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, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Techtronic Industries Co. Ltd.

(Incorporated in Hong Kong with limited liability)

(Stock Code : 669)

MAJOR TRANSACTION

PROPOSED ACQUISITION OF COMPANIES COMPRISING THE MILWAUKEE®, AEG® AND DREBO® ELECTRIC POWER TOOLS AND ACCESSORIES BUSINESSES OF ATLAS COPCO AB

Financial Adviser to the Company

UBS Investment Bank

A letter from the Board (as defined herein) is set out on pages 1 to 20 of this circular.

A notice convening an extraordinary general meeting of TECHTRONIC INDUSTRIES COMPANY LIMITED to be held at Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on 3rd January 2005 at 10:00 a.m. is set out on pages 133 to 134 of this circular. Whether or not you are able to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of TECHTRONIC INDUSTRIES COMPANY LIMITED at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so wish.

23rd November 2004

CONTENTS

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

"ACNA"	Atlas Copco North America Inc., a Delaware corporation and a wholly-owned subsidiary of ATCO
"AET"	Atlas Copco Electric Tools GmbH, a company organised under the laws of Germany and currently a wholly-owned subsidiary of ATCO which, upon the closing of the Transaction, will become a wholly-owned subsidiary of the Company
"ATCO"	Atlas Copco AB, a company organised under the laws of Sweden and whose shares are listed on the Stockholm, London and Frankfurt stock exchanges
"ATHG"	Atlas Copco Holding GmbH, a company organised under the laws of Germany and a wholly-owned subsidiary of ATCO
"Board"	the board of Directors
"Business"	ATCO's electric power tools and accessories businesses, currently conducted through METCO and AET and certain other ancillary entities of ATCO under the brand names "Milwaukee®", "AEG®" and "DreBo®"
"Business Day"	any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in New York, US
"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

"Convertible Bonds"	the zero coupon convertible bonds due 2009 in the aggregate principal amount of US$140,000,000 (being approximately HK$1,092,000,000) issued by the Company
"Directors"	the directors of the Company
"DreBo"	DreBo Werkzeugfabrik GmbH, a company organised under the laws of Germany and currently a wholly-owned subsidiary of ATCO which, upon the closing of the Transaction, will become a wholly-owned subsidiary of the Company
"EGM"	the extraordinary general meeting of Shareholders convened by the Board to be held at Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on 3rd January 2005 at 10:00 a.m. (or any adjournment thereof), at which an ordinary resolution will be proposed and, if thought fit, passed to approve the Transaction
"Enlarged Group"	the Techtronic Group immediately after closing of the Transaction
"Euro"	Euro, the lawful currency of the European Union
"Existing Scheme"	the employee share option scheme adopted by the Company on 28th March 2002
"GAAP"	generally accepted accounting principles
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards

"Latest Practicable Date"	19th November 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"METCO"	Milwaukee Electric Tool Corporation, a Delaware corporation and currently a wholly-owned subsidiary of ATCO which, upon the closing of the Transaction, will become a wholly-owned subsidiary of the Company
"Parties"	the parties to the Stock Purchase Agreement, being the Purchasers and Sellers
"PRC"	the People's Republic of China (excluding for the purpose of this circular, Hong Kong, Macau and Taiwan)
"Purchasers"	the Company and the following direct and indirect subsidiaries of the Company: RTG, TTINA, TTI GmbH, Techtronic Industries Asia Holdings (BVI), Techtronic Industries NAFTA Holdings and A&M Industries S.a.r.l., and such other subsidiaries and entities as the Company may designate on or before the closing of the Transaction to acquire the Business or any part thereof
"RTG"	Ryobi Technologies GmbH, a company organised under the laws of Germany and a wholly-owned subsidiary of the Company
"SEK"	Swedish Krona, the lawful currency of Sweden
"Sellers"	ATCO, ACNA and ATHG

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	ordinary share(s) of HK$0.10 each in the capital of the Company
"Share Options"	the 74,451,000 outstanding options granted under the Existing Scheme and the Terminated Scheme entitling the holders thereof to subscribe for an aggregate of 74,451,000 new Shares
"Sold Companies"	the companies listed in Appendix V, including Esstar Incorporated (the holding company for METCO), AET, and DreBo, as well as related operating and holding companies which, together with their respective subsidiaries, together comprise the Business
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Stock Purchase Agreement"	the conditional stock purchase agreement, dated 28th August 2004, made between the Sellers and the Purchasers relating to the Transaction
"Techtronic Group"	the Company and its subsidiaries
"Terminated Scheme"	the employee share option scheme adopted by the Company on 25th May 2001 and terminated on 28th March 2002
"Transaction"	the proposed acquisition by the Purchasers of all the issued and outstanding shares of each of the Sold Companies from the Sellers pursuant to the Stock Purchase Agreement

"TTINA"	Techtronic Industries North America, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company
"UBS Investment Bank"	UBS AG, Hong Kong Branch, a corporation deemed to be registered under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, and the financial adviser to the Company in respect of the Transaction
"US$"	US dollars, the lawful currency of the US
"US"	United States of America

Unless otherwise specified, where financial information in this circular has been converted into Hong Kong dollars, it has been converted at the exchange rates set out below, being the exchange rates prevailing on 27th August 2004. Such conversions have 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 rates or any other rates or at all.

US$1.00	*:*	*HK$7.7997*
SEK1.00	*:*	*HK$1.0270*

Techtronic Industries Co. Ltd.
(Incorporated in Hong Kong with limited liability)
(Stock Code : 669)

Group 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 Vincent Ting Kau Cheung

Independent Non-executive Directors:
Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley
Mr Manfred Kuhlmann

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

23rd November 2004

To the Shareholders and for information only,
to the holders of the Share Options and the Convertible Bonds:

Dear Sir or Madam,

MAJOR TRANSACTION

Proposed acquisition of companies comprising the Milwaukee®, AEG® and DreBo® electric power tools and accessories businesses of Atlas Copco AB

A. INTRODUCTION

On 30th August 2004, the Board announced that the Company had on 28th August 2004 entered into the Stock Purchase Agreement to purchase from the Sellers all the issued and outstanding shares of the Sold Companies, which together comprise ATCO's electric power tools and accessories businesses, currently conducted under the brand names "Milwaukee®", "AEG®" and "DreBo®".

On 20th September 2004, 11th October 2004 and 1st November 2004, the Company announced that as additional time was required to obtain and compile certain information, including the accountants' report on the Business which is prepared under IFRS to meet the disclosure requirements required by the Listing Rules to be included in this circular, there would be delays in the despatch of this circular.

The Transaction constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules and will therefore require the approval of Shareholders at the EGM.

The purpose of this circular is to provide you with further information relating to the Transaction, the Company, the Business and the Enlarged Group, and to give you notice of the EGM at which an ordinary resolution will be proposed and, if thought fit, passed to approve the Transaction.

B. STOCK PURCHASE AGREEMENT

Set out below is a summary of the principal terms of the Stock Purchase Agreement.

1. Date

The date of the Stock Purchase Agreement is 28th August 2004.

2. Parties

(a) ATCO, ACNA and ATHG as Sellers; and

(b) the Company and the following direct and indirect subsidiaries of the Company: RTG, TTINA, TTI GmbH, Techtronic Industries Asia Holdings (BVI), Techtronic Industries NAFTA Holdings and A&M Industries S.a.r.l., and such other subsidiaries and entities as the Company may designate on or before the closing of the Transaction to acquire the Business or any part thereof, as Purchasers.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Sellers and their ultimate beneficial owners are independent of the Company and with each of the Directors, chief executive or substantial shareholders of the Company and its subsidiaries, and each of their respective associates (as defined in the Listing Rules).

3. Assets to be acquired

The Purchasers will acquire all the issued and outstanding shares of the Sold Companies from the Sellers. Further information on the Sold Companies is set out in Appendix V to this circular.

4. Purchase price

The purchase price for the Business, which will be paid in cash at the closing of the Transaction, is US$626.6 million (being approximately HK$4,887.3 million) (consisting of the pre-adjustment purchase price of US$712.8 million (being approximately HK$5,559.6 million), reduced by an agreed pre-closing adjustment of US$86.2 million (being approximately HK$672.3 million) in respect of a portion of the accrued and unfunded post-retirement liabilities of certain of the Sold Companies and adjustments with respect to related deferred asset accounts and to certain accruals). The purchase price is calculated on the basis of the Sold Companies having no indebtedness or cash and its net tangible assets (excluding, among other things, cash and amounts in respect of pre-agreed adjustments) being US$285.0 million (being approximately HK$2,222.9 million). If the net tangible assets of the Business as shown in such agreed closing statements are less than US$285.0 million (being approximately HK$2,222.9 million), the purchase price will be reduced by the amount of the shortfall. If the net tangible assets of the Business as shown in such agreed closing statements are greater than US$285.0 million (being approximately HK$2,222.9 million), the purchase price will be increased by the amount of such excess. The net tangible assets of the Business, prepared in accordance with IFRS, as at 30th June 2004 was US$292.0 million (being approximately HK$2,277.5 million). Within 90 days of the closing of the Transaction, the Purchaser will prepare (in accordance with Swedish GAAP) a final closing statement for the Business. Once the final closing statement has been agreed between the Parties (or by an internationally recognised firm of independent public accountants if agreement is not reached within the specified time period), any necessary adjustment to the purchase price shall be paid within three Business Days after the delivery of the final closing statement. In addition, within five Business Days after the closing of the Transaction, the Purchasers will reimburse the Sellers on a dollar-for-dollar basis, for the amount of cash actually included in the Business at closing, an amount which is not expected to exceed US$37.0 million (being approximately HK$288.6 million).

The purchase price for the Business has been determined after arm's length negotiations based on various factors including the global market presence, well established and widely recognised brands, earnings potential and growth prospects of the Business. The Directors believe that the terms of the Transaction are fair and reasonable and in the interest of Shareholders as a whole.

The Company will satisfy the purchase price for the Transaction from internal resources and bank borrowings available to it.

5. Conditions

The Stock Purchase Agreement is subject to the satisfaction or waiver of the following conditions (among others):

(a) neither the Purchasers nor the Sellers having breached any of their respective representations, warranties or covenants, except for such breaches of representations and warranties and covenants that, in the aggregate, are not reasonably likely to have a material adverse effect on the Business;

(b) relevant US and German anti-trust approvals having been obtained or the applicable waiting periods having expired or terminated;

(c) the Shareholders having approved the Transaction in accordance with the requirements of the Listing Rules; and

(d) the Sellers having paid in full all indebtedness outstanding on the date and shall have obtained a release of all related encumbrances, if any, except to the extent such indebtedness is continued by agreement of the Parties and reflected in the purchase price.

As at the Latest Practicable Date, condition (b) above had been fulfilled.

6. Break fee

In light of the costs and expenses incurred by ATCO in negotiating the Transaction and the potential damage to its reputation if the Transaction does not proceed, the Company has agreed that, in the event the Shareholders do not approve the Transaction at the EGM, and the Stock Purchase Agreement has not been previously terminated in accordance with its terms, the Company shall pay to ATCO a break fee of US$20.0 million (representing approximately 3.2% of the purchase price of the Business) within three Business Days of the EGM. The Directors confirm that such break fee is fair and reasonable, and the Company will make an appropriate announcement regarding the payment of a break fee, if applicable.

7. Termination

The Stock Purchase Agreement may be terminated:

(a) at any time by mutual written consent of the Company and ATCO; or

(b) by the Company or ATCO after 31st March 2005 (or such later date as may be agreed in writing between them), if the Transaction is not consummated on or before such date; provided that a party may not terminate the Stock Purchase Agreement if the failure of such consummation is due to the failure of the party wishing to terminate to comply in all material respects with its agreements and covenants contained therein; or

(c) by the Company, if any Sellers shall breach in any respect any of its representations, warranties or obligations under the Stock Purchase Agreement that would constitute a failure of the conditions to the obligations of the Company thereunder and such breach shall not have been timely cured; or

(d) by the Company, if (i) a material adverse effect on the Business has occurred or (ii) any other event or condition has occurred that would prevent fulfilment of the conditions to the Company's obligations thereunder; or

(e) by ATCO, if any Purchasers shall breach in any respect any of its representations, warranties or obligations that would constitute a failure of the conditions to its obligations and such breach shall not have been cured in all material respects or if the Company shall breach other specified obligations thereunder.

8. Closing

Closing of the Transaction is expected to take place at 10:00 a.m. (New York time) on and as of the last Business Day of the month in which all conditions have been either satisfied or waived, or at such other time and place as the Purchasers and the Sellers shall agree.

Closing of the Transaction is expected to take place on or before 31st March 2005.

C. INFORMATION ABOUT THE BUSINESS

1. Description of the Business

METCO is a leading producer and seller of heavy-duty portable electric tools and accessories. It designs and sells over 400 different tool models ranging from drills, Sawzall® brand reciprocating saws, circular saws, grinders and hammers to tools designed for specific applications such as diamond drill rigs and Steel Hawg® cutting systems, as well as over 3,500 accessory products. Most of METCO's products are marketed under the well-established and widely recognized Milwaukee® brand. End users of METCO's products are primarily professional tradesmen, including electricians, plumbers, mechanical contractors, general contractors, metal fabricators, HVAC/sheet metal installers and fabricators, maintenance repair operation professionals, and municipal and utility workers. METCO's geographical focus has historically been North America, but during 2001 and 2002 it launched the Milwaukee® brand in Australia and Europe.

AET is located in Winnenden near Stuttgart, Germany and is responsible for developing, manufacturing and distributing high-quality handheld power tools and accessories under the AEG® and Milwaukee® brands. AET's products are marketed through sales companies in Europe, Asia, Australia and South Africa, and are used primarily by professional tradesmen.

AET's sister company, DreBo, is a leading producer of rotary carbide tipped drill bits for concrete, masonry and stone. DreBo® products are delivered globally to original equipment manufacturers of power tools, accessories and fasteners, and to various industrial and hardware distributors, all of which sell such products under their respective house brands. The products are eventually used by construction companies, stone fixing companies and the fastening industry.

2. Business and financial review

Paragraph 2 of Appendix 16 to the Listing Rules requires that each set of financial statements presented in a circular shall provide a true and fair view of the state of affairs of the business, company or companies being acquired by a listed issuer and of the results of its operations and its cashflows and shall include, at a minimum, the following components:

(1) balance sheet;

(2) income statement;

(3) cashflow statement;

(4) statement of change in equity;

(5) comparative figures for the statements referred to in (1) to (4) above inclusive for the corresponding previous period; and

(6) accounting policies and explanatory note.

The accountants' report for the Business as set out in Appendix III to this circular covers the three years ended 31st December 2003 and the six months ended 30th June 2004. In other words, paragraph 2(5) of Appendix 16 to the Listing Rules will require the inclusion of comparative figures for the Business for the six months ended 30th June 2003 (the "Comparative Figures") in this circular.

The Business is operated through 32 units which are situated around the world and only 10 of these units are separate legal entities which are solely related to the operation of the Business. The remaining 22 units form part of the other ATCO group companies. The Company has been advised by ATCO that the management accounts in any of these 22 units are not prepared specifically in relation to the Business. Therefore, the preparation of the Comparative Figures will require such information to be created and collected as a separate exercise for these units. Moreover, information required to be disclosed in note format to the accounts of the Business is not required to be prepared for interim periods under Swedish accounting standards and has not therefore been prepared by the Business. As this information is generally only available for the separate legal entities it will be extremely difficult to prepare such disclosures in note format for the other units. The preparation of the Comparative Figures will involve extensive coordination and involvement of a significant number of ATCO staff around the world and the collection of information previously not created or recorded which would be an unduly burdensome task for ATCO. ATCO is not certain that all of the information required for the Comparative Figures is available because sixteen months have passed since 30th June 2003. Accordingly, the Company has applied for a waiver in relation to the requirement of paragraph 2(5) of the Appendix 16 to the Listing Rules to include the Comparative Figures.

The following table shows the audited consolidated turnover and profits of the Business for the three years ended 31st December 2003, and the six months ended 30th June 2004 extracted from the accountants' report as set out in Appendix III:

	Year ended 31st December			Six months ended 30th June 2004
	2001	2002	2003	
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Turnover	644.7	664.5	692.7	352.0
Profit before taxation	24.8	26.3	29.7	19.8
Net profit for the year/period	11.8	11.7	13.0	10.6

The accountants' report on the Business as set out in Appendix III has been prepared in accordance with IFRS. The Directors believe that there are no significant differences in the accountants' report on the Business as prepared under IFRS and under HKFRS.

(a) **Six months ended 30th June 2004**

Market Review

The North American market showed stronger growth in early 2004, driven by an improving US economic environment, with particularly strong growth in the industrial distributor and hardware channels. In Europe, the market conditions remained muted, although initial signs of market recovery were visible in some European markets.

Sales

Reported sales in the six months ended 30th June 2004 were US$352.0 million, which represented an increase over the same period in the previous year due to an increase in total volumes, favourable exchange rate movements, the DreBo acquisition and growth in accessories sales.

The Business' North American operations showed strong growth in the industrial distributor and hardware channels, while the home center channel continued to lag primarily due to lower sales to the Home Depot. In Europe, some markets showed initial signs of economic recovery and the Business won a major new contract as prime supplier to a pan-European industrial distributor. The increase in sales was also partially the result of the contribution of DreBo for the full six months ended 30th June 2004 compared to only three months in the same period in 2003. Furthermore, DreBo sales in the three month period ended 30th June 2004 rose in comparison to the equivalent period in 2003.

Gross Profit

Gross profit, after cost of goods sold, was US$106.8 million in the six months ended 30th June 2004 (equivalent to a gross profit margin of approximately 30.3%). This represented an increase in absolute dollar and gross margin terms over the same period in the previous year, which was the result of higher invoicing volume, the acquisition of DreBo in April 2003, higher factory capacity utilization and efficiency gains. The latter was partially due to the contribution from the new Czech assembly plant where costs are substantially lower than in the German facilities.

To improve operational efficiency, the Business has continued its strategy of shifting production capacity to low cost manufacturing countries and in January 2004, tool assembly commenced in Mexico. Sourcing of components is also continuously optimized and increasingly done in low cost countries.

Marketing Expenses

Marketing expenses totalled US$44.2 million in the six months ended 30th June 2004, representing an increase over the same period in the previous year. The increase was primarily driven by unfavourable exchange rate movements and ongoing marketing activities in Europe supporting both the Milwaukee® and AEG® brands.

Administrative Expenses

Administrative expenses totalled US$21.7 million in the six months ended 30th June 2004, representing an increase over the same period in the previous year. The increase was primarily due to unfavourable exchange rate movements (which increased the administrative expenses by approximately 5%), the acquisition of DreBo and costs associated with implementing the Standard Accounting Program system.

Research and Development Costs

Research and development costs amounted to US$11.1 million in the six months ended 30th June 2004, representing an increase over the same period in the previous year. The Business has continued its focus on the development of new and improved cordless products, including improved batteries, to address the growing need for more powerful cordless tools.

Goodwill Amortisation

Amortisation of goodwill amounted to US$6.7 million in the six months ended 30th June 2004, representing an increase over the same period in the previous year. This was due to the acquisition of DreBo in April 2003 and the resulting amortisation of goodwill for the full six months ended 30th June 2004 compared to only three months for the six months ended 30th June 2003.

Other Income and Expenses from Operations

Other operating income and expenses comprised mainly operating exchange differences and capital gains/losses on disposal of fixed assets. In the six months ended 30th June 2004, other income from operations amounted to US$0.3 million.

Operating Profit

Operating profit was US$23.4 million (or approximately 6.6% of turnover) in the six months ended 30th June 2004, representing an increase in absolute dollar and operating margin terms over the same period in the previous year. The increase in operating profit margin was primarily due to the increase in gross profit margin.

Financial Income and Expenses

Net financial expenses amounted to US$3.6 million in the six months ended 30th June 2004.

Taxes

Charges for taxes amounted to US$9.2 million in the six months ended 30th June 2004. This represents an increase over the same period in the previous year, reflecting the substantial improvement in profits.

Net Profit

Net profit amounted to US$10.6 million in the six months ended 30th June 2004.

(b) **Year ended 31st December 2003 compared to year ended 31st December 2002**

Market Review

North American demand for professional electric tools weakened in the latter part of 2002 and remained weak in the first half of 2003. The latter part of 2003 showed some recovery. In Europe, demand deteriorated for the third consecutive year, especially in Germany and the Nordic region. Overall, demand for cordless battery tools improved in comparison to the demand for corded tools.

Sales

Turnover in 2003 was US$692.7 million, an increase of approximately 4% compared to US$664.5 million in 2002. Exchange rate movements, principally the depreciation of US dollars against Euro, and the acquisition of DreBo in April 2003, offset a decrease in underlying turnover.

The weakening of the US dollars did, in particular, impact the sales contribution from the Asian markets where Euro based production costs were at a disadvantage compared to production costs in US dollars or other currencies tied to US dollars. Home Centers in the US were generally overstocked in the beginning of 2003 and inventory adjustments had an adverse effect on sales for the Business in the first quarter of 2003. The sales in Europe were impacted by the price repositioning of the AEG® brand, including deliberately exiting certain Home Center business. The decrease in sales in local currency in the European operations was more than offset by the acquisition of DreBo in April 2003, and the accessories business continued to develop positively during 2003.

Gross Profit

Gross profit, after cost of goods sold, was US$189.0 million for fiscal year 2003, (equivalent to a gross profit margin of approximately 27.3%), compared to US$177.0 million in fiscal year 2002 (equivalent to a gross profit margin of approximately 26.6%). To structurally improve operational efficiency, the Business continued its strategy of shifting production capacity and sourcing to lower cost countries. During 2003, the majority of the German assembly operations were relocated to the Czech Republic, for which a restructuring charge was reflected in the 2002 accounts. The restructuring cost associated with the new assembly plant in Mexico was reflected in the 2003 accounts. The negative effect from lower sales volumes was partially offset by cost reductions and higher than average margins on the acquired DreBo products.

Marketing Expense

Marketing expenses totalled US$80.7 million in fiscal year 2003 compared to US$77.8 million in 2002, representing an increase of approximately 3.7%, largely as a result of unfavourable exchange rate movements.

Administrative Expenses

Administrative expenses totalled US$40.1 million in fiscal year 2003 compared to US$33.6 million in 2002, representing an increase of approximately 19.3% largely as a result of unfavourable exchange rate movements, the acquisition of DreBo and cost of SAP implementation.

Research and Development Cost

Research and development costs amounted to US$20.2 million in fiscal year 2003 compared to US$21.0 million in fiscal year 2002. Spending on research and development was not scaled back despite the relative softening of the market in 2003.

The Business prioritized development of new and improved cordless products, including improved batteries, to address the growing need for more powerful cordless tools. The Business extended the range of both corded and cordless tools. A cordless impact wrench and a series of cordless drills were introduced as well as a corded reciprocating saw with a pivoting handle and a metal-cutting circular saw.

Goodwill Amortisation

Amortisation of goodwill amounted to US$12.6 million in fiscal year 2003 compared to US$11.0 million during the same period in 2002, representing an increase of approximately 14.5%. The increase of goodwill amortization in 2003 is related to the acquisition of DreBo in April 2003.

Other income and expenses from operations

Other operating income amounted to US$0.9 million in fiscal year 2003, up from other operating expenses of US$2.3 million during 2002.

Operating Profit

Operating profit was US$36.3 million (or approximately 5.2% of turnover) for fiscal year 2003, representing an increase of approximately 16.0%, or US$5.0 million, as compared to US$31.3 million (or approximately 4.7% of turnover) for fiscal year 2002. The increase in profit margin by 0.5% was primarily due to lower restructuring charges in 2003 compared with 2002.

Financial Income and Expenses

Net financial expenses increased to US$6.6 million in the year ended 31st December 2003 from US$5.0 million in the year ended 31st December 2002, representing an increase of approximately 32.0%. The increase was primarily due to the financing of the DreBo acquisition.

Taxes

Tax expense increased to US$16.7 million in the year ended 31st December 2003 from US$14.6 million in the year ended 31st December 2002.

Net Profit

Net profit increased to US$13.0 million in the year ended 31st December 2003 from US$11.7 million in the year ended 31st December 2002, representing an increase of approximately 11.1%.

(c) **Year ended 31st December 2002 compared to year ended 31st December 2001**

Market Review

Residential construction activity increased somewhat in 2002 compared to the previous year in the North American market and demand for professional electric tools improved accordingly. A slowdown was, however, noticed at the end of the year. In Europe, particularly in Germany, demand was weak.

Sales

Turnover in 2002 was US$664.5 million, an increase of approximately 3.1% compared to US$644.7 million in 2001, reflecting volume and price increases offset by unfavourable exchange rate movements.

The volume growth was primarily driven by a relatively strong North American market, with accessories and ancillary products contributing significantly to this growth. The North American growth pattern was relatively similar in both Home Centers and the traditional channels. The European operations suffered from weak demand from the residential construction market in Central Europe. Following the European introduction of the Milwaukee® brand and the price re-positioning of the AEG® brand, the Business managed to increase overall European prices. The new product mix, with more Milwaukee® branded tools, increased revenues further.

Gross Profit

Gross profit, after cost of goods sold, was US$177.0 million for fiscal year 2002 (equivalent to a gross profit margin of approximately 26.6%), compared to US$169.4 million in fiscal year 2001 (equivalent to a gross profit margin of approximately 26.3%). The gross profit in 2002 reflects the restructuring charge associated with the relocation of the majority of the Business' European assembly operations from Germany to the Czech Republic. A similar restructuring charge for a change in the manufacturing structure in the US was included in the 2001 accounts. The improvement in profit margin, before restructuring charges, was primarily driven by the North American operations, where a more favourable product mix with higher sales of accessories made a significant contribution together with increased production capacity utilization.

Marketing Expense

Marketing expenses totalled US$77.8 million in fiscal year 2002 compared to US$70.2 million in 2001, representing an increase of approximately 10.8%. The increase was primarily driven by marketing initiatives supporting the introduction of the Milwaukee® brand in Europe and the repositioning of the AEG® brand.

Administrative Expenses

Administrative expenses totalled US$33.6 million in fiscal year 2002 compared to US$34.1 million in 2001, representing a decrease of approximately 1.5%.

Research and Development Cost

Research and development costs amounted to US$21.0 million in 2002 compared to US$21.5 million in 2001, reflecting a continued, stable commitment to product development.

Goodwill Amortisation

Amortisation of goodwill amounted to US$11.0 million in fiscal year 2002, unchanged from 2001.

Other income and expenses from operations

Other income and operating expense amounted to negative US$2.3 million in fiscal year 2002, compared with negative US$0.5 million during 2001.

Operating Profit

Operating profit was US$31.3 million (or approximately 4.7% of turnover) for fiscal year 2002, representing a decrease of approximately 2.5%, or US$0.8 million, as compared to US$32.1 million (or approximately 5.0% of turnover) for fiscal year 2001. This reflects the differences in restructuring charges and marketing costs for the two years, which offset the effect of the increase in sales in the North American market.

Financial Income and Expenses

Net financial expenses decreased to US$5.0 million in the year ended 31st December 2002 from US$7.3 million in the year ended 31st December 2001, partly due to lower interest rates.

Taxes

Tax expense increased to US$14.6 million in the year ended 31st December 2002 from US$13.0 million in 2001.

Net Profit

Net profit decreased to US$11.7 million in the in the year ended 31st December 2002 from US$11.8 million in the year ended 31st December 2001, representing a decrease of approximately 0.8%.

(d) **Liquidity and Financial Resources**

Historically, the Business' principal sources of funds have been cash flow from operating activities and financing from central ATCO resources. Changes in the Business' working capital are typically directly correlated with changes in the Business' sales volume. The Business' principal uses of funds are acquisitions and investments.

Cash Flow from Operations

Cash flow from operations was US$18.3 million for the six months ended 30th June 2004. Working capital increased by US$10.9 million largely as a result of the building up of inventory at the production facilities in Europe in preparation for peak shipment periods expected in the second half of 2004. Second half sales are seasonally stronger than the first half of each year.

Cash flow from operations in 2003 was US$75.5 million. Working capital was reduced by US$21.4 million largely as a result of continued inventory management and reduction of customer returns in North America. In Europe, inventory was reduced following the reversal of temporary inventory build-up due to the relocation of assembly operations from Germany to the Czech Republic.

Cash flow from operations in 2002 was US$37.5 million. Working capital increased by US$7.0 million largely as a result of inventories increasing rapidly at year end, when the North American market softened surprisingly and substantially during the last two months of the year. In Europe, the inventory increased due to relocation of assembly operations to the Czech Republic.

Cash flow from operations in 2001 was US$62.4 million. Working capital decreased by US$16.3 million as a result of the reduction in sales.

Cash Flow from Investments

Cash flow from investments was an outflow which amounted to US$10.8 million for the six month period ended 30th June 2004. Significant investments included improvements in the facility in Milwaukee, CNC machinery and tooling for a sawblade manufacturing line.

Cash flow from investments in fiscal year 2003 was an outflow which amounted to US$86.2 million. In 2003, ATCO acquired DreBo for US$61.6 million. Investments in property and machinery amounted to US$21.4 million in 2003, where the Business invested in the Milwaukee building, battery products and CNC machinery.

Cash flow from investments in fiscal year 2002 was an outflow which amounted to US$20.6 million. In 2002, the Business continued its investments from 2001 in automated saw blade lines and heat treatment systems relating to Sawzalls®, hole saws and band saw blades.

Cash flow from investments in fiscal year 2001 was an outflow which amounted to US$18.5 million. An investment was made during the year in automated saw blade lines.

Cash Flow from Financing

Cash flow from financing was an outflow of US$7.1 million for the six month period ended 30th June 2004 as the positive operating cash flow was used to reduce the negative balance in ATCO's group cash pool (an intercompany overdraft facility with holding companies in the ATCO group).

Cash flow from financing in fiscal year 2003 was US$10.9 million. The Business increased the negative balance in ATCO's group cash pool as a consequence of the DreBo acquisition.

Cash flow from financing in fiscal year 2002 was an outflow of US$16.8 million as the positive operating cash flow was used to reduce the negative balance in ATCO's group cash pool.

Cash flow from financing in fiscal year 2001 was an outflow of US$45.0 million as the large positive operating cash flow was used to reduce the negative balance in ATCO's group cash pool.

The negative balance in ATCO's group cash pool at the beginning of each period is due to the payment of dividends, usually in the second half of the year.

Gearing Ratio

For the three years ended 31st December 2003 and the six months ended 30th June 2004, the gearing ratio, which is calculated by dividing bank borrowings, ATCO's group cash pool borrowings, finance lease payables, and pensions and similar commitments by equity, stood at approximately 28.8%, 30.0%, 38.3% and 37.5%, respectively. The increase in the gearing ratio from 2003 stems from the financing of the DreBo acquisition in April 2003.

Working Capital Analysis

For the three years ended 31st December 2003 and the six months ended 30th June 2004, inventory stood at US$100.1 million, US$126.9 million, US$118.7 million and US$125.0 million, respectively.

For the three years ended 31st December 2003 and the six months ended 30th June 2004, trade receivables stood at US$103.0 million, US$108.3 million, US$115.9 million and US$119.3 million, respectively.

For the three years ended 31st December 2003 and the six months ended 30th June 2004, trade payables stood at US$31.7 million, US$35.5 million, US$29.9 million and US$39.7 million, respectively.

Capital Structure

As at 30th June 2004, the Business had net assets of US$551.8 million, comprising non-current assets of US$571.2 million, current assets of US$327.8 million, non-current liabilities of US$52.0 million and current liabilities of US$295.2 million.

Others

As at 30th June 2004, the Business did not have any significant investments or charges on business assets. As at 30th June 2004, the Business had contingent liabilities of US$0.3 million arising primarily from sureties. In addition, the Business is involved in legal cases related to patent infringements, brand marketing and product liabilities. The Business' management believes the outcome of these legal cases will not have any significant adverse financial effect on the Business.

D. INFORMATION ABOUT ATCO

ATCO is the parent company of a global industrial group of companies headquartered in Stockholm, Sweden. In 2003, it had revenues of SEK 44.6 billion (being approximately HK$45.8 billion), with 98 percent of revenues outside Sweden, and close to 26,000 employees. ATCO develops, manufactures and markets electric and pneumatic tools, compressed air equipment and generators, construction and mining equipment, and assembly systems, and offers related service and equipment rental. More information is available on www.atlascopco-group.com. (The information that appears on that website does not form part of this circular.)

E. INFORMATION ABOUT THE COMPANY

Founded in 1985, the Company is a leading and fast-growing supplier of home improvement products, employing approximately 16,300 people worldwide. The Company's global brand portfolio includes RYOBI® power tools, HOMELITE® and RYOBI® outdoor power equipment, ROYAL®, DIRT DEVIL®, REGINA® and VAX® floor care appliances. The Company has enjoyed continuous growth since its listing on the Stock Exchange in 1990, achieving double-digit turnover growth for the past nine years. The Company is also one of the constituent stocks on the Hang Seng HK MidCap Index under the Hang Seng Composite Index, the MSCI Hong Kong Index, the FTSE All-World Hong Kong Index and the FTSE/ Hang Seng Asian Cyclical Index. For more information, please visit www.ttigroup.com. (The information that appears on that website does not form part of this circular.)

F. BUSINESS AND FINANCIAL PROSPECTS OF THE ENLARGED GROUP

While signs of a global economic recovery persist, the forward looking economic environment remains uncertain. Management is focused on revenue and margin expansion through effective marketing, product innovation and the rationalisation of business processes. The Techtronic Group maintains a low cost structure with manufacturing infrastructure based in the PRC and strong relationships with key suppliers and distributors. In the power tools and outdoor power equipment segments, the Techtronic Group intends to focus on the launch of new products and to leverage the market profile of the RYOBI®, HOMELITE® and RIDGID® brands to diversify its product range and increase market penetration. The Techtronic Group also intends to intensify marketing efforts to promote brand awareness in the floor care, solar powered, laser and electronic measuring businesses.

The addition of the Business will enable the Enlarged Group to consolidate its product offering and engineering, design and outsourcing capability. The Transaction will also strengthen Techtronic Group's brand profile and distribution network in the global power tools industry, particularly in the US and European markets, and the high-end product segment. Demand for the Business' products is expected to improve in line with the general economic environment. There is also substantial scope for margin improvement through inventory management and the continuous development of innovative new products. The Enlarged Group intends to focus on its core businesses and will seize opportunities to expand these markets where the potential to create shareholder value exists. With solid core businesses, ongoing product expansion and market diversification, the Enlarged Group is well positioned to maintain its strong growth momentum in an environment of economic uncertainty.

G. REASONS FOR AND BENEFITS OF THE TRANSACTION

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

In particular, the Transaction will allow the Company to:

(a) strengthen its market presence in Europe where its products have historically been underrepresented;

(b) expand the distribution of its products beyond its existing channels by utilizing the Business' network of independent dealers and distributors, thereby diversifying the Company's customer base;

(c) increase sales of existing products such as pressure washers, air nailers, bench and stationary tools, wet/dry vacs and laser measuring devices by leveraging the METCO and AET distribution network which did not historically have access to these products;

(d) compete more effectively with other major global tool manufacturers who offer extensive ranges of higher price point products globally;

(e) become a leading supplier of power tool accessories, thereby further complementing and strengthening the Company's sourcing activity while solidifying the Company's position in this category, for example in hole saws, reciprocating saws, jig saw blades, professional drill bits; and

(f) gain access to the Business' design, engineering and manufacturing operations which will provide critical expertise in certain key product categories both in North America and in Europe.

H. PRO FORMA FINANCIALS OF THE ENLARGED GROUP

The following is a summary of the pro forma statement of unaudited adjusted combined assets and liabilities of the Enlarged Group based on the unaudited consolidated net assets of Techtronic Group as at 30th June 2004 as extracted from its interim report for the six months ended 30th June 2004, and the audited consolidated net assets of the Business as at 30th June 2004 as set out in Appendix IV to this circular and adjusted to reflect the effect of the Transaction.

	Unaudited consolidated balance sheet of Techtronic Group as at 30th June 2004 *HK$' million*	**Audited consolidated balance sheet of the Business as at 30th June 2004** *HK$' million* *(Note 1)*	**Adjustments** *HK$' million*		**Total** *HK$' million*
Property, plant & equipment	863.9	1,152.1			2,016.0
Goodwill	635.6	3,010.0	377.8	*(Note 2)*	4,023.4
Negative goodwill	(31.0)	—			(31.0)
Intangible assets	178.7	113.9			292.6
Investment in associates	132.1	—			132.1
Investment in securities	38.6	—			38.6
Deferred tax assets	300.7	148.2	(148.2)	*(Note 2)*	300.7
Other assets	1.2	31.2			32.4
Current assets					
Trade and other receivables	1,579.1	1,003.8	(30.4)	*(Note 2)*	2,552.5
Amounts due from related parties of ATCO	—	560.8	(560.8)	*(Note 2)*	—
Tax recoverable	1.1	0.8	(0.8)	*(Note 2)*	1.1
Other current assets	2,996.3	975.0	—		3,971.3
Bank balances, deposits and cash	1,971.0	16.4	(5,016.5)	*(Note 2)*	(3,029.1)
Total current assets	6,547.5	2,556.8	(5,608.5)		3,495.8
Current liabilities					
Trade, bills and other payables	(3,427.3)	(725.4)	35.1	*(Note 2)*	(4,117.6)
Amounts due from related parties of ATCO	—	(822.9)	822.9	*(Note 2)*	—
Tax payable	(108.2)	(4.7)	4.7	*(Note 2)*	(108.2)
Other current liabilities	(862.8)	(749.6)	—		(1,612.4)
Total current liabilities	(4,398.3)	(2,302.6)	862.7		(5,838.2)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,269.0	4,709.6	(4,516.2)		4,462.4
Obligations under finance leases – due after one year	(3.2)	(146.6)			(149.8)
Bank borrowings – due after one year	(1,405.5)	—	—		(1,405.5)
Other payables	—	(34.3)			(34.3)
Deferred tax liabilities	(47.9)	(212.2)	212.2	*(Note 2)*	(47.9)
Minority interests	(64.6)	—			(64.6)
Provisions	—	(12.5)			(12.5)
	(1,521.2)	(405.6)	212.2		(1,714.6)
NET ASSETS	2,747.8	4,304.0	(4,304.0)		2,747.8

Notes:

1. The audited consolidated balance sheet of the Business is denominated in US dollars and has been translated into Hong Kong dollars at the conversion exchange rate of US$1 to HK$7.8.

2. As set out in the Stock Purchase Agreement, the Company will not purchase bank balances and cash, trade receivables or payables to the group companies of ATCO, amounts due from or due to related parties of ATCO, tax recoverable, tax payable, deferred tax assets and deferred tax liabilities of the Business at the date of acquisition and therefore the adjustment for the goodwill is factually supported by the Stock Purchase Agreement and it has a continuing effect on the Company.

   The goodwill arising on the acquisition of the Business amounts to approximately HK$377.8 million which represents the difference between the total consideration of HK$5,000.1 million (consisting of the purchase price of HK$4,887.3 million and the estimated expenses of HK$112.8 million) and the net asset value of HK$4,622.3 million as at 30th June 2004 (consisting of net assets of HK$4,304.0 million as at 30th June 2004 excluding bank balances and cash, trade receivables or payables to the group companies of ATCO, amounts due from or due to related parties of ATCO, tax recoverable, tax payable, deferred tax assets and deferred tax liabilities of the Business at an aggregate amount of HK$318.3 million as at 30th June 2004) prior to the acquisition.

3. The pro forma financial information is prepared in a manner consistent with the accounting policies of the Company in all material respects.

I. EGM

A notice convening the EGM to be held at the Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on 3rd January 2005 at 10:00 a.m. is set out on pages 133 to 134 of this circular at which an ordinary resolution will be proposed and, if thought fit, passed to approve the Transaction.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders has a material interest in the Transaction who will be required to abstain from voting at the EGM.

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

Pursuant to articles 74 and 75 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the Chairman of the meeting; or

(ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

J. RECOMMENDATION

Having considered the overall benefits that are expected to accrue to the Techtronic Group as a result of the Transaction, the Directors are of the opinion that the terms of the Stock Purchase Agreement (including the purchase price) are fair and reasonable and in the interests of Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction.

The executive Directors and their respective associates (as defined in the Listing Rules), beneficially holding a total of 417,070,742 Shares, which represented approximately 30.85% of the 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 Transaction.

K. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
By Order of the Board
Mr Horst Julius Pudwill
Chairman and Chief Executive Officer

The following tables set forth the summary consolidated financial information of the Techtronic Group as at and for the periods indicated. The summary audited consolidated financial information as at and for the years ended 31st December 2001, 2002 and 2003 set forth below are extracted from the previously published audited consolidated financial statements of the Techtronic Group as explained in the following paragraph and should be read in conjunction with the previously published audited consolidated financial statements of the Techtronic Group for each of the three years ended 31st December 2001, 2002 and 2003 (including the audited consolidated profit and loss accounts of the Techtronic Group for each of the three years ended 31st December 2001, 2002 and 2003 and the audited consolidated balance sheets of the Techtronic Group as at 31st December 2001, 2002 and 2003) and the notes thereto included elsewhere in this circular.

The figures for the year ended 31st December 2003 have been extracted from the Techtronic Group's audited financial statements for the year ended 31st December 2003. The figures for the year ended 31st December 2002 have been extracted from the Techtronic Group's audited consolidated financial statements for the year ended 31st December 2003 since the comparatives for the year ended 31st December 2002 have been restated to reflect the changes in accounting policy on adoption of Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Institute of Certified Public Accountants during 2003. The figures for the year ended 31st December 2001 have been extracted from the Techtronic Group's consolidated financial statements for the year ended 31st December 2001. No such restatement to reflect changes in accounting policy on the adoption of SSAP 12 (Revised) has been made for the figures for the year ended 31st December 2001 set out below.

Selected Financial Information

	(audited) Years ended 31st December 2003	2002	2001
	(in thousands of Hong Kong dollars, except per share data)		
Turnover	13,182,808	9,492,938	6,101,140
Cost of sales	(9,284,759)	(7,025,629)	(4,594,011)
Gross profit	3,898,049	2,467,309	1,507,129
Other revenue	56,318	69,233	41,396
Selling, distribution, advertising and warranty expenses	(1,574,549)	(1,018,925)	(516,684)
Administrative expenses	(1,246,615)	(826,075)	(595,698)
Research and development costs	(268,244)	(111,784)	(79,931)
Profit from operations	864,959	579,758	356,212
Finance costs	(95,731)	(83,978)	(91,000)
Profit before share of results of associates and taxation	769,228	495,780	265,212
Share of results of associates	(987)	121	(300)
Profit before taxation	768,241	495,901	264,912
Taxation	(66,811)	(70,246)	(22,940)
Profit before minority interests	701,430	425,655	241,972
Minority interests	(27,457)	(12,241)	(3,125)
Profit for the year	673,973	413,414	238,847
Dividend Paid	113,251	83,755	60,057
Earnings per share Basic	HK$1.03	66.0 cents	42.02 cents
Diluted	HK$1.01	66.0 cents	41.83 cents

EXTRACT OF THE FINANCIAL STATEMENTS

Audited consolidated financial statements

The following audited consolidated financial statements of Techtronic Group are extracted from pages 38 to 84 of the annual report of Techtronic Group for the year ended 31st December 2003.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2003

	NOTES	**2003** *HK$'000*	**2002** *HK$'000* (As restated)
Turnover	*5*	13,182,808	9,492,938
Cost of sales		(9,284,759)	(7,025,629)
Gross profit		3,898,049	2,467,309
Other operating income		39,575	55,495
Interest income	*6*	16,743	13,738
Selling, distribution, advertising and warranty expenses		(1,574,549)	(1,018,925)
Administrative expenses		(1,246,615)	(826,075)
Research and development costs		(268,244)	(111,784)
Profit from operations	*7*	864,959	579,758
Finance costs	*8*	(95,731)	(83,978)
Profit before share of results of associates and taxation		769,228	495,780
Share of results of associates		(987)	121
Profit before taxation		768,241	495,901
Taxation	*11*	(66,811)	(70,246)
Profit before minority interests		701,430	425,655
Minority interests		(27,457)	(12,241)
Profit for the year		673,973	413,414
Dividends	*12*	(113,251)	(83,755)
Earnings per share	*13*		
Basic		HK$1.03	HK$0.66
Diluted		HK$1.01	HK$0.66

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER 2003

	NOTES	2003 HK$'000	2002 HK$'000 (As restated)
ASSETS			
Non-current assets			
Property, plant and equipment	14	904,356	846,766
Goodwill	15	652,760	107,714
Negative goodwill	16	(33,175)	(37,481)
Intangible assets	17	25,154	12,858
Interests in associates	19	118,394	117,265
Investments in securities	20	41,419	55,447
Deferred tax assets	29	273,937	168,196
Other assets		1,195	1,195
		1,984,040	1,271,960
Current assets			
Inventories	21	2,491,650	1,592,034
Trade and other receivables	22	2,197,789	1,213,434
Deposits and prepayments		293,408	197,997
Bills receivable		36,409	261,186
Investments in securities	20	5,575	7,385
Tax recoverable		51,274	16,858
Trade receivables from associates		48	6,760
Bank balances, deposits and cash		2,586,075	1,855,491
		7,662,228	5,151,145
Current liabilities			
Trade and other payables	23	2,084,198	1,462,030
Bills payable		2,809,963	1,613,634
Warranty provision	24	208,552	79,315
Trade payable to an associate		3,230	—
Tax payable		68,114	52,787
Obligations under finance leases – due within one year	25	5,485	7,336
Borrowings – due within one year	26	497,975	781,156
		5,677,517	3,996,258
Net current assets		1,984,711	1,154,887
Total assets less current liabilities		3,968,751	2,426,847

CONSOLIDATED BALANCE SHEET *(Continued)*
AT 31ST DECEMBER 2003

	NOTES	2003 HK$'000	2002 HK$'000 (As restated)
CAPITAL AND RESERVES			
Share capital	27	132,497	129,143
Reserves		2,380,387	1,698,794
		2,512,884	1,827,937
MINORITY INTERESTS		46,374	18,917
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year	25	14,261	3,497
Borrowings – due after one year	26	1,348,497	554,059
Deferred tax liabilities	29	46,735	22,437
		1,409,493	579,993
		3,968,751	2,426,847

BALANCE SHEET
AT 31ST DECEMBER 2003

	NOTES	2003 HK$'000	2002 HK$'000 (As restated)
ASSETS			
Non-current assets			
Property, plant and equipment	14	233,659	244,261
Intangible assets	17	5,659	6,400
Investments in subsidiaries	18	402,408	472,663
Interests in associates	19	85,587	89,130
Investments in securities	20	10,454	15,681
Other assets		1,195	1,195
		738,962	829,330
Current assets			
Inventories	21	467,985	389,311
Trade and other receivables	22	42,379	73,316
Deposits and prepayments		78,514	67,805
Bills receivable		12,280	191,355
Investments in securities	20	5,575	7,385
Amounts due from subsidiaries		4,200,897	1,996,921
Bank balances, deposits and cash		1,067,850	791,912
		5,875,480	3,518,005
Current liabilities			
Trade and other payables	23	839,598	417,439
Bills payable		2,510,640	1,487,570
Amounts due to subsidiaries		549,641	255,087
Amount due to an associate		3,230	—
Tax payable		37,168	9,357
Obligations under finance leases			
– due within one year	25	1,963	5,109
Borrowings – due within one year	26	165,815	320,093
		4,108,055	2,494,655
Net current assets		1,767,425	1,023,350
Total assets less current liabilities		2,506,387	1,852,680

BALANCE SHEET *(Continued)*
AT 31ST DECEMBER 2003

	NOTES	**2003** *HK$'000*	**2002** *HK$'000* (As restated)
CAPITAL AND RESERVES			
Share capital	*27*	132,497	129,143
Reserves	*28*	2,106,955	1,551,731
		2,239,452	1,680,874
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year	*25*	595	2,473
Borrowings – due after one year	*26*	251,334	156,000
Deferred tax liabilities	*29*	15,006	13,333
		266,935	171,806
		2,506,387	1,852,680

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2003

	Share capital *HK$'000*	Share premium *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1st January 2002					
– As previously reported	114,903	242,313	(5,244)	751,402	1,103,374
– Prior period adjustment *(Note 2)*	—	—	(9,671)	21,002	11,331
– As restated	114,903	242,313	(14,915)	772,404	1,114,705
Exchange differences on translation of overseas operations not recognised in the income statement	—	—	(1,853)	—	(1,853)
Shares issued at a premium	14,240	371,186	—	—	385,426
Profit for the year	—	—	—	413,414	413,414
Final dividend – 2001	—	—	—	(45,060)	(45,060)
Interim dividend – 2002	—	—	—	(38,695)	(38,695)
At 1st January 2003	129,143	613,499	(16,768)	1,102,063	1,827,937
Exchange differences on translation of overseas operations not recognised in the income statement	—	—	62,287	—	62,287
Shares issued at a premium	3,354	58,584	—	—	61,938
Profit for the year	—	—	—	673,973	673,973
Final dividend – 2002	—	—	—	(65,388)	(65,388)
Interim dividend – 2003	—	—	—	(47,863)	(47,863)
At 31st December 2003	132,497	672,083	45,519	1,662,785	2,512,884

The Group's retained profits include the Group's share of the post acquisition losses of associates of HK$13,979,000 *(2002: HK$12,992,000)*, and the Group's translation reserve of a credit balance of HK$1,541,000 *(2002: HK$1,541,000)* in respect of associates.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2003

	NOTES	**2003** *HK$'000*	**2002** *HK$'000* (As restated)
OPERATING ACTIVITIES			
Profit from operations		864,959	579,758
Adjustments for:			
Amortisation/write off of intangible assets		7,779	4,716
Amortisation of goodwill		25,056	6,523
Depreciation and amortisation on property, plant and equipment		303,846	262,612
Impairment loss of investment securities recognised		14,028	6,673
Interest income		(16,743)	(13,738)
Profit on disposal of property, plant and equipment		(4,304)	(16,073)
Release of negative goodwill to income		(4,306)	(4,306)
Loss on disposal of a subsidiary	*31*	—	1,345
Loss on disposal of an associate		—	108
Operating cash flows before movements in working capital		1,190,315	827,618
Increase in inventories		(455,063)	(680,181)
Increase in trade and other receivables, deposits and prepayments		(747,305)	(397,117)
Decrease in bills receivable		225,641	70,579
Decrease (increase) in trade receivables from associates		6,712	(4,249)
Increase in trade and other payables		186,109	116,175
Increase in bills payable		1,196,329	1,006,475
Increase in warranty provision		59,640	50,622
Increase in trade payable to an associate		3,230	—
Cash generated from operations		1,665,608	989,922
Interest paid		(93,647)	(83,978)
Hong Kong Profits Tax paid		(30,537)	(26,176)
Overseas Tax paid		(59,582)	(47,870)
Overseas Tax refunded		16,138	870
NET CASH FROM OPERATING ACTIVITIES		1,497,980	832,768
INVESTING ACTIVITIES			
Interest received		16,743	13,738
Proceeds from disposal of property, plant and equipment		94,920	35,396
Purchase of property, plant and equipment		(238,299)	(238,016)
Additions to intangible assets		(6,642)	(11,388)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	*30*	(818,857)	(15,593)
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	*31*	—	(275)
(Advance to) repayment from associates		(2,116)	9,745
Proceeds from disposal of investments in securities		1,810	—
Acquisition of an associate		—	(17,550)
Purchase of investments in securities		—	(4,076)
Decrease in pledged bank deposit		—	27,300
NET CASH USED IN INVESTING ACTIVITIES		(952,441)	(200,719)

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*
FOR THE YEAR ENDED 31ST DECEMBER 2003

	2003 *HK$'000*	2002 *HK$'000* (As restated)
FINANCING ACTIVITIES		
New bank loans obtained	1,178,302	312,000
Proceeds from issue of fixed interest rate notes	1,089,321	—
Proceeds from issue of shares	61,938	397,380
Increase in trust receipt loans	14,697	15,748
Repayment of bank loans	(2,037,364)	(64,918)
Repayment of obligations under finance leases	(10,169)	(10,719)
Dividend paid	(113,251)	(83,755)
Dividend paid to minority shareholders	—	(3,301)
Share issue expenses	—	(11,954)
NET CASH FROM FINANCING ACTIVITIES	183,474	550,481
NET INCREASE IN CASH AND CASH EQUIVALENTS	729,013	1,182,530
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,753,900	585,567
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(38,815)	(14,197)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	2,444,098	1,753,900
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Represented by:		
Bank balances, deposits and cash	2,586,075	1,855,491
Bank overdrafts	(141,977)	(101,591)
	2,444,098	1,753,900

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2003

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 and electronic products.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standard ("HKFRS"), the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The terms of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of retained profits at 1st January 2002 has been increased by HK$21,002,000, representing the cumulative effect of the change in policy on the results for periods prior to 1st January 2002. The change has resulted in a decrease in the profit of HK$1,609,000 for the year ended 31st December 2003 *(2002: increase in the profit of HK$4,582,000)*.

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 estimated useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of 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 losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

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

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

Patents 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

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

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

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

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 losses. 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.

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 losses 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 losses.

Inventories

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

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 by the Group to outside customers, less returns and allowances, and commission income and royalty income received during the year.

Revenue recognition

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

Commission income is recognised when services are provided.

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

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

Taxation

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

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

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

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

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

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

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 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

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

Loan arrangement fees

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

Retirement benefits schemes

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

INCOME STATEMENT
For the year ended 31st December 2003

	Power equipment products *HK$'000*	**Floor care appliances** *HK$'000*	**Solar powered lighting and electronic measuring products** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER					
External sales	9,486,308	3,185,336	511,164	—	13,182,808
Inter-segment sales	194,995	12,160	53,172	(260,327)	—
Total	9,681,303	3,197,496	564,336	(260,327)	13,182,808
Inter-segment sales are charged at prevailing market rates.					
RESULT					
Segment result	653,385	131,351	100,973	—	885,709
Amortisation of goodwill					(25,056)
Release of negative goodwill to income					4,306
Profit from operations					864,959
Finance costs					(95,731)
Share of results of associates					(987)
Profit before taxation					768,241
Taxation					(66,811)
Profit after taxation					701,430

BALANCE SHEET
At 31st December 2003

	Power equipment products *HK$'000*	Floor care appliances *HK$'000*	Solar powered lighting and electronic measuring products *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	6,766,767	1,536,586	279,725	8,583,078
Interests in associates				118,394
Unallocated corporate assets				944,796
Consolidated total assets				9,646,268
Liabilities				
Segment liabilities	(4,301,394)	(871,477)	(101,084)	(5,273,955)
Unallocated corporate liabilities				(1,813,055)
Consolidated total liabilities				(7,087,010)

OTHER INFORMATION
For the year ended 31st December 2003

	Power equipment products *HK$'000*	Floor care appliances *HK$'000*	Solar powered lighting and electronic measuring products *HK$'000*	Consolidated *HK$'000*
Capital additions	155,965	652,333	10,728	819,026
Depreciation and amortisation	200,388	127,216	4,244	331,848
Impairment loss of investment securities recognised	14,028	—	—	14,028

INCOME STATEMENT
For the year ended 31st December 2002

	Power equipment products *HK$'000*	Floor care appliances *HK$'000*	Solar powered lighting and electronic measuring products *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	7,603,461	1,662,347	227,130	—	9,492,938
Inter-segment sales	108,727	—	1,822	(110,549)	—
Total	7,712,188	1,662,347	228,952	(110,549)	9,492,938
Inter-segment sales are charged at prevailing market rates.					
					(As restated)
RESULT					
Segment result	471,768	73,092	37,115	—	581,975
Amortisation of goodwill					(6,523)
Release of negative goodwill to income					4,306
Profit from operations					579,758
Finance costs					(83,978)
Share of results of associates					121
Profit before taxation					495,901
Taxation					(70,246)
Profit after taxation					425,655

BALANCE SHEET
At 31st December 2002

	Power equipment products	Floor care appliances	Solar powered lighting and electronic measuring products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (As restated)
Assets				
Segment assets	5,381,302	571,431	97,820	6,050,553
Interests in associates				117,265
Unallocated corporate assets				255,287
Consolidated total assets				6,423,105
Liabilities				
Segment liabilities	(2,901,183)	(383,212)	(23,899)	(3,308,294)
Unallocated corporate liabilities				(1,267,957)
Consolidated total liabilities				(4,576,251)

OTHER INFORMATION
For the year ended 31st December 2002

	Power equipment products	Floor care appliances	Solar powered lighting and electronic measuring products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (As restated)
Capital additions	284,044	50,110	4,952	339,106
Depreciation and amortisation	211,757	51,046	3,845	266,648
Impairment loss of investment securities recognised	6,673	—	—	6,673

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	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (As restated)
By geographical market location:				
North America	10,905,833	7,732,107	762,628	500,360
Europe	1,522,361	1,095,200	92,491	45,629
Other countries	754,614	665,631	30,590	35,986
	13,182,808	9,492,938	885,709	581,975
Amortisation of goodwill			(25,056)	(6,523)
Release of negative goodwill to income			4,306	4,306
Profit from operations			864,959	579,758
Finance costs			(95,731)	(83,978)
Share of results of associates			(987)	121
Profit before taxation			768,241	495,901

(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	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (As restated)
Hong Kong and People's Republic of China ("PRC")	2,866,292	2,329,784	158,363	268,685
North America	4,561,102	2,833,133	643,780	62,255
Europe	756,820	560,327	14,700	7,654
Other countries	398,864	327,309	2,183	512
	8,583,078	6,050,553	819,026	339,106

5. TURNOVER

	2003 HK$'000	2002 HK$'000
Turnover is analysed as follows:		
Sale of goods	13,143,731	9,492,938
Commission income	13,095	—
Royalty income	25,982	—
	13,182,808	9,492,938

6. INTEREST INCOME

	2003 HK$'000	2002 HK$'000
Interest earned on bank deposits	14,823	11,100
Interest earned on amount due from an associate	1,920	2,638
	16,743	13,738

7. PROFIT FROM OPERATIONS

	2003 *HK$'000*	2002 *HK$'000* (As restated)
Profit from operations has been arrived at after charging (crediting):		
Amortisation of intangible assets	7,252	1,819
Amortisation of goodwill	25,056	6,523
Release of negative goodwill to income	(4,306)	(4,306)
Auditors' remuneration	7,527	5,768
Depreciation and amortisation on property, plant and equipment		
Owned assets	292,185	252,887
Assets held under finance leases	11,661	9,725
Impairment loss of investment securities recognised	14,028	6,673
Operating lease charges:		
Premises	80,928	36,785
Motor vehicles	13,357	6,412
Plant and machinery	9,638	4,101
Other assets	5,325	1,080
Profit on disposal of property, plant and equipment	(4,304)	(16,073)
Research and development costs	268,702	113,922
Less: amounts capitalised	(458)	(2,138)
	268,244	111,784
Retirement benefits scheme contributions	12,113	5,796
Staff costs		
Directors' remuneration		
Fees	196	196
Other emoluments	32,067	27,116
Others	834,777	532,946
	867,040	560,258
Write off of intangible assets	527	2,897

Staff costs disclosed above do not include an amount of HK$117,222,000 *(2002: HK$64,818,000)* relating to research and development activities, which is included under research and development costs.

8. FINANCE COSTS

	2003 *HK$'000*	2002 *HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	71,849	83,527
Obligations under finance leases	1,305	451
Fixed interest rate notes	20,493	—
Amortisation of loan arrangement fees	2,084	—
	95,731	83,978

9. DIRECTORS' EMOLUMENTS

	2003 *HK$'000*	2002 *HK$'000*
Directors' fees:		
Executive	40	40
Non-executive	—	—
Independent non-executive	156	156
	196	196
Other emoluments for group executive directors:		
Salaries and other benefits	31,989	27,068
Contributions to retirement benefits schemes	78	48
	32,067	27,116
Total emoluments	32,263	27,312

The emoluments of the directors were within the following bands:

	Number of directors 2003	 2002
Nil to HK$1,000,000	4	5
HK$2,000,001 to HK$2,500,000	—	1
HK$3,000,001 to HK$3,500,000	1	—
HK$5,000,001 to HK$5,500,000	2	2
HK$5,500,001 to HK$6,000,000	—	1
HK$6,500,001 to HK$7,000,000	1	—
HK$8,500,001 to HK$9,000,000	—	1
HK$11,500,001 to HK$12,000,000	1	—

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four *(2002: four)* were group executive directors of the Company whose emoluments are included in the disclosures in note 9 above.

During each of the two years ended 31st December 2003 and 2002, no emoluments has been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during those years.

11. TAXATION

	2003	**2002**
	HK$'000	*HK$'000*
		(As restated)
Current tax:		
Hong Kong Profits Tax	78,997	31,509
(Over)underprovision in prior years	(2,817)	5,309
	76,180	36,818
Overseas taxation on profit for the year	39,902	52,348
Underprovision in prior years	4,897	6,167
	44,799	58,515
Deferred tax:		
Current year	(55,991)	(25,087)
Attributable to increase in tax rate	1,823	—
	(54,168)	(25,087)
	66,811	70,246

Hong Kong Profits Tax is calculated at 17.5% *(2002: 16.0%)* of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16.0% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances as at 31st December 2003.

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset is realised.

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

The tax expenses for the year are reconciled as follows:

	2003	2002
	HK$'000	*HK$'000*
		(As restated)
Profit before taxation	768,241	495,901
Tax at Hong Kong Profits Tax rate	134,442	79,344
Effect of different tax rates of subsidiaries operating in other jurisdictions	(15,292)	11,354
Tax effect of expenses not deductible for tax purpose	21,095	14,580
Tax effect of income not taxable for tax purpose	(94,618)	(47,091)
Tax effect of tax losses not recognised	18,589	2,547
Utilisation of tax losses previously not recognised	—	(3,322)
Underprovision in respect of prior years	2,080	11,476
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	1,823	—
Others	(1,308)	1,358
Tax expenses	66,811	70,246

Details of deferred taxation are set out in note 29.

12. DIVIDENDS

	2003	2002
	HK$'000	*HK$'000*
Final dividend paid:		
2002: HK 10.00 cents *(2001: HK 7.00 cents)* per share	65,388	45,060
Interim dividend paid:		
2003: HK 7.25 cents *(2002: HK 6.00 cents)* per share	47,863	38,695
	113,251	83,755

The final dividend in respect of the current financial year of HK17.75 cents *(2002: HK 10.00 cents)* per share has been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

13. EARNINGS PER SHARE

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

	2003	2002
	HK$'000	*HK$'000*
		(As restated)
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year	673,973	413,414
Weighted average number of ordinary shares for the purpose of basic earnings per share	653,630,513	621,966,346
Effect of dilutive potential ordinary shares:		
Share options	15,326,233	9,078,074
Weighted average number of ordinary shares for the purpose of diluted earnings per share	668,956,746	631,044,420

14. 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 2003	418,028	98,702	219,555	390,676	18,565	798,586	3,322	21,389	1,968,823
Currency realignment	11,571	1,498	6,669	2,028	558	1,488	—	—	23,812
Additions	6,745	5,659	51,062	36,640	1,408	117,764	154	22,850	242,282
Acquisition of subsidiaries	97,413	50,708	126,370	55,035	751	167,051	—	—	497,328
Disposals	(88,471)	(422)	(6,574)	(10,712)	(1,029)	(7,849)	—	(247)	(115,304)
Reclassification	3,828	(2,993)	21,029	1,730	—	12,722	—	(36,316)	—
At 31st December 2003	449,114	153,152	418,111	475,397	20,253	1,089,762	3,476	7,676	2,616,941
DEPRECIATION AND AMORTISATION									
At 1st January 2003	68,835	74,912	130,048	224,076	12,026	608,863	3,297	—	1,122,057
Currency realignment	4,710	1,098	5,863	1,277	361	1,253	—	—	14,562
Provided for the year	17,391	11,830	60,909	64,925	2,591	146,178	22	—	303,846
Acquisition of subsidiaries	30,102	12,493	82,731	44,892	469	126,121	—	—	296,808
Eliminated on disposals	(7,553)	(222)	(6,449)	(3,575)	(656)	(6,233)	—	—	(24,688)
Reclassification	280	(596)	(83)	1,809	—	(1,410)	—	—	—
At 31st December 2003	113,765	99,515	273,019	333,404	14,791	874,772	3,319	—	1,712,585
NET BOOK VALUES									
At 31st December 2003	335,349	53,637	145,092	141,993	5,462	214,990	157	7,676	904,356
At 31st December 2002	349,193	23,790	89,507	166,600	6,539	189,723	25	21,389	846,766

	Leasehold land and buildings outside Hong Kong	Office equipment, furniture Leasehold improvements	Moulds and fixtures	Plant and machinery	Motor vehicles	and tooling	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY							
COST							
At 1st January 2003	72,393	63,939	72,232	197,356	9,369	409,641	824,930
Additions	—	2,202	24,310	9,756	575	52,466	89,309
Disposals	—	—	(85)	(307)	—	—	(392)
Transfer to subsidiaries	—	(2,140)	(20)	—	—	—	(2,160)
At 31st December 2003	72,393	64,001	96,437	206,805	9,944	462,107	911,687
DEPRECIATION AND AMORTISATION							
At 1st January 2003	16,902	50,604	52,058	125,577	6,749	328,779	580,669
Provided for the year	2,767	4,991	12,614	28,780	1,026	47,537	97,715
Eliminated on disposals	—	—	(79)	(134)	—	—	(213)
Eliminated on transfer to subsidiaries	—	(139)	(4)	—	—	—	(143)
At 31st December 2003	19,669	55,456	64,589	154,223	7,775	376,316	678,028
NET BOOK VALUES							
At 31st December 2003	52,724	8,545	31,848	52,582	2,169	85,791	233,659
At 31st December 2002	55,491	13,335	20,174	71,779	2,620	80,862	244,261

The net book values of the Group's and the Company's property, plant and equipment include amounts of approximately HK$9,139,000 and HK$6,026,000 respectively *(2002: HK$18,798,000 and HK$11,796,000 respectively)* in respect of assets held under finance leases.

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The net book values of land and land use rights and buildings are situated outside Hong Kong and are analysed as follows:				
Freehold	282,625	293,702	—	—
Medium-term lease	52,724	55,491	52,724	55,491
	335,349	349,193	52,724	55,491

The Group has pledged certain freehold land and building having an aggregate net book value of HK$14,134,000 *(2002: HK$14,774,000)* to secure general banking facilities granted to the Group. The pledge has been released after year end.

15. GOODWILL

	THE GROUP
	HK$'000
COST	
At 1st January 2003	
– As previously reported	280,361
– Prior period adjustment *(Note 2)*	(66,721)
– As restated	213,640
Arising on acquisition of subsidiaries	570,102
At 31st December 2003	783,742
AMORTISATION	
At 1st January 2003	
– As previously reported	119,270
– Prior period adjustment *(Note 2)*	(13,344)
– As restated	105,926
Charged for the year	25,056
At 31st December 2003	130,982
NET BOOK VALUES	
At 31st December 2003	652,760
At 31st December 2002	107,714

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.

16. NEGATIVE GOODWILL

	THE GROUP
	HK$'000
GROSS AMOUNTS	
At 1st January 2003	
– As previously reported	30,808
– Prior period adjustment *(Note 2)*	16,571
– As restated and at 31st December 2003	47,379
RELEASED TO INCOME	
At 1st January 2003	
– As previously reported	6,885
– Prior period adjustment *(Note 2)*	3,013
– As restated	9,898
Released in the year	4,306
At 31st December 2003	14,204
CARRYING AMOUNTS	
At 31st December 2003	33,175
At 31st December 2002	37,481

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

17. INTANGIBLE ASSETS

	Deferred development cost *HK$'000*	Patents and trademarks *HK$'000*	Manufacture know-how *HK$'000*	Total *HK$'000*
THE GROUP				
COST				
At 1st January 2003	1,669	14,706	2,668	19,043
Currency realignment	172	67	—	239
Additions	459	5,341	842	6,642
Acquisition of a subsidiary	—	25,562	—	25,562
Write off in the year	(527)	(2,683)	—	(3,210)
At 31st December 2003	1,773	42,993	3,510	48,276
AMORTISATION				
At 1st January 2003	—	5,775	410	6,185
Currency realignment	—	45	—	45
Provided for the year	—	6,550	702	7,252
Acquisition of a subsidiary	—	12,323	—	12,323
Eliminated on write off	—	(2,683)	—	(2,683)
At 31st December 2003	—	22,010	1,112	23,122
NET BOOK VALUES				
At 31st December 2003	1,773	20,983	2,398	25,154
At 31st December 2002	1,669	8,931	2,258	12,858

	Patents *HK$'000*
THE COMPANY	
COST	
At 1st January 2003	7,437
Additions	584
At 31st December 2003	8,021
AMORTISATION	
At 1st January 2003	1,037
Provided for the year	1,325
At 31st December 2003	2,362
NET BOOK VALUES	
At 31st December 2003	5,659
At 31st December 2002	6,400

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

18. INVESTMENTS IN SUBSIDIARIES

	2003	2002
	HK$'000	*HK$'000*
Investments in unlisted shares, at cost	402,408	402,314
Amount due from a subsidiary	—	70,349
	402,408	472,663

Particulars of the principal subsidiaries of the Company as at 31st December 2003 are set out in note 39.

The amount due from a subsidiary was unsecured, non-interest bearing and had no fixed repayment terms.

19. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost less impairment loss recognised	—	—	17,940	17,940
Share of net assets	19,623	20,610	—	—
Net amounts due from associates	98,771	96,655	67,647	71,190
	118,394	117,265	85,587	89,130

Particulars of the associates as at 31st December 2003 are set out in note 40.

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

20. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Unlisted investment securities (equity), at cost less impairment loss recognised	41,419	55,447	10,454	15,681
Current assets				
Other listed investments (equity securities), at market price	5,575	7,385	5,575	7,385

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$10,454,000 *(2002: HK$15,681,000)* and HK$4,403,000 *(2002: HK$6,604,000)*, respectively. The Company's investments included its investment in Nack of the same amount. Both companies are incorporated in the United States of America ("USA"). Nack has the exclusive rights to market and distribute a registered product in the USA, of which the Group holds the manufacturing right. Its principal activity is the marketing and distribution of the registered product and other related products in the USA. ADI is engaged in marketing through a combination of direct response television and retail distribution in the USA and selected international markets.

The Group's investment represents approximately 25% *(2002: 25%)* of Nack's issued shares held directly by the Company and 26% *(2002: 26%)* of ADI's common stocks in issue held by a 51% subsidiary of the Company. Both Nack and ADI are not regarded as associates of the Group because the Group has no significant influence over their affairs.

21. INVENTORIES

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	599,855	560,481	247,007	276,231
Work in progress	76,298	43,219	60,907	23,539
Finished goods	1,815,497	988,334	160,071	89,541
	2,491,650	1,592,034	467,985	389,311

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	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 60 days	1,711,577	992,138	39,765	56,570
61 to 120 days	346,828	145,061	2,614	16,746
121 days or above	26,918	23,472	—	—
Total trade receivables	2,085,323	1,160,671	42,379	73,316
Other receivables	112,466	52,763	—	—
	2,197,789	1,213,434	42,379	73,316

23. TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(As restated)
0 to 60 days	1,042,276	619,751	444,349	183,117
61 to 120 days	202,605	175,476	127,707	66,185
121 days or above	7,263	25,841	4,247	23,874
Total trade payables	1,252,144	821,068	576,303	273,176
Other payables	832,054	640,962	263,295	144,263
	2,084,198	1,462,030	839,598	417,439

24. WARRANTY PROVISION

	THE GROUP	
	2003	**2002**
	HK$'000	*HK$'000*
At 1st January	79,315	26,979
Currency realignment	1,737	427
Additional provision in the year	387,287	58,233
Acquisition of subsidiaries	67,860	1,287
Utilisation of provision	(327,647)	(7,611)
At 31st December	208,552	79,315

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

25. OBLIGATIONS UNDER FINANCE LEASES

The maturity of obligations under finance leases is as follows:

	Minimum lease payments 2003	Minimum lease payments 2002	Present value of minimum lease payments 2003	Present value of minimum lease payments 2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
Amounts payable under finance leases:				
Within one year	6,825	7,825	5,485	7,336
In the second to fifth year inclusive	11,154	3,688	7,871	3,497
After five years	7,283	—	6,390	—
	25,262	11,513	19,746	10,833
Less: future finance charges	(5,516)	(680)	—	—
Present value of lease obligations	19,746	10,833	19,746	10,833
Less: Amount due within one year shown under current liabilities			(5,485)	(7,336)
Amount due after one year			14,261	3,497
THE COMPANY				
Amounts payable under finance leases:				
Within one year	2,187	5,475	1,963	5,109
In the second to fifth year inclusive	624	2,624	595	2,473
	2,811	8,099	2,558	7,582
Less: future finance charges	(253)	(517)	—	—
Present value of lease obligations	2,558	7,582	2,558	7,582
Less: Amount due within one year shown under current liabilities			(1,963)	(5,109)
Amount due after one year			595	2,473

It is the Group's policy to lease certain of its plant and machinery, fixtures and equipment under finance leases. The lease terms range from 3 to 20 years. Interest rates are fixed at the contract date and all leases are on a fixed repayment basis.

26. BORROWINGS

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trust receipt loans	168,012	153,315	96,482	86,093
Bank loans	445,078	1,080,309	320,667	390,000
Bank overdrafts	141,977	101,591	—	—
Bank borrowings	755,067	1,335,215	417,149	476,093
Fixed interest rate notes *(Note a)*	1,091,405	—	—	—
Total borrowings	1,846,472	1,335,215	417,149	476,093
Analysed into:				
Secured *(Note b)*	5,899	6,017	—	—
Unsecured	1,840,573	1,329,198	417,149	476,093
	1,846,472	1,335,215	417,149	476,093

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

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
On demand or within one year	497,975	781,156	1165,815	320,093
In the second year	23,092	214,865	17,334	—
In the third to fifth year inclusive	234,000	333,821	234,000	156,000
After five years	1,131,000	5,373	—	—
	1,886,067	1,335,215	417,149	476,093
Less: Amount due within one year shown under current liabilities	(497,975)	(781,156)	(165,815)	(320,093)
	1,388,092	554,059	251,334	156,000
Less: Unamortised loan arrangement fees	(39,595)	—	—	—
Amount due after one year	1,348,497	554,059	251,334	156,000

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

Note b: *The security has been released on repayment of borrowing after year end.*

27. SHARE CAPITAL

	Number of shares 2003	2002	2003 HK$'000	2002 HK$'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	645,716,826	574,516,826	129,143	114,903
Issued on share placement	—	60,000,000	—	12,000
Issued on exercise of share options	16,770,000	11,200,000	3,354	2,240
At 31st December	662,486,826	645,716,826	132,497	129,143

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

28. RESERVES

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
THE COMPANY			
At 1st January 2002			
– As previously reported	242,313	755,032	997,345
– Prior period adjustment *(Note 2)*	—	(9,631)	(9,631)
– As restated	242,313	745,401	987,714
Premium on shares issued	371,186	—	371,186
Profit for the year	—	276,586	276,586
Final dividend – 2001	—	(45,060)	(45,060)
Interim dividend – 2002	—	(38,695)	(38,695)
At 1st January 2003	613,499	938,232	1,551,731
Premium on shares issued	58,584	—	58,584
Profit for the year	—	609,891	609,891
Final dividend – 2002	—	(65,388)	(65,388)
Interim dividend – 2003	—	(47,863)	(47,863)
At 31st December 2003	672,083	1,434,872	2,106,955

As at 31st December 2003, the Company's reserves available for distribution to shareholders comprised the retained profits of HK$1,434,872,000 *(2002 as restated: HK$938,232,000)*.

29. DEFERRED TAX (ASSETS) LIABILITIES

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

	Accelerated tax depreciation HK$'000	Warranty provision HK$'000	Employee related provision HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
THE GROUP						
At 1st January 2002						
– As previously reported	2,033	(6,289)	(7,588)	—	(7,813)	(19,657)
– Prior period adjustment *(Note 2)*	17,493	—	—	(107,668)	296	(89,879)
– As restated	19,526	(6,289)	(7,588)	(107,668)	(7,517)	(109,536)
Currency realignment	—	—	—	(11,136)	—	(11,136)
Charge (credit) to income for the year	26,837	(14,679)	(3,970)	(3,294)	(29,981)	(25,087)
At 1st January 2003	46,363	(20,968)	(11,558)	(122,098)	(37,498)	(145,759)
Currency realignment	20	(208)	(512)	(12,590)	(569)	(13,859)
Charge (credit) to income for the year	(41,285)	(18,721)	(4,996)	5,868	3,143	(55,991)
Acquisition of subsidiary	10,088	(21,842)	(9,136)	—	7,474	(13,416)
Effect of change in tax rate						
– charge (credit) to income	2,033	—	—	(242)	32	1,823
At 31st December 2003	17,219	(61,739)	(26,202)	(129,062)	(27,418)	(227,202)

	Accelerated tax depreciation HK$'000
THE COMPANY	
At 1st January 2002	
– As previously reported	1,394
– Prior period adjustment *(Note 2)*	9,631
– As restated	11,025
Charge to income for the year	2,308
At 1st January 2003	13,333
Charge to income for the year	422
Effect of change in tax rate	
– charge to income	1,251
At 31st December 2003	15,006

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purpose:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	(273,937)	(168,196)	—	—
Deferred tax liabilities	46,735	22,437	15,006	13,333
	(227,202)	(145,759)	15,006	13,333

30. ACQUISITION OF SUBSIDIARIES

	2003	2002
	HK$'000	*HK$'000*
NET ASSETS ACQUIRED		
Property, plant and equipment	200,520	214,212
Intangible asset	13,239	192
Deferred tax asset	23,070	—
Inventories	359,191	89,189
Trade and other receivables, deposits and prepayments	250,407	80,592
Tax recoverable	66,680	4,024
Bank balances and cash	34,790	22,925
Trade and other payables	(376,739)	(201,651)
Bank overdrafts	(1,719)	—
Bank loans	(195,000)	(108,612)
Warranty provision	(67,860)	(1,287)
Obligations under finance leases	(15,099)	—
Deferred tax liability	(9,654)	—
	281,826	99,584
Goodwill arising on acquisition	570,102	87,134
Consideration	851,928	186,718
SATISFIED BY		
Deposit paid in previous year	—	148,200
Cash paid in the year	851,928	38,518
	851,928	186,718

Net cash outflow arising on acquisition:

	2003 *HK$'000*	2002 *HK$'000*
Cash consideration paid during the year	(851,928)	(38,518)
Bank balances and cash acquired	34,790	22,925
Bank overdrafts acquired	(1,719)	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(818,857)	(15,593)

The subsidiaries acquired during the year contributed approximately HK$1,869,483,000 *(2002: HK$1,638,864,000)* to the Group's turnover, and approximately HK$7,847,000 *(2002: HK$66,872,000)* to the Group's profit from operations.

31. DISPOSAL OF A SUBSIDIARY

As at 31st December 2002, upon the relocation of the Group's manufacturing operations from Indonesia to the PRC, the Group has liquidated its subsidiary, P. T. Techtronic Appliances. The loss on disposal in relation to the liquidation and the net cash outflow arising on such disposal amounted to approximately HK$1,345,000 and HK$275,000, respectively.

Both the carrying value of individual assets at the date of disposal and the net cash flows attributable to the subsidiary disposed of during the year ended 31st December 2002 were not material to the Group as a whole.

32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of HK$3,983,000 *(2002: HK$2,568,000)*.

33. LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2003 *HK$'000*	2002 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
Within one year	86,195	42,264	14,620	12,753
In the second to fifth year inclusive	154,196	75,309	10,947	11,287
After five years	138,348	59,052	17,016	15,836
	378,739	176,625	42,583	39,876

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

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks in respect of credit facilities utilised by associates	16,904	27,367	16,904	27,367
Bills discounted with recourse	180,133	188,779	7,161	39,547
	197,037	216,146	24,065	66,914

In addition, the Company has given guarantees to banks and independent third parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries as at 31st December 2003 amounted to HK$1,430,535,000 *(2002: HK$455,949,000)*.

35. SHARE OPTIONS

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

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

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

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

Scheme A expired on 27th November 2000.

Scheme adopted on 25th May 2001 ("Scheme B")

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

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

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

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

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

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

(i) employees; or

(ii) non-executive directors; or

(iii) suppliers or customers; or

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

(v) shareholders.

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

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

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

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

Option type	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2002
Scheme A	3,500,000	—	3,100,000	—	400,000
Scheme B	21,850,000	—	8,100,000	—	13,750,000
Scheme C	—	31,921,000	—	—	31,921,000
	25,350,000	31,921,000	11,200,000	—	46,071,000

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

	Outstanding at 1st January	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December
2003	31,296,000	2,060,000	8,800,000	—	24,556,000
2002	12,450,000	22,046,000	3,200,000	—	31,296,000

Details of share options exercised during the year ended 31st December 2003:

Exercise date	Exercise price *HK$*	Proceeds *HK$'000*	Number
24.4.2003	2.0920	2,092	1,000,000
24.4.2003	2.1480	2,578	1,200,000
30.4.2003	6.4000	4,352	680,000
2.5.2003	2.0920	1,046	500,000
5.5.2003	6.4000	1,216	190,000
7.5.2003	6.4000	320	50,000
9.5.2003	6.4000	320	50,000
12.5.2003	6.4000	160	25,000
14.5.2003	6.4000	960	150,000
19.5.2003	6.4000	640	100,000
20.5.2003	6.4000	960	150,000
21.5.2003	2.1160	423	200,000
22.5.2003	2.1160	106	50,000
23.5.2003	2.1960	549	250,000
28.5.2003	6.4000	1,088	170,000
29.5.2003	1.0000	100	100,000
29.5.2003	2.2600	565	250,000
29.5.2003	6.4000	2,240	350,000
2.6.2003	6.4000	1,280	200,000
2.6.2003	6.9800	349	50,000
3.6.2003	6.9800	174	25,000
5.6.2003	2.1480	2,148	1,000,000
5.6.2003	2.2600	2,260	1,000,000
6.6.2003	6.4000	320	50,000
9.6.2003	6.9800	523	75,000
12.6.2003	6.4000	640	100,000
12.6.2003	6.9800	174	25,000
23.6.2003	6.4000	1,120	175,000
2.7.2003	6.4000	640	100,000
4.7.2003	6.4000	320	50,000
7.7.2003	6.7000	1,340	200,000
7.7.2003	6.9800	174	25,000
9.7.2003	6.4000	1,280	200,000
10.7.2003	6.4000	512	80,000
11.7.2003	2.1160	212	100,000
14.7.2003	6.4000	640	100,000
16.7.2003	6.4000	640	100,000
28.7.2003	6.4000	320	50,000
8.8.2003	6.4000	320	50,000
11.8.2003	2.1160	212	100,000
12.8.2003	6.4000	128	20,000
19.8.2003	2.0920	1,674	800,000
19.8.2003	2.2600	1,808	800,000
19.8.2003	6.4000	640	100,000
21.8.2003	2.2600	565	250,000
21.8.2003	6.4000	320	50,000
25.8.2003	2.1160	2,116	1,000,000
28.8.2003	2.1160	2,116	1,000,000
9.9.2003	2.1160	2,116	1,000,000
10.9.2003	6.4000	960	150,000

Exercise date	Exercise price	Proceeds	Number
	HK$	*HK$'000*	
11.9.2003	6.4000	1,280	200,000
22.9.2003	6.4000	640	100,000
29.9.2003	6.9800	84	12,000
2.10.2003	6.4000	320	50,000
3.10.2003	6.4000	64	10,000
7.10.2003	6.9800	91	13,000
14.10.2003	6.9800	35	5,000
17.10.2003	6.4000	960	150,000
20.10.2003	5.9000	5,900	1,000,000
20.10.2003	6.4000	1,920	300,000
20.10.2003	6.7000	1,340	200,000
27.10.2003	6.9800	70	10,000
11.11.2003	6.9800	70	10,000
24.11.2003	6.4000	480	75,000
11.12.2003	6.4000	640	100,000
31.12.2003	6.4000	288	45,000
		61,938	16,770,000

Details of share options exercised during the year ended 31st December 2002:

Exercise date	Exercise price	Proceeds	Number
	HK$	*HK$'000*	
4.1.2002	1.0144	507	500,000
4.1.2002	1.2800	640	500,000
4.1.2002	1.0000	1,200	1,200,000
26.2.2002	2.1160	12,696	6,000,000
29.4.2002	1.7440	174	100,000
29.4.2002	1.0800	108	100,000
3.5.2002	1.7440	174	100,000
13.5.2002	1.4768	148	100,000
13.5.2002	1.7440	174	100,000
6.6.2002	2.0920	1,046	500,000
22.6.2002	2.2600	1,130	500,000
25.6.2002	1.0800	108	100,000
19.7.2002	1.0800	108	100,000
26.8.2002	2.1960	275	125,000
29.8.2002	2.1960	275	125,000
2.9.2002	2.1160	529	250,000
23.9.2002	2.1160	529	250,000
10.10.2002	1.7440	174	100,000
24.10.2002	2.4750	248	100,000
11.11.2002	1.0800	108	100,000
29.11.2002	2.1160	317	150,000
3.12.2002	2.1160	212	100,000
		20,880	11,200,000

The weighted average closing prices of the Company's shares immediately before various dates on which the share options were exercised ranged from HK$9.20 to HK$22.44 *(2002: ranged from HK$5.67 to HK$6.98)*.

36. RETIREMENT BENEFITS SCHEMES

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

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

The pension costs of the defined benefit scheme are assessed in accordance with an actuarial valuation as at 1st January 2004 performed by Aon Consulting, an employee benefits consulting group, using the Projected Unit Credit method. No medical trend rate assumption is necessary as at 31st December 2003 *(2002: 10%)* since all retirees are assumed to be affected by the fixed dollar subsidy and a discount rate of 6.25% *(2002: 6.75%)* were assumed for calculating the actuarial valuation.

There are no assets set aside for these benefits and the plan is funded on a pay-as-you-go basis. The accrued benefit costs under such scheme are to be reimbursed by a former shareholder of the overseas subsidiary in accordance with an assignment assumption, reimbursement and indemnification agreement. As such, the overseas subsidiary has set up a receivable and an accrued benefit cost of same amount of approximately HK$27,000,000 *(2002: HK$28,000,000)* as at 31st December 2003.

37. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of:				
Purchase of property, plant and equipment	85,598	27,633	54,206	10,919
Acquisition of an associate	—	29,250	—	29,250
	85,598	56,883	54,206	40,169
Capital expenditure authorised but not contracted for in the financial statements in respect of the purchase of property, plant and equipment	3,398	10,737	—	—

38. RELATED PARTY TRANSACTIONS

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

	2003	2002
	HK$'000	*HK$'000*
Purchases	—	37,761
Management fee income	300	2,100
Management fee expenses	852	852
Interest income received	1,920	2,166
Sales income	602	28,795
Salary charges	—	354
Equipment charge income	1,152	284

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.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31st December 2003 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Digiwireless Limited	Hong Kong	HK$2	100	—	Investment holding
Envotech Technology Company Limited	Hong Kong	HK$2	100	—	Investment holding
Full Team International Limited	Hong Kong	HK$2	100	—	Investment holding
Homelite Asia Ltd.	The British Virgin Islands ("BVI")/ The PRC	US$1	100	—	Trading of outdoor power equipment products
Homelite Consumer Products Holdings, Inc.	USA	US$10	—	100	Investment holding
Homelite Consumer Products, Inc.	USA	US$10	—	100	Trading of outdoor power equipment products
Homelite Far East Co. Ltd.	Hong Kong	HK$2	100	—	Trading of outdoor power equipment products
Homelite Technologies Ltd.	Bermuda	US$12,000	100	—	Investment holding

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
MacEwen Property Co. Inc.	USA	US$100	100	—	Property holding
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK$100,000	100	—	Trading of household electronic and electrical products
One World Technologies Inc.	USA	US$10	—	100	Investment holding
One World Technologies Limited	Bermuda	US$12,000	100	—	Investment holding
OWT France SAS	France	£1,750,000	—	100	Investment holding
OWT Holding, Inc.	USA	US$10	2.8	97.2	Investment holding
OWT Industries, Inc.	USA	US$10	—	100	Manufacture of electric components and power tools products
OWT Taiwan Limited	Taiwan	NT$5,000,000	100	—	Provision of inspection services
Premier Appliance Group Limited	Hong Kong	HK$2	100	—	Manufacture of components
RAMC Holdings Limited	Bermuda	US$12,000	100	—	Investment holding
Ryobi Technologies Australia Pty Limited	Australia	A$5,500,000	100	—	Trading of electric power tools products
Ryobi Technologies Canada Inc.	Canada	C$600,000	—	100	Trading of electric power tools products
Ryobi Technologies France S.A.	France	£17,836,535	—	100	Trading of electric power tools products
Ryobi Technologies GmbH	Germany	£500,000	100	—	Trading of electric power tools products
Ryobi Technologies, Inc.	USA	US$10	—	100	Trading of electric power tools products
Ryobi Technologies (New Zealand) Limited	New Zealand	NZ$1,165,500	100	—	Trading of electric power tools products

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Ryobi Technologies (UK) Limited	The United Kingdom	£4,000,000	100	—	Trading of electric power tools products
Royal Appliance Mfg. Co.	USA	US$1	—	100	Trading and manufacture of floor care products
Royal Appliance International GmbH	Germany	£1,278,230	51	—	Trading of household electronic 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	BVI/The PRC	US$1	—	100	Manufacture of electronic products
Techtronic Appliances Holdings Company Limited	Bermuda	US$12,000	100	—	Investment holding
Techtronic Appliances (Hong Kong) Limited	Hong Kong	HK$2	—	100	Trading and manufacture of floor care products
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.

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

40. PARTICULARS OF ASSOCIATES

Particulars of the associates as at 31st December 2003 are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issue capital held by the Company Directly %	Indirectly %	Principal activities
Gimelli International (Holdings) Limited	The Cayman Islands	US$6,250	40.8	—	Investment holding
Gimelli Laboratories Company Limited	Hong Kong	HK$5,000,000	—	100	Manufacture and trading of electrical and dental care products
Gimelli Produktions A.G.	Switzerland	CHF105,000	—	100	Marketing and research and development
Precision Technology Industries Limited	Bermuda	US$9,000,000	25	—	Manufacture of power tools products

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
for the six months ended 30th June 2004

	Notes	2004 HK$'000	2003 HK$'000	2004 US$'000 (Note 13)	2003 US$'000 (Note 13)
Turnover	2	6,724,115	4,814,649	862,066	617,263
Cost of sales		(4,720,044)	(3,519,725)	(605,134)	(451,247)
Gross profit		2,004,071	1,294,924	256,932	166,016
Other operating income		14,074	33,377	1,804	4,279
Interest income		22,155	5,361	2,840	687
Selling, distribution, advertising and warranty expenses		(693,737)	(474,426)	(88,941)	(60,824)
Administrative expenses		(762,714)	(496,323)	(97,785)	(63,631)
Research and development costs		(164,759)	(69,842)	(21,123)	(8,954)
Profit from operations and tax taxation	3	419,090	293,071	53,727	37,573
Finance costs		(58,702)	(38,990)	(7,526)	(4,999)
Profit before share of results of associates and taxation		360,388	254,081	46,201	32,574
Share of results of associates		(626)	187	(80)	24
Profit before taxation		359,762	254,268	46,121	32,598
Taxation	4	(42,677)	(30,437)	(5,471)	(3,902)
Profit before minority interests		317,085	223,831	40,650	28,696
Minority interests		(18,227)	(13,008)	(2,337)	(1,668)
Profit for the period		298,858	210,823	38,313	27,028
Dividend	5	(118,444)	(65,388)	(15,185)	(8,383)
Earnings per share	6				
Basic (HK / US cents)		22.49	16.28	2.88	2.09
Diluted (HK / US cents)		21.78	15.91	2.79	2.04

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30th June 2004

	Notes	30th June 2004 HK$'000 (Unaudited)	31st December 2003 HK$'000 (Audited)	30th June 2004 US$'000 (Note 13)	31st December 2003 US$'000 (Note 13)
ASSETS					
Non-current assets					
Property, plant and equipment		863,915	904,356	110,758	115,943
Goodwill		635,580	652,760	81,485	83,687
Negative goodwill		(31,023)	(33,175)	(3,977)	(4,253)
Intangible assets		178,669	25,154	22,906	3,225
Interests in associates		132,124	118,394	16,939	15,179
Investments in securities		38,608	41,419	4,950	5,310
Deferred tax assets		300,706	273,937	38,552	35,120
Other assets		1,195	1,195	153	153
		2,119,774	1,984,040	271,766	254,364
Current assets					
Inventories		2,539,274	2,491,650	325,548	319,442
Trade and other receivables	7	1,579,099	2,197,789	202,449	281,768
Deposits and prepayments		328,424	293,408	42,106	37,616
Bills receivable		122,984	36,409	15,767	4,668
Investments in securities		5,635	5,575	722	715
Tax recoverable		1,123	51,274	144	6,574
Trade receivable from associates		40	48	5	6
Bank balances, deposits and cash		1,970,998	2,586,075	252,692	331,548
		6,547,577	7,662,228	839,433	982,337
Current liabilities					
Trade, bills and other payables	8	3,427,325	4,894,161	439,401	627,457
Warranty provision		183,122	208,552	23,477	26,737
Trade payable to an associate		9,319	3,230	1,195	414
Tax payable		108,165	68,114	13,867	8,733
Dividend payable		118,444	—	15,185	—
Obligations under finance leases – due within one year		2,988	5,485	383	703
Borrowings – due within one year		549,011	497,975	70,386	63,843
		4,398,374	5,677,517	563,894	727,887
Net current assets		2,149,203	1,984,711	275,539	254,450

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*
as at 30th June 2004

	Notes	30th June 2004 HK$'000 (Unaudited)	31st December 2003 HK$'000 (Audited)	30th June 2004 US$'000 (Note 13)	31st December 2003 US$'000 (Note 13)
Total assets less current liabilities		4,268,977	3,968,751	547,305	508,814
CAPITAL AND RESERVES					
Share capital	9	133,663	132,497	17,136	16,987
Reserves		2,614,167	2,380,387	335,150	305,178
		2,747,830	2,512,884	352,286	322,165
MINORITY INTERESTS		64,601	46,374	8,282	5,945
NON-CURRENT LIABILITIES					
Obligations under finance leases – due after one year		3,148	14,261	404	1,828
Borrowings – due after one year		1,405,489	1,348,497	180,191	172,884
Deferred tax liabilities		47,909	46,735	6,142	5,992
		1,456,546	1,409,493	186,737	180,704
		4,268,977	3,968,751	547,305	508,814

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
for the six months ended 30th June 2004

	30th June 2004 *HK$'000*	30th June 2003 *HK$'000*	30th June 2004 *US$'000* *(Note 13)*	30th June 2003 *US$'000* *(Note 13)*
Net Cash used in Operating Activities	(490,549)	(542,771)	(62,891)	(69,586)
Net Cash used in Investing Activities	(267,791)	(897,056)	(34,332)	(115,007)
Net Cash from Financing Activities	151,482	786,548	19,421	100,839
Net Decrease in Cash and Cash Equivalents	(606,858)	(653,279)	(77,802)	(83,754)
Cash and Cash Equivalents at 1st January	2,444,098	1,753,900	313,346	224,859
Effect of Foreign Exchange Rate Changes	(5,789)	46,370	(743)	5,945
Cash and Cash Equivalents at 30th June	1,831,451	1,146,991	234,801	147,050
Analysis of the Balances of Cash and Cash Equivalents				
Represented by:				
Bank balances, deposits and cash	1,970,998	1,288,907	252,692	165,244
Bank overdrafts	(139,547)	(141,916)	(17,891)	(18,194)
	1,831,451	1,146,991	234,801	147,050

CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
for the six months ended 30th June 2004

	Share capital	**Share premium**	**Translation reserve**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2003	129,143	613,499	(16,769)	1,102,064	1,827,937
Exchange differences on translation of overseas operations not recognised in the income statement	—	—	37,423	—	37,423
Shares issued at a premium	1,633	26,417	—	—	28,050
Profit for the period	—	—	—	210,823	210,823
Final dividend – 2002	—	—	—	(65,388)	(65,388)
At 30th June 2003	130,776	639,916	20,654	1,247,499	2,038,845
At 1st January 2004	132,497	672,083	45,519	1,662,785	2,512,884
Exchange differences on translation of overseas operations not recognised in the income statement	—	—	(4,237)	—	(4,237)
Shares issued at a premium	1,166	57,603	—	—	58,769
Profit for the period	—	—	—	298,858	298,858
Final Dividend – 2003	—	—	—	(118,444)	(118,444)
At 30th June 2004	133,663	729,686	41,282	1,843,199	2,747,830

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation

The unaudited interim results of the Group have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants on a basis consistent with the accounting policies adopted in the report and financial statements for the year ended 31st December 2003.

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

2. Segment information

	Six months period ended 30th June			
	Turnover		Segment Results	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By principal activity:				
Manufacture and Trading of Power Equipment Products	4,711,892	3,467,171	294,282	198,682
Floor care appliances	1,717,292	1,121,715	80,457	58,135
Solar powered, laser and electronic measuring products	294,931	225,763	59,379	41,698
	6,724,115	4,814,649	434,118	298,515
Amortisation of goodwill			(17,180)	(7,596)
Release of negative goodwill to income			2,152	2,152
Contributions to profit from operations			419,090	293,071
By geographical market location:				
North America	5,259,245	3,784,207	366,423	236,667
Europe	1,084,364	766,976	66,244	45,095
Other countries	380,506	263,466	1,451	16,753
	6,724,115	4,814,649	434,118	298,515
Amortisation of goodwill			(17,180)	(7,596)
Release of negative goodwill to income			2,152	2,152
Contributions to Profit From Operations			419,090	293,071

3. Profit from operations

	Six Months Period ended 30th June	
	2004	**2003**
	HK$'000	*HK$'000*
Profit from operations has been arrived after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	160,746	137,085
Amortisation of intangible assets	4,597	2,531
Amortisation of goodwill	17,180	7,596
Release of negative goodwill to income	(2,152)	(2,152)
Staff costs	646,596	492,411

4. Taxation

	Six Months Period ended 30th June	
	2004	**2003**
	HK$'000	*HK$'000*
The total tax charge comprises:		
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the period	33,531	23,009
Overseas Tax	14,501	7,266
Deferred Tax	(5,355)	162
	42,677	30,437

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

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset is realised.

5. Dividend

The 2003 final dividend declared at HK17.75 cents and 2003 interim dividend paid at HK7.25 cents per existing share are adjusted to HK8.875 cents and HK3.625 cents per subdivided share respectively.

6. Earnings per share

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

	Six Months Period ended 30th June 2004 HK$'000	Six Months Period ended 30th June 2003 HK$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the period	298,858	210,823
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,328,955,297	1,295,481,764
Effect of dilutive potential ordinary shares:		
Options	43,371,852	29,424,128
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,372,327,149	1,324,905,892

The comparative amounts of the earnings per share and weighted average number of ordinary shares have been adjusted for the effect of the subdivision of the Company's shares during the period.

7. 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:

	30th June 2004 HK$'000	31st December 2003 HK$'000
0 to 60 days	1,231,410	1,711,577
61 to 120 days	200,085	346,828
121 days or above	26,142	26,918
Total trade receivables	1,457,637	2,085,323
Other receivables	121,462	112,466
	1,579,099	2,197,789

8. Trade, bills and other payables

The aging analysis of trade payables is as follows:

	30th June 2004 HK$'000	31st December 2003 HK$'000
0 to 60 days	932,301	1,042,276
61 to 120 days	98,719	202,605
121 days or above	9,770	7,263
Total trade payables	1,040,790	1,252,144
Bills payables	1,606,915	2,809,963
Other payables	779,620	832,054
	3,427,325	4,894,161

9. Share capital

	Number of shares		Share capital	
	30th June 2004	31st December 2003	30th June 2004 HK$'000	31st December 2003 HK$'000
Ordinary shares				
Authorised:				
At 1st January of HK$0.20 each	800,000,000	800,000,000	160,000	160,000
Increased in authorised share capital of HK$0.20 each	400,000,000	—	80,000	—
Subdivision of one share of HK$0.20 each into two shares of HK$0.10 each	1,200,000,000	—	—	—
Shares of HK$0.10 each *(2003 : HK$0.20 each)*	2,400,000,000	800,000,000	240,000	160,000
Issued and fully paid:				
At 1st January of HK$0.20 each	662,486,826	645,716,826	132,497	129,143
Issued on exercise of share options	8,657,000	16,770,000	1,166	3,354
Subdivision of one share of HK$0.20 each into two shares of HK$0.10 each	665,481,826	—	—	—
Shares of HK$0.10 each *(2003: HK$0.20 each)*	1,336,625,652	662,486,826	133,663	132,497

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

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

10. Capital commitments

	30th June 2004 *HK$'000*	**31st December 2003** *HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of the purchase of property, plant and equipment	108,716	85,598
Capital expenditure authorised but not contracted for in the financial statements in respect of the purchase of property, plant and equipment	12,518	3,398

11. Contingent liabilities

	30th June 2004 *HK$'000*	**31st December 2003** *HK$'000*
Guarantees given to banks in respect of credit facilities utilised by associates	25,288	16,904
Bills discounted with recourse	269,892	180,133
	295,180	197,037

12. Post balance sheet event

On 16th June 2004 the Group announced the issue of five year Zero Coupon Convertible Bonds at par. The aggregate principal amount of the Bonds was US$140 million (approximately HK$1,092 million). The Bonds will be due in 2009 and convertible into Ordinary Shares of the Company. The initial conversion price is HK$16.56 per share, representing a premium of 38% over the closing price of the share on The Stock Exchange of Hong Kong Limited on 16th June 2004. Assuming full conversion of the Bonds at the initial conversion price of HK$16.56 per share, the Bonds will be converted into approximately 65,922,584 shares, representing approximately 4.93% of the issued share capital of the Company as at the date of announcement and approximately 4.71% of the issued share capital of the Company as enlarged by the issue of the conversion shares. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at 107.76% of its principal amount on the maturity date of 8th July 2009. However, on or after 8th July 2007 and prior to the maturity date, the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only of the Bonds at 104.59% of their principal amount.

The Bond issue raised immediate funds that can be used for general corporate and working capital purposes including financing possible acquisitions and when converted will enlarge the shareholder capital base, which will facilitate the development and expansion of the Company.

The issue of the Bonds was successfully closed on 8th July 2004.

13. US Dollar Equivalents

These are shown for reference only and have been arrived at based on the fixed exchange rate of HK$7.8 to US$1.

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23rd November, 2004

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UBS AG
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8 Finance Street
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Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding the electric power tools and accessories businesses of Atlas Copco AB, currently conducted under the brand names "Milwaukee®", "AEG®" and "DreBo®" (hereinafter collectively referred to as the "Group") for the three years ended 31st December 2001, 2002, 2003 and six months ended 30th June 2004 (the "Relevant Periods") for inclusion in the circular issued by Techtronic Industries Co. Ltd. (the "Company") dated 23rd November, 2004 (the "Circular") in connection with its acquisition of companies comprising the Milwankee®, AEG® and DreBo® electric power tools and accessories businesses of Atlas Copco AB.

The combined financial statements of the Group for the Relevant Periods, which were prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board (the "Underlying IFRS Financial Statements"), were audited by KPMG Bohlins AB.

For the purpose of this report, we have examined the Underlying IFRS Financial Statements of the Group for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" as recommended by the Hong Kong Institute of Certified Public Accountants.

The Underlying IFRS Financial Statements are the responsibility of the directors of Atlas Copco AB who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying IFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for the Relevant Periods and of the state of affairs of the Group as at 31st December 2001, 31st December 2002, 31st December 2003 and 30th June 2004.

A. FINANCIAL INFORMATION

Combined income statements

		Year ended 31st December			Six months ended 30th June
		2001	**2002**	**2003**	**2004**
	Notes	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*
Revenue		644.7	664.5	692.7	352.0
Cost of sales		(475.3)	(487.5)	(503.7)	(245.2)
Gross profit		169.4	177.0	189.0	106.8
Other operating income		0.7	0.2	2.1	0.4
Selling, distribution, advertising and warranty expenses		(70.2)	(77.8)	(80.7)	(44.2)
Administrative expenses		(34.1)	(33.6)	(40.1)	(21.7)
Research and development costs	*4*	(21.5)	(21.0)	(20.2)	(11.1)
Other operating expenses		(12.2)	(13.5)	(13.8)	(6.8)
Profit from operations	*4*	32.1	31.3	36.3	23.4
Interest income	*5*	0.9	1.2	1.1	0.4
Finance costs	*6*	(8.2)	(6.2)	(7.7)	(4.0)
Profit before taxation		24.8	26.3	29.7	19.8
Taxation	*7*	(13.0)	(14.6)	(16.7)	(9.2)
Profit for the year/period		11.8	11.7	13.0	10.6
Dividend	*8*	—	—	—	—

Combined balance sheets

		At 31st December			At 30th June
		2001	**2002**	**2003**	**2004**
	Notes	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*
Non-current assets					
Property, plant and equipment	*11*	128.4	128.9	139.4	147.7
Goodwill	*12*	369.4	358.4	392.0	385.9
Other intangible assets	*13*	4.3	7.2	13.6	14.6
Deferred tax assets	*23*	19.1	19.8	18.2	19.0
Other assets		4.1	3.5	4.1	4.0
		525.3	517.8	567.3	571.2
Current assets					
Inventories	*14*	100.1	126.9	118.7	125.0
Trade and other receivables	*15*	109.3	116.0	122.2	128.7
Amounts due from related parties	*29*	36.1	42.9	67.4	71.9
Tax recoverable		0.2	—	—	0.1
Bank balances and cash		1.1	1.4	1.8	2.1
		246.8	287.2	310.1	327.8
Total assets		772.1	805.0	877.4	899.0
Equity		505.3	512.8	534.8	551.8
Current liabilities					
Trade and other payables	*17*	77.9	91.2	86.8	93.0
Retirement benefit obligations	*24*	60.3	70.2	83.2	81.7
Amounts due to related parties	*29*	81.7	81.2	117.4	105.5
Tax payable		0.1	—	—	0.6
Obligations under finance leases – due within one year	*19*	—	—	0.1	—
Other loans	*20*	2.2	1.4	1.4	1.0
Provisions	*22*	9.3	10.5	12.6	13.4
		231.5	254.5	301.5	295.2
Non-current liabilities					
Obligations under finance leases – due after one year	*19*	1.1	1.5	2.9	18.8
Other payables	*21*	4.3	4.7	4.5	4.4
Provisions	*22*	1.3	5.7	5.0	1.6
Deferred tax liabilities	*23*	28.6	25.8	28.7	27.2
		35.3	37.7	41.1	52.0
Total equity and liabilities		772.1	805.0	877.4	899.0

Combined statements of changes in equity

	Translation reserve *US$ Million*	**Retained profits** *US$ Million*	**Total** *US$ Million*
At 1st January 2001	—	512.4	512.4
Exchange differences on translation of overseas operations not recognised in the combined income statement	(2.1)	—	(2.1)
Profit for the year	—	11.8	11.8
Distribution to, net of contributions from, the Group	—	(16.8)	(16.8)
At 31st December 2001	(2.1)	507.4	505.3
Exchange differences on translation of overseas operations not recognised in the combined income statement	5.9	—	5.9
Profit for the year	—	11.7	11.7
Distribution to, net of contributions from, the Group	—	(10.1)	(10.1)
At 31st December 2002	3.8	509.0	512.8
Exchange differences on translation of overseas operations not recognised in the combined income statement	14.7	—	14.7
Profit for the year	—	13.0	13.0
Distribution to, net of contributions from, the Group	—	(5.7)	(5.7)
At 31st December 2003	18.5	516.3	534.8
Change in accounting principles *(note 2)*	—	(0.8)	(0.8)
Exchange differences on translation of overseas operations not recognised in the combined income statement	(3.5)	—	(3.5)
Profit for the period	—	10.6	10.6
Distribution to, net of contributions from, the Group	—	10.7	10.7
At 30th June 2004	15.0	536.8	551.8

Combined cash flow statements

	Note	Year ended 31st December 2001 US$ Million	2002 US$ Million	2003 US$ Million	Six months ended 30th June 2004 US$ Million
Operating activities					
Profit from operations		32.1	31.3	36.3	23.4
Adjustments for:					
Amortisation of goodwill		11.0	11.0	12.6	6.7
Amortisation of other intangible assets		0.7	0.6	0.9	0.9
Depreciation and amortisation on property, plant and equipment		21.5	24.3	26.4	13.2
Loss on disposal of property, plant and equipment		0.5	1.3	1.0	—
Operating cash flows before movements in working capital		65.8	68.5	77.2	44.2
Decrease (increase) in inventories		16.6	(21.1)	24.1	(7.9)
Decrease (increase) in trade and other receivables		11.8	4.9	9.6	(10.6)
(Decrease) increase in trade and other payables		(12.1)	9.2	(12.3)	7.6
Cash generated from operations		82.1	61.5	98.6	33.3
Income taxes paid		(11.5)	(17.8)	(15.4)	(11.0)
Interest paid		(8.2)	(6.2)	(7.7)	(4.0)
Net cash from operating activities		62.4	37.5	75.5	18.3
Investing activities					
Interest received		0.9	1.2	1.1	0.4
Proceeds from disposal of property, plant and equipment		0.9	0.6	1.0	1.2
Purchase of property, plant and equipment		(19.6)	(20.2)	(21.4)	(8.5)
Additions to other intangible assets		(0.6)	(2.7)	(4.6)	(2.1)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	25	—	—	(61.6)	(1.8)
(Increase) decrease in other assets		(0.1)	0.5	(0.7)	—
Net cash used in investing activities		(18.5)	(20.6)	(86.2)	(10.8)

Combined cash flow statements *(Continued)*

	Year ended 31st December			Six months ended 30th June
	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Financing activities				
Others short-term loans raised (paid)	0.5	0.4	2.9	(0.4)
Distribution to, net of contributions from, the Group	(16.8)	(10.1)	(5.7)	10.7
Net amount (repaid) advanced to related companies	(28.7)	(7.1)	13.7	(17.4)
Net cash (used in) from financing activities	(45.0)	(16.8)	10.9	(7.1)
Net (decrease) increase in cash and cash equivalents	(1.1)	0.1	0.2	0.4
Cash and cash equivalents at beginning of the year/period	2.7	1.1	1.4	1.8
Effect of foreign exchange rate changes	(0.5)	0.2	0.2	(0.1)
Cash and cash equivalents at end of the year/period	1.1	1.4	1.8	2.1

Notes to the financial information

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Financial Information presents the combined results, combined cash flow statements, combined statements of changes in equity and combined balance sheets of the Group on the basis that the Group, for the purpose of this report, is regarded as a continuing entity and that the current group structure had been in existence since 1st January 2001.

The Group is a part of the group of companies of Atlas Copco AB. The Group has a comprehensive portfolio of both corded and cordless electric power tools designed for professional use. The products range from drills, saws, grinders and hammers to tools designed for specific applications such as screw-shooter systems and cordless caulking guns among others. The Group also has significant accessory sales.

The Financial Information, for the periods presented herein, has been prepared on a carve-out basis. In addition to the financial information for legal entities which are wholly dedicated to the Group, the Financial Information includes the assets, liabilities, sales and expenses of other legal entities which are not totally dedicated to the Group. They also include amounts that have been pushed down from Atlas Copco AB in order to depict the financial position, results of operations and cash flows of the Group on a stand-alone basis. It also includes certain allocations and transactions with related parties as discussed further in note 29. All significant intercompany transactions have been eliminated in the preparation of the Financial Information.

For operations which are part of legal entities which are not totally dedicated to the business, the pension and other post retirement benefit costs have been based on the charges incurred by the individual operations in respect of the specific plans of which employees are members. Pension plans are discussed further in note 24.

Historically, the results of the Group have been included in the combined income tax returns filed by the various legal entities to which the operations belonged or to tax groups within the Atlas Copco group of companies. Income tax expense in the Financial Information of the Group has been calculated on a separate stand-alone tax return basis.

In the opinion of management, all material adjustments necessary for the fair presentation of financial position, operating results and cash flows have been presented. The Financial Information included herein may not necessarily be indicative of the combined results of operations, financial position, changes in equity and cash flows of the Group in the future or what they would have been for the periods presented if the Group had been a separate, stand-alone entity.

Atlas Copco AB presents the Financial Information in United States dollar since this is the currency in which the majority of the Group's transactions are denominated.

Except for some presentational differences, there is no material difference between IFRS and accounting principles generally accepted in Hong Kong which might have a significant impact on the combined financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention. The principal accounting policies which have been adopted in preparing the Financial Information and which are in accordance with International Financial Reporting Standards ("IFRS") are as follows:

Changes in accounting principles

For the purpose of presenting these Financial Information, management has adjusted the accounting to comply with IFRS in all material respects for the periods presented including adjustments of all material post employment benefit plans. As of 1st January 2004, the Group implemented International Accounting Standard ("IAS") IAS 19 "Employee Benefits". The effect of adopting this standard relates to non-material post-retirement benefit plans and amounted to US$0.8 million at the date of adoption.

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 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. Goodwill is evaluated for impairment on a regular basis by estimating the discounted future cash flows of the Group to which the goodwill relates.

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

Revenue recognition

Sales of goods are recognised when goods are delivered and the significant risks and rewards of ownership has passed.

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

Property, plant and equipment

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

Depreciation is charged to write off the cost of the assets other than construction in progress, over their estimated useful lives, using the straight-line method on the following bases:

Freehold land	Nil
Buildings	25 to 50 years
Machinery and equipment	3 to 10 years

Construction in progress represents assets in the course of construction for production, or administrative purposes, or for purposes not yet determined, and are carried at cost, less any identified impairment loss. Cost includes all construction expenditure and other direct costs, including professional fees, attributable to such projects. Costs on completed construction work are transferred to other appropriate category of property, plant and equipment and depreciation of these assets is charged, on the same basis as other assets, until the construction of the related assets is completed.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the combined 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.

Research and development expenditure

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

An internally-generated intangible assets 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 stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over its estimated 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.

Patents and trademarks

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

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Other assets

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first-out method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables and amounts due from related parties are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade and other payables

Trade and other payables and amounts due to related parties are stated at their nominal value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis to the combined income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Leasing

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

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

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

The financial records of the Group are principally maintained in United States dollar and Euros. Transactions in currencies other than United States dollar and Euros are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the year.

On combination, the assets and liabilities of the Group's operations are translated into United States dollar at the exchange rate prevailing at the balance sheet date. Income and expense items are translated into United States dollar at the average exchange rate for the Relevant Periods. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Group's net obligation with respect to defined benefit plans and other long-term service benefits other than pensions is calculated separately for each plan using the projected unit credit method by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. The discount rates used are based on high-quality fixed-income debt instruments that have maturity dates approximating the terms of the obligations.

Derivative financial instruments

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Such derivatives are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates.

As the Group has not adopted the requirements for formally designating and documenting the instruments as a hedge, the adjustments to fair value have been included in the income statement.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions for warranty costs are recognised at the date of sale of the relevant products, based on the estimated cost using historical data for level of repairs and replacements. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that it has either commenced or has been announced publicly.

3. SEGMENTAL INFORMATION

Business segments

All of the Group's turnover, assets and liabilities were engaged in the manufacture and sales of electric power tools products and related assessories. Accordingly, no analysis of financial information by business segment is presented.

Geographical segments

	North America US$ Million	**Europe** US$ Million	**Other countries** US$ Million	**Elimination** US$ Million	**Total** US$ Million
For the year ended 31st December 2001					
REVENUE					
External sales	470.6	162.2	11.9	—	644.7
Inter-segment sales *	4.6	22.5	—	(27.1)	—
Total	475.2	184.7	11.9	(27.1)	644.7

** Inter-segment sales are charged at prevailing market rates.*

	North America	Europe	Other countries	Elimination	Total
RESULT					
Segment results	32.1	—	—	—	32.1
Interest income					0.9
Finance costs					(8.2)
Profit before taxation					24.8
Taxation					(13.0)
Profit for the year					11.8
Other information for the year ended 31st December 2001					
Capital additions	14.9	5.3	—	—	20.2
Depreciation and amortisation	26.4	6.8	—	—	33.2
Assets and liabilities as at 31st December 2001					
ASSETS					
Segment assets	610.5	99.4	4.9	—	714.8
Unallocated corporate assets					57.3
Combined total assets					772.1
LIABILITIES					
Segment liabilities	66.3	24.5	2.0	—	92.8
Unallocated corporate liabilities					174.0
Combined total liabilities					266.8

	North America US$ Million	Europe US$ Million	Other countries US$ Million	Elimination US$ Million	Total US$ Million
For the year ended 31st December 2002					
REVENUE					
External sales	489.2	161.0	14.3	—	664.5
Inter-segment sales *	14.6	28.4	—	(43.0)	—
Total	503.8	189.4	14.3	(43.0)	664.5

** Inter-segment sales are charged at prevailing market rates.*

	North America US$ Million	Europe US$ Million	Other countries US$ Million	Elimination US$ Million	Total US$ Million
RESULT					
Segment results	32.3	(1.5)	0.5	—	31.3
Interest income					1.2
Finance costs					(6.2)
Profit before taxation					26.3
Taxation					(14.6)
Profit for the year					11.7
Other information for the year ended 31st December 2002					
Capital additions	15.8	7.1	—	—	22.9
Depreciation and amortisation	29.2	6.7	—	—	35.9
Assets and liabilities as at 31st December 2002					
ASSETS					
Segment assets	608.7	124.7	6.6	—	740.0
Unallocated corporate assets					65.0
Combined total assets					805.0
LIABILITIES					
Segment liabilities	75.9	32.8	3.3	—	112.0
Unallocated corporate liabilities					180.2
Combined total liabilities					292.2

	North America US$ Million	Europe US$ Million	Other countries US$ Million	Elimination US$ Million	Total US$ Million
For the year ended 31st December 2003					
REVENUE					
External sales	477.8	195.6	19.3	—	692.7
Inter-segment sales *	11.3	25.7	—	(37.0)	—
Total	489.1	221.3	19.3	(37.0)	692.7

** Inter-segment sales are charged at prevailing market rates.*

	North America US$ Million	Europe US$ Million	Other countries US$ Million	Elimination US$ Million	Total US$ Million
RESULT					
Segment results	38.2	(2.7)	0.8	—	36.3
Interest income					1.1
Finance costs					(7.7)
Profit before taxation					29.7
Taxation					(16.7)
Profit for the year					13.0
Other information for the year ended 31st December 2003					
Capital additions	15.1	10.9	—	—	26.0
Depreciation and amortisation	29.4	10.5	—	—	39.9
Assets and liabilities as at 31st December 2003					
ASSETS					
Segment assets	581.4	199.0	8.7	—	789.1
Unallocated corporate assets					88.3
Combined total assets					877.4
LIABILITIES					
Segment liabilities	68.0	13.5	4.8	—	86.3
Unallocated corporate liabilities					256.3
Combined total liabilities					342.6

	North America US$ Million	Europe US$ Million	Other countries US$ Million	Elimination US$ Million	Total US$ Million
For the six months ended 30th June 2004					
REVENUE					
External sales	236.1	105.3	10.6	—	352.0
Inter-segment sales *	5.3	11.0	—	(16.3)	—
Total	241.4	116.3	10.6	(16.3)	352.0

** Inter-segment sales are charged at prevailing market rates.*

	North America US$ Million	Europe US$ Million	Other countries US$ Million	Elimination US$ Million	Total US$ Million
RESULT					
Segment results	20.2	2.9	0.3	—	23.4
Interest income					0.4
Finance costs					(4.0)
Profit before taxation					19.8
Taxation					(9.2)
Profit for the period					10.6
Other information for the six months ended 30th June 2004					
Capital additions	7.3	19.4	—	—	26.7
Depreciation and amortisation	14.4	6.4	—	—	20.8
Assets and liabilities as at 30th June 2004					
ASSETS					
Segment assets	584.7	211.2	9.3	—	805.2
Unallocated corporate assets					93.8
Combined total assets					899.0
LIABILITIES					
Segment liabilities	74.4	31.7	6.1	—	112.2
Unallocated corporate liabilities					235.0
Combined total liabilities					347.2

4. PROFIT FROM OPERATIONS

	Year ended 31st December			Six months ended 30th June
	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Profit from operations has been arrived at after charging (crediting):				
Amortisation of intangible assets included in other operating expenses	0.7	0.6	0.9	0.9
Amortisation of goodwill included in other operating expenses	11.0	11.0	12.6	6.7
Auditors' remuneration	0.2	0.2	0.1	0.1
Depreciation and amortisation on property, plant and equipment	21.5	24.3	26.4	13.2
Operating lease charges:				
Premises	0.9	1.1	1.8	1.3
Motor vehicles	0.6	0.6	0.7	0.6
Plant and machinery	2.0	2.0	2.1	1.3
Other assets	1.3	2.4	2.7	1.0
Loss on disposal of property, plant and equipment	0.5	1.3	1.0	—
Research and development costs	22.0	23.7	22.6	13.1
Less: amounts capitalised	(0.5)	(2.7)	(2.4)	(2.0)
	21.5	21.0	20.2	11.1
Retirement benefits scheme contributions	15.2	16.6	16.6	8.7
Staff costs				
Directors' remuneration	—	—	—	—
Others	151.7	155.2	165.5	85.5
	166.9	171.8	182.1	94.2

Staff costs disclosed above do not include amounts of US$14.6 million, US$15.8 million, US$16.1 million and US$8.1 million relating to research and development activities, which are included under research and development costs for the years ended 31st December 2001, 2002, 2003 and for the six months ended 30th June 2004, respectively.

5. INTEREST INCOME

	Year ended 31st December			Six months ended 30th June
	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Interest earned on bank deposits	0.1	—	—	—
Amounts due from related companies	0.8	1.2	1.1	0.4
	0.9	1.2	1.1	0.4

6. FINANCE COSTS

	Year ended 31st December			Six months ended 30th June
	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Interest on:				
Bank and other borrowings wholly repayable within five years	3.1	3.4	4.2	2.2
Amounts due to related companies	5.0	2.7	3.4	1.6
Obligations under finance leases	0.1	0.1	0.1	0.2
	8.2	6.2	7.7	4.0

7. TAXATION

	Year ended 31st December			Six months ended 30th June
	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
The (charge) credit comprises:				
Current tax	(11.5)	(17.8)	(15.5)	(10.9)
Deferred tax *(note 23)*	(1.5)	3.2	(1.2)	1.7
	(13.0)	(14.6)	(16.7)	(9.2)

Domestic income tax rate in Sweden is calculated at 28% *(for the year ended 31st December 2001, 2002, 2003 and six months period ended 30th June 2004: 28%)* of the estimated assessable profit for the year/period.

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

For the purposes of preparing the Financial Information, the income tax provision has been calculated on an attributable profit basis even though the entities in the Group included members of consolidated tax groups in the respective countries. The net operating losses in the German operations for the period presented have been utilised by the consolidated tax group in Germany and are not available to reduce future taxable income.

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

	Year ended 31st December			Six months ended 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Profit before taxation	24.8	26.3	29.7	19.8
Tax at the weighted average income tax rate	(9.8)	(10.4)	(11.6)	(7.8)
Tax effect of expenses not deductible for tax purposes	(4.7)	(4.5)	(5.4)	(2.9)
Change in tax rate	—	—	(0.1)	—
Others	1.5	0.3	0.4	1.5
Tax charge for the year/period	(13.0)	(14.6)	(16.7)	(9.2)

8. DIVIDEND

No dividend has been paid or declared by the Group during the Relevant Periods.

9. EARNINGS PER SHARE

Earnings per share is not presented as such information is not meaningful having regard to the purpose of this report.

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration is not presented as such information is not meaningful having regard to the purpose of this report.

Employees' emoluments

The emoluments of the five highest paid individuals for the respective period are as follows:

	Year ended 31st December			Six months ended 30th June
	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Salaries and other benefits	0.8	1.1	1.3	0.7
Retirement benefit scheme contributions	0.1	0.1	0.2	—
Performance related incentive payments	0.1	0.3	0.1	—
	1.0	1.5	1.6	0.7

The emoluments of the five highest paid individuals were within the following bands:

	Year ended 31st December			Six months ended 30th June
	2001	2002	2003	2004
Nil to US$128,000	1	—	—	2
US$128,001 to US$192,000	2	1	—	3
US$192,001 to US$256,000	1	1	2	—
US$256,001 to US$321,000	—	2	1	—
US$321,001 to US$385,000	1	—	1	—
US$385,001 to US$449,000	—	—	—	—
US$449,001 to US$513,000	—	—	1	—
US$513,001 to US$577,000	—	1	—	—
	5	5	5	5

None of the highest paid individuals was a director of the Group.

During the Relevant Periods, no remuneration had been paid by the Group to the directors, or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. No directors had waived any remunerations during the Relevant Periods.

The total number of employees of the Group was 3,249, 3,211, 3,135 and 2,996 at 31st December 2001, 2002 and 2003, and 30th June 2004 respectively.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Machinery and equipment	Construction in progress	Total
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
COST				
At 1st January 2001	60.0	221.2	19.4	300.6
Currency realignment	(2.0)	(5.3)	(0.2)	(7.5)
Additions	2.0	17.6	—	19.6
Transfer	—	8.5	(8.5)	—
Disposals	(0.4)	(5.9)	—	(6.3)
At 31st December 2001	59.6	236.1	10.7	306.4
Currency realignment	6.8	17.7	0.2	24.7
Addition	2.4	17.8	—	20.2
Transfer	—	2.7	(2.7)	—
Disposals	—	(7.1)	—	(7.1)
At 31st December 2002	68.8	267.2	8.2	344.2
Currency realignment	9.2	25.4	0.3	34.9
Additions	1.9	15.7	3.8	21.4
Acquisition of subsidiaries	1.2	7.3	—	8.5
Disposals	(0.2)	(11.0)	—	(11.2)
At 31st December 2003	80.9	304.6	12.3	397.8
Currency realignment	(1.8)	(5.6)	0.1	(7.3)
Additions	19.8	4.8	—	24.6
Transfer	—	3.2	(3.2)	—
Disposals	(1.6)	(3.3)	—	(4.9)
At 30th June 2004	97.3	303.7	9.2	410.2
ACCUMULATED DEPRECIATION				
At 1st January 2001	16.9	150.0	—	166.9
Currency realignment	(0.6)	(4.9)	—	(5.5)
Provided for the year	1.5	20.0	—	21.5
Eliminated on disposals	—	(4.9)	—	(4.9)
At 31st December 2001	17.8	160.2	—	178.0
Currency realignment	2.6	15.6	—	18.2
Provided for the year	1.7	22.6	—	24.3
Eliminated on disposals	—	(5.2)	—	(5.2)
At 31st December 2002	22.1	193.2	—	215.3
Currency realignment	3.8	22.1	—	25.9
Provided for the year	2.0	24.4	—	26.4
Eliminated on disposals	—	(9.2)	—	(9.2)
At 31st December 2003	27.9	230.5	—	258.4
Currency realignment	(0.4)	(5.0)	—	(5.4)
Provided for the period	1.2	12.0	—	13.2
Eliminated on disposals	(0.5)	(3.2)	—	(3.7)
At 30th June 2004	28.2	234.3	—	262.5

	Freehold land and buildings *US$ Million*	Machinery and equipment *US$ Million*	Construction in progress *US$ Million*	Total *US$ Million*
NET BOOK VALUE				
At 31st December 2001	41.8	75.9	10.7	128.4
At 31st December 2002	46.7	74.0	8.2	128.9
At 31st December 2003	53.0	74.1	12.3	139.4
At 30th June 2004	69.1	69.4	9.2	147.7

All freehold land and buildings are situated outside Hong Kong.

At 31st December 2001, 2002 and 2003 and at 30th June 2004, the carrying amount of the Group's machinery and equipment includes an amount of US$1.1 million, US$1.5 million, US$2.9 million and US$18.8 million, respectively, in respect of assets held under finance leases.

12. GOODWILL

	US$ Million
COST	
At 1st January 2001, 31st December 2001 and 31st December 2002	440.0
Currency realignment	4.4
Acquisition of subsidiaries	42.0
At 31st December 2003	486.4
Currency realignment	(1.3)
Additional consideration for subsidiaries acquired in previous year	1.8
At 30th June 2004	486.9
AMORTISATION	
At 1st January 2001	59.6
Charge for the year	11.0
At 31st December 2001	70.6
Charge for the year	11.0
At 31st December 2002	81.6
Currency realignment	0.2
Charge for the year	12.6
At 31st December 2003	94.4
Currency realignment	(0.1)
Charge for the period	6.7
At 30th June 2004	101.0
NET BOOK VALUE	
At 31st December 2001	369.4
At 31st December 2002	358.4
At 31st December 2003	392.0
At 30th June 2004	385.9

Goodwill on acquisitions by the Group that are considered strategic with a considerable long-term intangible value has been assigned an estimated useful life in excess of 20 years. Acquisitions are considered strategic when they provide the Group with significant new geographic and/or product market. The Group uses an estimated useful life in excess of 20 years for the acquisition of electric power tools business under the brand name Milwaukee (the "Milwaukee Electric Tool"). Accounting principles assume that goodwill has a definite useful life and guidance was drawn from standards in effect in the United States at the time of the acquisition and a period of 40 years was chosen by management to best estimate the approximate useful life.

The Milwaukee Electric Tool operations were acquired in 1995 and were part of the Group's strategy to be a leader in the market for professional electric tools that are used for light construction and building installations in the industrial, commercial and residential construction markets. The Milwaukee Electric Tool company has a history dating back to the 1920's and is one of the best-known brand names in the United States. The acquisition provided the Group with direct and instantaneous access to critical United States market as well as introducing a new product line and customer segment. The valuable brand name and market position of Milwaukee Electric Tool has been developed considerably during its 80-year history and will provide returns far into the future. As part of brand development, the Milwaukee Electric Tool brand was re-introduced in Europe and Australia in an extensive and broad campaign in 2002 and 2003.

The Milwaukee Electric Tool company has generated and continues to generate large operating cash flows as well as deriving other benefits from a strong brand name and extensive customer list. These factors together with the information included in the previous paragraph are strong indicators of an estimated useful life in excess of 20 years.

For the year ended 31st December 2003, the addition of goodwill related to the acquisition of DreBo is being amortised over a period of 20 years.

For the six months ended 30th June 2004, the Group paid a further amount of US$1.8 million to the former owner of DreBo to release the Group from the existing earn out clause signed at the time of the original acquisition of DreBo.

13. OTHER INTANGIBLE ASSETS

	Development cost *US$ Million*	Patents and trademarks *US$ Million*	Computer software *US$ Million*	Total *US$ Million*
COST				
At 1st January 2001	—	4.5	1.5	6.0
Currency realignment	—	(0.3)	(0.1)	(0.4)
Additions	0.5	—	0.1	0.6
At 31st December 2001	0.5	4.2	1.5	6.2
Currency realignment	—	0.8	0.4	1.2
Additions	2.7	—	—	2.7
Disposals	(0.4)	—	—	(0.4)
At 31st December 2002	2.8	5.0	1.9	9.7
Currency realignment	—	1.1	0.6	1.7
Addition	2.4	—	2.2	4.6
Acquisition of subsidiaries	—	1.6	0.4	2.0
Write off for the year	(0.2)	—	—	(0.2)
At 31st December 2003	5.0	7.7	5.1	17.8
Currency realignment	1.2	(0.1)	(1.4)	(0.3)
Additions	2.0	—	0.1	2.1
At 30th June 2004	8.2	7.6	3.8	19.6
AMORTISATION				
At 1st January 2001	—	—	1.4	1.4
Currency realignment	—	—	(0.2)	(0.2)
Charge for the year	0.3	0.3	0.1	0.7
At 31st December 2001	0.3	0.3	1.3	1.9
Currency realignment	—	0.1	0.3	0.4
Charge for the year	0.2	0.3	0.1	0.6
Eliminated on write off	(0.4)	—	—	(0.4)
At 31st December 2002	0.1	0.7	1.7	2.5
Currency realignment	(0.2)	0.2	0.4	0.4
Charge for the year	0.4	0.5	—	0.9
Acquisition of subsidiaries	—	—	0.4	0.4
At 31st December 2003	0.3	1.4	2.5	4.2
Currency realignment	0.1	(0.1)	(0.1)	(0.1)
Charge for the period	0.5	0.3	0.1	0.9
At 30th June 2004	0.9	1.6	2.5	5.0
NET BOOK VALUE				
At 31st December 2001	0.2	3.9	0.2	4.3
At 31st December 2002	2.7	4.3	0.2	7.2
At 31st December 2003	4.7	6.3	2.6	13.6
At 30th June 2004	7.3	6.0	1.3	14.6

The above intangible assets are amortised on a straight-line basis over 3 to 20 years.

14. INVENTORIES

	At 31st December			At 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Raw materials	1.4	1.1	3.4	3.7
Work in progress	46.2	64.1	59.4	58.5
Finished goods	52.5	61.7	55.9	62.8
	100.1	126.9	118.7	125.0

As at the respective balance sheet dates, no inventories were stated at net realisable value.

15. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods of not more than 120 days.

An aged analysis of trade receivables at the respective balance sheet dates is as follows:

	THE GROUP			
	At 31st December			At 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
0 – 30 days	68.4	68.0	71.3	82.5
31 – 60 days	26.9	30.5	35.0	29.5
61 – 90 days	5.1	6.1	6.9	4.8
Over 90 days	2.6	3.7	2.7	2.5
	103.0	108.3	115.9	119.3

16. FINANCIAL ASSETS

The directors consider that the carrying amounts of trade and other receivables and amounts due from related parties approximate their fair values because of the short maturity of these instruments.

Bank balances and cash comprise cash and short-term deposits held for the treasury function of the Group. The carrying amounts of these assets approximate their fair values.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the combined balance sheet are net of allowances for doubtful receivables, as estimated by the Group's management based on prior experience and the current economic environment.

The credit risk on liquid funds and derivative financial instrument is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

17. TRADE AND OTHER PAYABLES

An aged analysis of trade payables at the respective balance sheet dates is as follows:

	At 31st December			At 30th June
	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
0 - 30 days	15.8	17.7	14.9	19.8
31 - 60 days	15.9	17.8	15.0	19.9
	31.7	35.5	29.9	39.7

18. FINANCIAL LIABILITIES

Trade and other payables and amounts due to related parties principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days. The directors consider that the carrying amounts of trade and other payables approximate their fair values because of the short maturity of these instruments.

19. OBLIGATIONS UNDER FINANCE LEASES

The maturity of obligations under finance leases is as follows:

	Minimum lease payments				Present value of minimum lease payments			
	At 31st December			At 30th June	At 31st December			At 30th June
	2001	2002	2003	2004	2001	2002	2003	2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*
Amounts payable under finance leases:								
Within one year	0.1	0.1	0.3	1.6	—	—	0.1	—
In the second to fifth year inclusive	0.7	0.7	1.5	5.2	0.2	0.2	0.4	0.5
After five years	2.1	1.9	3.7	22.4	0.9	1.3	2.5	18.3
	2.9	2.7	5.5	29.2	1.1	1.5	3.0	18.8
Less: future finance charges	(1.8)	(1.2)	(2.5)	(10.4)	—	—	—	—
Present value of lease obligations	1.1	1.5	3.0	18.8	1.1	1.5	3.0	18.8
Less: Amount due within one year shown under current liabilities					—	—	(0.1)	—
Amount due after one year					1.1	1.5	2.9	18.8

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The lease terms range from one to seven years. Interest rates are fixed at the contract date and all leases are on a fixed repayment basis.

20. OTHER LOANS

Other loans represent short-term bank loans with average interest rates as follows:

	Year ended 31st December			Six months ended 30th June
	2001	**2002**	**2003**	**2004**
	%	%	%	%
Other loans	4.7	2.8	2.9	2.5

21. OTHER PAYABLES

Other payables consist primarily of amounts for general business liability insurance and workers' compensation in the operations in the United Stated States of America ("USA").

22. PROVISIONS

	Warranty provision	Restructuring provision	Other	Total
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
At 1st January 2001	3.6	0.1	7.9	11.6
Currency realignment	(0.1)	—	(0.6)	(0.7)
Additional provision in the year	0.1	0.5	3.4	4.0
Utilisation of provision	(0.2)	—	(4.1)	(4.3)
At 31st December 2001	3.4	0.6	6.6	10.6
Currency realignment	0.2	0.5	0.6	1.3
Additional provision in the year	2.8	4.4	2.3	9.5
Utilisation of provision	(0.1)	(0.3)	(4.8)	(5.2)
At 31st December 2002	6.3	5.2	4.7	16.2
Currency realignment	0.2	0.8	0.7	1.7
Additional provision in the year	1.4	0.5	1.2	3.1
Acquisition of subsidiaries	0.1	—	—	0.1
Utilisation of provision	(0.7)	(2.5)	(0.3)	(3.5)
At 31st December 2003	7.3	4.0	6.3	17.6
Currency realignment	—	—	(0.3)	(0.3)
Additional provision in the period	0.8	—	0.7	1.5
Utilisation of provision	(0.4)	(3.2)	(0.2)	(3.8)
At 30th June 2004	7.7	0.8	6.5	15.0
At 31st December 2001:				
Non-current	0.1	—	1.2	1.3
Current	3.3	0.6	5.4	9.3
	3.4	0.6	6.6	10.6
At 31st December 2002:				
Non-current	0.1	4.6	1.0	5.7
Current	6.2	0.6	3.7	10.5
	6.3	5.2	4.7	16.2
At 31st December 2003:				
Non-current	—	3.8	1.2	5.0
Current	7.3	0.2	5.1	12.6
	7.3	4.0	6.3	17.6
At 30th June 2004:				
Non-current	0.5	—	1.1	1.6
Current	7.2	0.8	5.4	13.4
	7.7	0.8	6.5	15.0

The warranty provision represents management's best estimate of the Group's outstanding liabilities on products sold. It is based on the estimated cost using historical data for level of repairs and replacements.

The restructuring provision represents the redundancy and other costs incurred on the relocation of production assembly lines from Germany to Czech Republic.

Other provisions include primarily employee related obligations such as medical insurance in the USA operations and obligations to employees in the German operations to be paid based on certain service anniversaries. Certain amounts have also been included for legal matters.

23. DEFERRED TAX (ASSETS) LIABILITIES

The following are the major deferred tax assets and liabilities recognised and movements thereon during the Relevant Periods:

	Accelerated tax depreciation	Employee related Provisions	Tax provision	losses	Others	Total
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*	*US$ Million*
At 1st January 2001	18.5	(6.8)	(9.4)	(4.1)	9.8	8.0
Currency realignment	—	—	—	(0.1)	0.1	—
Charge (credit) to income for the year	1.3	1.2	(1.2)	(1.8)	2.0	1.5
At 31st December 2001	19.8	(5.6)	(10.6)	(6.0)	11.9	9.5
Currency realignment	0.1	(1.4)	(0.5)	(0.9)	2.4	(0.3)
(Credit) charge to income for the year	(1.7)	(0.2)	(1.6)	(0.3)	0.6	(3.2)
At 31st December 2002	18.2	(7.2)	(12.7)	(7.2)	14.9	6.0
Currency realignment	1.3	0.8	(1.4)	(0.9)	0.5	0.3
Charge (credit) to income for the year	0.3	0.8	0.5	—	(0.4)	1.2
Acquisition of subsidiaries	2.7	—	—	—	0.3	3.0
At 31st December 2003	22.5	(5.6)	(13.6)	(8.1)	15.3	10.5
Change in accounting principles *(Note 2)*	—	—	(0.4)	—	—	(0.4)
Currency realignment	(0.5)	(0.4)	1.5	0.1	(0.9)	(0.2)
Charge (credit) to income for the period	0.1	(0.1)	(0.9)	—	(0.8)	(1.7)
At 30th June 2004	22.1	(6.1)	(13.4)	(8.0)	13.6	8.2

	At 31st December			At 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Deferred tax assets	(19.1)	(19.8)	(18.2)	(19.0)
Deferred tax liabilities	28.6	25.8	28.7	27.2
	9.5	6.0	10.5	8.2

At 31st December 2001, 2002 and 2003 and at 30th June 2004, the Group had unused tax losses of approximately US$17.0 million, US$20.1 million US$24.1 million and US$23.0 million, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of US$12.8 million, US$15.0 million, US$18.0 million and US$17.1 million, respectively, of such losses. No deferred tax asset has been recognised in respect of the remaining US$4.2 million, US$5.1 million, US$6.1 million and US$5.9 million, respectively, due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

24. RETIREMENT BENEFIT OBLIGATIONS

	At 31st December			At 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Pension plan obligations	48.0	57.8	70.7	68.3
Post-retirement, medical, dental and life	6.9	6.9	6.8	7.0
Other	5.4	5.5	5.7	6.4
	60.3	70.2	83.2	81.7

The Group sponsors pension plans or other post-retirement benefit plans in many countries in which it has significant activities. These plans can be defined contribution or defined benefit. Expenses for defined contribution plans are included in earnings as incurred. The pension plan obligations and post-retirement medical dental and life benefits have been accounted for in accordance with IAS 19, "Employee Benefits" for all periods presented. As of 1st January 2004, all other post-employment benefits were accounted for in accordance with IAS 19 as the Group implemented this standard for all employee benefits.

The significant pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits based on service and final pay. Certain employees are also entitled to payment of an early retirement pension, know as Altersteilzeit, prior to commencement of the normal retirement pension. The accrued benefit obligations together with the reconciliation of movement in the combined balance sheet and amount recognised in the combined income statement and principal actuarial assumptions related to these plans are as follows:

(i) **Pension plan obligations**

		At 31st December		**At 30th June**
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Present value of unfunded defined benefit obligations	47.5	56.0	73.4	71.5
Net actuarial gains (losses) not recognised in the balance sheet	0.5	1.8	(2.7)	(3.2)
Net liability in balance sheet	48.0	57.8	70.7	68.3
Reconciliation of movement in balance sheet provision:				
Net liability at beginning of the year/period	49.8	48.0	57.8	70.7
Net expense recognised during the year/period in the income statement	3.7	4.0	5.2	2.8
Benefits paid in respect of unfunded plans during the year/period	(2.9)	(3.0)	(3.9)	(2.5)
Exchange rate differences	(2.6)	8.8	11.6	(2.7)
Net liability at end of the year/period	48.0	57.8	70.7	68.3
The amounts recognised in the income statements are as follows:				
Current service cost	0.6	0.6	0.7	0.3
Interest on obligations	2.6	2.8	3.3	1.9
Termination benefits	0.5	0.6	1.2	0.6
Total	3.7	4.0	5.2	2.8
Principal actuarial assumptions (weighted):				
Discount rate	5.0%	5.0%	5.0%	5.0%
Rate of compensation increase	2.5%	2.5%	2.9%	2.9%
Price inflation	1.5%	1.5%	1.9%	1.9%

(ii) **Post-retirement, medical, dental and life**

Milwaukee Electric Tools in the USA has a profit-sharing plan for substantially all of its employees, which is a defined contribution plan. There is also an unfunded post-retirement, medical benefits, dental and life insurance plan. The following sets forth changes in the accumulated benefit obligation and amounts recognised in the Financial Information.

	At 31st December			At 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Present value of unfunded defined benefit obligations	9.8	11.0	13.3	13.3
Net actuarial losses not recognised in the balance sheet	(2.9)	(4.1)	(6.5)	(6.3)
Net liability in balance sheet	6.9	6.9	6.8	7.0
Reconciliation of movement in balance sheet provision				
Net liability at beginning of the year/period	7.0	6.9	6.9	6.8
Net expense recognised during the year in the income statement	0.8	1.2	1.3	0.8
Benefits paid in respect of unfunded plans during the year/period	(0.9)	(1.2)	(1.4)	(0.6)
Net liability at end of the year/period	6.9	6.9	6.8	7.0
The amounts recognised in the income statements are as follows				
Current service cost	0.3	0.4	0.4	0.2
Interest on obligations	0.5	0.7	0.7	0.4
Net actuarial losses recognised in the year/period	0.0	0.1	0.2	0.2
Total	0.8	1.2	1.3	0.8
Principal actuarial assumptions (weighted)				
Discount rate	7.5%	6.75%	6.0%	6.0%
Medical cost inflation (ultimate)	5.0%	5.0%	5.0%	5.0%

25. ACQUISITION OF SUBSIDIARIES

During the year ended 31st December 2003, the group acquired 100% of the voting shares of DreBo. The consideration was satisfied by cash amounting to US$63.2 million. The transaction was accounted for using the acquisition method of accounting.

	Year ended 31st December 2003 *US$ Million*
NET ASSETS ACQUIRED	
Property, plant and equipment	8.5
Intangible assets	1.6
Inventories	6.8
Trade and other receivables	7.2
Bank balances and cash	1.6
Trade and other payables	(4.5)
	21.2
Goodwill arising on acquisition	42.0
Consideration satisfied by cash	63.2
Net cash outflow arising on acquisition:	
Cash consideration paid	63.2
Bank balances and cash acquired	(1.6)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	61.6

The subsidiaries acquired during the year ended 31st December 2003 contributed approximately US$28.5 million to the Group's turnover, and approximately US$4.7 million to the Group's profit from operations.

26. MAJOR NON-CASH TRANSACTION

During the six months ended 30th June 2004, the Group entered into finance lease arrangements in respect of acquisition of land and buildings with a total capital value at the inception of the finance leases of US$16.1 million.

27. OPERATING LEASE COMMITMENTS

Leases

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

	At 31st December			At 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Within one year	4.3	4.3	5.0	2.3
In the second to fifth year inclusive	8.8	8.3	14.5	14.6
After five years	5.6	4.2	18.6	4.6
	18.7	16.8	38.1	21.5

Leases are negotiated and rentals are fixed for an average term of two years.

28. CONTINGENT LIABILITIES

	At 31st December			At 30th June
	2001	**2002**	**2003**	**2004**
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Sureties and other contingent liabilities	0.1	0.1	0.3	0.3

In addition, the Group is involved in legal cases related to patent infringements, brand marketing and product liabilities. The management of the Group believes the outcome of these legal cases will not have any significant adverse financial effect on the Group.

29. RELATED PARTY DISCLOSURES

(I) Related party transactions

The Group entered into the following significant transactions with related parties during the Relevant Periods in which, in the opinion of the directors, are entered into in the ordinary course of business.

Nature of transactions	Year ended 31st December 2001	2002	2003	Six months ended 30th June 2004
	US$ Million	*US$ Million*	*US$ Million*	*US$ Million*
Sales to other group companies of Atlas Copco AB	13.6	12.6	4.3	1.9
Accounting and administrative services to other group companies of Atlas Copco AB	5.4	5.7	7.6	3.8
Management fees to other group companies of Atlas Copco AB	1.4	1.4	1.0	0.5

For the year ended 31st December 2003, the Group entered into a lease agreement for the factory at DreBo with the former owners of DreBo. The agreement was made on market terms and annual lease payments for the six months ended 30th June 2004 amounted to approximately US$0.7 million *(2003: US$0.9 million)*.

(II) Related party balances

The amounts due from/to other group companies of Atlas Copco AB represented the amounts due from/to related parties. These amounts are unsecured, non-interest bearing and have no fixed repayment terms.

B. SUBSEQUENT EVENTS

No significant event has taken place subsequent to 30th June 2004.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Group in respect of any period subsequent to 30th June 2004.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Deloitte.
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Dear Sirs,

We report on the pro forma assets and liabilities statement set out in Appendix IV ("Pro Forma Assets and Liabilities Statement") to the circular of Techtronic Industries Company Limited ("the Company") dated 23rd November 2004 issued in connection with the major transaction in relation to the acquisition of companies comprising the Milwaukee®, AEG®, and DreBo® electric power tools and accessories businesses of Atlas Copco AB (the "Business") (together with the Group hereinafter referred to as the "Enlarged Group").

RESPONSIBILITIES

It is the responsibility solely of the Directors to prepare the Pro Forma Assets and Liabilities Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Assets and Liabilities Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Assets and Liabilities Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We concluded our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practice Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Assets and Liabilities Statement with the Directors.

The Pro Forma Assets and Liabilities Statement has been compiled in accordance with the basis that the acquisition of the Business had been completed as at 30th June 2004 for illustrative purposes only and because of its nature, it may not be an indication of the financial position of the Enlarged Group as at 30th June 2004 or at any future date had the Acquisition of the Business actually occurred on 30th June 2004.

OPINION

In our opinion:

(a) the Pro Forma Assets and Liabilities Statement has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Assets and Liabilities Statement as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is a summary of the pro forma statement of unaudited adjusted combined assets and liabilities of the Enlarged Group based on the unaudited consolidated net assets of the Techtronic Group as at 30th June 2004 as extracted from its interim report for the six months ended 30th June 2004, and the audited consolidated net assets of the Business as at 30th June 2004 as set out in Appendix III to this circular and adjusted to reflect the effect of the Transaction.

	Unaudited consolidated balance sheet of Techtronic Group as at 30th June 2004 *HK$' million*	Audited consolidated balance sheet of the Business as at 30th June 2004 *HK$' million* *(Note 1)*	Adjustments *HK$' million*		Total *HK$' million*
Property, plant & equipment	863.9	1,152.1			2,016.0
Goodwill	635.6	3,010.0	377.8	*(Note 2)*	4,023.4
Negative goodwill	(31.0)	—			(31.0)
Intangible assets	178.7	113.9			292.6
Investment in associates	132.1	—			132.1
Investment in securities	38.6	—			38.6
Deferred tax assets	300.7	148.2	(148.2)	*(Note 2)*	300.7
Other assets	1.2	31.2			32.4
Current assets					
Trade and other receivables	1,579.1	1,003.8	(30.4)	*(Note 2)*	2,552.5
Amounts due from related parties of ATCO	—	560.8	(560.8)	*(Note 2)*	—
Tax recoverable	1.1	0.8	(0.8)	*(Note 2)*	1.1
Other current assets	2,996.3	975.0	—		3,971.3
Bank balances, deposits and cash	1,971.0	16.4	(5,016.5)	*(Note 2)*	(3,029.1)
Total current assets	6,547.5	2,556.8	(5,608.5)		3,495.8
Current liabilities					
Trade, bills and other payables	(3,427.3)	(725.4)	35.1	*(Note 2)*	(4,117.6)
Amounts due from related parties of ATCO	—	(822.9)	822.9	*(Note 2)*	—
Tax payable	(108.2)	(4.7)	4.7	*(Note 2)*	(108.2)
Other current liabilities	(862.8)	(749.6)	—		(1,612.4)
Total current liabilities	(4,398.3)	(2,302.6)	862.7		(5,838.2)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,269.0	4,709.6	(4,516.2)		4,462.4
Obligations under finance leases – due after one year	(3.2)	(146.6)			(149.8)
Bank borrowings – due after one year	(1,405.5)	—	—		(1,405.5)
Other payables	—	(34.3)			(34.3)
Deferred tax liabilities	(47.9)	(212.2)	212.2	*(Note 2)*	(47.9)
Minority interests	(64.6)	—			(64.6)
Provisions	—	(12.5)			(12.5)
	(1,521.2)	(405.6)	212.2		(1,714.6)
NET ASSETS	2,747.8	4,304.0	(4,304.0)		2,747.8

Notes:

1. The audited consolidated balance sheet of the Business is denominated in US dollars and has been translated into Hong Kong dollars at the conversion exchange rate of US$1 to HK$7.8.

2. As set out in the Stock Purchase Agreement, the Company will not purchase bank balances and cash, trade receivables or payables to the group companies of ATCO, amounts due from or due to related parties of ATCO, tax recoverable, tax payable, deferred tax assets and deferred tax liabilities of the Business at the date of acquisition and therefore the adjustment for the goodwill is factually supported by the Stock Purchase Agreement and it has a continuing effect on the Company.

   The goodwill arising on the acquisition of the Business amounts to approximately HK$377.8 million which represents the difference between the total consideration of HK$5,000.1 million (consisting of the purchase price of HK$4,887.3 million and the estimated expenses of HK$112.8 million) and the net asset value of HK$4,622.3 million as at 30th June 2004 (consisting of net assets of HK$4,304.0 million as at 30th June 2004 excluding bank balances and cash, trade receivables or payables to the group companies of ATCO, amounts due from or due to related parties of ATCO, tax recoverable, tax payable, deferred tax assets and deferred tax liabilities of the Business at an aggregate amount of HK$318.3 million as at 30th June 2004) prior to the acquisition.

3. The pro forma financial information is prepared in a manner consistent with the accounting policies of the Company in all material respects.

STATEMENT OF INDEBTEDNESS

At the close of business on 31st August 2004, 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 overdrafts of approximately HK$123,321,000 and other unsecured bank borrowings of approximately HK$1,400,960,000. In addition, the Enlarged Group also had outstanding at that date obligations under finance leases and hire purchase contracts of approximately HK$28,429,000, fixed interest rate notes of approximately HK$1,131,000,000 and Convertible Bonds in an aggregate amount of approximately HK$1,092,000,000. No guarantee was given to the Enlarged Group in respect of credit facilities granted to the Enlarged Group. Subsequent to 31st August 2004 but prior to the Latest Practicable Date, none of the Convertible Bonds mentioned above were converted into Shares.

At the close of business on 31st August 2004, the Enlarged Group provided guarantees to banks in respect of bank facilities granted to associates of approximately HK$20,687,000. The Enlarged Group had contingent liabilities in respect of export bills discounted with recourse of approximately HK$181,321,000.

In addition, the Enlarged Group had various outstanding legal cases as at 31st August 2004. Details of these litigations of material importance are set out in Appendix VI to 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 31st August 2004 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 31st August 2004.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31st August 2004.

WORKING CAPITAL

The Directors are of the opinion that the Enlarged Group will, taking into account the present internal financial resources, the present credit facilities available and the proposed bank borrowings available to finance the Transaction, have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

Under the terms of the Stock Purchase Agreement, the Company will purchase, from the Sellers, all the issued and outstanding shares of the Sold Companies which together with their subsidiaries comprise the Business. The jurisdiction and share capital of these Sold Companies is set out below.

As of the date of the Stock Purchase Agreement, not all of the Sold Companies listed below had been incorporated. It is intended that all entities will be incorporated prior to closing of the Transaction. The share capital stated below, as of the date of the Stock Purchase Agreement, indicate the existing share capital, or the share capital planned to be issued at the time of closing of the Transaction. Depending on the value of assets in each country, local law may require additional capital to be injected and therefore the share capital may be different at the date of closing of the Transaction than those listed below.

Name of Sold Company	Jurisdiction	Share Capital Information	Date of Incorporation	Principal activity of Sold Company
Esstar Incorporated	USA	Total Authorised Shares: 2,300,400 Total Value: USD 23,004 allocated as follows: Stock Type: Common Authorised Shares: 1,280,000 Par Value: 0.01 Issued: 5,000 Stock Type: Preferred Class: A Authorised Shares: 1,000,000 Par Value: 0.01 Issued: 763,010 Stock Type: Preferred Class: C Series: 1 Authorised Shares: 10,000 Par Value: 0.01 Issued: 5,500 Stock Type: Preferred Class: C Series: 2 Authorised Shares: 10,000 Par Value: 0.01 Issued: 1,000 Stock Type: Preferred Class: D Authorised Shares: 400 Par Value: 0.01 Issued: 400 All issued shares are owned by Atlas Copco North America Inc.	1st June 1989	Holding company for parent of Milwaukee Electric Tool Co., which is engaged in the development, production, sales, marketing and distribution of power tools and accessories.

Name of Sold Company	Jurisdiction	Share Capital Information	Date of Incorporation	Principal activity of Sold Company
D.L.C. America Inc.	USA	Total Authorised Shares: 100 Stock Type: Common Par Value: No par value Sole shareholder: Atlas Copco North America Inc.	10th March 2003	Sales, marketing and distribution of DreBo brand power tool accessories, primarily in the United States.
Atlas Copco Elektrowerkzeuge GmbH	Germany	Authorised capital: EUR 25,564.59 Number of Shares: 1 Par Value EUR 25,564.59 Sole shareholder: Atlas Copco Holding GmbH	15th January 1997	Sales, marketing and distribution of power tools and accessories.
Atlas Copco Electric Tools GmbH	Germany	Authorised capital: EUR 20,451,675.25 Number of Shares: 1 Par Value: EUR 20,451,675.25 Sole shareholder: Atlas Copco Holding GmbH	10th August 1981	Development, production, sales, marketing and distribution of power tools and accessories.
DreBo Werkzeugfabrik GmbH	Germany	Authorised capital: EUR 1,000,000.00 Par Value: EUR 1,000,000.00 Number of Shares: 1 Sole shareholder: Atlas Copco Holding GmbH	10th January 1979	Development, production, sales, marketing and distribution of power tools accessories.
A &M Distributions N.V.	Belgium	Authorised capital: EUR 62,000 Number of Shares: 1 Nominal Value: 1, 000 per share Shareholders: Electric Power Tools Europe Holding BV: 61 shares at total EUR 61,000 Atlas Copco Electric Tools GmbH: 1 share at EUR 1,000	16th July 2004	Handling and distribution of power tools and related accessories.
Electric Power Tools Europe Holding BV	The Netherlands	Authorised capital: EUR 500,000.00 Issued capital: 100,000.00 Paid-up capital: 110,000.00 Sole shareholder: Atlas Copco AB (publ)	1st July 2004	Holding company for subsidiaries engaged in sales, marketing and distribution of power tools and related accessories.
A & M Electric Tools SAS	France	Authorised capital: EUR 37,000 Sole shareholder: Electric Power Tools Europe Holding BV	3rd August 2004	Sales, marketing and distribution of power tools and related accessories.
A & M Electric Tools Ltd	United Kingdom	Authorised Capital: GBP 1,000 Sole Shareholder: Electric: Power Tools Europe Holding BV	30th July 2004	Sales, marketing and distribution of power tools and related accessories.

Name of Sold Company	Jurisdiction	Share Capital Information	Date of Incorporation	Principal activity of Sold Company
A & M Electric Tools (HK) Ltd	Hong Kong	Authorised capital: HKD 1 Sale shareholder: Electric Power Tools Europe Holding BV	11th August 2004	Sales, marketing and distribution of AEG and METCO power tools and related accessories.
A & M Electric Tools (Malaysia) Sdn. Bhd.	Malaysia	Authorised capital: MYR 2 Sole shareholder: Electric Power Tools Europe Holding BV[1]	14th September 2004	Sales, marketing and distribution of power tools and related accessories.
A & M Electric Tools (Singapore) Pte. Ltd	Singapore	Authorised capital: SGD 1 Sole shareholder: Electric Power Tools Europe Holding BV	12th August 2004	Sales, marketing and distribution of power tools and related accessories.
A & M Electric Tools (Thailand) Ltd	Thailand	Authorised capital: THB 1,000,000 Shareholders: Electric Power Tools Europe Holding BV: 490,000 Sickla Holding (Thailand) Ltd.[2]: 510,000	17th August 2004	Sales, marketing and distribution of power tools and related accessories.
Milwaukee Electric S.A. de C.V.	Mexico	Capitalisation not yet determined. Sole shareholder: Inversora Capricornio S.A. de C.V.	Not yet incorporated	Sales, marketing and distribution of power tools and related accessories.
Milwaukee Electric Tool (Canada) Ltd.	Canada	Authorised capital: CAD 250 Sole shareholder: Atlas Copco Canada Inc.	8th October 2004	Sales, marketing and distribution of power tools and related accessories.

Notes:

1. It is intended that Electric Power Tools Europe Holding BV will at the time of closing of the Transaction own A & M Electric Tools (Malaysia) Sdn. Bhd in its entirety. It is believed that after an initial period local regulations may restrict a foreign entity from owning all of the shares of A & M Electric Tools (Malaysia) Sdn. Bhd.

2. Sickla Holding (Thailand) Ltd. is a nominee holding company in Thailand.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (except for information relating to the ATCO group of companies 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.

2. DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Directors	Name of company/ associated corporation	Capacity/ Nature of interests	Interests in Shares (other than pursuant to equity derivatives)[1]	Interests in underlying Shares pursuant to equity derivatives[1, 2a and b]	Total interests in Shares/ underlying Shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	The Company	Beneficial owner	76,554,000	26,688,000	326,661,794	24.17%
	The Company	Interest of spouse	760,000	—	—	
	The Company	Interests of controlled corporation	222,659,794[3]	—	—	
Mr Roy Chi Ping Chung	The Company	Beneficial owner	113,541,948	13,824,000	164,576,978	12.18%
	The Company	Interest of spouse	136,000	—	—	
	The Company	Interests of controlled corporation	37,075,030[4]	—	—	
Mr Kin Wah Chan	The Company	Beneficial owner	2,319,000	2,000,000	4,319,000	0.32%
Mr Chi Chung Chan	The Company	Beneficial owner	500,000	3,000,000	3,500,000	0.26%
Dr Akio Urakami	The Company	Beneficial owner	600,000	1,000,000	1,600,000	0.12%
Mr Vincent Ting Kau Cheung	The Company	Beneficial owner	1,920,000	800,000	2,720,000	0.20%
Mr Joel Arthur Schleicher	The Company	Beneficial owner	200,000	500,000	700,000	0.05%
Mr Christopher Patrick Langley	The Company	Beneficial owner	400,000	300,000	700,000	0.05%
Mr Manfred Kuhlmann	—	—	—	—	—	—

Notes:

1. Interests in Shares and underlying Shares stated above represent long positions.

2. (a) The equity derivatives are physically settled and unlisted.

   (b) The interests of the Directors in the underlying Shares pursuant to equity derivatives represent options granted to them pursuant to the Existing Scheme, details of which are set out below:

Directors	Date of grant	No. of underlying Shares (in respect of Share Options) held	Subscription price	Exercise period	Approximate percentage of existing issued share capital of the Company
Mr Horst Julius Pudwill	28.6.2002	25,728,000	3.600	28.6.2002-27.6.2007	1.97%
	19.9.2003	560,000	8.685	19.9.2003-18.9.2008	
	25.2.2004	400,000	12.170	25.2.2004-24.2.2009	
Mr Roy Chi Ping Chung	28.6.2002	12,864,000	3.600	28.6.2002-27.6.2007	1.02%
	19.9.2003	560,000	8.685	19.9.2003-18.9.2008	
	25.2.2004	400,000	12.170	25.2.2004-24.2.2009	
Mr Kin Wah Chan	25.2.2004	1,000,000	12.170	25.2.2004-24.2.2009	0.15%
	1.3.2004	1,000,000	12.525	1.3.2004-28.2.2009	
Mr Chi Chung Chan	17.7.2003	1,000,000	7.625	17.7.2003-16.7.2008	0.22%
	19.9.2003	500,000	8.685	19.9.2003-18.9.2008	
	25.2.2004	1,000,000	12.170	25.2.2004-24.2.2009	
	1.3.2004	500,000	12.525	1.3.2004-28.2.2009	
Dr Akio Urakami	30.4.2002	500,000	3.200	30.4.2002-29.4.2007	0.07%
	5.7.2002	200,000	3.350	5.7.2002- 4.7.2007	
	25.2.2004	300,000	12.170	25.2.2004-24.2.2009	
Mr Vincent Ting Kau Cheung	30.4.2002	400,000	3.200	30.4.2002-29.4.2007	0.06%
	17.7.2003	300,000	7.625	17.7.2003-16.7.2008	
	25.2.2004	100,000	12.170	25.2.2004-24.2.2009	
Mr Joel Arthur Schleicher	30.4.2002	200,000	3.200	30.4.2002-29.4.2007	0.04%
	17.7.2003	200,000	7.625	17.7.2003-16.7.2008	
	25.2.2004	100,000	12.170	25.2.2004-24.2.2009	
Mr Christopher Patrick Langley	17.7.2003	200,000	7.625	17.7.2003-16.7.2008	0.02%
	25.2.2004	100,000	12.170	25.2.2004-24.2.2009	

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

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

4. These Shares were held by Cordless Industries Company Limited* in which Mr Roy Chi Ping Chung has a beneficial interest.

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which (i) would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Techtronic Group are as follows:

Name	Total interests in Shares[Δ]	Approximate aggregate percentage of interests
FMR Corp[❍]	160,768,800	11.89%
J.P. Morgan Chase & Co. [❑]	159,182,119	11.78%

Notes:

Δ Interests in Shares stated above represent long positions.

❍ The capacity of FMR Corp in holding the 160,768,800 Shares was as Investment Manager.

❑ The following is a breakdown of the interests in shares of J.P. Morgan Chase & Co.:

Name	Remarks	Total interests in Shares Direct interests	Deemed interests	Approximate percentage of interests
J.P. Morgan Chase & Co.	(a)	—	159,182,119	11.89%
JP Morgan Chase Bank	(b)	60,799,315	—	4.50%
J.P. Morgan Fleming Asset Management Holdings Inc.	(b)	—	98,382,804	7.28%
J.P. Morgan Fleming Asset Management (Asia) Inc.	(b)	—	93,975,851	6.95%
JF International Management Inc.	(b)	624,500	—	0.05%
JF Asset Management Limited	(b)	83,388,851	6,962,500	6.68%
JF Funds Limited	(b)	—	6,962,500	0.52%
JF Asset Management (Taiwan) Limited	(b)	6,962,500	—	0.52%
Robert Fleming Holdings Ltd	(b)	—	4,406,953	0.33%
Robert Fleming Asset Management Ltd	(b)	—	4,406,953	0.33%
J.P. Morgan Fleming Asset Management (UK) Limited	(b)	4,406,953	—	0.33%
JF Asset Management (Singapore) Limited	(b)	3,000,000	—	0.22%

Remarks:

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

The capacity of J.P. Morgan Chase & Co. in holding the 159,182,119 Shares was, as to 98,382,804 Shares, as investment manager and, as to 60,799,315 Shares, as custodian corporation/approved lending agent. The 159,182,119 Shares included a lending pool of 60,799,315 Shares.

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company were aware of any other person (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Techtronic Group.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates (as defined in the Listing Rules) had any interests in any business, which competes or may compete with the business of the Techtronic Group.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular and as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Techtronic Group since 31st December 2003, the date to which the latest published audited financial statements of the Company were made up.

6. LITIGATION

No member of the Enlarged Group is engaged in any litigation or claims of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group except for those disclosed in this circular under the paragraphs headed "Information about the Business" in the section headed "Letter from the Board".

7. EXPERT

The following is the qualification of the expert who has given opinion or advice, which is contained in this circular:

Name	**Qualification**
Deloitte Touche Tohmatsu	Certified public accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu, certified public accountants had given and had not withdrawn their written consent to the issue of this circular with inclusion of its reports, which have been prepared for inclusion in this circular and references to its name in the form and context in which it is included.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding interest in any member of the Techtronic Group or any right, whether legally enforceable or not, to subscribe for, or to nominate persons to subscribe for, securities in any member of the Techtronic Group.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Techtronic Group which does not expire or is not determinable by the employer within one year without payment of compensation other than statutory compensation.

9. MATERIAL CONTRACTS

The following contracts, not being contracts entered in the ordinary course of business, have been entered into by the Techtronic Group within two years preceding the Latest Practicable Date and which are or may be material:

(a) an agreement and plan of merger dated as of 16th December 2002 as supplemented by a first amendment dated as of 12th March 2003 between Royal Appliance Manufacturing Co., the Company, RAMC Holdings, Inc. and TIC Acquisition Corp. whereby TIC Acquisition Corp. merged with and into Royal Appliance Manufacturing Co. for a consideration of US$7.37 (the "***Merger Consideration***") in cash for each issued and outstanding share in Royal Appliance Manufacturing Co. and a consideration in cash for each unexercised stock option of Royal Appliance Manufacturing Co. equal to the excess of the Merger Consideration over the exercise price of each such unexercised stock option;

(b) a subscription agreement dated 16th June 2004 between the Company as issuer, Mr Horst Julius Pudwill and Mr Roy Chi Ping Chung as controlling shareholders and ABN AMRO Bank N.V. (Hong Kong Branch) and NM Rothschild & Sons (Hong Kong) Limited, each trading as ABN AMRO Rothschild and The Hongkong and Shanghai Banking Corporation Limited as joint lead managers whereby the joint lead managers jointly and severally agreed to procure subscribers and payment for, or failing which to subscribe and pay for, the Convertible Bonds at par in an aggregate principal amount of US$140,000,000;

(c) a trust deed dated 8th July 2004 between the Company as issuer and The Bank of New York as trustee under which the Convertible Bonds were constituted and setting out, inter alia, the terms and conditions governing the Convertible Bonds; and

(d) the Stock Purchase Agreement.

10. GENERAL

(a) The registered office of the Company is situated at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong. The share registrar and transfer office of the Company is Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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

(c) Mr Vincent Ting Kau Cheung, a non-executive Director, is the senior partner of the solicitors' firm of Vincent T.K. Cheung, Yap & Co., which has been retained as the legal advisers to the Company (as to Hong Kong law) in connection with the Transaction and will receive normal professional fees in respect thereof.

(d) Save as disclosed in this circular:

(i) none of the Directors or expert (as named in this Appendix) has any direct or indirect interest in any assets which have been, since 31st December 2003, the date to which the latest published audited financial statements of the Company were made up, to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Techtronic Group or are proposed to be acquired or disposed of by or leased to any member of the Techtronic Group; and

(ii) none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Techtronic Group.

(e) The English text of this circular and the form of proxy shall prevail over the Chinese text.

11. 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 on any weekday other than public holidays, from the date of this circular up to and including 3rd January 2005:

(a) the Memorandum and Articles of Association of the Company;

(b) the material contracts referred to in the section headed "Material Contracts" of this Appendix;

(c) the annual reports of the Company for the years ended 31st December 2001, 2002 and 2003 and the interim report of the Company for the six months ended 30th June 2004;

(d) the accountants' report on the Business prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendix III to this circular;

(e) the report prepared by Deloitte Touche Tohmatsu in relation to the Pro Forma Statement on the Enlarged Group and referred to in Appendix IV to this circular; and

(f) the written consent of Deloitte Touche Tohmatsu referred to in the section headed "Expert" of this Appendix.

Techtronic Industries Co. Ltd.

(Incorporated in Hong Kong with limited liability)

(Stock Code : 669)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "Meeting") of Techtronic Industries Company Limited (the "Company") will be held at Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on 3rd January 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendment(s), the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the terms of, and the transactions contemplated under, a conditional stock purchase agreement, dated 28th August 2004, entered into between Atlas Copco AB, Atlas Copco North America Inc. and Atlas Copco Holding GmbH, all as sellers and the Company, Ryobi Technologies GmbH and Techtronic Industries North America, Inc. all as purchasers (the ***"Stock Purchase Agreement"***) (a copy of which has been produced to the Meeting, and marked "A" and initialled by the chairman of the Meeting for the purpose of identification) and all other transactions contemplated therein and all other agreements ancillary thereto, be and are hereby confirmed and approved and any director of the Company, as directed by the board of directors of the Company, be and is hereby authorised to execute all such documents and to do all such acts, matters and things as he may in his sole discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the Stock Purchase Agreement or the transaction contemplated therein."

By Order of the Board
Chi Chung Chan
Company Secretary

Hong Kong, 23rd November 2004

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

Notes:

1. A form of proxy for use at the Meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either executed under its common seal or under the hand of any officer, attorney or other person duly authorised to sign the same.

3. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

4. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the registered office of the Company at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong not later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof (as the case may be).

5. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders is present at the Meeting in person or by proxy, the joint holder whose name stands first in the register of members of the Company, in respect of such shares, shall alone be entitled to vote in respect thereof.

As at the date of this notice, the board of directors of the Company comprises five executive Directors, namely, Mr Horst Julius Pudwill (Chairman and Chief Executive Officer), Mr Roy Chi Ping Chung (Managing Director), Mr Kin Wah Chan, Mr Chi Chung Chan and Dr Akio Urakami, one non-executive Director, namely, Mr Vincent Ting Kau Cheung and three independent non-executive Directors, namely, Mr Joel Arthur Schleicher, Mr Christopher Patrick Langley and Mr Manfred Kuhlmann.

Techtronic Industries Co. Ltd.

(Incorporated in Hong Kong with limited liability)

(Stock Code : 669)

FORM OF PROXY FOR USE AT THE EXTRAORDINARY GENERAL MEETING TO BE HELD ON 3RD JANUARY 2005 OR ANY ADJOURNMENT THEREOF

I/We[(1)] ____

of ____ ,

being the registered holder(s) of[(2)] ____________________ shares (the "**Shares**") of HK$0.10 each in the share capital of Techtronic Industries Company Limited (the "**Company**"), HEREBY APPOINT THE CHAIRMAN OF THE MEETING or[(3)] ____

of ____ ,

as my/our proxy to attend and act for me/us and on my/our behalf at the extraordinary general meeting of the Company to be held at Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on 3rd January 2005 at 10:00 a.m. (and at any adjournment thereof) (the "**Meeting**") for the purpose of considering and, if thought fit, passing, with or without amendment(s), the resolution as set out in the notice convening the Meeting and at the Meeting to vote for me/us in my/our name(s) in respect of such resolution as indicated below, and, if no such indication is given, as my/our proxy thinks fit. My/our proxy will also be entitled to vote on any matter properly put to the Meeting in such manner as he/she thinks fit.

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

Signature[(5)]: ____________________ Date: ____________________

Notes:

1. Full name(s) and address(es) must be inserted in **BLOCK CAPITALS**. The names of all joint registered holders should be stated.
2. Please insert the number of Shares registered in your name(s) to which this proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the Shares registered in your name(s).
3. If any proxy other than the Chairman of the Meeting is preferred, please strike out the words "THE CHAIRMAN OF THE MEETING or" and insert the name and address of the proxy desired in the space provided. You may appoint one or more proxies to attend and vote on your behalf. **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 ordinary resolution, please put a tick in the box marked "FOR". If you wish to vote against the ordinary resolution, please put a tick in the box marked "AGAINST". If no directions is given, your proxy may vote or abstain as he/she thinks fit.**
5. 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 executed under its common seal or under the hand of an officer, attorney or other person duly authorised to sign on that corporation's behalf.
6. In the case of joint registered holders of any Share(s), any one of such persons may vote at the Meeting, either in person or by proxy, in respect of such Share(s) as if he/she were solely entitled thereto, but if more than one of such joint registered holders is present at the Meeting in person or by proxy, the joint holder whose name stands first in the register of members of the Company, in respect of such Share(s), shall alone be entitled to vote in respect thereof.
7. To be valid, this form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the registered office of the Company at 24th Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong not later than 48 hours before the time appointed for holding the Meeting.
8. The proxy need not be a shareholder of the Company but must attend the Meeting in person to represent you.
9. Completion and return of this form of proxy will not preclude you from attending and voting in person at the Meeting if you so wish, and in such event, the form of proxy shall be deemed to be revoked.