Form 10-K) and quarterly reports (on Form 10-Q) to the SEC by certain prescribed due dates. As at the Latest Practicable Date, Royal has filed its annual report for the year ended 31st December, 2001 and its quarterly reports for the three quarters ended 31st March, 2002, 30th June, 2002 and 30th September, 2002 respectively to the SEC. **Full texts of such annual report and quarterly reports can be downloaded at the official website of Royal at www.royalappliance.com.** Royal has, on 13th February, 2003, announced its audited results for the year ended 31st December, 2002. Royal has to file its annual report for the year ended 31st December, 2002, comprising its audited consolidated balance sheet as at 31st December, 2002, its audited consolidated statement of operations and its audited consolidated cash flow statement for the year ended 31st December, 2002 together with the relevant notes thereto, to the SEC on or before 31st March, 2003. As at the Latest Practicable Date, Royal has not filed its latest annual report to the SEC. As a result, the most current financial information of Royal that is only available is the audited financial statements of Royal for the year ended 31st December, 2001 and the audited results of Royal for the year ended 31st December, 2002 as announced on 13th February, 2003 which are included in sections 2 and 3 of this Appendix respectively. As the financial statements of Royal are prepared in accordance with US GAAP, which differ in certain significant respects from Hong Kong GAAP, your attention is also drawn to the summary and reconciliation of the significant differences between US GAAP and Hong Kong GAAP in section 4 of this Appendix.

The Company will make timely disclosure of the financial information of Royal as disclosed in its annual report for the year ended 31st December, 2002 by way of an announcement together with comments from the Directors on the Merger as a result of such updated financial information of Royal.

1. SUMMARY OF RESULTS FOR THE FIVE YEARS ENDED 31ST DECEMBER, 2002

Set out below is a summary of the audited consolidated statements of operations of Royal for the five years ended 31st December, 2002 as extracted from the annual report of Royal for the year ended 31st December, 2001 and the annual results of Royal for the year ended 31st December, 2002 as announced by Royal on 13th February, 2003.

Consolidated statements of operations
Year ended 31st December

	2002	2001	2000	1999	1998
			(US Dollars in thousands)		
	US$	*US$*	*US$*	*US$*	*US$*
Net sales	389,726	428,425	408,223	407,984	282,720
Cost of sales	301,692	325,746	315,849	304,452	208,861
Gross margin	88,034	102,679	92,374	103,532	73,859
Selling, general and administrative expenses	74,684	84,701	79,694	77,849	68,346
Charge for tooling obsolescence	—	—	—	2,621	—
Income from operations	13,350	17,978	12,680	23,062	5,513
Interest expense, net	1,413	2,415	3,503	1,401	1,521
Receivable securitization and other expense (income), net	(2,972)	1,181	1,713	1,369	(140)
Income before taxes	14,909	14,382	7,464	20,292	4,132
Income tax expense	5,344	5,058	1,525	7,610	1,606
Net income	9,565	9,324	5,939	12,682	2,526

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2001

Set out below is a summary of the audited consolidated balance sheets as at 31st December, 1999, 2000 and 2001, the audited consolidated statements of operations and the audited consolidated cash flow statements for each of the three years ended 31st December, 2001, together with the relevant notes as extracted from the annual reports of Royal for the two years ended 31st December, 2001. The financial statements of Royal are prepared in accordance with US GAAP and have not been qualified by PricewaterhouseCoopers LLP., the auditors of Royal, for the last three financial years.

Consolidated balance sheets
As at 31st December

	2001	**2000**	**1999**
		(US Dollars in thousands)	
	US$	*US$*	*US$*
ASSETS			
Current assets:			
Cash	3,421	704	1,427
Trade accounts receivable, less allowance for doubtful accounts of US$3,000, US$1,300 and US$900 at 31st December, 2001, 2000 and 1999, respectively	35,986	42,097	48,526
Inventories	50,807	45,470	50,461
Refundable and deferred income taxes	4,549	4,735	5,074
Prepaid expenses and other	1,636	1,573	1,681
Total current assets	96,399	94,579	107,169
Property, plant and equipment, at cost:			
Land	1,541	1,541	1,541
Buildings	7,777	7,777	7,777
Molds, tooling, and equipment	52,031	48,650	49,515
Furniture, office and computer equipment, and software	12,154	12,721	7,787
Assets under capital leases	3,171	3,171	4,694
Leasehold improvements and other	7,456	5,067	5,137
	84,130	78,927	76,451
Less accumulated depreciation and amortization	(46,556)	(37,119)	(37,556)
	37,574	41,808	38,895
Computer software and tooling deposits	4,405	807	5,177
Other	2,066	1,358	651
Total assets	140,444	138,552	151,892

Consolidated balance sheets *(Cont'd)*
As at 31st December

	2001	2000	1999
	(US Dollars in thousands)		
	US$	*US$*	*US$*
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable	27,433	22,209	22,280
Accrued liabilities:			
Advertising and promotion	11,196	13,103	15,932
Salaries, benefits, and payroll taxes	7,258	3,355	8,005
Warranty and customer returns	9,950	9,800	10,050
Income taxes	1,370	—	3,366
Other	6,479	6,091	3,301
Current portions of capital lease obligations and notes payable	147	136	5,285
Total current liabilities	63,833	54,694	68,219
Revolving credit agreement	32,000	46,400	32,200
Capitalized lease obligations, less current portion	1,978	2,137	2,504
Total long-term debt	33,978	48,537	34,704
Deferred income taxes	4,011	4,268	4,300
Total liabilities	101,822	107,499	107,223
Commitments and contingencies *(Note 4 and 5)*	—	—	—
Shareholders' equity:			
Serial preferred shares; authorized – 1,000,000 shares; none issued and outstanding	—	—	—
Common shares, at stated value; authorized – 101,000,000 shares; issued 25,829,452, 25,509,152 and 25,464,352 at 31st December, 2001, 2000 and 1999, respectively	214	212	212
Additional paid-in capital	44,167	43,038	42,528
Retained earnings	70,489	61,165	55,226
	114,870	104,415	97,966
Less treasury shares, at cost (12,365,700, 11,780,500 and 8,491,000 shares at 31st December, 2001, 2000 and 1999, respectively)	(76,248)	(73,362)	(53,297)
Total shareholders' equity	38,622	31,053	44,669
Total liabilities and shareholders' equity	140,444	138,552	151,892

Consolidated statements of operations
Year ended 31st December

	2001	2000	1999
	(US Dollars in thousands except per share amounts)		
	US$	*US$*	*US$*
Net sales	428,425	408,223	407,984
Cost of sales	325,746	315,849	304,452
Gross margin	102,679	92,374	103,532
Selling, general and administrative expenses	84,701	79,694	77,849
Charge for tooling obsolescence	—	—	2,621
Income from operations	17,978	12,680	23,062
Interest expense, net	2,415	3,503	1,401
Receivable securitization and other expense (income), net	1,181	1,713	1,369
Income before income taxes	14,382	7,464	20,292
Income tax expense	5,058	1,525	7,610
Net income	9,324	5,939	12,682
Basic			
Weighted average number of common shares outstanding (in thousands)	13,731	15,083	18,155
Earnings per share	0.68	0.39	0.70
Diluted			
Weighted average number of common shares and equivalents outstanding (in thousands)	14,297	15,574	18,371
Earnings per share	0.65	0.38	0.69

Consolidated statements of shareholders' equity

	Common Shares Number	Common Shares Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares Number	Treasury Shares Amount	Total Shareholders' Equity
	(US Dollars in thousands, except share amounts)						
		US$	*US$*	*US$*		*US$*	*US$*
Balance at 31st December, 1998	25,347,924	211	42,115	42,544	5,726,400	(38,147)	46,723
Shares issued from stock option plan	116,428	1	413	—	—	—	414
Purchase of treasury shares	—	—	—	—	2,764,600	(15,150)	(15,150)
Net income	—	—	—	12,682	—	—	12,682
Balance at 31st December, 1999	25,464,352	212	42,528	55,226	8,491,000	(53,297)	44,669
Compensatory effect of stock options	—	—	361	—	—	—	361
Shares issued from stock option plan	44,800	—	149	—	—	—	149
Purchase of treasury shares	—	—	—	—	3,289,500	(20,065)	(20,065)
Net income	—	—	—	5,939	—	—	5,939
Balance at 31st December, 2000	25,509,152	212	43,038	61,165	11,780,500	(73,362)	31,053
Compensatory effect of stock options	—	—	586	—	—	—	586
Shares issued from stock option plan	320,300	2	543	—	—	—	545
Purchase of treasury shares	—	—	—	—	585,200	(2,886)	(2,886)
Net income	—	—	—	9,324	—	—	9,324
Balance at 31st December, 2001	25,829,452	214	44,167	70,489	12,365,700	(76,248)	38,622

Consolidated statements of cash flows
Year ended 31st December

	2001	2000	1999
	(US Dollars in thousands)		
	US$	*US$*	*US$*
Cash flows from operating activities:			
Net income	9,324	5,939	12,682
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	15,279	15,836	11,896
Charge for tooling obsolescence	—	—	2,621
Compensatory effect of stock options	586	361	—
(Gain) loss on sale of property, plant and equipment, net	—	(32)	85
Deferred income taxes	(382)	618	(1,853)
(Increase) decrease in assets:			
Trade accounts receivable, net	6,111	6,429	(10,990)
Inventories, net	(5,337)	4,991	(19,373)
Refundable and accrued income taxes	1,681	(3,677)	1,436
Prepaid expenses and other	(63)	108	2,891
Other	(1,509)	(1,147)	(308)
Increase (decrease) in liabilities:			
Trade accounts payable	5,224	(1,700)	2,745
Accrued advertising and promotion	(1,907)	(2,829)	7,164
Accrued salaries, benefits, and payroll taxes	3,903	(4,650)	5,706
Accrued warranty and customer returns	150	(250)	1,950
Accrued other	388	2,257	(3,508)
Total adjustments	24,124	16,315	462
Net cash from operating activities	33,448	22,254	13,144
Cash flows from investing activities:			
Purchases of tooling, property, plant, and equipment, net	(10,244)	(17,776)	(16,474)
Proceeds from sale of property, plant and equipment	—	32	—
(Increase) decrease in computer software and tooling deposits	(3,598)	4,370	(2,407)
Net cash from investing activities	(13,842)	(13,374)	(18,881)

Consolidated statements of cash flows *(Cont'd)*
Year ended 31st December

	2001	2000	1999
	(US Dollars in thousands)		
	US$	*US$*	*US$*
Cash flows from financing activities:			
(Payments) proceeds on bank debt, net	(14,400)	15,829	22,488
Payments on notes payable	—	(5,186)	(302)
Proceeds from exercise of stock options	545	149	414
Payments on capital lease obligations	(148)	(330)	(286)
Purchase of treasury shares	(2,886)	(20,065)	(15,150)
Net cash from financing activities	(16,889)	(9,603)	7,164
Net increase (decrease) in cash	2,717	(723)	1,427
Cash at beginning of year	704	1,427	—
Cash at end of year	3,421	704	1,427
Supplemental disclosure of cash flow information:			
Cash payments for:			
Interest	2,611	3,818	1,594
Income taxes, net of refunds	3,759	4,574	8,021

Notes to consolidated financial statements

(In thousands, except per share amounts)

1. Accounting Policies:

Description of Business – Royal Appliance Mfg. Co. (“Royal”), an Ohio corporation with its corporate offices in the Cleveland, Ohio metropolitan area, develops, assembles or sources and markets a full line of cleaning products for home and some for commercial use, primarily in North America under the Dirt Devil and Royal brand names. In 1984, Royal introduced the first in a line of Dirt Devil floorcare products, which Royal believes has become one of the largest selling lines of vacuum cleaners in the United States. Royal has used the Dirt Devil brand name recognition to gain acceptance for other Dirt Devil floorcare products. Royal continues to market certain metal vacuum cleaners for home and commercial use under the Royal brand name.

During 2001, Royal’s subsidiary, Privacy Technologies, Inc. (“Privacy Technologies”) introduced the TeleZapper – a telephone attachment that helps block unwanted telemarketing calls and removes consumers’ phone numbers from the telemarketers’ computerized dialing lists.

Royal also created Product Launch Partners, Inc. Product Launch Partners, Inc. was established as a vehicle for inventors and start-up consumer product companies to joint venture with Royal on new product launch opportunities.

The following is a summary of significant policies followed in the preparation of the accompanying Consolidated Financial Statements.

Basis of Presentation – The Consolidated Financial Statements include the accounts of Royal and its wholly owned subsidiaries after elimination of all intercompany accounts and transactions. The companies are hereinafter referred to as “Royal”.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, the reserve for returns and allowances, and depreciation and amortization, among others.

Certain prior year amounts have been reclassified to conform to the 2001 presentation.

Net income per common share is computed based on the weighted average number of common shares outstanding for basic earnings per share and on the weighted average number of common shares and common share equivalents outstanding for diluted earnings per share.

Royal’s revenue recognition policy is to recognize revenues when products are shipped. Royal’s return policy is to replace, repair or issue credit for product under warranty. Returns received during the current period are expensed as received and a provision is provided for future returns based on current shipments. All sales are final upon shipment of goods to the customers. Royal’s revenue recognition policy is in accordance with Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements.”

International operations, primarily Canadian, are conducted in their local currency. Assets and liabilities denominated in foreign currencies are translated at current exchange rates, and income and expenses are translated using weighted average exchange rates. The net effect of currency gains and losses realized on these business transactions is included in the determination of net income.

Royal has used forward exchange contracts to reduce fluctuations in foreign currency cash flows related to receivables denominated in foreign currencies. The terms of the currency instruments are consistent with the timing of the transactions being hedged. The purpose of Royal's foreign currency management activity is to protect Royal from the risk that the eventual cash flows from the foreign currency denominated transactions may be adversely affected by changes in exchange rates. Gains and losses on forward exchange contracts are deferred and recognized in income when the related transactions being hedged are recognized. Such gains and losses are generally reported on the same financial line as the hedged transaction. Royal does not use derivative financial instruments for trading or speculative purposes. Outstanding as of 31st December, 2001 and 2000 were US$0 and US$2,670, respectively, in contracts to purchase foreign currency forward. There is no significant unrealized gain or loss on these contracts. All contracts have terms of four months or less.

Advertising and Promotion – Cost incurred for producing and communicating advertising are expensed during the period aired, including costs incurred under Royal's cooperative advertising program. Advertising and promotion costs were US$44,486, US$47,154 and US$46,546 for the years ended 31st December, 2001, 2000 and 1999, respectively.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Inventories at 31st December, consisted of the following:

	2001	**2000**
	US$	*US$*
Finished goods	43,277	37,832
Work in process and component parts	7,530	7,638
	50,807	45,470

Property, Plant and Equipment – Royal capitalizes, as additions to property, plant and equipment, expenditures at cost for molds, tooling, land, buildings, equipment, furniture, computer software, and leasehold improvements. Expenditures for maintenance and repairs are charged to operating expense as incurred. The asset and related accumulated depreciation or amortization accounts are adjusted to reflect retirements and disposals and the resulting gain or loss is included in the determination of net income.

Internal and external costs incurred to develop internal use computer software during the application development stage are capitalized and amortized on the straight line method over the estimated useful life of software. Capitalized costs include payroll costs and related benefits, costs of related hardware and consulting fees. During 2001 and 2000, US$185 and US$94, respectively of such internal costs were capitalized.

Plant and equipment are depreciated over the estimated useful lives of the respective classes of assets. Leasehold improvements and assets held under capital leases are amortized over the shorter of useful lives or their respective lease terms. Accumulated amortization on assets under capital leases totaled US$1,555 and US$1,407 at 31st December, 2001 and 2000, respectively.

Depreciation for financial reporting purposes is computed on the straight-line method using the following depreciable lives:

Buildings	40 years
Building under capital lease	20 years
Molds, tooling, and equipment	3 – 5 years
Furniture, office and computer equipment, and software	2 – 5 years
Vehicles	3 years
Internal use software	2 – 5 years

Accelerated methods as permitted by the applicable tax law are used for tax reporting purpose.

Royal reviews for impairment whenever events or changes in circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long Lived Assets to be Disposed Of. If it is determined that an impairment loss has occurred based on expected future cash flows, the loss is recognized on the Consolidated Statement of Operations.

Fair Value of Financial Instruments – Financial instruments consist of a revolving credit agreement that is carried at an amount which approximates fair value.

New Accounting Pronouncements – Royal implemented Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, in the first quarter of 2001. The implementation of SFAS No. 133 did not have a material impact on its consolidated financial position, results of operations, or cash flows.

Royal is required to implement the following new accounting pronouncements during the first quarter of 2002:

SFAS No. 141, *"Business Combinations"* – This statement requires that all business combinations be accounted for under a single method, the purchase method. Use of the pooling-of-interests method is no longer permitted.

SFAS No. 142, *"Goodwill and Other Intangible Assets"* – This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets, and in summary, discontinues the amortization of goodwill and other intangibles with indefinite lives.

SFAS No. 143, *"Accounting for Asset Retirement Obligations"* – This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* – This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

Royal expects that the implementation of the above standards will not have a material impact on its consolidated financial position, results of operations or cash flows.

2. Changes in Depreciable Lives and Charges for Tooling Obsolescence:

During 2001 and 2000, Royal shortened the useful lives of tooling for certain product families due to declining sales volumes, reduced product life cycles and the launch of replacement products. As a result of the reduced useful lives for certain product families, including certain Royal metal products during 2001 and the Dirt Devil Corded Mop Vac, Dirt Devil Stick Vac and Dirt Devil Broom Vac during 2000, Royal recorded accelerated depreciation expense of US$191 and US$1,788 during 2001 and 2000, respectively.

Also during 2000, Royal relocated its corporate headquarters. As a result of the move, the remaining net book value of leasehold improvements associated with the former corporate headquarters was amortized on an accelerated basis from the date the decision was made to move through the actual date of the move. Due to this event, accelerated depreciation expense of approximately US$1,200 was recorded in 2000.

During the fourth quarter of 1999, the wholesale price for the cordless Dirt Devil Mop Vac® (Mop Vac) decreased significantly. This reduction in wholesale price triggered an impairment review for cordless Mop Vac tooling. Previous to the fourth quarter reduction in wholesale prices, the cordless Mop Vac had net future cash flows in excess of the remaining net book value of the tooling. However, earlier that year, Royal shortened the depreciable lives of such tooling due to the decision to discontinue the product line at the end of 1999. Subsequent to the price reduction, the product was no longer profitable and therefore discontinued. As a result of the impairment review, Royal determined that net future cash flows for the product were negative, therefore, an impairment charge of US$992 was recorded during the fourth quarter of 1999.

During 1999, the Dirt Devil Ultra MVP® lost its shelf placement in retail stores, however, the unit was slotted for special promotions at several retailers. When the unit lost its shelf placement at retail, an impairment review was performed resulting in no impairment charge as the estimated net future cash flows exceeded the net book value of the tooling. During the 1999 Holiday season, the Dirt Devil Ultra MVP had some limited special promotion distribution. However, retail subsequently lowered the retail price point below the wholesale price. With the reduction of price, Royal would no longer be able to produce the unit at a profit, thus triggering an impairment review. As a result of the review, an impairment charge of US$1,629 was recorded at the end of the fourth quarter and accelerated depreciation of US$436 was also taken during the fourth quarter of 1999.

Prior to the fourth quarter of 1999, due to sales commitments and component part usage requirements, the assets were considered as "held for use" in accordance with SFAS No. 121. However, due to specific trigger events which occurred during the fourth quarter, the remaining value of the assets were determined to be impaired and the assets were written down to zero and removed from service during the fourth quarter of 1999.

3. Debt:

At 31st December, 2001, Royal had a reducing collateralized revolving credit facility with availability of up to US$72,000 and a maturity date of 7th March, 2003. Under the agreement, pricing options of the bank's base lending rate and LIBOR rate are based on a formula, as defined. In addition, Royal pays a commitment fee based on a formula, as defined, on the unused portion of the facility. The revolving credit facility contains covenants which require, among other things, the achievement of minimum net worth levels and the maintenance of certain financial ratios. Royal was in compliance with all applicable covenants as of 31st December, 2001. The revolving credit facility is collateralized by the assets of Royal and prohibits the payment of cash dividends. As long as Royal remains in compliance with all covenants, the revolving credit facility permits additional share repurchases up to US$40,000, of which US$22,952 was utilized through 31st December, 2001. Royal's effective interest rate was 7.34% and 9.28% for 2001 and 2000, respectively.

Royal also utilizes a revolving trade accounts receivable securitization program to sell without recourse, through a wholly-owned subsidiary, certain trade accounts receivable. Under the program, the maximum amount allowed to be sold at any given time through 31st December, 2001, was US$35,000. At 31st December, 2001 and 2000, Royal had received approximately US$24,700 and US$19,200, respectively, from the sale of trade accounts receivable that has not yet been collected. The proceeds from the sales were used to reduce borrowings under Royal's revolving credit facility. Costs of the program, which primarily consist of the purchaser's financing cost of issuing commercial paper backed by the receivables, totaled US$993, US$1,559, and US$1,281 in 2001, 2000 and 1999, respectively, and have been classified as Receivable securitization and other (income) expense, net in the accompanying Consolidated Statements of Operations. Royal's effective borrowing rate under this program was 5.42%, 7.56%, and 6.51% for 2001, 2000, and 1999, respectively. Royal, as agent for the purchaser of the receivables, retains collection and administrative responsibilities for the purchased receivables. Additionally, the program contains covenants which Royal was in compliance with as of 31st December, 2001.

4. Leases:

Royal leases various facilities, equipment, computers, software and vehicles under capital and operating lease agreements. Operating lease payments totaled US$2,905, US$1,912, and US$796 for the years ended 31st December, 2001, 2000, and 1999, respectively.

Minimum commitments under all capital and operating leases at 31st December, 2001 are as follows:

Year	**Capital** *US$*	**Operating** *US$*
2002	235	3,419
2003	315	3,057
2004	317	2,760
2005	314	2,117
2006	318	1,849
Thereafter	1,562	13,438
Total minimum lease payments	3,061	26,640
Less amount representing interest	936	
Total present value of capital obligation	2,125	
Less current portion	147	
Long-term obligation under capital leases	1,978	

5. Commitments and Contingencies:

At 31st December, 2001, Royal estimates having contractual commitments for future advertising and promotional expense of approximately US$3,000, including commitments for television advertising through 31st December, 2002. Other contractual commitments for items in the normal course of business total approximately US$4,300.

Royal is self-insured with respect to workers' compensation benefits in Ohio and carries excess workers' compensation insurance covering aggregate claims exceeding US$350 per occurrence.

The Hoover Company ("Hoover") filed a lawsuit in federal court, in the Northern District of Ohio (case #1:00cv 0347), against Royal on 4th February, 2000, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserts that Royal's Dirt Devil Easy Steamer infringes certain patents held by Hoover. Hoover seeks damages, injunction of future production, and legal fees. Royal is vigorously defending the suit and believes that it is without merit. If Hoover were to prevail on all of its claims, it could have a material adverse effect on the consolidated financial position, results of operations, or cash flows of Royal.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:01cv 2775), against The Hoover Company ("Hoover") on 10th December, 2001, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserts that Hoover infringes certain patents relating to bagless technology held by Royal. Royal seeks damages, injunction on future production, and legal fees.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv 0338), against Bissell Homecare, Inc. ("Bissell") in 2002, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserts that Bissell infringes certain patents relating to bagless technology held by Royal. Royal seeks damages, injunction on future production, and legal fees.

Bissell Homecare, Inc. ("Bissell") filed a lawsuit in federal court, in the Western District of Michigan (case #1:02cv 0142), against Royal in 2002, under the patent, trademark, and unfair competition laws of the United States. The complaint asserts that Royal's Dirt Devil Easy Steamer and Platinum Force Extractor infringes certain patents held by Bissell. Bissell seeks damages, injunction of future production, and legal fees. Royal is vigorously defending the suit and believes that it is without merit. If Bissell were to prevail on all of its claims, it could have a material adverse effect on the consolidated financial position, results of operations, or cash flows of Royal.

Royal is involved in various claims and litigation arising in the normal course of business. In the opinion of management, the ultimate resolution of these actions will not materially affect the consolidated financial position, results of operations, or cash flows of Royal.

6. Income Taxes:

The income tax expense consisted of the following:

	2001	**2000**	**1999**
	US$	*US$*	*US$*
Current:			
Federal	4,888	782	8,683
State and local	552	125	780
Deferred	(382)	618	(1,853)
Total	5,058	1,525	7,610

Deferred income taxes reflect the impact, for financial statement reporting purposes, of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. At 31st December, 2001 and 2002, the components of the net deferred tax asset were as follows:

	2001	**2000**
	US$	*US$*
Deferred tax assets:		
Warranty and customer returns	3,881	4,017
Bad debt reserve	1,170	507
Inventory basis difference	636	833
Accrued vacation, compensation and benefits	866	422
State and local taxes	127	166
Accrued advertising	98	164
Self insurance reserves	90	59
Deferred compensation plan	164	154
State and local taxes	—	309
Other	—	7
Deferred tax liabilities:		
Accounts receivable mark to market	—	(658)
Basis difference in fixed and intangible assets	(4,566)	(4,409)
State and local taxes	(240)	—
Other	(1,688)	(1,415)
Net deferred tax asset	538	156

The differences between income taxes at the statutory federal income tax rate of 34% and those reported in the Consolidated Statements of Operations are as follows:

	Year ended 31st December,					
	2001	**% of Pre-tax Income**	**2000**	**% of Pre-tax Income**	**1999**	**% of Pre-tax Income**
	US$	*%*	*US$*	*%*	*US$*	*%*
Tax expense at statutory rate	4,890	34.0	2,538	34.0	6,900	34.0
Research and experimentation credit	(400)	(2.8)	(1,130)	(15.1)	—	—
State and local income taxes, net of federal benefit	360	2.5	81	1.1	507	2.5
Federal surtax on income over US$10 million	42	0.3	—	—	196	1.0
Other, net	166	1.2	36	0.4	7	—
	5,058	35.2	1,525	20.4	7,610	37.5

During 2000, Royal performed a detailed study of Research and Experimentation ("R&E") expenses over the preceding three-year period. As a result of this study, it was determined that additional expenditures qualify under the current guidance. Based on revised calculations, Royal was entitled to R & E credits of US$462, US$166 and US$302 for the years ended 1999, 1998 and 1997, respectively. These Federal Income Tax refunds were received in 2001. For the years ended 31st December, 2001 and 2000, the R & E credit amounted to US$400 and US$200, respectively.

7. Major Customers:

Royal's three largest customers represented approximately 31.1%, 14.3% and 14.1% of total net sales in 2001. Royal's three largest customers represented approximately 32.6%, 13.5% and 13.1% in 2000 and 36.9%, 13.6% and 12.1% of total net sales in 1999. Additionally, a significant concentration of Royal's business activity is with major domestic mass market retailers whose ability to meet their financial obligations with Royal is dependent on economic conditions germane to the retail industry. During recent years, several major retailers have experienced significant financial difficulties and some, including Kmart, have filed for protection from creditors under applicable bankruptcy laws. As of 31st December, 2001, the net exposure related to Kmart as well as other customers balances for which management believes collection is doubtful was included in the calculation of allowance for doubtful accounts. Royal sells its products to certain customers that are in bankruptcy proceedings.

Royal provides credit, in the normal course of business, to the retail industry which includes mass market retailers, warehouse clubs, and independent dealers. Royal performs ongoing credit evaluations of its customers and establishes appropriate allowances for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

8. Stock Based Plans:

Under the terms of Royal's stock option plans for employees, outside directors and consultants, all outstanding options have been granted at prices at least equal to the then current market value on the date of grant. Certain stock options granted become exercisable in cumulative 20% installments, commencing one year from date of grant with full vesting occurring on the fifth anniversary date, and expire in ten years, subject to earlier termination in certain events related to termination of employment. Other stock options granted vest at the end of five years ("5 year cliff vesting") and expire in six to ten years, subject to earlier termination in certain events related to termination of employment. Vesting may be accelerated in certain events relating to change of Royal's ownership.

The following summarizes the changes in the number of Royal Common Shares under option:

	2001	2000	1999
Options outstanding at beginning of the year	2,673	2,764	2,244
Options granted during the year	204	90	673
Options exercised during the year	(321)	(45)	(116)
Options canceled during the year	(185)	(136)	(37)
Options outstanding at end of the year	2,371	2,673	2,764
Options exercisable at end of the year	1,651	865	669
Options price range per share	US$2.50 to US$10.25	US$2.50 to US$10.25	US$2.50 to US$10.25

The 1,651 exercisable options at 31st December, 2001 are exercisable at an average exercise price of US$6.14. Royal's current option plans, which provide for a total of 3,060 options, have 59 options remaining for future grants at 31st December, 2001.

Royal adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" in fiscal 1996. As permitted by SFAS No. 123, Royal continues to measure compensation cost in accordance with Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for its plans. Had compensation cost for Royal's stock-based compensation plans been determined based on the fair value at the grant dates for awards under these plans consistent with the method of SFAS 123, Royal's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year ended 31st December,		
	2001	**2000**	**1999**
	US$	*US$*	*US$*
Net income (in thousands)			
As reported	9,324	5,939	12,682
Pro forma	9,091	5,623	12,314
Basic earnings per share			
As reported	0.68	0.39	0.70
Pro forma	0.66	0.37	0.68
Diluted earnings per share			
As reported	0.65	0.38	0.69
Pro forma	0.64	0.36	0.67

The effect on net income and earnings per share is not expected to be indicative of the effects on net income and earnings per share in future years. Since the SFAS No. 123 method of accounting has not been applied to options granted prior to 1995, the resulting pro forma compensation costs may not be representative of those to be expected in future years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year ended 31st December,		
	2001	**2000**	**1999**
Expected volatility	35.70%	36.60%	39.00%
Risk-free interest rate	4.85%	5.12%	6.70%
Expected life of options in years	7 years	7 years	7 years
Expected dividend yield	0%	0%	0%

During fiscal years 2001, 2000 and 1999 the weighted average grant-date fair value of options granted was US$2.17, US$2.39 and US$1.44 per share, respectively.

Royal has also established compensation plans under which stock rights have been granted to certain key employees to receive Royal stock upon exercise. These rights become 60% vested on the third anniversary from date of grant and an additional 20% vested for each subsequent year, subject to earlier termination in certain events related to termination of employment. Vesting may be accelerated in certain events relating to change of Royal's ownership. During 2001 and 2000, Royal awarded 116 and 330 stock rights under the plans, respectively, with a weighted average fair value at the date of grant of US$4.25 and US$4.89 per share for the years ended 31st December, 2001 and 2000, respectively. Royal amortizes unearned compensation to expense over the five-year vesting period. Compensation expense related to these awards was US$586 and US$361 for 2001 and 2000, respectively. At 31st December, 2001, 4 total stock rights were reserved for future issuance.

9. Shareholder Rights Plan:

Royal has a Shareholder Rights Plan which provides that under certain circumstances each Right will entitle the shareholder to purchase one one-hundredth of a share of Series A Participating Preferred Stock at an exercise price of US$40. Upon the occurrence of certain other events, including if a "Person" becomes the beneficial owner of more than 20% of the outstanding Common Shares or an "Adverse Person" becomes the beneficial owner of 10% of the outstanding Common Shares, the holder of a Right will have the right to receive, upon exercise, Common Shares of Royal, or Common Stock of the acquirer, having a value equal to two times the exercise price of the Right. The Shareholder Rights Plan is designed to deter abusive market manipulation or unfair takeover tactics and to prevent an acquirer from gaining control of Royal without offering a fair price to all shareholders. The Rights expire to 2nd November, 2003, unless redeemed prior to that date. The Rights can be redeemed at a price of US$0.01 per Right.

10. Benefit Plans:

Royal sponsors a 401 (k) defined contribution plan which covers substantially all of its employees who have satisfied the plan's eligibility requirements. Participants may contribute to the plan by voluntarily reducing their salary up to a maximum of 15% of qualified compensation subject to annual I.R.S. limits. All contributions vest immediately. For each of the last three years, the matching contribution was 100%, up to the first 3% of qualified compensation, and 50% of the next 2% of such compensation. Royal has also made discretionary contributions to the plan. Royal's provisions for matching and discretionary contributions totaled approximately US$965, US$1,017, and US$906 for the years ended 31st December, 2001, 2000 and 1999, respectively. Voluntary after-tax contributions and certain rollover contributions are also permitted.

Royal also sponsors a non-qualified deferred compensation plan which permits key employees to annually elect (via individual contracts) to defer a portion of their compensation on a pre-tax basis until retirement. The retirement benefit to be provided is based on the amount of compensation deferred, Royal match and investment earnings. All contributions vest immediately. Although the Plan is designed to be unfunded, Royal has funded the deferred compensation liability with investments in marketable securities, primarily stock mutual funds, which are classified as current assets. Royal's provisions for matching and discretionary contributions totaled approximately US$72, US$77 and US$25 for the years ended 31st December, 2001, 2000 and 1999, respectively. The deferred compensation liability which equals the related assets recorded by Royal was US$419 and US$395 as of 31st December, 2001 and 2000, respectively.

Royal does not offer any other post-retirement benefits, accordingly, it is not subject to the provisions of SFAS No. 106, "Employers' Accounting for Post Retirement Benefits Other Than Pensions."

11. Share Repurchase Program:

In February 2000, Royal's Board of Directors authorized a common share repurchase program that enabled Royal to purchase, in the open market and through negotiated transactions, up to an additional 4,250 of its outstanding common shares. Royal completed the program repurchasing 3,289 shares for an aggregate purchase price of US$20,065 in February 2001. In April 2001, Royal's Board of Directors authorized another common share repurchase program that enables Royal to purchase, in the open market and through negotiated transactions, up to an additional 3,400 of its outstanding common shares. As of 11th March, 2002, Royal has repurchased approximately 1,052 for an aggregate purchase price of US$5,250 under the program that expires in December 2002.

12. Earnings Per Share:

Basic earnings per share excludes dilution and is computed by dividing income by the weighted average number of common shares outstanding for the period. Diluted earnings per share includes the dilution of common stock equivalents.

	2001	**2000**	**1999**
	US$	*US$*	*US$*
Net income	9,324	5,939	12,682
BASIC:			
Common shares outstanding, net of treasury shares, beginning of year	13,729	16,973	19,622
Weighted average common shares issued during year	170	23	68
Weighted average treasury shares repurchased during year	(168)	(1,913)	(1,535)
Weighted average common shares outstanding, net of treasury shares, end of year	13,731	15,083	18,155
Net income per common share	0.68	0.39	0.70
DILUTED:			
Common shares outstanding, net of treasury shares, beginning of year	13,729	16,973	19,622
Weighted average common shares issued during year	170	23	68
Weighted average common share equivalents	566	491	216
Weighted average treasury shares repurchased during year	(168)	(1,913)	(1,535)
Weighted average common shares outstanding, net of treasury shares, end of year	14,297	15,574	18,371
Net income per common share	0.65	0.38	0.69

13. Business Segment Information:

Royal has two reportable segments: Consumer Products – Floorcare and Consumer Products – Other. The operations of the Consumer Products – Floorcare segment includes the design, assembly or sourcing, marketing and distribution of a full line of plastic and metal vacuum cleaners. The primary brand names associated with this segment include Dirt Devil and Royal. These products are sold primarily to major mass merchant retailers and independent dealers in North America. The operations of the Consumer Products – Other segment represents business conducted by Privacy Technologies, Inc. and Product Launch Partners, Inc., both of which are wholly owned subsidiaries of Royal. Currently, the primary product line within this segment is the TeleZapper, a telephone attachment that helps block unwanted telemarketing calls and removes consumers' phone numbers from telemarketers' computerized dialing lists. These products are sold primarily to major mass merchant retailers and national electronic chains in North America.

Royal's reportable segments are distinguished by the nature of products sold. Royal evaluates performance and allocates resources to reportable segments primarily based on net sales and operating income. The accounting policies of the reportable segments are the same as those described in Note 1. Royal records its federal and state tax assets and liabilities at corporate. There are no intersegment sales.

Financial information for Royal's reportable segments consisted of the following:

	Year ended 31st December, 2001 *US$*	2000 *US$*	1999 *US$*
Net Sales			
Consumer Products – Floorcare	406,502	408,223	407,984
Consumer Products – Other	21,923	—	—
Consolidated Total	428,425	408,223	407,984
Income from Operations			
Consumer Products – Floorcare	15,882	12,680	23,062
Consumer Products – Other	2,096	—	—
Consolidated Total	17,978	12,680	23,062
Capital Expenditures			
Consumer Products – Floorcare	6,011	7,298	16,827
Consumer Products – Other	74	—	—
Total for Reportable Segments	6,085	7,298	16,827
Corporate	7,757	6,076	2,054
Consolidated Total	13,842	13,374	18,881
Depreciation and Amortization			
Consumer Products – Floorcare	12,079	13,046	11,012
Consumer Products – Other	208	—	—
Total for Reportable Segments	12,287	13,046	11,012
Corporate	2,992	2,790	884
Consolidated Total	15,279	15,836	11,896
Total Assets			
Consumer Products – Floorcare	114,376	124,638	139,763
Consumer Products – Other	6,773	—	—
Total for Reportable Segments	121,149	124,638	139,763
Corporate	19,295	13,914	12,129
Consolidated Total	140,444	138,552	151,892

Financial information related to Royal's operations by geographic location consisted of the following:

	2001	**2000**	**1999**
	US$	*US$*	*US$*
Revenues, net:			
United States	408,289	389,867	390,121
All other Countries	20,136	18,356	17,863
	428,425	408,223	407,984
Long lived assets, net:			
United States	32,527	38,109	34,676
All other Countries	5,047	3,699	4,219
	37,574	41,808	38,895

3. AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2002 AS ANNOUNCED BY ROYAL ON 13TH FEBRUARY, 2003

The audited annual results of Royal for the year ended 31st December, 2002 as announced on 13th February, 2003 is reproduced below:

"CLEVELAND, Ohio – 13th February, 2003 – Royal Appliance Mfg. Co. (RAM – NYSE), maker of Dirt Devil® floor care products and the Telezapper®, had net income of US$9.6 million, or US$0.69 per share for the year ended 31st December, 2002, compared to US$9.3 million or US$0.65 per share for the year ended 31st December, 2001. Net sales for the year ended 31st December, 2002 were US$389.7 million, down 7.5% from last year's US$421.3 million.

Net income increased for the fourth quarter ended 31st December, 2002, to US$7.7 million, or US$0.56 per share, from US$3.8 million, or US$0.27 per share for the comparable 2001 period. Net sales for the fourth quarter ended 31st December, 2002 decreased 7.6% to US$117.5 million from US$127.2 million for the comparable 2001 period.

The Company recorded earnings of US$0.31 per share in the fourth quarter of 2002 from the settlement of litigation and revenues from various licensing agreements of the Company's intellectual property, including the TeleZapper® and the Company's bagless upright vacuum technology.

As previously announced, Royal has entered into a definitive agreement ("agreement") for its acquisition by TechTronic Industries. The agreement provides for Royal Appliance shareholders to receive US$7.37 per share in cash, or a total purchase price of approximately US$105 million.

Under the terms of the agreement, Royal will be merged with a subsidiary of TechTronic Industries which, following the completion of the merger, will operate as a wholly owned subsidiary of TechTronic Industries. The transaction is expected to close in late March or early April of 2003. It is subject to, among other things, the expiration or termination of the Hart-Scott-Rodino Act waiting period and approval by the shareholders of both TechTronic Industries and Royal Appliance.

	Three months ended 31st December,		**Twelve months ended 31st December,**	
	2002	**2001**	**2002**	**2001**
	(Dollars in thousands, except per share amounts)			
	US$	*US$*	*US$*	*US$*
Net sales	117,467	127,236	389,726	421,311
Cost of sales	85,211	94,573	301,692	325,746
Gross margin	32,256	32,663	88,034	95,565
Selling, general and administrative expenses	23,423	26,168	74,684	77,587
Income from operations	8,833	6,495	13,350	17,978
Interest expense, net	371	518	1,413	2,415
Litigation settlement, receivable securitization and other expense (income), net	(3,561)	116	(2,972)	1,181
Income before income taxes	12,023	5,861	14,909	14,382
Income tax expense	4,348	2,088	5,344	5,058
Net income	7,675	3,773	9,565	9,324
Basic				
Weighted average number of common shares outstanding *(in thousands)*	12,823	13,634	12,983	13,731
Earnings per share	0.60	0.28	0.74	0.68
Diluted				
Weighted average number of common shares and equivalents outstanding *(in thousands)*	13,696	14,206	13,877	14,297
Earnings per share	0.56	0.27	0.69	0.65

Royal Appliance primarily develops, assembles, sources, and markets vacuum cleaners and other cleaning appliances for home and commercial use under the Dirt Devil® and Royal® brand names, as well as the Telezapper®, a device that helps reduce computer-dialed telemarketing calls. The Company's executive offices are located at 7005 Cochran Road, Glenwillow, Ohio 44139.

Web site addresses: www.royalappliance.com, www.dirtdevil.com, www.telezapper.com, www.privacytechnologies.com, www.productlaunchpartners.com and www.royalvacuums.com.

Forward-looking statements in this release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Potential risks and uncertainties include, but are not limited to: approval of the merger agreement by the shareholders of both TechTronic Industries and the Company, the financial strength of the retail industry particularly in the major mass retail channel; the impact of Kmart's recent bankruptcy filing on Royal's future sales and earnings; the competitive pricing and aggressive product development environment within the floorcare industry; the impact of private-label programs by mass retailers; the cost and effectiveness of planned advertising, marketing and promotional campaigns; the success at retail and the continued acceptance by consumers of the Company's new products, the dependence upon the Company's ability to continue to successfully develop and introduce innovative products; the uncertainty of the Company's global supply chain and suppliers to continuously supply sourced finished goods and component parts; and general business and economic conditions."

4. SUMMARY AND RECONCILIATION OF SIGNIFICANT DIFFERENCES BETWEEN US GAAP AND HONG KONG GAAP

(A) Summary of significant differences

The audited/unaudited consolidated financial statements of Royal as set out in sections 1, 2 and 3 of this Appendix are prepared and presented in accordance with US GAAP, which differ in certain significant respects from Hong Kong GAAP. Summary of certain significant differences between US GAAP and Hong Kong GAAP relevant to the audited consolidated financial statements of Royal as set out below. Such summary should not be construed to be exhaustive.

(a) Deferred Income Taxes

Under Hong Kong GAAP, deferred taxation is provided for under the liability method for timing difference arise from the recognition for tax purposes of certain items of income and expenses in a different accounting period from that in which they are recognized in the financial to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Under US GAAP, deferred taxation is recognized for all temporary differences regardless of whether or not the timing differences are likely to reverse. The deferred tax assets and liabilities are classified as current or non-current based on the classification of the asset or liability that gives rise to the temporary difference. Under Hong Kong GAAP, the classification is based on the period in which the timing differences are expected to crystallise.

(b) Compensatory effect of stock options

Under Hong Kong GAAP, there is no specific recognition and measurement requirements for equity compensation benefits. Disclosure of the plan is required for the users of the financial statements to assess the effect of equity compensation benefits on an enterprise's financial position, performance and cash flows.

Under US GAAP, compensation is recognized to the extent that the quoted market price of the share exceeds the exercise price of the share options granted. The compensation expense is amortised over the vesting period on a systematic basis.

(c) Impairment of Assets

Under Hong Kong GAAP, an impairment exists when the carrying amount of an asset exceeds its recoverable amount which is measured as the higher of an asset's net selling price and its value in use. Value in use is the discounted future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the reversed amount is recognized as income immediately.

Under US GAAP, impairment exists if the future cash flows, undiscounted and excluding interest, expected to result from use and eventual disposal of the asset is less than its carrying value. If the impairment loss previously recognized for an asset no longer exists, the amount recognized are not reversed and the written down value of the asset becomes a new cost basis.

(d) Goodwill and Negative Goodwill

Under Hong Kong GAAP, goodwill arising on acquisition should be amortised on a systematic basis over its useful live, which will not exceed 20 years from its initial recognition. Negative goodwill will initially offset against any expected future losses. The remaining amount, which does not exceed the fair values of the acquired non-monetary assets, will then amortise over the remaining weighted average useful life of the acquired assets. Any amount which in excess of the fair values of the acquired non-monetary assets should be recognized as income immediately.

Under US GAAP, goodwill arising on acquisition need not be amortised unless there is evidence that the goodwill has a limited life. Negative goodwill is written off proportionately against non-current assets other than marketable securities.

(B) Reconciliation of significant differences

A reconciliation of the significant differences between US GAAP and Hong Kong GAAP which have a significant effect on the net income and shareholders' equity of Royal are set out below. The Directors believe that, other than those differences set out in the reconciliation, there would be no material differences between Royal's consolidated financial statements as prepared under US GAAP and under Hong Kong GAAP.

The effect on net income of significant differences between US GAAP and Hong Kong GAAP is as follows:

	Year ended 31st December,		
	2001	**2000**	**1999**
	US$'000	*US$'000*	*US$'000*
Net income under US GAAP	9,324	5,939	12,682
Hong Kong GAAP adjustments:			
Deferred income taxes	186	339	(926)
Compensatory effect of stock options	586	361	—
Net income under Hong Kong GAAP	10,096	6,639	11,756
Basic net income per share under Hong Kong GAAP:			
Weighted average number of common shares outstanding (in thousands)	13,731	15,083	18,155
Earnings per share	0.735	0.440	0.648
Diluted net income per share under Hong Kong GAAP:			
Weighted average number of common shares and equivalents outstanding (in thousands)	14,297	15,574	18,371
Earnings per share	0.706	0.426	0.640

The effect on shareholders' equity of significant differences between US GAAP and Hong Kong GAAP is as follows:

	As at 31st December,		
	2001	**2000**	**1999**
	US$'000	*US$'000*	*US$'000*
Shareholders' equity under US GAAP	38,622	31,053	44,669
Hong Kong GAAP adjustments:			
Deferred income taxes	(4,549)	(4,735)	(5,074)
Shareholders' equity under Hong Kong GAAP	34,073	26,318	39,595

1. SUMMARY OF RESULTS FOR THE THREE YEARS ENDED 31ST DECEMBER, 2001

The following is a summary of the audited consolidated results of the Group for the three years ended 31st December, 2001, extracted from the Group's annual reports for the three years ended 31st December, 2001.

	Year ended 31st December,		
	2001	**2000**	**1999**
	HK$	*HK$*	*HK$*
Turnover	6,101,140,000	4,551,482,000	2,699,337,510
Profit before share of results of associates and taxation	265,212,000	212,855,000	166,964,986
Share of results of associates	(300,000)	(1,221,000)	227,612
Profit before taxation	264,912,000	211,634,000	167,192,598
Taxation	(22,940,000)	(31,221,000)	(8,537,958)
Profit before minority interests	241,972,000	180,413,000	158,654,640
Minority interests	(3,125,000)	504,000	(1,773,813)
Profit for the year	238,847,000	180,917,000	156,880,827

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2001

Set out below are the audited consolidated income statements of the Group for the two years ended 31st December, 2001 and the audited consolidated balance sheets of the Group as at 31st December, 2001 and 30th December, 2000 together with the consolidated cash flow statements, consolidated statements of recognised gains and losses and related notes for the year ended 31st December, 2001 as extracted from the annual report of the Group for the year ended 31st December, 2001.

Consolidated Income Statement
For the year ended 31st December, 2001

	Notes	2001 HK$'000	2000 HK$'000 (As restated)
Turnover		6,101,140	4,551,482
Cost of sales		(4,594,011)	(3,584,733)
Gross profit		1,507,129	966,749
Other revenue	*5*	41,396	30,807
Selling, distribution and advertising expenses		(516,684)	(295,237)
Administrative expenses		(595,698)	(375,036)
Research and development costs		(79,931)	(38,796)
Profit from operations	*6*	356,212	288,487
Finance costs	*7*	(91,000)	(75,632)
Profit before share of results of associates and taxation		265,212	212,855
Share of results of associates		(300)	(1,221)
Profit before taxation		264,912	211,634
Taxation	*10*	(22,940)	(31,221)
Profit before minority interests		241,972	180,413
Minority interests		(3,125)	504
Profit for the year		238,847	180,917
Dividends	*11*	(60,057)	(53,291)
Earnings per share	*12*		
Basic		42.02 cents	32.31 cents
Diluted		41.83 cents	32.10 cents

Audited Consolidated Balance Sheet
At 31st December, 2001

	Notes	2001 HK$'000	2000 HK$'000 (As restated)
ASSETS			
Non-current assets			
Property, plant and equipment	13	678,629	665,320
Goodwill	14	83,815	74,729
Negative goodwill	15	(26,722)	(16,919)
Intangible assets	16	5,759	6,847
Interests in associates	18	108,366	79,833
Investments in securities	19	60,530	54,520
Deposit for acquisition of a subsidiary	20	148,200	—
Deferred tax asset	30	21,193	16,069
Other assets		1,195	1,195
		1,080,965	881,594
Current assets			
Inventories	21	799,975	856,950
Trade and other receivables	22	598,361	593,685
Deposits and prepayments		309,448	183,642
Bills receivable		331,431	155,076
Investments in securities	19	4,899	7,892
Trade receivable from an associate		2,511	7,361
Pledged bank deposit	23	27,300	—
Bank balances, deposits and cash		616,739	281,335
		2,690,664	2,085,941
Current liabilities			
Trade and other payables	24	1,705,603	985,234
Warranty provision	25	26,979	33,386
Taxation payable		12,149	8,486
Obligations under finance leases and hire purchase contracts – due within one year	26	10,263	7,888
Bank borrowings – due within one year	27	217,060	155,155
		1,972,054	1,190,149
Net current assets		718,610	895,792
Total assets less current liabilities		1,799,575	1,777,386

Audited Consolidated Balance Sheet *(Cont'd)*
At 31st December, 2001

	Notes	2001 HK$'000	2000 HK$'000 (As restated)
CAPITAL AND RESERVES			
Share capital	*28*	114,903	112,243
Reserves	*29*	988,471	796,539
		1,103,374	908,782
MINORITY INTERESTS		9,977	6,852
NON-CURRENT LIABILITIES			
Obligations under finance leases and hire purchase contracts – due after one year	*26*	8,721	7,312
Bank borrowings – due after one year	*27*	675,967	852,839
Deferred tax liability	*30*	1,536	1,601
		686,224	861,752
		1,799,575	1,777,386

Audited Balance Sheet of the Company
At 31st December, 2001

	Notes	**2001** *HK$'000*	**2000** *HK$'000* (As restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	220,604	248,760
Intangible assets	*16*	132	235
Investments in subsidiaries	*17*	447,137	343,502
Interests in associates	*18*	79,417	84,698
Investments in securities	*19*	20,908	21,708
Other assets		1,195	1,195
		769,393	700,098
Current assets			
Inventories	*21*	258,518	217,479
Trade and other receivables	*22*	43,262	91,253
Deposits and prepayments		75,480	121,856
Bills receivable		250,282	136,731
Investments in securities	*19*	4,899	—
Amounts due from subsidiaries		462,519	294,100
Pledged bank deposit	*23*	27,300	—
Bank balances, deposits and cash		303,519	150,877
		1,425,779	1,012,296
Current liabilities			
Trade and other payables	*24*	526,131	360,974
Amounts due to subsidiaries		191,376	2,714
Amount due to an associate		—	3,221
Taxation payable		3,725	6,581
Obligations under finance leases and hire purchase contracts – due within one year	*26*	6,636	3,830
Bank borrowings – due within one year	*27*	114,193	69,575
		842,061	446,895
Net current assets		583,718	565,401
Total assets less current liabilities		1,353,111	1,265,499

Audited Balance Sheet of the Company *(Cont'd)*
At 31st December, 2001

	Notes	**2001** *HK$'000*	**2000** *HK$'000* (As restated)
CAPITAL AND RESERVES			
Share capital	*28*	114,903	112,243
Reserves	*29*	997,345	874,042
		1,112,248	986,285
NON-CURRENT LIABILITIES			
Obligations under finance leases and hire purchase contracts – due after one year	*26*	5,469	2,961
Bank borrowings – due after one year	*27*	234,000	274,859
Deferred tax liability	*30*	1,394	1,394
		240,863	279,214
		1,353,111	1,265,499

Consolidated Statement of Recognised Gains and Losses
For the year ended 31st December, 2001

	2001	2000
	HK$'000	*HK$'000* (As restated)
Loss not recognised in the consolidated income statement		
Exchange differences arising on translation of overseas operations	(1,567)	(5,772)
Profit for the year	238,847	180,917
Total recognised gains	237,280	175,145
Prior year adjustments arising from effects of changes in accounting policies *(note 2)*		
– decrease in retained profits at 1st January, 2000		(62,437)
– decrease in goodwill reserve at 1st January, 2000		179,124
		116,687

Consolidated Cash Flow Statement
For the year ended 31st December, 2001

	Notes	2001 HK$'000	2000 HK$'000 (As restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	31	1,104,387	248,616
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(60,057)	(53,291)
Interest paid		(91,000)	(75,632)
Interest received		14,412	8,947
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(136,645)	(119,976)
TAXATION			
Hong Kong Profits Tax paid		(20,140)	(15,735)
Overseas Tax paid		(5,108)	(26,916)
Overseas Tax refunded		3,282	—
TAX PAID		(21,966)	(42,651)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(188,768)	(129,187)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	32	(102,778)	(672,880)
Deposit paid for acquisition of a subsidiary		(148,200)	—
Payment of consideration for prior year acquisitions		(4,466)	—
Proceeds from disposal of property, plant and equipment		1,938	7,443
Proceeds from disposal of unlisted investments		—	15,680
Additions to intangible assets		(382)	(1,649)
Purchase of investments in securities		(7,221)	(29,250)
Increase in pledged bank deposit		(27,300)	—
Advances to associates		(28,833)	(31,253)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(506,010)	(841,096)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING		439,766	(755,107)

Consolidated Cash Flow Statement *(Cont'd)*
For the year ended 31st December, 2001

	Notes	2001 HK$'000	2000 HK$'000 (As restated)
FINANCING	33		
Proceeds from issue of shares		17,369	2,717
New bank loans obtained		28,915	823,830
Repayment of obligations under finance leases and hire purchase contracts		(10,575)	(10,044)
Repayment of bank loans		(169,316)	(66,042)
NET CASH (OUTFLOW) INFLOW FROM FINANCING		(133,607)	750,461
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		306,159	(4,646)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		138,030	143,606
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		3,811	(930)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		448,000	138,030
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances, deposits and cash		616,739	281,335
Trust receipt loans		(137,567)	(88,972)
Bank overdrafts		(31,172)	(54,333)
		448,000	138,030

Notes to the Financial Statements

For the year ended 31st December, 2001

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 principal activities of the Group are the manufacturing and trading of electrical, electronic, professional industrial products.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

A number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants have become effective for the current financial year. These, where applicable, have been adopted by the Company as its accounting policies, as set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which, where applicable, have been adopted in these financial statements.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 *Segment Reporting*. Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In the current year, the Group has adopted SSAP 30 *Business Combinations* and has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, the amount of such goodwill (negative goodwill) has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation and impairment losses in respect of goodwill between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 have been recognised retrospectively. Negative goodwill which would have been recognised as income between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 has been recognised retrospectively. Following restatement, goodwill is presented as an asset in the balance sheet and negative goodwill is presented as a deduction from assets. Goodwill is amortised over its estimated useful life. Negative goodwill will be released to income based on the remaining weighted average useful life of the acquired identifiable assets.

Consolidation

SSAP 32 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* has introduced a new definition of subsidiary, i.e. an enterprise that is controlled by the Group. However, certain associates of the Group which fall under this new definition of a subsidiary are not permitted to be consolidated in these financial statements, because as the Company is a Hong Kong incorporated company, these associates do not meet the definition of a subsidiary as set out in Hong Kong Companies Ordinance. In this case, pursuant to SSAP 32, the Group disclose certain additional information to enable users of the consolidated financial statements to assess the effects as if this SSAP had been fully applied.

The effect of the adoption of the new and revised accounting policies described above on the financial position of the Group at 1st January, 2000 is summarised as follows:

	Goodwill reserve	**Retained Profits**
	HK$'000	*HK$'000*
Balance at 1st January, 2000		
As originally stated	(179,124)	507,423
Derecognition of liability for final dividend for 1999	—	30,743
Restatement as an asset of goodwill held in reserves with retrospective recognition of accumulated amortisation	179,124	(93,180)
As restated	—	444,986

The effect of these changes in accounting policies on the results for the current and prior year is as follows:

	2001	**2000**
	HK$'000	*HK$'000*
Amortisation of goodwill	(4,927)	(11,215)
Release of negative goodwill to income	2,395	1,601
	(2,532)	(9,614)

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 capitalised and amortised on a straight-line basis over its 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 unamortised goodwill is included in the determination of the profit or loss on disposal.

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 recognised 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 recognised as income immediately.

Negative goodwill arising on the 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 loss. 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 loss.

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 and trademarks

Patents and trademarks are measured initially at purchase cost and amortised on a straight line basis over their estimated useful lives.

Assets held under finance leases and hire purchase contracts

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 and hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor or hirer is included in the balance sheet as an obligation under finance leases or hire purchase contracts. 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 and hire purchase contract 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.

Property, plant and equipment

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

Depreciation and amortisation 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% – $33^1/_3$%
Vessel	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 loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised 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 recognised 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.
Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

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 recognised 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised 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 loss that is other than temporary.

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

Other assets

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

Inventories

Inventories are stated at the lower of cost and net realisable value.

Research and development costs

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

An internally-generated intangible asset arising from development expenditure is recognised 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 amortised on a straight line basis over its useful life.

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

Turnover

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, to outside customers during the year.

Revenue recognition

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

Service income is recognised when services are provided.

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on the 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 recognised as income or as expenses in the year in which the operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

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 recognised when the employees render services instead of when claims are incurred.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is engaged in the manufacturing and trading of electrical, electronic, professional industrial products. The segment information is disclosed in accordance with different types of products.

INCOME STATEMENT

For the year ended 31st December, 2001

	Power tools products	Floor care appliance products	Solar powered and electronic products	Other products	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External sales	4,523,295	1,171,793	163,734	242,318	—	6,101,140
Inter-segment sales	74,584	26,336	6,516	226,240	(333,676)	—
Total revenue	4,597,879	1,198,129	170,250	468,558	(333,676)	6,101,140

Inter-segment sales are charged at prevailing market rates.

RESULT						
Segment result	293,323	56,877	14,255	(8,243)	—	356,212
Finance costs						(91,000)
Share of results of associates	—	—	—	(300)	—	(300)
Profit before taxation						264,912
Taxation						(22,940)
Profit after taxation						241,972

BALANCE SHEET
At 31st December, 2001

	Power tools products	Floor care appliance products	Solar powered and electronic products	Other products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	2,884,275	467,199	62,445	249,344	3,663,263
Interests in associates	—	—	—	108,366	108,366
	2,884,275	467,199	62,445	357,710	3,771,629
Liabilities					
Segment liabilities	(2,303,385)	(209,483)	(19,822)	(113,439)	(2,646,129)

OTHER INFORMATION
For the year ended 31st December, 2001

	Power tools products	Floor care appliance products	Solar powered and electronic products	Other products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	109,810	66,446	3,798	25,270	205,324
Depreciation and amortisation	151,605	43,529	3,172	15,505	213,811

INCOME STATEMENT
For the year ended 31st December, 2000

	Power tools products HK$'000	Floor care appliance products HK$'000	Solar powered and electronic products HK$'000	Other products HK$'000	Eliminations HK$'000	Consolidated HK$'000 (As restated)
REVENUE						
External sales	3,076,822	1,083,797	173,495	217,368	—	4,551,482
Inter-segment sales	113,551	—	9,382	131,903	(254,836)	—
Total revenue	3,190,373	1,083,797	182,877	349,271	(254,836)	4,551,482

Inter-segment sales are charged at prevailing market rates.

	Power tools products HK$'000	Floor care appliance products HK$'000	Solar powered and electronic products HK$'000	Other products HK$'000	Eliminations HK$'000	Consolidated HK$'000 (As restated)
RESULT						
Segment result	235,275	43,885	11,303	(1,976)	—	288,487
Finance costs						(75,632)
Share of results of associates	—	—	—	(1,221)	—	(1,221)
Profit before taxation						211,634
Taxation						(31,221)
Profit after taxation						180,413

BALANCE SHEET
At 31st December, 2000

	Power tools products HK$'000	Floor care appliance products HK$'000	Solar powered and electronic products HK$'000	Other products HK$'000	Consolidated HK$'000 (As restated)
Assets					
Segment assets	2,198,828	409,764	72,355	206,755	2,887,702
Interests in associates	—	—	—	79,833	79,833
	2,198,828	409,764	72,355	286,588	2,967,535
Liabilities					
Segment liabilities	(1,567,679)	(340,421)	(18,898)	(261,100)	(2,188,098)

OTHER INFORMATION
For the year ended 31st December, 2000

	Power tools products	Floor care appliance products	Solar powered and electronic products	Other products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(As restated)
Capital additions	45,397	51,181	4,005	21,049	121,632
Depreciation and amortisation	128,900	36,938	9,839	17,290	192,967

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	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(As restated)
By geographical market location:				
North America	5,247,979	3,838,283	332,013	244,305
Europe	589,326	410,363	4,680	17,847
Other countries	263,835	302,836	19,519	26,335
	6,101,140	4,551,482	356,212	288,487
Finance costs			(91,000)	(75,632)
Contribution from associates			(300)	(1,221)
Profit before taxation			264,912	211,634

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(As restated)		(As restated)
Hong Kong and People's Republic of China ("PRC")	1,941,485	1,333,818	164,123	107,645
North America	1,615,665	1,484,305	38,804	7,033
Europe	180,835	91,866	2,051	758
Other countries	33,644	57,546	346	6,196
	3,771,629	2,967,535	205,324	121,632

5. OTHER REVENUE

	2001	**2000**
	HK$'000	*HK$'000*
Included in other revenue is interest income analysed as follows:		
Interest earned on bank deposits	7,659	8,505
Interest earned on amounts due from associates	6,753	442
Interest income for the year	14,412	8,947

6. PROFIT FROM OPERATIONS

	2001	2000
	HK$'000	*HK$'000*
		(As restated)
Profit from operations has been arrived at after charging (crediting):		
Amortisation of intangible assets included in administrative expenses	1,379	866
Auditors' remuneration	3,623	4,807
Amortisation of goodwill included in administrative expenses	4,927	11,215
Depreciation and amortisation on property, plant and equipment		
Owned assets	200,837	174,816
Assets held under finance leases and hire purchase contracts	9,063	7,671
Impairment loss of investment securities recognised	4,204	1,944
Loss (gain) on disposal of property, plant and equipment	5,179	(2,412)
Release of negative goodwill to income included in administrative expenses	(2,395)	(1,601)
Operating lease charges		
Premises	24,978	25,039
Motor vehicles	4,541	3,077
Plant and machinery	8,727	8,387
Retirement benefits scheme contributions	5,958	1,765
Research and development costs	79,931	39,996
Less: amounts capitalised	—	(1,200)
	79,931	38,796
Staff costs		
Directors' remuneration		
Fees	128	50
Other emoluments	21,436	19,958
Others	229,953	195,817
	251,517	215,825

Staff costs disclosed above do not include an amount of HK$43,582,000 *(2000: HK$23,425,000)* relating to research and development activities, which is included under research and development costs.

7. FINANCE COSTS

	2001 *HK$'000*	**2000** *HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	89,253	74,247
Obligations under finance leases and hire purchase contracts	1,747	1,385
	91,000	75,632

8. DIRECTORS' EMOLUMENTS

	2001 *HK$'000*	**2000** *HK$'000*
Directors' fees:		
Executive	40	40
Non-executive	10	10
Independent non-executive	78	—
	128	50
Other emoluments for executive directors:		
Salaries and other benefits	20,886	18,727
Contributions to retirement benefits scheme	52	—
	20,938	18,727
Other emoluments for non-executive directors:		
Salaries and other benefits	366	1,231
Contributions to retirement benefits scheme	4	—
	370	1,231
Total emoluments	21,436	20,008

The emoluments of the directors were within the following bands:

	Number of directors	
	2001	**2000**
Nil to HK$1,000,000	6	6
HK$1,000,001 to HK$1,500,000	—	1
HK$3,000,001 to HK$3,500,000	3	—
HK$4,000,001 to HK$4,500,000	1	3
HK$5,500,001 to HK$6,000,000	—	1
HK$6,500,001 to HK$7,000,000	1	—

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, all *(2000: four)* were executive directors of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining individual for the year ended 31st December, 2000 represented salary and other benefits amounting to HK$1,839,000.

During each of the two years ended 31st December, 2001 and 2000, no emoluments had 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 had waived any emoluments during those years.

10. TAXATION

	2001	**2000**
	HK$'000	*HK$'000*
The total taxation charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year	18,500	15,000
(Over)underprovision in prior years	(153)	2,026
Deferred taxation charge	—	1,394
	18,347	18,420
Overseas taxation on profit for the year	9,611	28,833
Underprovision in prior years	170	35
Deferred taxation credit	(5,188)	(16,067)
	4,593	12,801
	22,940	31,221

Overseas taxation is calculated at the rates prevailing in the relevant jurisdictions.

The deferred taxation credit represents the amount of deferred tax asset on timing differences arising overseas from the use of the receipts and payments basis for tax purposes and the accrual basis for the financial statements. The deferred tax asset has been recognised to the extent that the timing differences will be realised in the near future.

Details of deferred taxation are set out in note 30.

11. DIVIDENDS

	2001 *HK$'000*	2000 *HK$'000* (As restated)
Final dividend paid:		
2000: HK6.0 cents *(1999: HK 5.5 cents)* per share	34,213	30,743
Interim dividend paid:		
2001: HK4.5 cents *(2000: HK 4.0 cents)* per share	25,844	22,548
	60,057	53,291

The final dividend of HK7.0 cents *(2000: HK6.0 cents)* per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

12. EARNINGS PER SHARE

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

	2001 *HK$'000*	2000 *HK$'000* (As restated)
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year	238,847	180,917
Weighted average number of ordinary shares for the purposes of basic earnings per share	568,437,155	560,015,593
Effect of dilutive potential ordinary shares:		
Share options	2,505,232	3,652,395
Weighted average number of ordinary shares for the purposes of diluted earnings per share	570,942,387	563,667,988

The adjustments to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, are as follows:

	Basic *HK cents*	Diluted *HK cents*
Reconciliation of earnings per share for the year ended 31st December, 2000		
Reported figure before adjustment	34.02	33.80
Adjustments arising from adoption of SSAP 30	(1.71)	(1.70)
	32.31	32.10

13. PROPERTY, PLANT AND EQUIPMENT

	Land and land use rights and buildings outside Hong Kong	Leasehold improvements	Office equipment, furniture and fixtures	Plant and machinery	Motor vehicles	Moulds and tooling	Vessel	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP									
COST									
At 1st January, 2001	265,205	63,782	144,253	289,995	11,160	569,550	3,322	4,637	1,351,904
Currency realignment	215	(44)	(747)	(1,059)	(44)	(406)	—	—	(2,085)
Additions	16,337	11,299	42,595	34,765	5,348	84,320	—	8,463	203,127
Acquisition of subsidiaries	23,071	1,629	1,003	552	193	—	—	—	26,448
Disposals	—	(2,226)	(5,210)	(31,871)	(331)	(16,160)	—	—	(55,798)
Reclassification	408	—	—	—	—	4,229	—	(4,637)	—
At 31st December, 2001	305,236	74,440	181,894	292,382	16,326	641,533	3,322	8,463	1,523,596
DEPRECIATION AND AMORTISATION									
At 1st January, 2001	17,696	47,994	71,742	163,091	9,128	373,822	3,111	—	686,584
Currency realignment	(811)	(38)	(595)	(1,018)	(32)	(342)	—	—	(2,836)
Provided for the year	12,752	8,258	29,103	42,465	1,385	115,776	161	—	209,900
Eliminated on disposals	—	(2,134)	(3,815)	(26,006)	(233)	(16,493)	—	—	(48,681)
At 31st December, 2001	29,637	54,080	96,435	178,532	10,248	472,763	3,272	—	844,967
NET BOOK VALUES									
At 31st December, 2001	275,599	20,360	85,459	113,850	6,078	168,770	50	8,463	678,629
At 31st December, 2000	247,509	15,788	72,511	126,904	2,032	195,728	211	4,637	665,320

	Leasehold land and land use rights and buildings outside Hong Kong	Leasehold improvements	Office equipment, furniture and fixtures	Plant and machinery	Motor vehicles	Moulds and tooling	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY							
COST							
At 1st January, 2001	72,393	61,413	58,263	133,407	7,675	449,796	782,947
Additions	—	9,450	15,842	43,291	2,484	44,993	116,060
Disposals	—	—	(223)	(2,159)	(160)	—	(2,542)
Transfer to subsidiaries	—	(13,358)	(7,281)	(18,171)	—	(146,133)	(184,943)
At 31st December, 2001	72,393	57,505	66,601	156,368	9,999	348,656	711,522
DEPRECIATION AND AMORTISATION							
At 1st January, 2001	11,368	46,050	37,798	97,382	7,198	334,391	534,187
Provided for the year	2,767	5,932	8,772	16,076	676	45,950	80,173
Eliminated on disposals	—	—	(172)	(1,678)	(80)	—	(1,930)
Eliminated on transfer to subsidiaries	—	(7,938)	(4,289)	(11,756)	—	(97,529)	(121,512)
At 31st December, 2001	14,135	44,044	42,109	100,024	7,794	282,812	490,918
NET BOOK VALUES							
At 31st December, 2001	58,258	13,461	24,492	56,344	2,205	65,844	220,604
At 31st December, 2000	61,025	15,363	20,465	36,025	477	115,405	248,760

The net book values of the Group's and the Company's property, plant and equipment include amounts of approximately HK$26,870,000 *(2000: HK$19,534,000)* and HK$16,651,000 *(2000: HK$7,936,000)*, respectively, in respect of assets held under finance leases and hire purchase contracts.

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The net book value of land and land use rights and buildings are situated outside Hong Kong and are analysed as follows:				
Freehold	217,341	186,484	—	—
Medium-term lease	58,258	61,025	58,258	61,025
	275,599	247,509	58,258	61,025

The Group has pledged certain freehold land and building having a net book value of HK$15,413,000 *(2000: Nil)* to secure general banking facilities granted to the Group.

14. GOODWILL

	THE GROUP *HK$'000*
COST	
At 1st January, 2001	179,214
Arising on acquisition of a subsidiary	14,013
At 31st December, 2001	193,227
AMORTISATION	
At 1st January, 2001	104,485
Charge for the year	4,927
At 31st December, 2001	109,412
NET BOOK VALUES	
At 31st December, 2001	83,815
At 31st December, 2000	74,729

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

15. NEGATIVE GOODWILL

	THE GROUP
	HK$'000
GROSS AMOUNT	
At 1st January, 2001	18,610
Adjustments to measurements of purchase consideration for acquisitions in prior year (see below)	(4,466)
Arising on acquisition of subsidiaries	16,664
At 31st December, 2001	30,808
RELEASED TO INCOME	
At 1st January, 2001	1,691
Adjustments to amounts released to income in prior year	(406)
Released in the year	2,801
At 31st December, 2001	4,086
CARRYING AMOUNTS	
At 31st December, 2001	26,722
At 31st December, 2000	16,919

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

During the year, an adjustment was made to the cost of investment of a business acquired in 2000, representing related legal and professional fees finalised and paid during the year.

16. INTANGIBLE ASSETS

	Deferred development cost	Patents and trademarks	Total
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
COST			
At 1st January, 2001	5,553	10,476	16,029
Currency realignment	(161)	—	(161)
Additions	74	308	382
At 31st December, 2001	5,466	10,784	16,250
AMORTISATION			
At 1st January, 2001	2,210	6,972	9,182
Currency realignment	(70)	—	(70)
Provided for the year	549	830	1,379
At 31st December, 2001	2,689	7,802	10,491
NET BOOK VALUES			
At 31st December, 2001	2,777	2,982	5,759
At 31st December, 2000	3,343	3,504	6,847

	Patents
	HK$'000
THE COMPANY	
COST	
At 1st January, 2001 and 31st December, 2001	1,037
AMORTISATION	
At 1st January, 2001	802
Provided for the year	103
At 31st December, 2001	905
NET BOOK VALUES	
At 31st December, 2001	132
At 31st December, 2000	235

All intangible assets of the Group and the Company are amortised on a straight line basis over ten years.

17. INVESTMENTS IN SUBSIDIARIES

	2001 *HK$'000*	2000 *HK$'000*
Investments in unlisted shares, at cost	362,635	343,502
Amount due from a subsidiary	84,502	—
	447,137	343,502

Particulars of the principal subsidiaries of the Company at 31st December, 2001 are set out in note 41.

The amount due from a subsidiary is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of directors, no part of the amount will be repaid within the next twelve months and the amount is therefore presented as non-current.

18. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2001 *HK$'000*	2000 *HK$'000*	2001 *HK$'000*	2000 *HK$'000*
Unlisted shares, at cost less impairment loss recognised	—	—	—	46,268
Share of net assets	1,967	2,267	—	—
Amounts due from associates, less impairment loss recognised	106,399	77,566	79,417	38,430
	108,366	79,833	79,417	84,698

Particulars of the associates at 31st December, 2001 are set out in note 42.

The amounts due from associates are unsecured, bear interest at rates ranging from prime rate to prime rate minus 0.5% 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.

The amounts due from associates for the year ended 31st December, 2000 were non-interest bearing.

At the balance sheet date, the Group holds 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together "Gimelli Group companies"). In accordance with the requirement of SSAP32, the Group controls Gimelli Group companies. However, because the Company is incorporated in Hong Kong and Gimelli Group companies do not meet the definition of a subsidiary under the Hong Kong Companies Ordinance, Gimelli Group companies have not been consolidated in these financial statements. Rather, it has been accounted for as associates using the equity method of accounting. The equity carrying value of the Group's interests in Gimelli Group companies is nil at both 31st December, 2000, and 31st December, 2001.

Had Gimelli Group companies been consolidated in these financial statements, its assets and liabilities, and income and expenses, would have been accounted for on a line-by-line basis. The analysis of the share of net liabilities and of share of net (loss) profit would have been as follows:

	2001	**2000**
	HK$'000	*HK$'000*
Non-current assets	22,481	14,014
Current assets	34,966	26,017
Current liabilities	(176,254)	(157,494)
Non-current liabilities	(315)	—
Share of net liabilities attributable to the Group	(119,122)	(117,463)
Turnover	130,349	113,550
Operating expenses	(132,009)	(112,787)
Taxation	—	—
Share of net (loss) profit attributable to the Group	(1,660)	763

19. INVESTMENTS IN SECURITIES

	THE GROUP		**THE COMPANY**	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Unlisted investment securities (equity), at cost less impairment loss recognised	60,530	54,520	20,908	21,708
Current assets				
Other listed investments (equity securities), at market price	4,899	—	4,899	—
Unlisted investment securities (equity securities), at cost	—	7,892	—	—
	4,899	7,892	4,899	—

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$20,908,000 *(2000: HK$20,908,000*) and HK$8,806,000 *(2000: HK$11,007,000)*, respectively. The Company's investments included its investment in Nack of the same amount. Both companies are incorporated in the United States of America ("U.S.A."). Nack has the exclusive rights to market and distribute a registered product in the U.S.A., 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 U.S.A. ADI is engaged in marketing through a combination of direct response television and retail distribution in the U.S.A. and selected international markets.

The Group's investment represents approximately 25% *(2000: 25%)* of Nack's issued shares held directly by the Company and 26% *(2000: 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.

20. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY

In November 2001, the Group entered into a conditional sale and purchase agreement to acquire the entire equity interest of a company (the "subsidiary") whose principal activity is the manufacture and trade of garden tools equipment in Mexico. The amount paid to date pursuant to the agreement of approximately HK$148,200,000 is classified as a non-current deposit.

21. INVENTORIES

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	255,095	244,177	159,758	155,142
Work in progress	62,336	47,238	44,715	36,636
Finished goods	482,544	565,535	54,045	25,701
	799,975	856,950	258,518	217,479

The value of inventories carried at net realisable 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	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 60 days	433,714	372,953	16,471	48,779
61 to 120 days	81,058	79,401	5,024	2,242
121 days or above	37,542	35,503	21,767	35,642
Total trade receivables	552,314	487,857	43,262	86,663
Other receivables	46,047	105,828	—	4,590
	598,361	593,685	43,262	91,253

23. PLEDGED BANK DEPOSIT

The amount represents a deposit pledged to a bank to secure short-term banking facilities granted to the Group and the Company and is therefore classified as a current asset.

24. TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 60 days	293,334	328,338	124,808	194,547
61 to 120 days	146,230	157,058	85,474	68,125
121 days or above	35,649	26,497	5,969	8,125
Total trade payables	475,213	511,893	216,251	270,797
Other payables	1,230,390	473,341	309,880	90,177
	1,705,603	985,234	526,131	360,974

25. WARRANTY PROVISION

	THE GROUP	
	2001	**2000**
	HK$'000	*HK$'000*
At 1st January	33,386	33,569
Additional provision in the year	1,569	14,811
Utilisation of provision	(7,976)	(14,994)
At 31st December	26,979	33,386

The warranty provision represents management's best estimate of the Group's liability under 24 months warranties granted on electrical products based on past experience of product returns and industry averages for defective products.

26. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of obligations under finance leases and hire purchase contracts is as follows:

THE GROUP	Minimum lease payments 2001 HK$'000	Minimum lease payments 2000 HK$'000	Present value of minimum lease payments 2001 HK$'000	Present value of minimum lease payments 2000 HK$'000
Amounts payable under finance leases and hire purchase contracts:				
Within one year	11,063	8,950	10,263	7,888
In the second to fifth year inclusive	9,088	7,762	8,721	7,312
	20,151	16,712	18,984	15,200
Less: future finance charges	(1,167)	(1,512)	—	—
Present value of lease obligations	18,984	15,200	18,984	15,200
Less: Amount due for settlement within one year shown under current liabilities			(10,263)	(7,888)
Amount due for settlement after one year			8,721	7,312

THE COMPANY	Minimum lease payments 2001 *HK$'000*	Minimum lease payments 2000 *HK$'000*	Present value of minimum lease payments 2001 *HK$'000*	Present value of minimum lease payments 2000 *HK$'000*
Amounts payable under finance leases and hire purchase contracts:				
Within one year	7,116	4,306	6,636	3,830
In the second to fifth year inclusive	5,727	3,111	5,469	2,961
	12,843	7,417	12,105	6,791
Less: future finance charges	(738)	(626)	—	—
Present value of lease obligations	12,105	6,791	12,105	6,791
Less: Amount due for settlement within one year shown under current liabilities			(6,636)	(3,830)
Amount due for settlement after one year			5,469	2,961

It is the Group's policy to lease certain of its plant and machinery, fixtures and equipment under finance leases and hire purchase contracts. The lease terms range from three to four years. For the year ended 31st December, 2001, the average effective borrowing rate was 8.4%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

27. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trust receipt loans	137,567	88,972	74,492	69,575
Bank loans	724,288	864,689	273,700	274,859
Bank overdrafts	31,172	54,333	1	—
	893,027	1,007,994	348,193	344,434
Analysed into:				
Secured	6,099	—	—	—
Unsecured	886,928	1,007,994	348,193	344,434
	893,027	1,007,994	348,193	344,434

All bank borrowings of the Group and the Company are repayable as follows:

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
On demand or within one year	217,060	155,155	114,193	69,575
In the second year	1,403	40,859	—	40,859
In the third to fifth year inclusive	669,775	811,980	234,000	234,000
After five years	4,789	—	—	—
	893,027	1,007,994	348,193	344,434
Less: Amount due for settlement within one year shown under current liabilities	(217,060)	(155,155)	(114,193)	(69,575)
Amount due for settlement after one year	675,967	852,839	234,000	274,859

28. SHARE CAPITAL

	Number of shares		Share capital	
	2001	2000	2001	2000
			HK$'000	*HK$'000*
Ordinary shares of HK$0.20 each				
Authorised	800,000,000	800,000,000	160,000	160,000
Issued and fully paid:				
At 1st January	561,216,826	558,866,826	112,243	111,773
Issue of shares on exercise of share options	13,300,000	2,350,000	2,660	470
At 31st December	574,516,826	561,216,826	114,903	112,243

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

Share options

At 31st December, 2001, the Company had 25,350,000 outstanding share options granted to certain directors of the Company and employees of the Group, details of which are as follows:

Date share options granted	Number of share options outstanding	Subscription price
		HK$
4.2.1994	500,000	1.2800
27.10.1997	100,000	1.1504
1.4.1998	400,000	1.7440
20.9.1999	100,000	1.1584
27.11.1999	400,000	1.0800
30.12.1999	100,000	0.9776
4.1.2000	1,300,000	1.0000
5.6.2000	500,000	1.0144
26.6.2000	100,000	1.4768
6.6.2001	3,050,000	2.9020
8.6.2001	1,000,000	2.1960
19.6.2001	5,000,000	2.2600
5.7.2001	2,200,000	2.1480
23.7.2001	10,500,000	2.1160
10.10.2001	100,000	2.4750
	25,350,000	

29. RESERVES

	Share premium HK$'000	Goodwill reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE GROUP					
At 1st January, 2000					
– as originally reported	225,356	(179,124)	2,095	507,423	555,750
– prior year adjustments *(note 2)*	—	179,124	—	(62,437)	116,687
– as restated	225,356	—	2,095	444,986	672,437
Exchange differences on translation of overseas operations	—	—	(5,772)	—	(5,772)
Premium on shares issued	2,248	—	—	—	2,248
Profit for the year	—	—	—	180,917	180,917
Final dividend – 1999	—	—	—	(30,743)	(30,743)
Interim dividend – 2000	—	—	—	(22,548)	(22,548)
At 31st December, 2000 and at 1st January, 2001	227,604	—	(3,677)	572,612	796,539
Exchange differences on translation of overseas operations	—	—	(1,567)	—	(1,567)
Premium on shares issued	14,709	—	—	—	14,709
Profit for the year	—	—	—	238,847	238,847
Final dividend – 2000	—	—	—	(34,213)	(34,213)
Interim dividend – 2001	—	—	—	(25,844)	(25,844)
At 31st December, 2001	242,313	—	(5,244)	751,402	988,471

	Share premium *HK$'000*	Goodwill reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
THE COMPANY					
At 1st January, 2000					
– as originally reported	225,356	—	—	481,927	707,283
– prior year adjustment in respect of change in accounting policy for dividend recognition	—	—	—	30,743	30,743
– as restated	225,356	—	—	512,670	738,026
Premium on shares issued	2,248	—	—	—	2,248
Profit for the year	—	—	—	187,059	187,059
Final dividend – 1999	—	—	—	(30,743)	(30,743)
Interim dividend – 2000	—	—	—	(22,548)	(22,548)
At 31st December, 2000 and at 1st January, 2001	227,604	—	—	646,438	874,042
Premium on shares issued	14,709	—	—	—	14,709
Profit for the year	—	—	—	168,651	168,651
Final dividend – 2000	—	—	—	(34,213)	(34,213)
Interim dividend – 2001	—	—	—	(25,844)	(25,844)
At 31st December, 2001	242,313	—	—	755,032	997,345

The Group's retained profits include the Group's share of the post acquisition losses of associates of HK$13,005,000 *(2000: HK$12,705,000)*, and the Group's translation reserve of a credit balance HK$460,000 *(2000: HK$460,000)* in respect of associates.

At 31st December, 2001, the Company's reserves available for distribution to shareholders comprised the retained profits of HK$755,032,000 *(2000 as restated: HK$646,438,000)*.

30. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st January	(14,468)	208	1,394	—
Currency realignment	(1)	(3)	—	—
Charge for the year *(note 10)*	—	1,394	—	1,394
Credit for the year *(note 10)*	(5,188)	(16,067)	—	—
Balance at 31st December	(19,657)	(14,468)	1,394	1,394

At the balance sheet date, the major components of the net deferred tax (asset) liability provided were as follows:

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	1,536	1,601	1,394	1,394
Accruals and provisions	(21,193)	(16,069)	—	—
	(19,657)	(14,468)	1,394	1,394
Representing:				
Deferred tax liability	1,536	1,601	1,394	1,394
Deferred tax asset	(21,193)	(16,069)	—	—
	(19,657)	(14,468)	1,394	1,394

At the balance sheet date, the major components of the potential deferred tax (asset) liability unprovided were as follows:

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	17,408	4,911	10,915	13,130
Taxation losses	(102,825)	(91,057)	—	—
Other timing differences	405	(3,601)	—	—
	(85,012)	(89,747)	10,915	13,130

No provision for deferred taxation liability has been recognised in the financial statements in respect of timing differences on the excess of tax allowances over depreciation for certain group companies as it is not expected that the potential deferred taxation liability will crystallise in the foreseeable future, after taking into account the Group's medium-term financial plans and projections on these companies.

Deferred tax assets of certain group companies in respect of tax losses available to offset future profits and other timing differences have not been recognised in the financial statements as it is not certain that the tax losses will be utilised in the foreseeable future.

The major components of the unprovided deferred tax charge (credit) of the Group for the year were as follows:

	THE GROUP	
	2001	**2000**
	HK$'000	*HK$'000*
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	12,497	(4,017)
Taxation losses	(11,768)	(5,010)
Other timing differences	4,006	2,372
	4,735	(6,655)

31. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK$'000	*HK$'000*
		(As restated)
Profit before taxation	264,912	211,634
Share of results of associates	300	1,221
Interest expense	91,000	75,632
Interest income	(14,412)	(8,947)
Amortisation of intangible assets	1,379	866
Amortisation of goodwill	4,927	11,215
Release of negative goodwill to income	(2,395)	(1,601)
Depreciation and amortisation on property, plant and equipment	209,900	182,487
Impairment loss of investment securities recognised	4,204	1,944
Loss (gain) on disposal of property, plant and equipment	5,179	(2,412)
Decrease (increase) in inventories	175,978	(183,038)
Increase in trade and other receivables, deposits and prepayments	(31,969)	(483,531)
Increase in bills receivable	(176,405)	(21,872)
Decrease in trade receivable from an associate	4,850	454
Increase in trade and other payables	573,346	464,564
Decrease in warranty provision	(6,407)	—
Net cash inflow from operating activities	1,104,387	248,616

32. ACQUISITION OF SUBSIDIARIES

	2001	**2000**
	HK$'000	*HK$'000*
NET ASSETS ACQUIRED		
Property, plant and equipment	26,448	405,973
Inventories	123,890	353,765
Trade and other receivables, deposits and prepayments	105,060	55,218
Taxation recoverable	2,258	364
Bank balances and cash	13,548	7,981
Trade and other payables	(152,227)	(123,920)
Bank overdrafts	(36,791)	—
	82,186	699,381
Negative goodwill arising on acquisition	(16,664)	(18,520)
Goodwill arising on acquisition	14,013	—
Consideration	79,535	680,861
SATISFIED BY		
Cash	79,535	680,861

Net cash outflow arising on acquisition:

	2001	**2000**
	HK$'000	*HK$'000*
Cash consideration	(79,535)	(680,861)
Bank balances and cash acquired	13,548	7,981
Bank overdrafts acquired	(36,791)	—
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(102,778)	(672,880)

The cash flows of the Group attributable to the subsidiaries acquired during the year are as follows:

	HK$'000
Net cash inflow from operating activities	29,788
Tax paid	2,127
Net cash utilised in investing activities	(441)
Net cash outflow from financing	(35,038)

The subsidiaries acquired during the year contributed HK$193,820,000 to the Group's turnover, and HK$9,868,000 to the Group's profit from operations.

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium	Bank loans	Obligations under finance leases and hire purchase contracts
	HK$'000	*HK$'000*	*HK$'000*
Balance at 1st January, 2000	337,130	106,901	15,838
Proceeds from issue of shares for cash	2,717	—	—
Inception of finance leases and hire purchase contracts	—	—	9,406
New bank loans obtained	—	823,830	—
Repayment	—	(66,042)	(10,044)
Balance at 31st December, 2000 and 1st January, 2001	339,847	864,689	15,200
Proceeds from issue of shares for cash	17,369	—	—
Inception of finance leases and hire purchase contracts	—	—	14,359
New bank loans obtained	—	28,915	—
Repayment	—	(169,316)	(10,575)
Balance at 31st December, 2001	357,216	724,288	18,984

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease and hire purchase arrangements in respect of assets with a total capital value at the inception of the leases and hire purchase contracts of HK$14,359,000 *(2000: HK$9,406,000)*.

35. LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	27,436	26,500	10,107	14,153
In the second to fifth year inclusive	67,884	49,727	15,640	22,084
After five years	46,759	39,297	238	—
	142,079	115,524	25,985	36,237

Operating lease payments represent rentals payable by the Group for certain of its plant and machineries and office properties. Leases are negotiated for a term ranging from 3 months to 10 years.

36. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks and an independent third party in respect of credit facilities utilised by				
Associates	15,230	10,083	15,230	10,083
Subsidiaries	—	—	70,141	34,076
Bills discounted with recourse	466,226	370,106	358,124	369,767
	481,456	380,189	443,495	413,926

The extent of guarantees utilised as shown above relates to guarantees given by the Group and the Company to secure bank facilities granted to associates and subsidiaries amounting to HK$132,500,000 *(2000: HK$163,500,000)* and HK$1,678,739,000 *(2000: HK$1,409,205,000)*, respectively, at the balance sheet date.

37. 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.

At 31st December, 2001, the Group had a number of employees who have completed the required number of years of services under Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination meets the circumstances which are specified in the Ordinance.

Under the circumstances specified by the Ordinance, had the employment of all eligible employees been terminated on 31st December, 2001 the maximum potential exposure would have been approximately HK$13,765,000 *(2000: HK$14,741,000)*. Provision of HK$2,400,000 *(2000: Nil)* has been made in the financial statements in respect of such long service payments. The Group's overseas subsidiaries operate a number of defined contribution schemes and defined benefit schemes which cover substantially all of their employees. Contributions to the defined contribution schemes applicable to each year are made at a certain percentage of the employees' payroll.

The pension costs of the defined benefit plan is assessed in accordance with an actuarial valuation as at 1st January, 2002 performed by Aon Consulting, an employee benefits consulting group, using the Projected Unit Credit method. A medical trend rate of 10.5% and a discount rate of 7.5% 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 oversea subsidiary has set up a receivable and an accrued benefit cost of same amount of approximately HK$28,000,000 *(2000: HK$29,600,000)* at 31st December, 2001.

38. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of the purchase of property, plant and equipment	29,322	36,409	12,511	26,353

39. RELATED PARTY TRANSACTIONS

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

	2001	**2000**
	HK$'000	*HK$'000*
Associates		
Purchases	30,291	27,216
Management fee income	3,369	8,340
Management fee expenses	417	1,614
Interest income received	6,753	442
Sales income	21,103	18,062
Subcontracting expenses	250	919
Rental income	785	562
Equipment charge income	22	48
Service expenses	21	40

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.

40. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31st December, 2001, the Group acquired two subsidiaries, namely Roybi Australia Pty and Ryobi New Zealand, at a consideration of AUD5,900,000 equivalent to approximately HK$23,600,000.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Digiwireless Limited	Hong Kong	HK$2	100	—	Investment holding
Full Team International Limited	Hong Kong	HK$2	100	—	Investment holding
Gimelli Industries Company Limited	Hong Kong	HK$3,000,000	51	—	Trading of electrical and health care products
MacEwen Property Co. Inc.	United States of America	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 Limited	Bermuda/ Hong Kong	US$12,000	100	—	Investment holding
One World Technologies Inc.	United States of America	US$10	—	100	Investment holding
OWT France SAS	France	FFr245,984	—	100	Investment holding
Ryobi Technologies France S.A. (formerly known as Ryobi Europe S.A.)	France	FFr117,000,000	—	100	Trading of electric power tools products
OWT Taiwan Limited (formerly known as Ryobi Taiwan Corporation)	Taiwan	NT$5,000,000	100	—	Provision of inspection services
OWT Industries, Inc.	United States of America	US$10	—	100	Manufacture of electric components and power tools products
Ryobi Technologies Canada, Inc.	Canada	C$600,000	—	100	Trading of electric power tools products
Ryobi Technologies, Inc.	United States of America	US$10	—	100	Trading of electric power tools products

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Ryobi Technologies (UK) Ltd. (formerly known as Ryobi Power Equipment (UK) Ltd.)	The United Kingdom	£4,000,000	100	—	Trading of electric power tools products
*Royal Appliance International GmbH	Germany	DM2,000,000	51	—	Trading of household and electrical products
Santo Industries Limited	Hong Kong	HK$2,000,000	100	—	Trading of household electronic and electrical products
Sang Tech Industries Limited	Hong Kong	HK$1,000,000	100	—	Manufacture of plastic parts
Solar Wide Industrial Limited	Hong Kong	HK$2,000,000	75.725	—	Manufacture of electronic products
Solar Wide (Overseas) Limited	The British Virgin Islands/ The PRC	US$1	—	100	Manufacture of electronic products
Techtronic Appliances Co. Pte Ltd.	Republic of Singapore	S$250,000	100	—	Liaison office
Techtronic Appliances International Limited	The British Virgin Islands/ Republic of Indonesia	US$1	100	—	Trading of electronic and electrical products
P.T. Techtronic Appliances	Republic of Indonesia	US$300,000	1	99	Manufacture of electronic and electrical products
Techtronic Appliances Holdings Company Limited	Bermuda/ Hong Kong	US$12,000	100	—	Investment holding
Techtronic Appliances (Hong Kong) Limited	Hong Kong	HK$2	—	100	Trading and manufacture of floor care products

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Vax Limited	The United Kingdom	£33,000	100	—	Assembly, procurement and distribution of floor care products
Vax Appliances (Australia) Pty. Ltd.	Australia	A$1,200,008	100	—	Assembly 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.

** Company not audited by Deloitte Touche Tohmatsu. The result of operation and net assets of this subsidiary is insignificant to the Group.*

None of the subsidiaries had any loan capital outstanding at the end of the year, or at any time during the year.

42. PARTICULARS OF ASSOCIATES

Particulars of the associates at 31st December, 2001 are as follows:

Name of associate	Place of incorporation/ registration and operation	Issued and fully paid share/registered capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Polytron Enterprises Limited	Hong Kong	HK$1,650,000	25.0	—	Inactive
Gimelli International (Holdings) Limited	The Cayman Islands/ Hong Kong	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	SFR930,000	—	100	Marketing and research and development
Gimelli Precision Moulding Company Limited	Hong Kong	HK$2	—	100	Manufacture of plastic parts
North (Shenyang) Chinetek Techtronic Industries Ltd.	The PRC	US$1,200,000	50.0	—	Inactive

3. UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

Set out below is a summary of the unaudited consolidated results of the Group for the six months ended 30th June, 2002 together with the comparative figures for the last corresponding period as extracted from the Group's interim report for the six months period ended 30th June, 2002. The restatement of the figures for the six months period ended 30th June, 2001 was due to the adoption of new and revised Statements of Accounting Practice issued by the Hong Kong Society of Accountants have become effective for the year ended 31st December, 2001.

Condensed consolidated income statement

For the six months ended 30th June, 2002

	Notes	2002 *HK$'000* (Unaudited)	2001 *HK$'000* (Unaudited) (as restated)
Turnover	*(3)*	3,958,850	2,315,629
Cost of sales		(2,994,707)	(1,824,114)
Gross profit		964,143	491,515
Other revenue		38,508	28,677
Selling and distribution expenses		(269,562)	(112,893)
Administrative expenses		(461,853)	(208,979)
Research and development costs		(46,071)	(43,319)
Profit from operations		225,165	155,001
Finance costs		(37,548)	(47,814)
Profit before share of results of associates and taxation		187,617	107,187
Share of results of associates		(168)	(280)
Profit before taxation		187,449	106,907
Taxation	*(4)*	(14,920)	(9,616)
Profit before minority interests		172,529	97,291
Minority interests		(4,904)	(2,991)
Profit for the period		167,625	94,300
Dividend		(45,025)	(33,679)
Profit for the period, retained		122,600	60,621
Earnings per share	*(5)*		
Basic		28.01 cents	16.75 cents
Diluted		27.57 cents	16.69 cents

Condensed consolidated balance sheet
At 30th June, 2002

	Notes	30th June, 2002 HK$'000 (Unaudited)	31st December, 2001 HK$'000 (Audited)	30th June, 2001 HK$'000 (Unaudited) (as restated)
ASSETS				
Non-current assets				
Property, plant and equipment		877,828	678,629	636,952
Goodwill		85,881	83,815	72,616
Negative goodwill		(25,321)	(26,722)	(16,276)
Intangible assets		5,823	5,759	6,464
Interests in associates		126,481	108,366	89,317
Investments in securities		60,489	60,530	53,918
Deposit for acquisition of a subsidiary		—	148,200	—
Deferred tax asset		25,856	21,193	16,068
Other assets		1,195	1,195	1,195
		1,158,232	1,080,965	860,254
Current assets				
Inventories		1,331,914	799,975	808,243
Trade and other receivables	*(6)*	1,132,176	598,361	594,183
Deposits and prepayments		279,170	309,448	340,432
Bills receivable		148,473	331,431	158,718
Investments in securities		7,239	4,899	9,893
Trade receivable from an associate		5,649	2,511	10,882
Bank balance, deposits and cash		1,212,300	644,039	187,213
		4,116,921	2,690,664	2,109,564
Current liabilities				
Trade and other payables	*(7)*	1,572,577	1,129,679	715,358
Bills payable		496,843	602,903	214,770
Taxation payable		2,920	12,149	15,995
Dividend payable		45,025	—	33,679
Obligations under finance leases and hire purchase contracts – due within one year		8,372	10,263	9,243
Bank borrowings – due within one year		746,626	217,060	244,816
		2,872,363	1,972,054	1,233,861
Net current assets		1,244,558	718,610	875,703
Total assets less current liabilities		2,402,790	1,799,575	1,735,957

Condensed consolidated balance sheet *(Cont'd)*
At 30th June, 2002

	Notes	30th June, 2002 HK$'000 (Unaudited)	31st December, 2001 HK$'000 (Audited)	30th June, 2001 HK$'000 (Unaudited) (as restated)
CAPITAL AND RESERVES				
Share capital	(8)	128,863	114,903	114,083
Reserves	(9)	1,473,742	988,471	863,070
		1,602,605	1,103,374	977,153
MINORITY INTERESTS		14,881	9,977	9,843
NON-CURRENT LIABILITIES				
Obligations under finance leases and hire purchase contracts – due after one year		5,216	8,721	12,014
Bank borrowings – due after one year		779,940	675,967	736,743
Deferred tax liabilities		148	1,536	204
		785,304	686,224	748,961
		2,402,790	1,799,575	1,735,957

Condensed consolidated cash flow statement
For the six months ended 30th June, 2002

	30th June, 2002 *HK$'000* (Unaudited)	**30th June, 2001** *HK$'000* (Unaudited) (Restated)
OPERATING ACTIVITIES		
Cash (used) generated by operations	(134,613)	44,754
Income tax paid	(10,259)	(3,504)
Interest paid	(37,548)	(47,814)
NET CASH USED IN OPERATING ACTIVITIES	(182,420)	(6,564)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(124,397)	(67,579)
Additions to intangible assets	(236)	(41)
Advances to associates	(18,284)	(9,764)
Purchase of investments in securities	(2,299)	(1,399)
Purchase of business and subsidiaries (net of cash and cash equivalents)	(13,564)	—
Proceeds from disposal of property, plant and equipment	12,484	3,853
NET CASH USED IN INVESTING ACTIVITIES	(146,296)	(74,930)
FINANCING ACTIVITIES		
Proceeds from issue of shares	382,653	10,407
New bank loans obtained	506,623	38,290
Repayment of bank loans	(27,509)	(69,485)
New obligations under finance leases and HP contracts	—	11,838
Repayment of obligations under finance leases and HP contracts	(5,396)	(5,781)
NET CASH INFLOW (OUTFLOW) FROM FINANCING	856,371	(14,731)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	527,655	(96,225)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	612,868	227,002
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(3,318)	(2,658)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,137,205	128,119
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances, deposits and cash	1,212,300	187,213
Bank overdrafts	(75,095)	(59,094)
	1,137,205	128,119

Notes to the condensed financial statements

For the six months ended 30th June, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

The interim report has been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting ("SSAP 25") issued by the Hong Kong Society of Accountants.

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of the investments in Securities.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The principal accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1st January, 2002 and applicable to the Group:

SSAP 1 (revised) :	Presentation of financial statements
SSAP 15 (revised) :	Cash flow statements
SSAP 25 (revised) :	Interim financial reporting
SSAP 34 :	Employee benefits

The effect of adopting this new and revised accounting policies described above on the financial position of the Group at 30th June, 2001 is insignificant. Disclosure and certain comparative figures have been modified accordingly.

3. SEGMENT INFORMATION

	For the six months ended 30th June,			
	Turnover		Contribution to results from ordinary activities before taxation	
	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (as restated)
By principal activity:				
Manufacture and trading of				
Power and outdoor products	3,140,168	1,600,563	182,696	115,050
Floor care appliances products	617,795	524,789	15,900	17,254
Solar powered and electronic products	123,755	102,807	21,910	13,238
Other products	77,132	87,470	4,659	9,459
	3,958,850	2,315,629	225,165	155,001
Finance costs			(37,548)	(47,814)
Contribution from associates			(168)	(280)
Profit before taxation			187,449	106,907
By geographical market location:				
North America	3,307,651	1,963,013	199,255	131,702
Europe	506,408	250,800	15,179	10,694
Other countries	144,791	101,816	10,731	12,605
	3,958,850	2,315,629	225,165	155,001
Finance costs			(37,548)	(47,814)
Contribution from associates			(168)	(280)
Profit before taxation			187,449	106,907

4. TAXATION

	For the six months ended 30th June, 2002	2001
	HK$'000	*HK$'000*
The total tax charge comprises:		
Hong Kong Profit Tax calculated at 16% of the estimated assessable profit of the period	13,877	9,000
Overseas taxation on profit for the period	1,043	616
	14,920	9,616

5. EARNINGS PER SHARE

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

	For the six months ended 30th June, 2002	2001
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per shares:		
Profit for the period	167,625	94,300
Weighted average number of ordinary shares for the purposes of basic earnings per share	598,395,714	562,987,936
Effect of dilutive potential ordinary shares:		
Options	9,583,121	2,016,788
Weighted average number of ordinary shares for the purposes of diluted earnings per share	607,978,835	565,004,724

6. TRADE 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:

	30th June, 2002	31st December, 2001	30th June, 2001
	HK$'000	*HK$'000*	*HK$'000*
0 – 60 days	877,688	433,714	458,683
61 – 120 days	147,114	81,058	58,771
Over 121 days	53,276	37,542	46,853
Total trade receivables	1,078,078	552,314	564,307
Other receivables	54,098	46,047	29,876
	1,132,176	598,361	594,183

7. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	30th June, 2002	31st December, 2001	30th June, 2001
	HK$'000	*HK$'000*	*HK$'000*
0 – 60 days	592,523	293,334	434,442
61 – 120 days	73,858	146,230	61,996
Over 121 days	9,795	35,649	5,160
Total trade payables	676,176	475,213	501,598
Other payables	896,401	654,466	213,760
	1,572,577	1,129,679	715,358

8. SHARE CAPITAL

	Number of Shares		Share Capital	
	30th June, 2002	31st December, 2001	30th June, 2002	31st December, 2001
			HK$'000	*HK$'000*
Ordinary shares of HK$0.20 each				
Authorised	800,000,000	800,000,000	160,000	160,000
Issued and fully paid:				
At 1st January	574,516,826	561,216,826	114,903	112,243
Issue of shares during the period	69,800,000	13,300,000	13,960	2,660
	644,316,826	574,516,826	128,863	114,903

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

9. RESERVES

	Share premium	Translation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
At 1st January, 2002	242,313	(5,244)	751,402	988,471
Net loss not recognised in the income statement				
Exchange differences on translation of overseas operations	—	(6,021)	—	(6,021)
Premium on shares issued	368,692	—	—	368,692
Profit for the period	—	—	167,625	167,625
Final dividend – 2001	—	—	(45,025)	(45,025)
At 30th June, 2002	611,005	(11,265)	874,002	1,473,742

3. STATEMENT OF INDEBTEDNESS

At the close of business on 30th November, 2002, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding bank borrowings of approximately HK$1,437,508,000, of which approximately HK$6,027,000 was secured by certain land and building of the Enlarged Group with an aggregate net book value of approximately HK$13,913,000. In addition, the Enlarged Group also had outstanding at that date obligations under finance lease and hire purchase contracts of approximately HK$30,891,000.

At the close of business on 30th November, 2002, the Group gave guarantees to banks in respect of bank facilities granted to associates and non-wholly subsidiaries of approximately HK$14,080,000 and HK$22,427,000, respectively. The Enlarged Group had contingent liabilities in respect of export bill discounted with recourse of approximately HK$1,106,438,000.

In addition, The Royal Group had various outstanding legal cases as at 30th November, 2002. Details of these litigations of material importance are set out in Appendix IV of this circular under the section headed “Litigation”.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, none of the companies in the Enlarged Group had outstanding at the close of business on 30th November, 2002 any mortgages, charges, debentures, or other loan capital or bank overdrafts, loans, debt securities or similar indebtedness, or any obligations under finance leases or hire purchase contracts or any guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30th November, 2002.

4. WORKING CAPITAL

The Directors are of the opinion that, the Enlarged Group will, following completion of the Merger and taking into account of the present available credit facilities and internal resources of the Enlarged Group, have sufficient working capital for its present requirement and any possible increase in consideration payable to the holders of Dissenting Shares in the absence of unforeseen circumstances.

5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31st December, 2001, being the date to which the Group’s latest audited accounts were made up.

1. PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is a statement of the pro forma adjusted combined net tangible assets of the Enlarged Group immediately following the completion of Merger. It is based on the unaudited consolidated financial statements of the Company as at 30th June, 2002 and adjusted to reflect the effect of the Merger. The pro forma figures presented below will also be subject to adjustment as a result of the significant differences between US GAAP and Hong Kong GAAP.

	HK$'000	*HK$'000*
Unaudited consolidated net asset of the Group as at 30th June, 2002 *(note 1)*		1,602,605
Less: Intangible assets of the Group as at 30th June, 2002		(66,383)
Pro forma adjusted consolidated net tangible assets of the Group as at 30th June, 2002 before the Merger		1,536,222
Value of net assets of the Royal Group as per Form 10-Q filed with the SEC on 12th August, 2002 for the six months ended 30th June, 2002	280,004	
Consideration payable for the Merger	(822,900)	
Estimated expenses relating to the Merger	(15,600)	
Less: Goodwill arising on acquisition of Royal *(note 2)*		(558,496)
Less: Unrealised profit on inventories *(note 3)*		(8,926)
Pro forma adjusted combined net tangible assets of the Enlarged Group		968,800
		HK$
Pro forma adjusted consolidated net tangible assets of the Group per Share (based on 645,716,826 Shares in issue as at the Latest Practicable Date)		2.38
Pro forma adjusted combined net tangible assets of the Enlarged Group per Share (based on 645,716,826 Shares in issue as at the Latest Practicable Date)		1.50

Notes:

1. The pro forma figures have been calculated based on the unaudited consolidated figures of the Group as at 30th June, 2002 as those figures are the latest published financial figures of the Group.

2. **The goodwill arising on acquisition of Royal will be capitalised and amortised on a straight-line basis over its useful economic life of 20 years. On the above basis, the annual amortisation expense will amount to approximately HK$27.9 million. As the goodwill arising on acquisition of Royal has been calculated with reference to the unaudited net tangible assets of the Royal Group as at 30th June, 2002, the final amount of goodwill may be higher or lower depending on the latest financial figures of the Royal Group after Closing.**

3. The amount represents the unrealised profit on inventories purchased from the Group which were still held by Royal as at 30th June, 2002.

2. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a pro forma statement of the assets and liabilities of the Enlarged Group based on the unaudited consolidated balance sheet of the Group as at 30th June, 2002 prepared on the same basis as set out in section 1 above. The pro forma figures presented below will also be subject to adjustment as a result of the significant differences between US GAAP and Hong Kong GAAP.

	Unaudited consolidated balance sheet of the Group as at 30th June, 2002	Unaudited consolidated balance sheet of the Royal Group as at 30th June, 2002	Consideration and estimated expenses payable for the Merger	Unrealised profit on inventories	Current account elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*		*(note 3)*		
Property, plant and equipment	877,828	290,456	—	—	—	1,168,284
Goodwill	85,881	—	558,496	—	—	644,377
Negative goodwill	(25,321)	—	—	—	—	(25,321)
Intangible assets	5,823	—	—	—	—	5,823
Interests in associates	126,481	—	—	—	—	126,481
Investments in securities	60,489	—	—	—	—	60,489
Deferred tax asset	25,856	39,211	—	—	—	65,067
Other assets	1,195	21,271	—	—	—	22,466
Current assets	4,116,921	704,512	(838,500)	(8,926)	(15,759)	3,958,248
Current liabilities	(2,872,363)	(729,262)	—	—	15,759	(3,585,866)
TOTAL ASSETS LESS CURRENT LIABILITIES	2,402,790	326,188	(280,004)	(8,926)	—	2,440,048
Obligation under finance leases and hire purchase contracts – due after one year	(5,216)	(14,898)	—	—	—	(20,114)
Bank borrowings – due after one year	(779,940)	—	—	—	—	(779,940)
Deferred tax liabilities	(148)	(31,286)	—	—	—	(31,434)
Minority interests	(14,881)	—	—	—	—	(14,881)
NET ASSETS	1,602,605	280,004	(280,004)	(8,926)	—	1,593,679

Notes:

1. The pro forma figures have been calculated based on the unaudited consolidated figures of the Group as at 30th June, 2002 as those figures are the latest published financial figures of the Group.

2. The unaudited consolidated figures of the Royal Group were denominated in US dollars and had been translated into Hong Kong dollars at the conversion exchange rate of US$1 to HK$7.8.

3. The amount represents the unrealised profit on inventories purchased from the Group which were still held by Royal as at 30th June, 2002.

3. PRO FORMA STATEMENT OF COMBINED RESULTS

The following is the pro forma statement of combined results of the Enlarged Group prepared on the basis that the Merger was implemented on 1st July, 2001 and Royal was a wholly-owned subsidiary of the Company throughout the twelve month period ended 30th June, 2002. The pro forma figures presented below will also be subject to adjustment as a result of the significant differences between US GAAP and Hong Kong GAAP.

	Unaudited consolidated results of the Group for the period from 1st July, 2001 to 30th June, 2002		**Unaudited consolidated results of the Royal Group for the period from 1st July, 2001 to 30th June, 2002**	**Unrealised profit on inventories**	**Inter company transaction elimination**	**Goodwill amortisation**	**Pro forma unaudited combined results of the Enlarged Group from 1st July, 2001 to 30th June, 2002**
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)		*(note 2)*	*(note 3)*			
Turnover	7,744,361	426,407	3,325,975	(8,926)	(381,543)		10,679,867
Cost of sales	(5,764,604)	(325,477)	(2,538,721)		381,543		(7,921,782)
Gross Profit	1,979,757	100,930	787,254				2,758,085
Other Revenue	51,227	—	—				51,227
Operating expenses	(1,604,608)	(89,517)	(698,233)			(30,504)	(2,333,345)
Profit from operations	426,376	11,413	89,021				475,967
Finance cost	(80,734)	(1,249)	(9,742)				(90,476)
Profit before share of results of associates and taxation	345,642	10,164	79,279				385,491
Share of results of associates	(188)	—	—				(188)
Profit before taxation	345,454	10,164	79,279				385,303
Taxation	(28,244)	(3,550)	(27,690)				(55,934)
Profit before minority interests	317,210	6,614	51,589				329,369
Minority interests	(5,038)	—	—				(5,038)
Profit for the year *(note 4)*	312,172	6,614	51,589				324,331
Weighted average number of shares for the period 1st July, 2001 to 30th June, 2002	585,957,761						585,957,761
Earnings per share (cents) *(note 4)*	**53.28**						**55.35**

Notes:

1. The pro forma figures have been calculated based on the unaudited consolidated figures of the Group as at 30th June, 2002 as those figures are the latest published financial figures of the Group.

2. The unaudited consolidated figures of the Royal Group were denominated in US dollars and had been translated into Hong Kong dollars at the conversion exchange rate of US$1 to HK$7.8.

3. The amount represents the unrealised profit on inventories purchased from the Group which were still held by Royal as at 30th June, 2002.

4. **The profit for the year and the related earnings per share as shown above have been arrived at on the assumption that the Group will finance the consideration for the Merger entirely from its internal resources. No interest/finance cost has been included in the calculation of the above figures since the Company has not yet reached a final decision on the financing split between internal resources and bank borrowings and cannot quantify the exact interest/finance cost of such bank borrowings. Such amounts may be subject to adjustment if the Group were to finance the consideration for the Merger partly from its internal resources and partly by bank borrowings. The Group received interest on its cash balances at prevailing bank deposit rates and paid interest on its bank borrowings at LIBOR plus market spread.**

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained herein (except for information relating to the Royal Group which is based on publicly available information) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

(a) Interest in securities

As at the Latest Practicable Date, the interests of the Directors or chief executive of the Company in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which were required pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) **Shares**

	Number of Shares held			Approximate
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**percentage of shareholding**
				(%)
Mr. Horst Julius Pudwill	33,796,000	380,000	111,329,897 *(a)*	22.53 *(c)*
Mr. Roy Chi Ping Chung	54,750,974	68,000	18,537,515 *(b)*	11.36 *(c)*
Mr. Kin Wah Chan	1,000,000	—	—	0.15
Mr. Chi Chung Chan	—	—	—	—
Dr. Akio Urakami	—	—	—	—
Mr. Susumu Yoshikawa	—	—	—	—
Mr. Vincent Ting Kau Cheung	960,000	—	—	0.15
Mr. Joel Arthur Schleicher	100,000	—	—	0.015
Mr. Christopher Patrick Langley	150,000	—	—	0.023

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

	No. of Shares
Sunning Inc.	92,792,382
Cordless Industries Company Limited*	18,537,515
	111,329,897

(b) 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 jointly owned by Messrs. Horst Julius Pudwill and Roy Chi Ping Chung.*

(c) The corporate interest of Mr. Roy Chi Ping Chung was wholly duplicated in the corporate interest of Mr. Horst Julius Pudwill. Had such duplication been ignored, the aggregate number of Shares held by Mr. Horst Julius Pudwill, Mr. Roy Chi Ping Chung and their respective associates would be 200,324,871 Shares, representing approximately 31.02% of the Shares in issue as at the Latest Practicable Date.

(ii) **Share options**

The following Directors were granted share options to subscribe for Shares:

Name of Directors	Date of share options granted	Share options balance at the Latest Practicable Date	Subscription price *HK$*	Exercise period
Mr. Horst Julius Pudwill	6.6.2001	800,000*	2.0920	6.6.2001 – 5.6.2006
	19.6.2001	3,000,000*	2.2600	19.6.2001 – 18.6.2006
	5.7.2001	1,200,000*	2.1480	5.7.2001 – 4.7.2006
	28.6.2002	12,864,000**	7.2000	28.6.2002 – 27.6.2007
Mr. Roy Chi Ping Chung	6.6.2001	1,000,000*	2.0920	6.6.2001 – 5.6.2006
	19.6.2001	1,000,000*	2.2600	19.6.2001 – 18.6.2006
	5.7.2001	1,000,000*	2.1480	5.7.2001 – 4.7.2006
	28.6.2002	6,432,000**	7.2000	28.6.2002 – 27.6.2007
Mr. Kin Wah Chan	30.4.2002	300,000**	6.4000	30.4.2002 – 29.4.2007
	5.7.2002	200,000**	6.7000	5.7.2002 – 4.7.2007
	18.10.2002	1,000,000**	5.9000	18.10.2002 – 17.10.2007
Mr. Chi Chung Chan	6.6.2001	500,000*	2.0920	6.6.2001 – 5.6.2006
	19.6.2001	500,000*	2.2600	19.6.2001 – 18.6.2006
	30.4.2002	300,000**	6.4000	30.4.2002 – 29.4.2007
	5.7.2002	200,000**	6.7000	5.7.2002 – 4.7.2007
Dr. Akio Urakami	6.6.2001	250,000*	2.0920	6.6.2001 – 5.6.2006
	30.4.2002	250,000**	6.4000	30.4.2002 – 29.4.2007
	5.7.2002	100,000**	6.7000	5.7.2002 – 4.7.2007
Mr. Vincent Ting Kau Cheung	30.4.2002	200,000**	6.4000	30.4.2002 – 29.4.2007
Mr. Joel Arthur Schleicher	30.4.2002	100,000**	6.4000	30.4.2002 – 29.4.2007
Mr. Christopher Patrick Langley	30.4.2002	100,000**	6.4000	30.4.2002 – 29.4.2007

Notes:

* Share options granted under the share option scheme adopted by the Company on 25th May, 2001.

** Share options granted under the share option scheme adopted by the Company on 28th March, 2002.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interest in the share capital of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

(b) Interests in contract or arrangement

Mr. Vincent Ting Kau Cheung is the managing partner of the firm of solicitors of Vincent T. K. Cheung, Yap & Co. (the “Firm”), which firm has been retained as the legal advisers to the Company (as to Hong Kong law) in connection with the Merger and will receive normal professional fees therefore. As advised by Mr. Vincent Ting Kau Cheung, the fees payable by the Company to the Firm represented less than 1% of the total fee income of the Firm for each of the Firm’s two financial years ended 31st March, 2002. Based on the foregoing, the Directors (except Mr. Vincent Ting Kau Cheung) consider that Mr. Vincent Ting Kau Cheung’s interest in the Merger to be immaterial. As at the Latest Practicable Date, Mr. Vincent Ting Kau Cheung was personally interested in 960,000 Shares and will be eligible to vote at the Extraordinary General Meeting.

None of the Directors is materially interested (other than the interest of Mr. Vincent Ting Kau Cheung in his capacity as legal advisers as mentioned above) in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

(c) Interests in assets

Since 31st December, 2001, the date to which the latest published audited financial statements of the Company were made up, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

MATERIAL CONTRACTS

Save as disclosed below, none of the Company or any other members of the Group has entered into any material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) within the last two years preceding the date of this circular and which are or may be material:

1. the Merger Agreement;

2. a placing and underwriting agreement dated 25th April, 2002 made between Mr. Horst Julius Pudwill and Mr. Roy Chi Ping Chung (collectively, the "Vendors"), CLSA Limited ("CLSA") and the Company whereby, the Vendors had appointed CLSA and Cazenove Asia Limited as the placing agents to unconditionally place 60 million existing ordinary shares ("Placing Shares") of the Company at a price of HK$6.275 per Placing Share; and

3. a subscription agreement dated 25th April, 2002 made between Mr. Horst Julius Pudwill and Mr. Roy Chi Ping Chung (collectively, the "Subscribers") and the Company whereby, the Subscribers agreed to subscribe for 60 million new Shares ("Subscription Shares") at a price of HK$6.275 per Subscription Share.

SUBSTANTIAL SHAREHOLDER

Other than the interests disclosed under the heading "Disclosure of Interests" above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no other person as having an interest representing 10% more of the issued share capital of the Company as at the Latest Practicable Date.

SERVICE CONTRACTS

(a) The Group

None of the Directors has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Company or the relevant subsidiary within one year without payment of compensation, other than statutory compensation.

(b) The Royal Group

Save for the service agreement of Mr. Michael Merriman as disclosed in the paragraph headed "Information on Royal" under the "Letter from the Board" of this circular, none of the directors of Royal has an unexpired service contract with Royal or any of its subsidiaries which is not determinable by Royal or the relevant subsidiary within one year without payment of compensation, other than statutory compensation.

LITIGATION

(a) The Group

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

(b) The Royal Group

The Hoover Company ("Hoover") filed a lawsuit in federal court, in the Northern District of Ohio (case #1:00cv0347), against Royal on 4th February, 2000, under the patent, trademark, and unfair competition laws of the US. The Complaint asserted that Royal's Dirt Devil Easy Steamer infringed three utility patents and two design patents held by Hoover, and also that the Easy Steamer design infringed the trade dress of Hoover's carpet extractor products. Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:01cv2775), against Hoover on 10th December, 2001, under the patent, trademark and unfair competition laws of the US. The Complaint asserted that Hoover infringed certain patents relating to bagless technology held by Royal. As advised by Royal's management, no provision was made by Royal for this lawsuit in its financial statements for the two years ended 31st December, 2001 as it was not certain, based on available information at the relevant year end date, whether this lawsuit would crystallise into a liability to Royal. On 17th October, 2002, Royal and Hoover reached a settlement of all patent-related litigation described above. Hoover has granted rights to Royal with regard to its existing carpet extractor patents. Royal has granted rights to Hoover with regard to its existing bagless upright vacuum cleaner patents. The settlement includes cash payments to Royal.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv0338), against Bissell Homecare, Inc. ("Bissell") on 22nd February, 2002, under the patent, trademark and unfair competition laws of the US. The Complaint asserts that Bissell infringes certain patents relating to bagless technology held by Royal. Royal has already proven the validity of the patents of its bagless vacuum technology by obtaining favourable settlements from Hoover as mentioned above. Royal seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Royal and the amount of damages will be determined by the relevant US courts. As advised by Royal's management, Royal's attorneys and Bissell's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. As advised by Royal's management, if Royal were to lose this lawsuit, which Royal's management believes to be unlikely, it would not have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Bissell Homecare, Inc. ("Bissell") filed a lawsuit in federal court, in the Eastern District of Michigan (case #1:02cv71079), against Royal on 20th March, 2002, under the patent, trademark and unfair competition laws of the US. On 25th April, 2002, Royal filed a Motion to Transfer the case from the Eastern District of Michigan to the Northern District of Ohio. On 19th June, 2002, the Court transferred the case to the Northern District of Ohio. On 15th July, 2002 the case (now 1:02cv1358) was assigned to Judge Leslie Wells in the Northern District of Ohio. The Complaint asserts that Royal's Dirt Devil Easy Steamer and Platinum Force Extractor infringes certain patents held by Bissell. As advised by Royal's management, these products account for less than 10% of the total revenue and profit of Royal. Bissell seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Bissell and the amount of damages will be determined by the relevant US courts. As further advised by Royal's management, Bissell's attorneys and Royal's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. Royal is vigorously defending the suit and believes it is without merit. According to the opinion of Royal's legal advisers, Royal's management believes that Royal has a good defence against this lawsuit. In addition, Royal's management believes that its claims against Bissell for infringement of Royal's bagless vacuum technology as mentioned above would more than offset Bissell's claims against Royal under this lawsuit. As further advised by Royal's management, no provision was made by Royal for this lawsuit in its financial statements for the year ended 31st December, 2002 as it was not certain, based on all available information on 31st December, 2002, whether this lawsuit would crystallise into a liability of Royal. Nevertheless, if Bissell were to prevail on all of its claims, it would have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv1127), against White Consolidated, Ltd. (Eureka) on 14th June, 2002, under the patent, trademark and unfair competition laws of the US. The Complaint asserts that Eureka infringes certain patents relating to bagless technology held by Royal. Royal has already proven the validity of the patents of its bagless vacuum technology by obtaining favourable settlements from Hoover as mentioned above. Royal seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Royal and the amount of damages will be determined by the relevant US courts. As advised by Royal's management, Royal's attorneys and Eureka's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. As further advised by Royal's management, if Royal were to lose this lawsuit, which Royal's management believes to be unlikely, it would not have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Royal filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv2249) against Euro-Pro Corporation and Sanyo North America Corporation (together referred to as "Defendants") on 15th November, 2002, under the patent, trademark and unfair competition laws of the US. The Complaint asserts that the Defendants infringe certain patents relating to bagless technology held by Royal. Royal has already proven the validity of the patents of its bagless vacuum technology by obtaining favourable settlements from Hoover as mentioned above. Royal seeks damages, injunction on future production and legal fees. No specific amount of damages was claimed by Royal and the amount of damages will be determined by the relevant US courts. As advised by Royal's management, Royal's attorneys and the Defendants' attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. As further advised by Royal's management, if Royal were to lose this lawsuit, which Royal's management believes to be unlikely, it would not have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Phone Zap, LLC ("Phone Zap") filed a lawsuit in US District Court, District of Columbia (case #1:03cv00013), against Royal and Privacy Technologies, Inc., a subsidiary of Royal, on 6th January, 2003, under the patent, trademark and unfair competition laws of the US. No specific amount of damages has been quantified by Phone Zap and the amount of damages will be determined by the relevant US courts. The Complaint asserts trademark infringement by Royal and Privacy Technologies, Inc. with its Telezapper® trademark. As advised by Royal's management, these products account for approximately 30% of the total revenue and profit of Royal. As further advised by Royal's management, Phone Zap's attorneys and Royal's attorneys have exchanged correspondence and other pre-trial court documents and no court hearing has been fixed for this lawsuit as at the Latest Practicable Date. Royal is vigorously defending the suit and believes it is without merit. According to the opinion of Royal's legal advisers, Royal's management believes that there are significant weaknesses in Phone Zap's lawsuit. To begin with, Phone Zap's trademark application appears to be invalid. Even assuming that such trademark application is valid, Phone Zap has to prove that customers were misled by Royal's products and thought that they were buying Phone Zap's products, which are not even available at retail. Accordingly, the Directors consider the chance of Phone Zap being prevailed on all of its claims to be low. As further advised by Royal's management, no provision was made by Royal for this lawsuit in its financial statements for the year ended 31st December, 2002 as it was not certain, based on all available information on 31st December, 2002, whether this lawsuit would crystallise into a liability of Royal. Nevertheless, if Phone Zap were to prevail on all of its claims, it would have a material adverse effect on Royal's consolidated financial position, results of operations or cash flows.

Royal is involved in various other claims and litigation arising in the ordinary and normal course of business and the amount of each such claims and litigation does not exceed US$100,000 (or HK$780,000). Royal has product liability and general liability insurance policies in amounts that should cover such claims and Royal's management believes such insurance coverage to be reasonable. There can be no assurance, however, that such insurance will be adequate to cover all potential product or other liability claims against Royal. In the opinion of Royal's management, the ultimate resolution of these actions will not materially affect the consolidated financial position, results of operations or cash flows of Royal.

MISCELLANEOUS

1. The registered office of the Company is situated at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong.

2. The Secretary of the Company is Mr. Chi Chung Chan who is a fellow member of The Chartered Association of Certified Accountants and The Hong Kong Society of Accountants, an associate of the Taxation Institute of Hong Kong and qualified to practise as a Certified Public Accountant in Hong Kong.

3. The registrars and transfer office of the Company is Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

4. The English text of this circular and proxy form shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong during normal business hours up to and including 31st March, 2003:

(a) the memorandum and articles of association of the Company;

(b) the annual report of the Company for the year ended 31st December, 2001 and the annual reports of Royal for each of the years ended 31st December, 2000 and 2001;

(c) the interim report of the Group for the six months ended 30th June, 2002;

(d) the relevant provisions of the OGCL regarding the rights and obligations of the holders of Dissenting Shares; and

(e) the material contracts referred to on page 122 in this Appendix.

TECHTRONIC INDUSTRIES COMPANY LIMITED
創 科 實 業 有 限 公 司
(Incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "Extraordinary General Meeting") of the shareholders of Techtronic Industries Company Limited (the "Company") will be held at Chatham Room, Level 7, Conrad Hong Kong ,Pacific Place, 88 Queensway, Hong Kong on 31st March, 2003 at 9:30 a.m., for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT the Merger Agreement (as defined in the circular dated 6th March, 2003 issued by the Company to its shareholders (the "Circular"), a copy of which has been produced to this meeting and marked "A" and signed by the Chairman of this meeting for the purpose of identification), the Merger (as defined in the Circular, a copy of which has been produced to this meeting and marked "B" and signed by the Chairman of this meeting for the purpose of identification) and all other transactions contemplated therein, be and are hereby confirmed and approved and any director of the Company as directed by the board of the Company be authorised to execute all such documents and to do all such acts, matters and things as he may in his discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the Merger or the implementation or the exercise or enforcement of any of the rights and performance of the obligations under the Merger Agreement."

By order of the board
Techtronic Industries Company Limited
Chi Chung Chan
Company Secretary

Hong Kong, 6th March, 2003

Registered Office:
24th Floor
CDW Building
388 Castle Peak Road
Tsuen Wan
New Territories
Hong Kong

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the Extraordinary General Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Extraordinary General Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof, must be lodged with the registered office of the Company at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Extraordinary General Meeting or at any adjourned meeting should they so wish.

TECHTRONIC INDUSTRIES COMPANY LIMITED
創 科 實 業 有 限 公 司
(Incorporated in Hong Kong with limited liability)

FORM OF PROXY

I/We [(1)] ____

of ____ ,

being the registered holder(s) of[(2)] ____________________ shares of HK$0.20 each in the capital of Techtronic Industries Company Limited (the "Company"), HEREBY APPOINT[(3)] the Chairman of the meeting or[(3)] ____

of ____

as my/our proxy to act for me/us and on my/our behalf at the Extraordinary General Meeting (or at any adjournment thereof) of the Company to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 31st March, 2003 at 9:30 a.m., for the purpose of considering and, if thought fit, passing the resolution as set out in the notice convening the said meeting and at such meeting (or at any adjournment thereof) to vote for me/us in my/our name(s) in respect of the said resolution as hereunder indicated, and, if no such indication is given, as my/our proxy thinks fit.

	FOR[(4)]	AGAINST[(4)]
ORDINARY RESOLUTION		

Date: ______________________________

Signature[(6)]: ______________________________

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares in which the proxy relates registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
3. If any proxy other than the Chairman of the meeting is preferred, strike out the words "the Chairman of the meeting or" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK IN THE BOX MARKED "AGAINST".** Failure to tick either box will entitle your proxy to cast your vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than that referred to in the notice convening the meeting.
5. You are requested to lodge this form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy thereof, at the registered office of the Company at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting (or any adjournment thereof).
6. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its common seal or under the hand of an officer or attorney duly authorised.
7. In the case of joint holders of any share, any one of such persons may vote at the said meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the said meeting, personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
8. A proxy need not be a member of the Company but must attend the meeting in person to represent you. Completion and return of the form of proxy will not preclude you from attending and voting at the said meeting if you so wish.