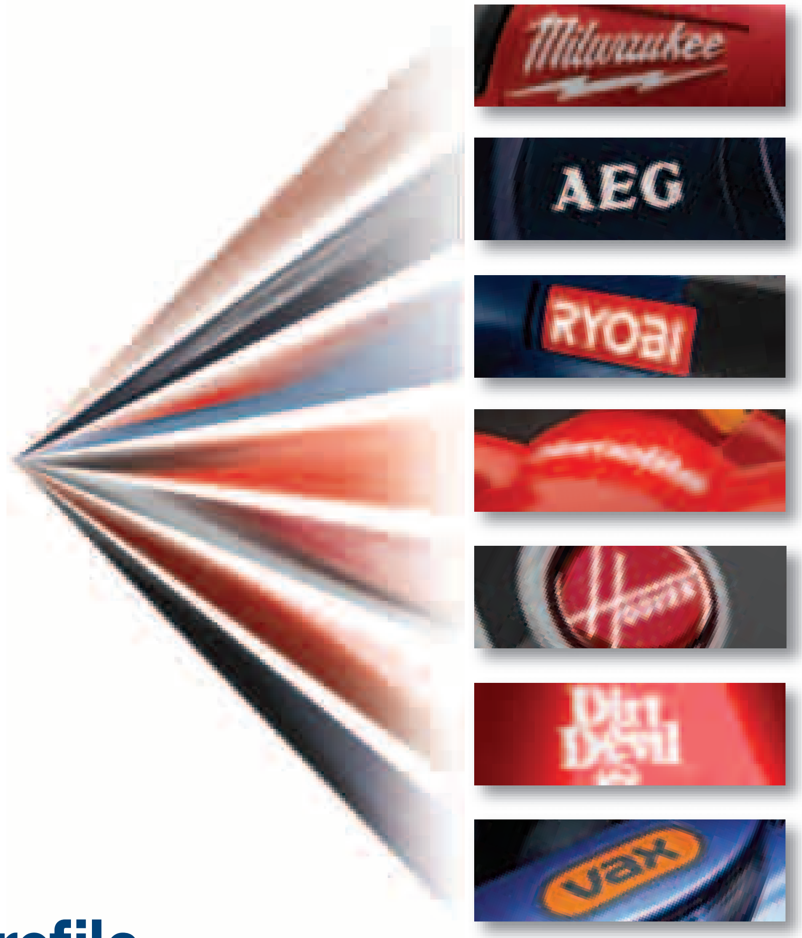
Annual Report 2006

Powerful Brands
Innovative Products
Exceptional People

Stock Code: 669



Corporate Profile

Our vision is to be number one in the industries we serve. TTI is a world-leading producer of quality consumer and professional products marketed for the home improvement and construction industries. TTI produces a wide range of innovative products that include power tools and power tool accessories, outdoor power equipment, floor care, and laser and electronic products.

Our products are distributed globally through home centers, major retailers, full-line tool distributors, and other channels under leading brands that include Milwaukee®, AEG®, Ryobi®, Homelite®, Hoover®, Dirt Devil®, and Vax®. In addition, TTI has an important contract manufacturing business partnering with leading brand name companies and private label retail brands throughout North America and Europe.

Our success is driven by an unrelenting strategic focus on powerful brands, innovative products, exceptional people, and best cost resulting in turnover of HK$21.8 billion in 2006 and 12 consecutive years of profit growth.

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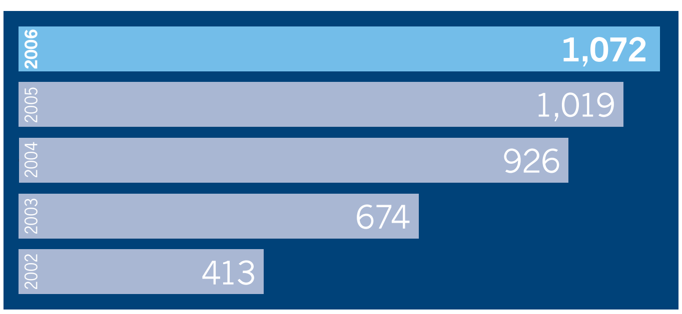
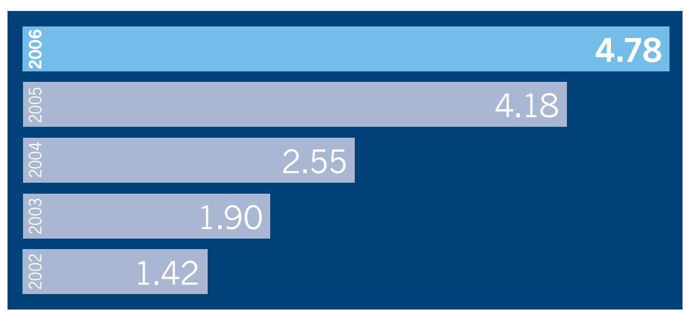
Financial Highlights

	2006 HK$ m	2005 HK$ m	2006 US$ m	2005 US$ m	Changes %
Operations					
Turnover	**21,823**	22,358	**2,798**	2,866	–2.39
Gross profit	**6,893**	6,942	**884**	890	–0.71
EBITDA	**2,098**	1,989	**269**	255	+5.49
Profit attributable to equity holders of the parent	**1,072**	1,019	**137**	131	+5.19
Basic earnings per share (HK/US cents)	**73.18**	73.53	**9.38**	9.43	–0.48
Dividend per share (HK/US cents)	**19.10**	18.60	**2.45**	2.38	+2.69
Financial position at year end					
Total assets	**21,320**	20,375	**2,733**	2,612	+4.64
Net current assets	**5,642**	4,839	**723**	620	+16.60
Equity attributable to equity holders of the parent	**6,997**	6,112	**897**	784	+14.47
Capital expenditure	**473**	597	**61**	77	–20.73
Net book value per share (HK$/US$)	**4.78**	4.18	**0.61**	0.54	+14.35

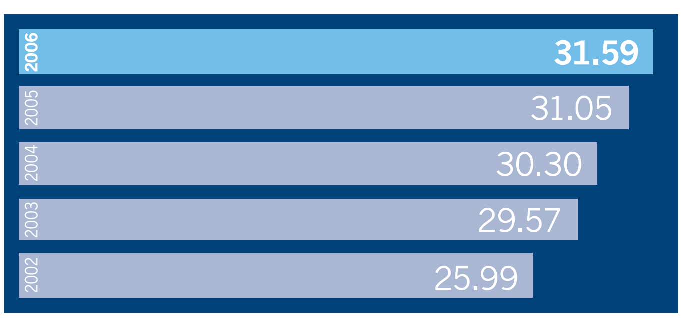
Profit Attributable to Equity Holders of the Parent
HK$ million



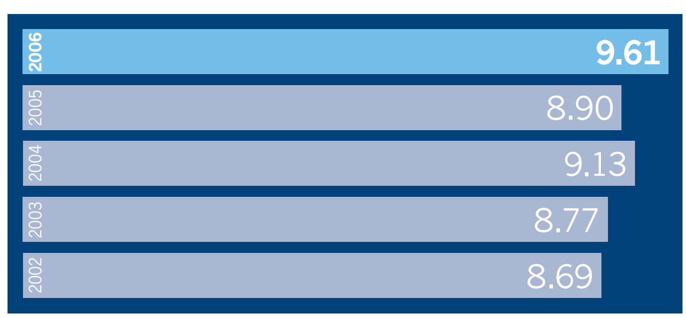
Net Book Value per Share
HK$



Gross Margin
%



EBITDA Margin
%



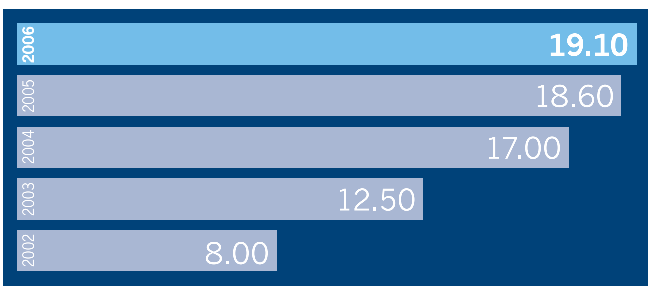
Chairman's Statement

> The driving forces of TTI are powerful brands, innovative products, exceptional people, and best cost.

Horst Julius Pudwill
Chairman and Chief Executive Officer

2006 Performance Highlights

- **Record profit and twelfth consecutive year of growth**
- **Acquisition of Hoover® propels us to global floor care leader**
- **Growth in professional power tool brands**
- **Gross margin and operating margin improvements**
- **Strengthened our global management organization**



Dividend Per Share
(HK cents)

At TTI, we have the vision to be number one in the industries we serve. Our passion for capturing market leadership is achieved through superior execution of our strategies, powerful brands, innovative products, exceptional people, and best cost. These are the strategic driving forces that continue to improve performance in our targeted businesses delivering consistent value to our customers and shareholders. This is our mission and the basis for our record profit results in 2006.

Profit attributable to equity holders of the parent for 2006 reached a record level of HK$1,072 million, an increase of 5.19% over the prior year, our twelfth consecutive year of growth. Our leading brands, product innovations, and cost improvement efforts delivered a healthier net profit margin of 4.91%, up from 4.56% in 2005. Notably, gross margins improved to 31.59% from 31.05% last year and profit margins from operations grew to 7.59% from 7.05% in the prior year, benefiting from ongoing business integrations and Continuous Improvement Program (CIP) savings, which offset increases in global commodity prices and financing costs. Basic earnings per share, having accounted for the full dilution effect of the share placement in September 2005, was at HK73.18 cents per share, marginally lower than HK73.53 cents reported in 2005.

Chairman's Statement

2006 turnover for the Group was HK$21.82 billion, a small decline of 2.39% over 2005. After delivering solid turnover growth in the first half of 2006, the second half proved to be more challenging with a softer macro economic environment in the United States. The Group's expansion efforts outside of North America continued the first half momentum with near double digit turnover growth for the second half and full year. Our Floor Care business rebounded with positive turnover growth in the second half. We announced the acquisition of the Hoover® floor care business, which when combined with our existing Floor Care business now positions TTI as the leader in the global floor care industry.

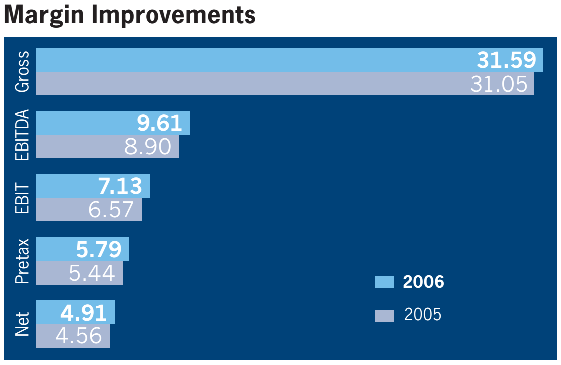
We are pleased to announce the Board is recommending a final dividend of HK12.60 cents per share. When combined with the interim dividend of HK6.50 cents per share, the full year dividend of HK19.10 cents per share is up 2.69% over the 2005 dividend of HK18.60 cents per share.

Business Review

Our Power Equipment business reported flat turnover growth against the prior year. However our professional brands of power tools and accessories, Milwaukee® and AEG®, delivered positive turnover growth for the full year. Our European businesses continued their expansion momentum as well. We saw positive market acceptance of the Milwaukee® V28™ and the new V18™ lithium ion battery line of tools as well as the One+™ System under the Ryobi® brand, both driving forces that are revolutionizing the way retailers and users think about power tools. Importantly, both of these product ranges were launched successfully outside of North America in 2006. Our power tool brands were supported with the introduction of over 75 new products, with 50% more new products added to the Ryobi® branded One+™ System. The ongoing Milwaukee® integration program will continue to improve the cost position of our professional tools.

We made operational improvement progress in the Outdoor Power Equipment business over the past 12 months including the completion of the gas-driven products production transfer to China. For the year 2006, the business delivered single digit growth with new gas pressure washers and chainsaws under the Ryobi® brand adding incremental turnover, countering the slow first half season in Europe. A global launch of the exciting new lightweight range of Homelite® MightyLite™ gas trimmers, brush cutters, blowers, and hedge trimmers began at the end of the year. The business is positioned well for ongoing operational efficiencies and a continuing stream of product innovations for the market.

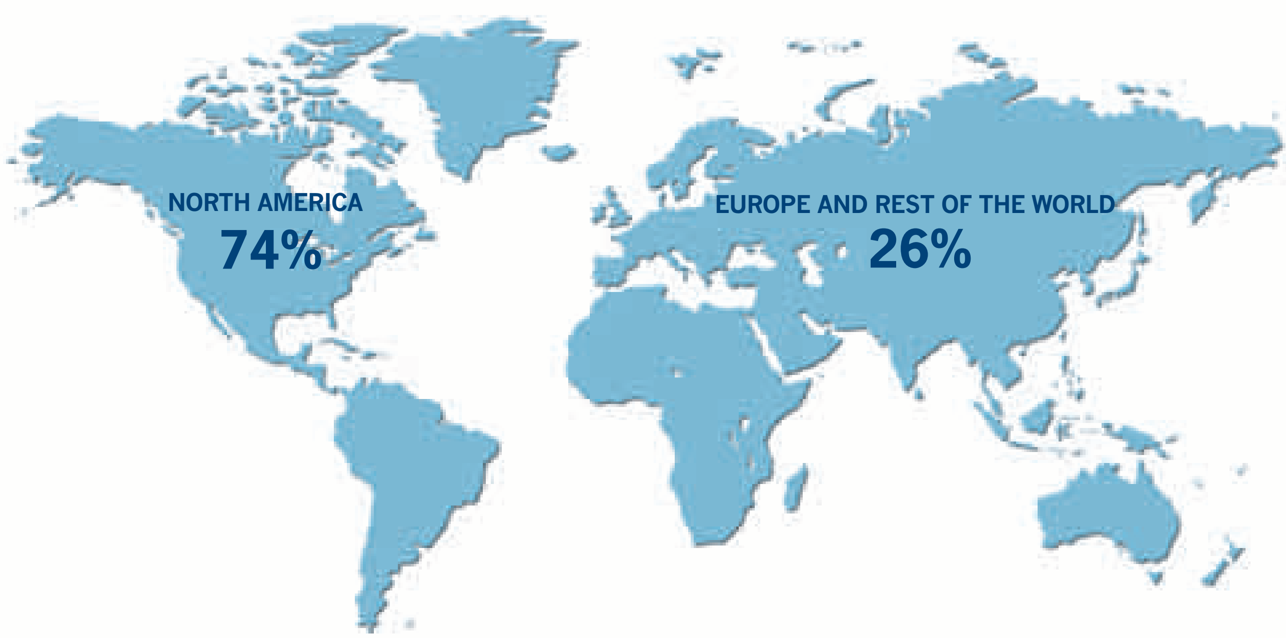
Margin Improvements



The Floor Care business showed solid gains in multiple markets during the second half and completed the full year just down 2.16% from 2005. In North America, the Dirt Devil® Reaction™ vacuum with D2 Dual-Cyclonic Technology™ designed for the higher performance oriented end user, garnered strong consumer acceptance expanding the product range reach and profitability of the brand. In addition, the unique Dirt Devil® KONE™ delivered on its promise of combining form and function for incremental turnover driven by an aggressive marketing campaign. The Vax® brand continued to penetrate the UK floor care market, strengthening its number two position and also increasing turnover throughout Europe. All of our brands support the strategy of bringing high value-added new products aimed at end user segments to the marketplace, proving that innovative products and powerful brands create opportunities for sustainable growth.

In December 2006, the Group announced the addition of Hoover® to our powerful brand portfolio (deal completed on 31st January, 2007). This strategically important brand will move us to the leading position in the global floor care market and provide a premium brand platform for future expansion. Hoover® is the oldest brand in floor care and today remains one of the most reputable and globally recognized brands. Matching the Hoover® brand with TTI's operational excellence, speed to market, product innovation, and best cost supply chain management promises excellent synergies. Our Floor Care business will have a portfolio of powerful brands, innovative products, global scale, and a broad customer base, all solid platforms for profitable growth.

Turnover by Geographical Market Location



Delivering our products and services at best cost is an ongoing focus for TTI. The Group produced cost savings by empowering the global procurement function across business units and introducing CIP. These best cost efforts leveraged our scale on both direct and indirect purchasing and helped to maximize our business improvement programs. This process significantly helped to offset commodity price increases during the year. The programs started in 2006 will be continued with a deeper and much broader commitment in 2007 as goals and resources are being aligned to drive the process forward.

Driving Forces of TTI

Four strategic drivers create the platform for TTI to be a driving force in the markets in which we compete.

Powerful Brands. Leading brands hold the power in the marketplace, so brand investment is required. Time tested performance delivers brand loyalty, which creates the ability to maintain strong margins and favorable retail placement.

Innovative Products. We believe innovation is the fuel for sustained profitability and growth. Our goal of higher value brands and products will be achieved through innovative product development focused on creating and matching end user demand.

Exceptional People. We continue to invest in and promote talent. Our people, from senior management to the individuals in the factory, have the passion, skill, and combined intellectual capital to drive us to the number one position in our targeted markets.

Best Cost. Being number one means executing at the highest level, the most competitive cost, and the best value in every aspect of our business. We are equally passionate about driving efficiencies into our business at all levels through our Continuous Improvement Programs (CIP), global procurement, and supply chain management.

Outlook

We are setting the stage for growth and profit margin enhancement. After a second year of consolidating the 2005 power tool acquisitions, we are starting to benefit from the integration synergies. We are moving decisively to consolidate our latest acquisition, Hoover®, and derive gains in marketing and operational efficiencies in 2007. Our attention will be focused on both core business expansion and the search for strategic acquisitions that will enhance both our top line and bottom line.

Our Power Equipment business possesses the brand portfolio that professionals and consumers trust. We remain optimistic on the North American power tool business in 2007. We are aggressively upgrading our store service organization, expanding our sales coverage, introducing a "Jobsite Solutions" program to reach end users of professional power tools, and driving marketing programs that will bring our exciting brands and products closer to the end users. The European and rest of world businesses are aimed at double digit growth through new product introductions in their core channels and geographic expansion. Further refinement of our New Product Development process is focused on global product platforms systematically targeting specific professional and consumer end user segments. This will bring better efficiency to our deployment of development resources and enhance our ability to deliver product solutions and innovations that end users want, thereby driving our growth.

Our Floor Care business is showing positive growth and has a first priority of integrating the Hoover® acquisition. We announced the establishment of a TTI floor care global R&D center and expect new products to begin flowing as early as the second half of 2007. North American marketing programs will drive awareness of the innovative Hoover® FloorMate™, SteamVac™ All Terrain, and WindTunnel™, plus the Dirt Devil® KONE™, Reaction™, and Broom Vac® products. Floor Care is set to deliver solid incremental business from new product introductions in Europe, the newly established presences in Canada and the Middle East, and the North American launch of the Sears® Kenmore® brand of vacuums.

Our core strategy to build our business with exceptional people is being fueled by the introduction of a North American campus recruiting and Leadership Development Program. We target talented individuals with a passion to lead and deliver results. Additionally, we have strengthened our current management team by creating new executive positions across the globe and filling them with talented business leaders in important areas of sales, marketing, product development, operations, and senior management. We anticipate benefits in our dynamic and fast paced culture across product development, marketing, and best cost operational performance.

Once again, I would like to close by thanking our employees for their passion and commitment in moving us forward in our vision of being the world leader in our core businesses. My fellow directors provided insight and thoughtful analysis throughout the year guiding our governance and vision. Finally, we truly appreciate the support of our shareholders, customers, and partners for helping deliver another record year in 2006.

Horst Julius Pudwill
Chairman and Chief Executive Officer

Powerful Brands

Powerful brands lead the way.

We believe powerful brands are performance-trusted. End users trust the products to perform; to work. Brand names like Milwaukee®, AEG®, Ryobi®, Homelite®, Dirt Devil®, Vax® and now Hoover®, with over one hundred years of market recognition and leadership, are destination brands possessing the equity and the power to draw end users into retailers in multiple markets.

Powerful brands lead the way. R & D investments ensure cutting edge product advancements while strategic-driven marketing campaigns expand market reach and deeper market penetration. Brand loyalty is a cornerstone for sustainable growth and increased profitability. Our powerful brands are the foundation for current and future growth and serve as the compass for all of our activities.

Innovative Products

There is no alternative to innovation.

We invest in consumer/end user research driving step change thinking based on market grounded strategies. We are proud of the results. We were the first to market to introduce lithium ion battery technology to heavy duty power tools which boosted power in the field while cutting the battery weight significantly. We were the first to market with a unified battery system, the Ryobi® branded One+™ System allowing users to have a variety of tools at hand that use the same battery.

We also introduced and have the lightest handheld gas driven outdoor power equipment products on the market, including line trimmers, brushcutters, hedge trimmers, and blowers. We invented and introduced the first bagless vacuum technology to the floor care industry and continue to create the easiest to use vacuums in the world. Our commitment to innovation also penetrates our manufacturing operations, administrative processes, and our approach to customer relationships. Innovation is the key to profitable growth and we are proud to say that we truly reflect a company wide culture of innovation.

Exceptional People

Quite simply, we want to be number one in every market in which we compete.

We believe it is critically important for an organization to be clear when it comes to strategy, culture, and values. With over 20,000 employees, we work hard to ensure everyone lives and breathes the same goal. Quite simply, we want to be number one in every market in which we compete.

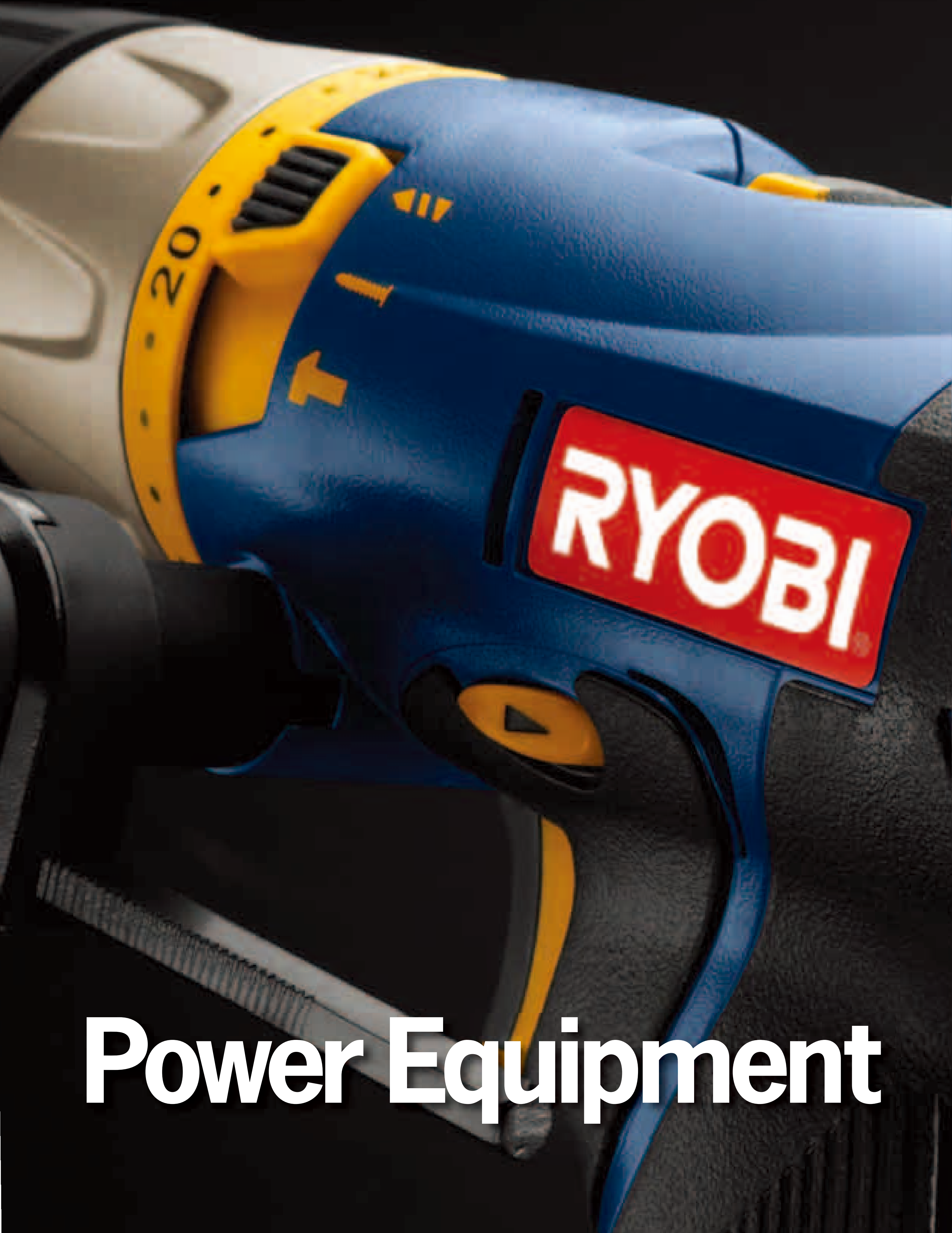
Being number one requires a key ingredient above all others: passion. Our people understand the demands of leadership and possess the passion and intellectual capital to lead in every arena. From product development to supply chain logistics; from targeted acquisitions to full-fledged marketing campaigns, we strive to lead the industry with groundbreaking ideas that grow our business with profitable performance.

Best Cost

Great ideas will never reach the marketplace unless executed effectively.

Our culture of innovation is equally matched by our best cost approach. Best cost means executing at the highest level, the most competitive cost, and the best value in every aspect of our business. We continually evaluate every aspect of our operations with a passion that goes well beyond gradual improvement. Great ideas will never reach the marketplace unless executed effectively. Our global scale creates opportunities across all business units with product cross-fertilization, shared market research, and manufacturing economies of scale.

We possess the agility organizationally to respond quickly to the changing market conditions while maintaining our ability to leverage our best cost supplier base. This competitive flexibility creates strategic advantage through efficient supply chain management resulting in solid margin improvements. There is tremendous power in the synergy of innovative products and our best cost approach. These enable our customers and end users worldwide to get the best possible product at the least possible cost.



Power Equipment

Review of Operations
Highlights

Milwaukee

- Added the V18™ lithium ion cordless tools to the successful V28™ range
- Expanded Sawzall® range of reciprocating saws
- Growth in Europe

RYOBI

- Double digit growth outside of North America
- Introduced 9 new products under the One+™ System

AEG
ELECTRIC TOOLS

- Turnover and operational gains
- Geographic expansion

Homelite®

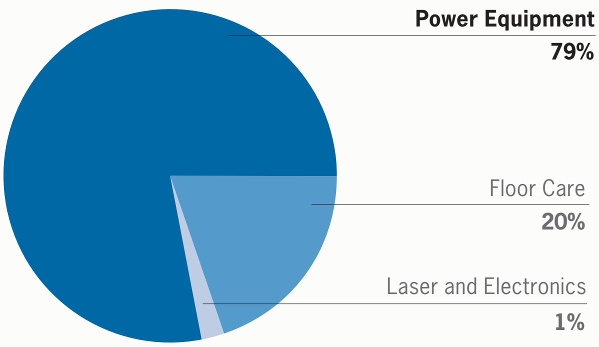
- Launched MightyLite™
- Operational improvements

Review of Operations

Power Equipment

- Record profit coming from new products and operational efficiencies
- Professional power tool brands deliver growth
- New lithium ion technology expands our professional cordless segment
- Milwaukee® transfer increases momentum
- Turnover of HK$17.12 billion, accounting for 79% of total turnover

Divisional Turnover



The Power Equipment business, which includes power tools, power tool accessories, and outdoor power equipment, produced record profit from operations, with growth from our professional brands, Milwaukee® and AEG® as well as strong sales from RIDGID® professional power tools manufactured by TTI. Profit from operations was HK$1,462 million, a significant increase of 18.16% over 2005. Turnover reached HK$17.12 billion, accounting for 79% of total Group turnover. Full year turnover was marginally down 0.35% from last year due to a sluggish North American market in the second half of the year. We improved profit margins to 8.54% from 7.20% last year in a difficult economic environment of rising raw material costs. Innovative new products, quality improvement initiatives, global procurement activities, product transfer programs, and CIP have positively impacted our operational performance.

Review of Operations
Power Equipment

Review • Power Tools and Accessories

For the year 2006, Milwaukee® expanded by continuing to lead the industry in the development of a broader line of lithium ion battery-based power tools aimed at professionals. The new V18™ line of products gained acceptance in the marketplace and combined with the V28™ lithium ion range, added incrementally to the cordless product category. Milwaukee® also strengthened its Sawzall® market position with new product introductions and marketing support, including specialized industry outreach programs, and supported by a full Sawzall® blades range. In addition, Milwaukee® grew in Europe as it continued to build recognition and expand distribution geographically.

AEG® improved in 2006 producing an increase in top line turnover and achieving profit targets. These were accomplished through the introduction of new products, addition of new distribution in existing markets, geographic expansion into Eastern Europe, Middle East, and South Africa, and benefits from TTI integration synergies. Synergies have been demonstrated with the shift to global product development that brought fifteen new products under the AEG® brand to market in 2006 with a plan to increase the number of new products in 2007.

The Ryobi® brand faced a challenging year in North America, but produced near double digit growth in turnover outside of North America with the first full year of the One+™ System distribution. The One+™ System under the Ryobi® brand offers 43 products including 9 new products such as the One+™ Angle Grinder and the One+™ Radio using the 18-volt battery & charger platform. The One+™ program has established a strong merchandising presence with growing end user demand that will drive future growth in our key retail partners across the globe.

In North America, the RIDGID® power tool products manufactured by TTI had another record year of increased turnover. Market acceptance of the complete Max Select® line of products, the first dual voltage – 18v and 24v tools, and the new Xli™ 24v Combo Kit featuring the lithium ion battery technology were product innovations that continue to make RIDGID® an important and fast growing power tool brand for professionals.

We continued our commitment in providing best-in-class new products, innovations, and other contributions to Sears Holdings Corporation's Craftsman® line of power tools and accessories. Highlights in 2006 included the launch of the new Craftsman® Digital Depth Router and Drill Press that provides accurate digital depth precision. A unique dual-laser circular saw with an innovative adjustable front laser that projects a line as a virtual edge guide and a 14.4v Cordless Drill/Driver with Auto-Lock chuck with "Auto Mode" were also introduced.

Several new, real innovative power tool accessories were introduced into the market during the year. Milwaukee® offered the Ice Edge™, a new generation of reciprocating saw blades specifically designed to handle even the toughest metal cutting applications that professionals demand. AEG® introduced the DrillConnect™ rotary hammer drill bit connector system that allows a quick and strong bit extension. In addition, Milwaukee® launched its Secure Grip™ hammer drill ideally for cordless hammer drills featuring shank flats and centering tip in protective packaging. We have also made an impact in Europe with the extremely tough AEG® dynAC TCT Universal Holesaw.

Review of Operations

Power Equipment

A high profile marketing program was conceptualized in 2006 that will have a lasting impact on our power tool business. Jobsite Solutions is designed to be a professional power tool end user focused conversion program for Milwaukee® products through initiatives that create and promote brand loyalty. Jobsite Solutions reaches beyond product solutions and into services, delivery, education, repair, warranty, and other value added services that solve more professional user problems. Additionally, it will be an important training program for the development of future management talent at Milwaukee® and across TTI.

2006 was an important year for the development of our best cost programs in Power Tools. Under the Milwaukee® and AEG® integration, the global R&D and new product development resources where streamlined to eliminate overlapping. Product development resources are now managed according to product segments, technologies, and brands in order to build expertise. The result was an efficient global product development team. Output of innovative new products will increase in 2007 as the spending on R&D and new product development is being increased.

Best cost improvements were realized with the Group's global sourcing and CIP. These high level initiatives leveraged the scale of TTI bringing savings and efficiencies in a period of rising material costs and are being expanded further in 2007. The Milwaukee® transfer program gained momentum throughout the year and we are now manufacturing Milwaukee® cordless tools in a dedicated, professional quality, China production facility. These tools are being shipped to our professional users worldwide.

Outlook • Power Tools and Accessories

We expect our North American business to rebound after a slowdown in the second half of last year. Business is on a positive trend for the beginning of 2007 and we have increased the consumer power tool promotion plans and marketing support over prior year levels. Innovative lithium ion cordless products will be launched throughout the year, further enhancing TTI's leading position in the cordless category. Our European and rest of world businesses are continuing to track healthy growth. New products are the primary drivers, but new distribution in core territories and new geographies are also adding incremental turnover. The Ryobi® branded One+™ System and Milwaukee® V18™ programs are notable product ranges that are feeding the expansion.

We believe that the shift to global product development platforms, the transfer programs of Milwaukee®, and the TTI best cost initiatives have better positioned our Power Tool business to make important investments in the marketing of our powerful brands. The strength of the Milwaukee®, AEG®, and Ryobi® brands will be supported and driven with marketing programs such as Milwaukee®'s Lighting Max Repair for professional users aimed at providing a simple program for product servicing. Another important program is our North American store service team, which is now linked to our Leadership Development Program (LDP) of high potential future leaders. The LDP will consolidate the market training and our retail partners will benefit from the energy and innovation the team brings into their stores every day.

Through the implementation of our strategies of powerful brands, innovative products, exceptional people, and best cost, the Power Tool business has delivered profit improvement and is poised to continue its quest to reach the global number one position.

Review of Operations
Power Equipment

Review • Outdoor Power Equipment

Outdoor Power Equipment turnover expanded in 2006. Turnover outside North America continued to make double digit gains primarily from the Homelite® and Ryobi® brands. The operational focus to improve our cost position delivered positive gains in the second half, marked by new product launch efficiency and productivity in our Asia supply chain. Manufacturing gains through rigorous application of management techniques, procurement programs, and savings from CIP were key factors to improving our cost position. The business benefited from investments to expand new product development engineering resources and product range rationalization.

Expanding the Ryobi® branded range of products with new trimmers, edgers, high-pressure washers, and chain saws created incremental turnover in key markets while building brand recognition and loyalty with a more complete line of products. Homelite® started production of its innovative MightyLite™ line of gas trimmers, edgers, and blowers, positioned as the affordable, lightest weight outdoor products in the industry. The two brands, Homelite® and Ryobi®, with better-best positioning of innovative, user friendly tools for DIY and light-duty commercial applications, match our strategic focus of segmenting the market by attributes and price point allowing end users clear choices on product selection.

Outlook • Outdoor Power Equipment

We expect the market gains made in 2006 to continue into 2007. The gas-driven blower category, which experienced double digit growth in 2006, will help drive turnover going forward with several new introductions planned. Homelite®'s new MightyLite™ range will be globally distributed for the full year. In North America, expectations are to grow both in existing channels and potential new channels, driven by innovative new products already in the development pipeline and improved marketing. Outside of North America, our products and brands remain on track for turnover growth. The business has geographic expansion opportunities mirroring those of our Power Tool businesses in Eastern Europe, Middle East, South Africa, and Latin America.

We will continue to gain operational efficiencies in 2007 under our best cost strategy as we experience a complete year of production from our Asia supply chain and additional cost containment from our CIP. Importantly, the combination of multiple new product introductions, aggressive marketing and promotions, and operational effectiveness provides the platform for continued business performance improvement.

Floor Care

Review of Operations
Highlights

- Most recognized floor care brand in North America
- Premium, comprehensive floor care product range
- Innovative FloorMate™, WindTunnel™, and SteamVac™ All Terrain products

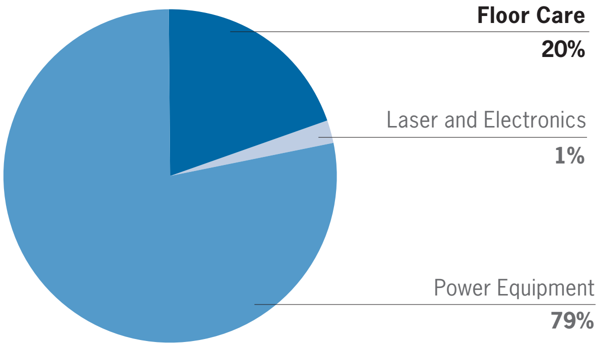
- No.1 selling vacuum brand in the US
- Successful launch of innovative KONE™ and Reaction™ products surpassed expectations

- No. 2 brand in the UK
- Double digit turnover growth

Floor Care

- Hoover® integration is priority
- Innovative products lead to growth in the 2nd Half
- Global brand and product development programs
- Turnover of HK$4.43 billion, accounting for 20% of total turnover

Divisional Turnover



In 2006 our Floor Care business established the platforms for future growth, including the acquisition of the Hoover® floor care business. The powerful brand portfolio now includes Hoover®, Dirt Devil®, and Vax®. In addition to the brands, the business is competitively positioned with an increased new product development capability, best cost supply chain scale, and full product category coverage. Distribution reach outside of North America will continue to expand geographically with our brands.

The Floor Care business completed the transition to focus on our own brands and as a result reported second half growth in North America and Europe. Turnover for the full year was HK$4.43 billion, down 2.16% from last year, and accounting for 20% of the Group's total turnover. On the cost side, challenging raw material pricing was partially offset by our global sourcing programs and CIP savings. We promoted our innovative products with increased advertising support in key markets. Profit from operations was down to HK$157 million, a margin of 3.54% of turnover.

Review • Floor Care

The Floor Care business is aimed at driving our powerful brands, delivering product innovations and best cost, and building an exceptional management team. In 2006 we focused on several critical objectives. Product innovation initiatives targeted unique products to provide improved end user acceptance, retail demand, and financial premiums. This strategy produced solid results in North America with the Dirt Devil® Reaction™, Broom Vac®, and KONE™ lines of products. Under our best cost strategy, global

Review of Operations
Floor Care

sourcing initiatives and CIP created savings throughout our supply chain, despite the ongoing global cost pressures. Manufacturing in China followed our strategy to focus on core brand businesses and product platforms. The effort has streamlined operations and we are moving aggressively to further embrace lean manufacturing. Building powerful brands is a fundamental TTI strategy and the increased marketing on the core brands of Dirt Devil® and Vax® boosted product exposure in 2006. The addition of Hoover® to the portfolio only adds to our brand power and gives a compelling end user brand segmentation strategy. We started the process of building a high performance management team of exceptional people in all regions of the world. In North America and Asia, the team is in place that is driving the integration of Hoover®. In Canada and the Middle East, we have established new regional business leaders as we are planning to do across other geographic regions.

In the United States, Dirt Devil® sold more vacuums than any other brand in 2006. The strength of the Dirt Devil® brand created the opportunity to migrate to higher price point products setting the stage for top and bottom line growth with additional introductions. Hoover® is a premium, best-in-class, vacuum and extraction brand. It will gain from the TTI best cost supply chain, the newly established TTI floor care global R&D center, and the combined marketing and distribution scale of TTI. Speed to integrate Hoover® with TTI is a priority. Sales, marketing, engineering, and back office synergies from a combined business are underway. We announced the closure of Hoover®'s North Canton manufacturing plant and operational integrations have begun. We are excited that the combined Floor Care business will hold the leadership position in North America and we are ready to bring this business to new levels.

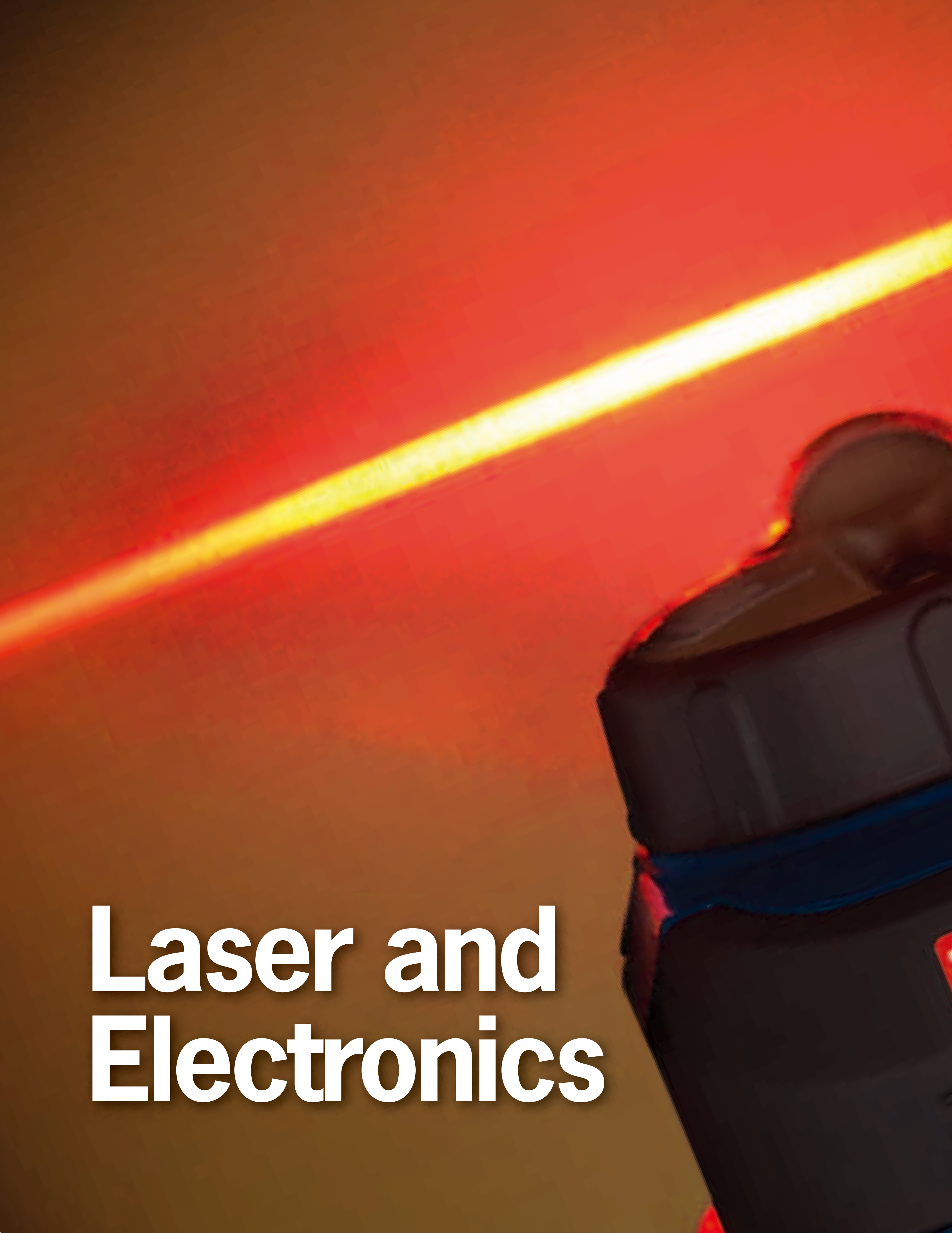
Outside North America, the business reported double digit turnover growth primarily driven by the strength of our Vax® business. Vax® strengthened its position as the number two vacuum brand in the UK delivering double digit top line growth in a very competitive market. Vax® launched over 50 new products and made geographic expansion efforts. The addition of Hoover® will provide new and incremental product opportunities for the Vax® business. Dirt Devil® in Europe faced a difficult year with a slower acceptance of new products than expected. A completely refreshed range is already launched with positive end user acceptance being seen. Overall, new products and an expanding geographic reach will continue to drive the business outside of North America forward.

Outlook • Floor Care

2006 set the stage for growth in the Floor Care business. We now possess the most recognized brands in virtually all floor care categories. Dirt Devil® is positioned to continue its introduction of unique products through its ease of use strategy and advantages in manufacturing scale and supply chain efficiencies. There are multiple new product introductions planned for 2007 including the KURV™ and the KRUZ™, both hand-held vacuums and a new “i”™ upright vacuum. Our contract business remained in transition in 2006 as we increased our commitment to our own leading brands. This is still on track to rebound in 2007 as we begin delivering the new line of Sears® Kenmore® brand of vacuums in the first half.

We have a robust and aggressive plan for the Hoover® line of vacuums which includes exciting new products and equally important, a smooth integration of all operations into the Group’s worldwide economies of scale. We expect Hoover® to gain market position in its core competency of high end vacuums and extraction while delivering significant savings in operational efficiencies.

Vax® is also positioned for continued growth. The new products introduced in 2006 will add full year benefits and many new products are ready to be released during 2007. Dirt Devil® and Hoover® will also see growth internationally from their already strong positions in many global markets. The Hoover® brand recognition creates a strong opportunity to enter the Latin American market.



Laser and Electronics

Review of Operations

Highlights

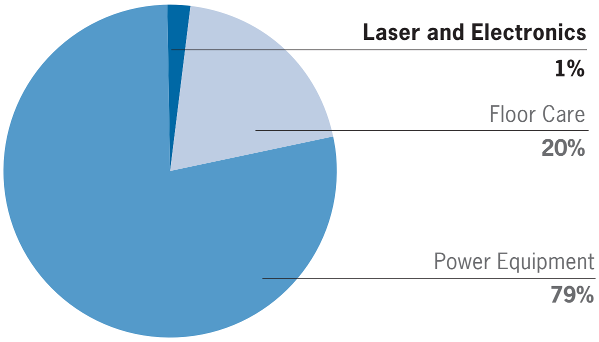
RYOBI

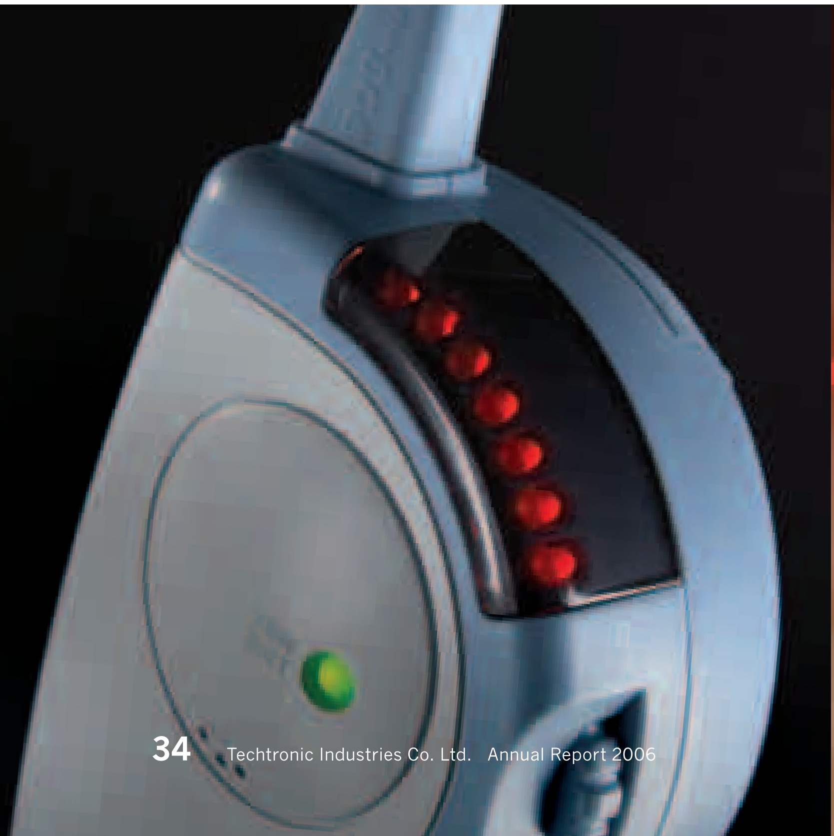
- Released AIRgrip™ Self Leveling Cross Line Laser Leveler
- Aggressive launches of Manual and Self Leveling Laser Levels, Stud Sensors, Metal and AC Wall Scanners
- Launched new innovations with long range Sonic Tape Measure with Built-in Project Calculator and Voice Recorder

Laser and Electronics

- Profit contribution
- Business performance as expected
- Turnover of HK$279 million accounting for 1% of total turnover

Divisional Turnover





The Laser and Electronics business result for 2006 was according to expectations, with a top line decline from the prior year due to the continuing correction in the laser-based products market. Turnover in Europe was stable and infant care products delivered growth. Expenses were controlled through CIP while addressing the overhead expenses structure. Consequently, turnover was HK$279 million, accounting for 1% of total Group turnover, and profit from operations was HK$37 million.

Review • Laser and Electronics

We held the leading position in our key categories and markets. Following the TTI strategy of focused product innovation, several new product introductions in electronic hand tools, solar powered lights, and infant care products were launched successfully. New AIRgrip™ base products under the Ryobi® brand were developed for later shipment as the market returns to normal stocking and selling cycles with laser products.

Outlook • Laser and Electronics

There are signs that the laser market is beginning a slow recovery in 2007. The business has opportunities to grow in other electronic hand tools and detectors, solar lighting, and infant care products. New product development planning has expanded into new markets of electronic tools including digital thermometers and moisture meters, solar powered chargers, and a new range of electronic wall scanners, to name a few.

Vice Chairman's Message

" One Company, One Passion, One Goal. "

Dr Roy Chi Ping Chung *JP*
Vice Chairman

One Company

From the time the Chairman and I founded TTI, we have always believed in teamwork. We believe that working together as a team is the only way to fully harness the intellectual capital and talent of our people and thus maximizing results. Throughout TTI's growth, this belief has been instilled in the mindset of every one of the Group's employees. We are now a company of over 20,000 people spanning five continents. Every person with a unique background, skill, and knowledge coming together as One Company, this is the foundation of TTI.

One Passion

It takes more than just teamwork to get to where TTI wants to be. It takes vision; it takes diligence; it takes passion. At TTI, we share the same passion; to excel in every thing that we do. We are passionate about growing our leading brands, coming up with more and more innovative products, having a best cost approach in all that we do, and keeping exceptional people. Our twelve consecutive years of improved profitability is testimony to our passion. It is One Company that provided us with the foundation, and it is this One Passion that will drive us to achieve even greater things.

One Goal

With the collective efforts of everyone in TTI, working together and sharing the same passion, I have no doubts we can achieve that One Goal we have set forth since the inception of TTI, that is: "to become number one in all the industries that we serve."

We truly look forward to the future and the opportunities that await us.

Dr Roy Chi Ping Chung *JP*
Vice Chairman

Board of Directors

Group Executive Directors

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

Mr Horst Julius Pudwill, aged 62, a founding partner of TTI, has been the Chairman and Chief Executive Officer since 1985. He is responsible for the formulation of TTI's strategic vision, focusing on the continual growth and profitable development of the Group's organization, products and services. He is active in aligning the activities of the Group with customer needs.

Mr Pudwill holds a Master's Degree in Engineering and a General Commercial Degree. He has extensive experience in international business.

Dr Roy Chi Ping Chung *JP, Vice Chairman*

Dr Roy Chi Ping Chung *JP*, aged 54, is a co-founder of TTI. Dr Chung, previously the Group Managing Director since 1985, has been appointed as the Vice Chairman of the Company with effect from 18th April, 2007. Dr Chung will continue in his capacity as a Group Executive Director and is responsible for the corporate and business management of the Group. He holds a Master of Science Degree in Engineering Business Management from the University of Warwick, United Kingdom.

Possessing nearly 30 years of solid experience in the electrical appliances and electronics industries, Dr Chung holds a strong interest in these business sectors and actively participates in nurturing the growth of these industries and developing the next generation of industry leaders. Dr Chung was awarded an Honorary Doctorate Degree by the University of Newcastle in New South Wales, Australia in 2006. He was also appointed as Justice of Peace by the Hong Kong SAR Government effective on 1st July, 2005 and won the Hong Kong Young Industrialists Award in 1997. Dr Chung is an active member of many Government commissions. He is currently a non-official member of the Committee on Economic Development and Economic Cooperation with the Mainland – Commission on Strategic Development and a member of the Home Affairs Bureau – Sports Commission. He also serves as the Vice Chairman of the Federation of Hong Kong Industries and the Chairman of Electronics/Electrical Appliances Industry Advisory Committee of the Hong Kong Trade Development Council. He is also the Deputy Council Chairman of Hong Kong Polytechnic University (2002 – 2007) and Council Member of Vocational Training Council. Dr Chung is also an Independent Non-executive Director of Kin Yat Holdings Limited and Daka Designs Limited.

Patrick Kin Wah Chan *FCCA, FCPA, APVC, Operations Director*

Mr Patrick Kin Wah Chan, aged 47, joined the Group in 1988 and was appointed as Executive Director in 1990. He is now in charge of the manufacturing operations of the Group.

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

Frank Chi Chung Chan *FCCA, FCPA, CPA (Practising), Group Chief Financial Officer*

Mr Frank Chi Chung Chan, aged 53, joined the Group in 1991 and was appointed as Executive Director in 1992. He is now responsible for corporate affairs and financial management of the Group.

Mr Chan is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, an associate of the Taxation Institute of Hong Kong and qualified to practise as a Certified Public Accountant in Hong Kong.

He is currently an Independent Non-executive Director of Gold Peak Industries (Holdings) Limited, and an Independent Director of Tsit Wing International Holdings Limited, companies listed on the stock exchanges of Hong Kong and Singapore respectively.

Stephan Horst Pudwill *Director – Business Development*

Mr Stephan Horst Pudwill, aged 30, joined the Group in 2004 and was appointed as Executive Director in 2006. He is mainly responsible for managing, improving and monitoring internal operations, and identifying synergistic business opportunities within the Group.

Prior to joining the Group, Mr Pudwill held managerial positions at Daimler Chrysler AG that included product marketing and strategic planning for the Mercedes-Benz car group.

Mr Pudwill serves on the board of directors for A&M Electric Tools GmbH, headquartered in Germany and part of the Techtronic Group of Companies.

Mr Pudwill holds a Bachelor of Arts Degree from the University of British Columbia and is Mr. Horst Julius Pudwill's son.

Non-executive Director

Vincent Ting Kau Cheung *Non-executive Director*

Mr Vincent Ting Kau Cheung, aged 65, was appointed as a Director in 1991. He is a Non-executive Director of Gold Peak Industries (Holdings) Limited, listed on The Stock Exchange of Hong Kong Limited.

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

Independent Non-executive Directors

Christopher Patrick Langley *OBE, Independent Non-executive Director*

Mr Christopher Patrick Langley, aged 62, was appointed as an Independent Non-executive Director in 2001. He was formerly an Executive Director of The Hong Kong and Shanghai Banking Corporation Limited. Mr Langley holds directorships in a number of publicly-listed companies and maintains close ties with the business community in Hong Kong.

Joel Arthur Schleicher *CPA, BSB, Independent Non-executive Director*

Mr Joel Arthur Schleicher, aged 55, was appointed as an Independent Non-executive Director in 1998. He has 28 years of management experience in the manufacturing and technology/telecom services sectors.

Mr Schleicher is the Founder, Chairman and CEO of Presidio, Inc. (formerly Integrated Solutions, Inc.), one of the largest independent implementers of advanced IT infrastructure solutions in the United States. Since 1989, he has worked with private equity firms as a consultant, advisor, board member and held portfolio management roles including as Chairman and CEO for Interpath Communications, Inc.; CEO of Expanets, Inc. and President and COO for Nextel Communications, Inc. He presently serves on the board of directors of various North American domestic and international companies.

Manfred Kuhlmann *Independent Non-executive Director*

Mr Manfred Kuhlmann, aged 62, was appointed as an Independent Non-executive Director in 2004. He was General Manager of Dresdner Bank AG Hong Kong Branch between 1994 and 1998 and General Manager of Dresdner Bank AG Dubai before he retired in August 2004. Mr Kuhlmann is a graduate of the Banking Academy, Hamburg and has extensive experience in the finance and banking industry. Recently, he joined a European based private equity/alternative investment firm as a partner.

Global Management

Asia

Techtronic Industries Co. Ltd.
David Butts
Group Senior Vice President

Clarence Chi Hong Chan
Group Controller

Alex Chunn
Vice President,
Industrial Design and Concept Development

James Gough
Head of Internal Audit

Dr jur. Matthias Hartz
Senior Vice President,
Corporate Affairs - TTI Group

Marc Hill
Divisional Senior Vice President,
Portable Electric Tools and Accessories

Dr Thomas James
Senior Vice President,
Professional Power Tool Operations

Edmund Tak Man Li
Treasurer

Wong Sakh Hong
Vice President, Manufacturing

Solar Wide Industrial Ltd.
Hughes Sanoner
President and Chief Executive Officer

North America

Techtronic Appliances Holdings Co. Ltd.
Joseph Galli
Chief Executive Officer

TTI Floor Care
Chris Gurreri
President

Trevor Deighton
Executive Vice President, Global Manufacturing

John Remmers
Executive Vice President and General Manager,
Global Product Development and Engineering

Craig Baxter
Vice President, Sales - Canada

TTI Power Equipment
Philippe Buisson
Chief Financial Officer

Lee Sowell
President, Outdoor Power Equipment

Robert Freitag
President, Sales and Marketing
Ridgid and Ryobi Power Tools Brands

Mike Farrah
Senior Vice President, Marketing
Ryobi Brand Power Tools

Bryan Whiffen
Senior Vice President, Marketing
Ridgid Brand Power Tools

Bob Gautsch
Vice President, OEM Sales and Marketing

Norman MacDonald
Senior Vice President, Operations

Ken Brazell
Vice President,
Industrial Design and Concept Development

Matt DeFeo
Vice President, Field Sales

Milwaukee Tools

Steven Richman
President

Harry Peterson
Chief Operating Officer

Patricia Grisham
Chief Financial Officer

David Selby
Vice President, Engineering

Shane Moll
Vice President, Tools and Equipment

Daryl Hendrix
Senior Vice President, Sales and Marketing

Tom Mastaler
Vice President, Operations

Dyann Kostello
Vice President, General Counsel

Australasia

TTI Australia

Herbert Hermens
Managing Director

Vax Australia

Eddy Baroni
Executive Chairman

Middle East

TTI Middle East

Robert Vos
Vice President and Managing Director

Europe

A & M Electric Tools GmbH

Erwin Trenn
Managing Director

Horst Garbrecht
Co-Managing Director

Dr Dirk Biskup
Vice President, Finance and Accounting

DreBo Werkzeugfabrik GmbH

Markus Dreps
Managing Director

Ryobi France

Alexander Thorn
President

Ryobi Germany

Walter Eichinger
Managing Director

Ryobi UK

Mark Pearson
Managing Director

Royal Appliance International GmbH

Ralf Lindner
Managing Director and Chief Executive Officer

Vax Europe

Simon Lawson
Managing Director

Management's Discussion and Analysis

Financial Results

Result Analysis

The Group's turnover for the year was at HK$21.82 billion, 2.39% lower than the HK$22.36 billion reported last year. Profit attributable to equity holders of the parent amounted to HK$1,072 million, an increase of 5.19% on HK$1,019 million reported in 2005, with margin improved to 4.91% compared to 4.56% last year.

EBITDA increased by 5.49% to HK$2.10 billion, representing a margin of 9.61% as compared to the 8.90% reported last year. EBIT margin also improved to 7.13% as compared to 6.57% in 2005.

Basic earnings per share for the year, having accounted for the full dilution effect of the share placement in September 2005 was at HK73.18 cents per share, marginally lower than HK73.53 cents reported in 2005.

Gross Margin

Despite the continuous increase in raw material and component costs, gross margin continued to improve to 31.59% as compared to 31.05% reported last year. The improvement was the result of the Group's focused strategy of introducing a constant supply of new products to the market, favorable product mix and leveraging on the expanded volume of business and the results of the continuous cost improvement programs at all levels within the Group.

Operating Expenses

Selling, distribution, advertising and warranty expenses remained comparable to that of last year at HK$2,530 million (2005: HK$2,538 million). Improvements as a result of synergies created amongst various newly acquired operations through integration and cost rationalization were partially offset by higher advertising and promotion spending during the year.

The Group's own brand business continues to account for 80.24% (2005: 79.96%) of total turnover. The long term strategy of the Group remains focused on developing and expanding its own brand business.

Investments in product design and development amounted to HK$428 million representing 1.96% (2005: 2.20%) of the Group's turnover, reflecting the efficiency improvements from the consolidated, effectively structured R&D resources.

Administrative expenses reduced by HK$29 million, an improvement of 1.18%. The improvement was mainly due to the synergies created with the acquired Milwaukee® and AEG® operations together with effective continuous cost improvement programs within the Group.

Net interest expenses for the year amounted to HK$300 million as compared to HK$293 million in 2005, an increase of only 2.58%. The increase was mainly due to full interest costs for the loans arranged for the acquisition for the year whereas only 9 months of interest was charged in 2005, and the overall increase in interest rates. Interest coverage, expressed as multiple of earnings before interest and tax to total net interest, remained at a healthy level of 5.18 times (2005: 5.02 times).

Effective tax rate for the year was at 14.57% as compared to 12.96% in 2005. The Group will continue to leverage its global operations to further improve the overall tax efficiencies.

The Group's major borrowings are in US Dollars and HK Dollars. Other than the fixed interest rate notes and the zero coupon convertible bonds outstanding, all borrowings are either LIBOR or Hong Kong best lending rates based. There is a natural hedge mechanism in place as the Group's major revenue are in US Dollars and currency exposure is relatively low. The Group's treasury team will continue to closely monitor and manage its currency and interest rate exposure.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to HK$7.00 billion as compared to HK$6.11 billion in 2005, representing an increase of 14.47%. Book value per share increased to HK$4.78 as compared to HK$4.18 as reported last year.

Financial Position

The Group's net gearing, expressed as a percentage of total net borrowing to equity attributable to equity holders of the parent was at 74.14%, improved from the 76.24% as reported in 30th June, 2006. The net gearing was higher than the 68.31% in 2005, mainly due to a more challenging market condition than expected in the second half of the year. The Group however remains comfortable even at this gearing level and expects continuous improvements through the successful integration of various operations and a focus on working capital management.

Bank Borrowings

The Group continues to maintain a well balanced and structured loan portfolio. We benefited from its fixed interest rate exposure through the fixed rate notes issued in 2003 and 2005 and other long-term borrowings, which account for 62.54% of the Group's total borrowing. The Group is comfortable with the current position to support its long-term growth strategy.

Working Capital

The Group's net current assets increased by 16.60% to HK$5.64 billion. Current ratio and quick ratio further improved to 1.78 (2005: 1.66) and 1.22 (2005: 1.12) respectively.

Total inventory value increased by 1.23% to HK$4.02 billion. Average inventory days increased by 12 days, the increase in number of days was because of higher finished goods inventory at balance sheet date due to shipment and deliveries arrangements. A major portion of the finished goods inventory was delivered in early 2007.

Trade receivables turnover days increased by 8 days due to the increased volume of business in Europe, which normally carries a longer credit term. The Group has evaluated the quality of the customer portfolio and remains comfortable with the quality of the trade receivables carried.

Average trade and other payables days increased to 56 days (2005: 53 days).

Capital Expenditure

Capital expenditure for the year amounted to HK$473 million. Excluding the factory expansion plan in China, the capital expenditure during the year on operating assets was in line with the Group's capital appropriate guideline.

Capital Commitments and Contingent Liabilities

As of 31st December, 2006, total capital commitment amounted to HK$620 million (2005: HK$269 million) and there were no material contingent liabilities or off balance sheet obligations.

Charges

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

Acquisition

On 7th December, 2006, the Directors announced that the Company on, 6th December, 2006, (US Eastern Standard Time) entered into the conditional Purchase and Sale Agreement ("PSA") to purchase the Hoover® floor care business from certain subsidiaries of Whirlpool Corporation. The total consideration for the purchase of the Hoover® assets and two operating subsidiaries consists of the payment of US$107 million (approximately HK$831 million) in cash to Maytag Corporation (on behalf of itself and the other sellers).

To effect the purchase of the Hoover® floor care business, the Company will assume certain assumed obligations as they exist at the closing date. Based on unaudited financial information provided by Whirlpool Corporation as of 30th September, 2006, the assumed obligations were approximately US$128 million (approximately HK$994 million) (consisting of approximately US$74 million (approximately HK$577 million) of accounts payable and other accrued liabilities, and approximately US$54 million (approximately HK$417 million) of long-term post-retirement medical and life insurance benefits for the transferred employees which shall be payable over the lifetime of such employees).

The total unaudited asset value of the Hoover® floor care business as of 30th September, 2006 was approximately US$354 million (approximately HK$2,747 million).

All of the conditions set out in the PSA have been fulfilled as per our announcement dated 30th January, 2007 and the transaction was completed on 31st January, 2007, and was fully settled at the closing of the transaction by internal resources.

The Directors believe that the acquisition of the Hoover® floor care business will enable the Company to enhance its position in the floor care industry on a worldwide basis. Through this acquisition, the Company will acquire Hoover®'s strong brand name, as well as its comprehensive line of products for general and special purpose vacuuming, including full-size uprights and canisters, deep cleaners, and hard-floor cleaners. The Directors believe that the engineering and design capability of Hoover® can be leveraged across the Company's existing product portfolio. The Company expects to benefit from many operational synergies and efficiencies through the combination of Hoover® with its Royal® and Dirt Devil® business and technological synergies through the combination of their patent portfolios and able engineering staffs. These, in conjunction with the Company's efficient manufacturing platform, are expected to strengthen and expand the Hoover® brand throughout the international markets in which it competes.

The Group is already preparing aggressive plans to integrate the business to reap the synergies as described above.

Major Customers and Suppliers

For the year ended 31st December, 2006

(i) the Group's largest customer and five largest customers accounted for approximately 35.61% and 49.95% respectively of the Group's total turnover; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 2.75% and 12.07% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

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

Human Resources

The Group employed a total of 20,679 employees (2005: 22,053 employees) in Hong Kong and overseas. Total staff cost for the year under review amounted to HK$2,456 million as compared to HK$2,533 million last year.

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed in improving the quality, competence and skills of all employees and in providing related training and leadership development programs. The Group offers competitive remuneration packages, discretionary share options and bonuses to eligible staff, based on the performance of the Group and the individual employee.

Purchase, Sale or Redemption of Shares

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

Audit Committee

An Audit Committee of the Board (the "Audit Committee") was established in 1999 and on 11th April, 2006, the Board of Directors of the Company (the "Board") adopted written terms of reference for the role and function of the Audit Committee and published these on the Company's website, www.ttigroup.com. The role and function of the Audit Committee is to assist the Board in ensuring that an effective system of internal control and compliance with the Group's obligations under the Listing Rules and other applicable laws and regulations is in place, and to oversee the integrity of the financial statements of the Company.

The Audit Committee is comprised of three Independent Non-executive Directors of the Company, namely Mr Joel Arthur Schleicher (Chairman), Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann. All members of the Audit Committee have professional, financial, or accounting qualifications.

Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Company and has discussed internal controls and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31st December, 2006. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Compliance with the Model Code of the Listing Rules

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company confirms that, after specific enquiry with each Director, all Directors have confirmed compliance with the Model Code during the year ended 31st December, 2006. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code, which applies to securities transactions of all relevant employees who may be in possession of unpublished price-sensitive information in relation to the Company's shares, and which has been published on the Company's website, www.ttigroup.com.

Dividend

The Directors have recommended a final dividend of HK12.60 cents per share for the year ended 31st December, 2006 (2005: HK12.60 cents) payable to the Company's shareholders whose names appear on the register of members of the Company on 29th May, 2007. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about 5th July, 2007. This payment, together with the interim dividend of HK6.50 cents per share (2005: HK6.00 cents) paid on 28th September, 2006, makes a total payment of HK19.10 cents per share for 2006 (2005: HK18.60 cents).

Closure of Register of Members

The register of members of the Company will be closed from Friday, 25th May, 2007 to Tuesday, 29th May, 2007, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 23rd May, 2007.

Corporate Governance Report

The Company recognizes the importance of ongoing enhancement of effective and efficient corporate governance practices. Good governance practices can help ensure the protection of shareholders' rights, enhance the effectiveness of the Board and improve transparency of the Company's business and performance.

Compliance with Code of Governance Practices

The Company confirms that it has complied with all the code provisions of the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules throughout the year, save that:

1. The roles of Chairman and the Chief Executive Officer of the Company are both performed by Mr Horst Julius Pudwill. After due consideration, the Company does not currently propose to separate the functions of its Chairman and Chief Executive Officer, as both the Board and senior management of the group has significantly benefited from the leadership, support, and experience of Mr Pudwill.

2. The Board formally adopted written procedures on 11th April, 2006 to govern the delegation of daily management responsibilities to the senior management of the group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the group. The work of the Audit Committee will include reviewing on an ongoing basis the group's internal controls and the delegation and reporting procedures between the Board and senior management.

3. None of the Directors is appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under Article 103 of the Articles of Association of the Company, one third of the Board must retire by rotation at each annual general meeting and, if eligible, offer themselves for re-election.

The Board

Roles and Responsibilities

The Board assumes responsibility for and oversight of the management of the group's affairs, and concentrates on matters affecting the group's overall strategic policies, finances, shareholder interests and corporate governance.

The Board has reserved for its decisions or consideration matters covering major acquisitions and disposals, annual budgets, annual and interim results, appointment of Directors and external auditors and other significant operational and financial matters.

The Company has arranged appropriate liability insurance cover for the Directors. The insurance coverage is reviewed on an annual basis.

Board Composition

The Board is comprised of five Group Executive Directors, being Mr Horst Julius Pudwill (Chairman and Chief Executive Officer), Dr Roy Chi Ping Chung JP (Vice Chairman), Mr Patrick Kin Wah Chan (Operations Director), Mr Frank Chi Chung Chan (Group Chief Financial Officer) and Mr Stephan Horst Pudwill (Director – Business Development), one Non-executive Director, being Mr Vincent Ting Kau Cheung, and three Independent Non-executive Directors, being Mr Joel Arthur Schleicher, Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann, whose biographical details and relevant relationships are set out in the Board of Directors section on pages 38 to 39 of this annual report. No service contract has been entered into between the Company and any of the Directors.

The Board has appointed a Chairman who provides leadership to the Board in terms of establishing policies and business directions. The Chairman ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner.

One third of the Board comprises Independent Non-executive Directors who brings judgment, knowledge and experience to the Board's deliberations. The Board also comprises a Non-executive Director who brings legal and regulatory knowledge and experience to the Board. These Non-executive Directors combine to offer diverse industry expertise, serve the important function of advising the management on strategy and providing checks and balances for safeguarding the interests of the shareholders of the Company as a whole.

The Company has received annual written confirmation from all three Independent Non-executive Directors of their independence from the Company and the Board considers each of them to be independent up to the approval date of this annual report in accordance with the Listing Rules.

Board Process

The Board is committed to at least four scheduled meetings in a year and will meet more frequently as and when required. All members of the Board are given complete and reliable information in relation to the affairs of the group, and receive the support from and access to the Company Secretary of the Company in respect of all meetings of the Board. Each Director is afforded access, on his request, to senior management of the group and to independent professional advice in performing their duties at the Company's expense. All Directors receive briefings and professional development training as necessary to ensure a proper understanding of the business of the group and their responsibilities under statute and at common law.

The Board held five meetings during 2006, and the summary at the end of this report sets out the attendance record of each Director. Proposed Board meeting dates for 2007 have been agreed in the last Board meeting held in 2006 to facilitate maximum attendance of Directors. The meeting agenda is set by the Chairman in consultation with members of the Board.

Minutes of the Board/committee meetings with sufficient details of matters and concerns discussed are kept in safe custody by the Company Secretary of the Company, are sent to the Directors for record and are open for inspection by the Directors.

Codes for Securities Transactions

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Board confirms that, after specific enquiry with each Director, all Directors have complied with the required standard set out in the Model Code. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code that applies to securities transactions of all relevant employees who may be in possession of unpublished price sensitive information in relation to the Company's shares, and which has been published on the Company's website (www.ttigroup.com).

Board Committees

The Board has established the following committees with defined terms of reference to delegate various responsibilities. The majority of the members of each committee are Independent Non-executive Directors. This structure ensures the independence of views and opinions expressed by the Directors at the respective committee meetings. The following committees are required to report back to the Board on their decisions.

Audit Committee: The Audit Committee has been established since 1999. The Audit Committee operates under written terms of reference, which have been adopted since 11th April, 2006, published on the Company's website (www.ttigroup.com). The role and function of the Audit Committee is to assist the Board to ensure that an effective system of internal control and compliance with the group's obligations under the Listing Rules and other applicable laws and regulations is in place, and to oversee the integrity of the financial statements of the Company.

The Audit Committee is comprised of all three Independent Non-executive Directors (being Mr Joel Arthur Schleicher, Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann) and is chaired by Mr Joel Arthur Schleicher. Each member of the Audit Committee has professional, financial, or accounting qualifications as required under the Listing Rules.

The Audit Committee held four meetings during 2006, with a 100% attendance rate, to review with the Group Chief Financial Officer, the Head of Internal Audit ("IA"), other senior management and the external auditors, the Group's significant financial matters and internal controls, which covers findings of internal and external auditors. Additional work performed by the Audit Committee in 2006 includes reviewing the Company's accounting principles and practices, internal controls, risk management and financial reporting matters (including the interim and annual results for the Board's approval).

The Audit Committee has scheduled five regular meetings for 2007.

The IA function charter is to actively monitor and participate in the improvement of the group risk management and internal control framework. The Head of IA reports directly to the Audit Committee on matters in relation to the scope of the risk-assessment and annual audit plan and to the Chief Executive Officer on administrative matters. The operational procedures of the IA function are approved by the Audit

Committee and the Chief Executive Officer. The IA function uses a risk-assessment approach to establish its annual audit plan. Any audit entities considered high risk are reviewed annually with lower risk entities covered as part of a 3 year rotational plan. In addition to regularly scheduled audit reviews, IA from time to time may undertake ad hoc reviews at the request of the Audit Committee or management of the Company. The 2007 audit plan was submitted to and approved by the Audit Committee in November 2006.

Nomination Committee: The Nomination Committee was established in April 2006, and the Board adopted written terms of reference for the role and function of the Nomination Committee, which has been published on the Company's website (www.ttigroup.com). The role and function of the Nomination Committee is to ensure a fair and transparent process of board appointments, and in particular to assist the Board to identify suitable candidates and make recommendations for consideration of the Board and shareholders.

The Nomination Committee is comprised of four members, and is chaired by Mr Horst Julius Pudwill (Chairman and Chief Executive Officer), the other members being Mr Vincent Ting Kau Cheung (Non-executive Director), Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann (Independent Non-executive Directors). Prior to Mr Horst Julius Pudwill assuming the role as the Chairman of the Nomination Committee on 1st September, 2006, Mr Vincent Ting Kau Cheung was the Chairman of the Nomination Committee.

The Nomination Committee held two meetings during 2006 with a 100% attendance rate. The Nomination Committee reviewed in May 2006 the appointment of Mr Stephan Horst Pudwill as a new board member of the Company as part of succession planning for the Board and such nomination was made to the Board in consideration of Mr Stephan Horst Pudwill's educational background and qualifications, his experience in business development and corporate strategy, and his previous experience and involvement in the Group prior to his appointment. The Nomination Committee has also reviewed the structure, size, and composition of the Board to ensure compliance with the Board composition rules of the Stock Exchange.

The Nomination Committee has scheduled two regular meetings for 2007.

Remuneration Committee: The Remuneration Committee was established during 2005, and on 11th April, 2006, the Board adopted written terms of reference for the role and function of the Remuneration Committee, now published on the Company's website (www.ttigroup.com). The role and function of the Remuneration Committee is to assist the Board in developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the group and the remuneration of Directors and senior management of the Group, and for determining their remuneration packages, on the basis of their merit, qualifications, and competence, and having regard to the Company's operating results, individual performance, and comparable market statistics.

The Remuneration Committee is comprised of three members, and is chaired by Mr Vincent Ting Kau Cheung (Non-executive Director), the other members being Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann (Independent Non-executive Directors).

The Remuneration Committee held three meetings during 2006, with a 100% attendance rate, to review the compensation of the Directors and senior management of the group for 2006 and discuss the mix of the remuneration packages of the Group Executive Directors. In determining the remuneration guidelines for 2006, the Remuneration Committee referred to remuneration surveys conducted by independent external consultants on companies operating in similar businesses. A Director is not allowed to approve his own remuneration. The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus, and share option while the principal elements of the Company's non-executive remuneration package include basic directors' fee, committee chairmanship or membership fee and Board or committee meeting attendance fee. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company's meetings. No Directors were granted any share options of the Company during 2006.

The Remuneration Committee has scheduled two regular meetings for 2007.

Accountability and Audit

The Board acknowledges its responsibility for the preparation of the accounts of the Company.

Internal Control

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The Board is responsible for approving and reviewing key internal control policies including delegated authorities, policy on market disclosure and investor and media relations, and policy on non-audit services and treasury management policy. The responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with management. An internal control system is designed to provide reasonable, but not absolute assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- controlling price-sensitive information
- ensuring swift actions and timely communication with our stakeholders
- conducting internal independent review by IA Department

The Board, through the Audit Committee, conducts continuous review of the effectiveness of the Group's system of internal control. The "Internal Control – Integrated Framework" developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") is used as a framework for the continuous review and in 2006 the program of work undertaken by the Audit Committee included review of:-

- the organization structure and delegated authorities
- the strategic plan, annual operational plan and on-going business performance
- the performance and adequacy of accounting and information systems
- the risk management process including formal risk assessment at the enterprise level
- the risk management functions and their performance indicators including discussions with senior management responsible for day-to-day management of significant risks
- the Group's compliance program
- the scope of work and results of the IA function

The Group will continuously update, develop and improve the existing internal control system should any opportunities or areas of concern are identified and shall form part of the Group's continuous review program.

In respect of the year ended 31st December, 2006, the Board has reviewed the internal control systems of the Group.

External Auditors

The external auditors of the Group are Deloitte Touche Tohmatsu, and in 2006, Deloitte Touche Tohmatsu provided the following audit and non-audit services to the Group:

Nature of Services	Amount (HK$ million)
External Audit Services	18
Taxation Consultancy Services	5
Other Consultancy Services	2

Deloitte Touche Tohmatsu is also the tax advisers of the Hong Kong companies of the Group. The other consultancy services provided by Deloitte Touche Tohmatsu comprised professional services on the report of factual findings on agreed upon procedures.

In order to further enhance independent reporting by external auditors of the Group, the Independent Non-executive Directors and the external auditors of the Group meet without the presence of the management of the Group. In addition, the nature and ratio of annual fees to external auditors for non-audit services and for audit services are subject to scrutiny by the Audit Committee. A policy of non-audit services from external auditors was adopted on 7th November, 2006. Such policy includes prohibition of specified non-audit services. Other non-audit services, that are considered not to affect the independence of our external auditors, require prior approval of Audit Committee.

Investor Relations and Shareholder Communications

The Company understands the importance of maintaining effective communication with our shareholders and the investment community. The Board has adopted a Policy on Market Disclosure, Investor Relations, and Shareholder Communications, which has been published on the Company's website (www.ttigroup.com), to ensure that the Company complies with its disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by the Company.

The Company continues to promote investor relations and communications by maintaining regular meetings with institutional shareholders and analysts. Webcasts of results presentations at press conferences have also been made available at the Company's website (www.ttigroup.com). All shareholders have 21 days notice of the annual general meeting at which directors and committee Chairmen or members are available to answer questions. The results of the voting by poll are published on the Company's website together with details of the meeting, including the time and venue and major resolutions. As a channel to further promote effective communication, the Company's website is maintained to disseminate Company announcements and presentations and shareholder information and other relevant financial and non-financial information electronically on a timely basis.

The 2006 annual general meeting of the Company was held on 22nd May, 2006 at Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong. The following resolutions were passed at the meeting:

(a) To adopt the audited financial statements and the reports of the directors and the auditor for the year ended 31st December, 2005;

(b) To declare a final dividend of HK12.60 cents per share for the year ended 31st December, 2005;

(c) To re-elect Mr Patrick Kin Wah Chan as Group Executive Director, Mr Frank Chi Chung Chan as Group Executive Director and Mr Joel Arthur Schleicher as Independent Non-executive Director and authorize the Directors to fix the directors' remuneration for the year ending 31st December, 2006;

(d) To re-appoint Deloitte Touche Tohmatsu as auditors of the Company and to authorize the Directors to fix their remuneration;

(e) (i) To grant a general mandate to the Directors to allot, issue and deal with additional shares not exceeding (1) in the case of an allotment and issue of shares for cash, 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the resolution and (2) in the case of an allotment and issue of shares for a consideration other than cash, 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the resolution (less any shares allotted and issued pursuant to (i) above);

(ii) To grant a general mandate to the Directors to repurchase shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the resolution;

(iii) To authorize the Directors to allot and issue additional shares equal to the number of shares repurchased by the Company pursuant to (e) (ii) above; and

(f) To approve the amendments to the Articles of Association of the Company.

Shareholders' Rights

The general meeting provides a forum for the Board to communicate with the shareholders of the Company. Under Article 66 of the Company's Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance, or in default, may be convened by the requisitionists.

To further enhance minority shareholders' rights, the Company has adopted the practice of voting by poll for all resolutions put forward at its annual general meetings and special general meetings.

The Company follows the requirements under the Listing Rules by disclosing in its circulars convening a general meeting the procedures for and the rights of shareholders to demand a poll in compliance with Rule 13.39(4) of the Listing Rules.

Pursuant to Article 74 of the Company's Articles of Association, 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 of 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;

(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; or

(v) by the chairman of the Meeting of any director in circumstances where voting by poll is required by the rules promulgated from time to time by the designated stock exchange on which the Company is listed or as the laws of such jurisdiction applicable to the Company may require.

A summary of attendance of Board and committee meetings in 2006 are detailed in the following table:

	Meetings attended/held in 2006			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held during the year	5	4	2	3
Group Executive Directors				
Mr Horst Julius Pudwill[1]	5/5		1/1	
Dr Roy Chi Ping Chung JP	5/5			
Mr Patrick Kin Wah Chan	5/5			
Mr Frank Chi Chung Chan	5/5			
Mr Stephan Horst Pudwill[2]	3/3			
Non-executive Director				
Mr Vincent Kau Ting Cheung[3]	4/5		2/2	3/3
Independent Non-executive Directors				
Mr Joel Arthur Schleicher[4]	4/5	4/4		
Mr Christopher Patrick Langley OBE	5/5	4/4	2/2	3/3
Mr Manfred Kuhlmann	5/5	4/4	2/2	3/3
Dates of meetings	11.4.2006	11.4.2006	22.5.2006	22.5.2006
	22.5.2006	22.5.2006	7.11.2006	18.8.2006
	22.8.2006	21.8.2006		6.11.2006
	7.11.2006	6.11.2006		
	6.12.2006			

Notes:

1. Appointed as Chairman of the Nomination Committee with effect from 1st September, 2006

2. Appointed as Group Executive Director with effect from 22nd May, 2006

3. Chairman of Remuneration Committee and resigned as Chairman, but remains as a member, of the Nomination Committee with effect from 1st September, 2006

4. Chairman of the Audit Committee

Directors' Report

The directors have the pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2006.

Principal Activities

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

The principal activities of the principal subsidiaries and associates are set out in Notes 51 and 52 to the consolidated financial statements, respectively.

Results and Appropriations

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 70.

An interim dividend of HK6.50 cents per share amounting to HK$95,236,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK12.60 cents per share to the shareholders on the register of members on 29th May, 2007, amounting to approximately HK$184,618,000.

Property, Plant, and Equipment

The Group continued to expand its business and during the year spent approximately HK$138,709,000 on moulds and tooling and acquired office equipment, furniture and fixtures for approximately HK$68,459,000 and plant and machinery for approximately HK$79,585,000. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 16 to the consolidated financial statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 39 to the consolidated financial statements.

Directors

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

Group Executive Directors:

Mr Horst Julius Pudwill, *Chairman and Chief Executive Officer*
Dr Roy Chi Ping Chung JP, *Vice Chairman*
Mr Kin Wah Chan
Mr Chi Chung Chan
Mr Stephan Horst Pudwill (appointed on 22nd May, 2006)

Non-executive Director:

Mr Vincent Ting Kau Cheung

Independent Non-executive Directors:

Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley OBE
Mr Manfred Kuhlmann

In accordance with Article 103 of the Company's Articles of Association, Dr Roy Chi Ping Chung JP, Messrs Christopher Patrick Langley OBE and Manfred Kuhlmann and in accordance with Article 94 of the Company's Articles of Association, Mr Stephan Horst Pudwill will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

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

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

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

Directors' and Chief Executive's Interests

As at 31st December, 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and as adopted by the Company, were as follows:

Name of directors	Capacity/Nature of interests	Interests in shares (other than pursuant to equity derivatives)(1)	Interests in underlying shares pursuant to equity derivatives(1)	Total interests in shares underlying/ shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	Beneficial owner	77,609,500	26,688,000	327,717,294	22.37%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	222,659,794 (2)	—		
Dr Roy Chi Ping Chung JP	Beneficial owner	113,541,948	13,824,000	164,576,978	11.23%
	Interests of spouse	136,000	—		
	Interests of controlled corporation	37,075,030 (3)	—		
Mr Kin Wah Chan	Beneficial owner	—	1,000,000	1,000,000	0.07%
Mr Chi Chung Chan	Beneficial owner	—	3,000,000	3,000,000	0.20%
Mr Stephan Horst Pudwill	Beneficial owner	4,054,500	100,000	4,154,500	0.28%
Mr Vincent Ting Kau Cheung	Beneficial owner	1,920,000	—	1,920,000	0.13%
Mr Joel Arthur Schleicher	Beneficial owner	100,000	300,000	460,000	0.03%
	Interests of spouse	—	60,000 (1)		
Mr Christopher Patrick Langley OBE	Beneficial owner	500,000	200,000	700,000	0.05%
Mr Manfred Kuhlmann	Beneficial owner	—	100,000	100,000	0.01%

Notes:

(1) Interests in shares and underlying shares stated above represent long positions of the Company.

The interests of the directors of the Company in the underlying shares pursuant to equity derivatives, which were held as beneficial owner, represent share options granted to them respectively pursuant to the share option schemes adopted by the Company, details of which are separately disclosed in the section headed "Share Options" below. These share options are physically settled and unlisted.

The interests of the spouse of Mr Joel Arthur Schleicher in the underlying shares pursuant to listed equity derivatives represent an interest in 60,000 underlying shares held in the form of 12,000 American Depositary Receipts, each representing 5 shares of the Company.

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

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

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

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

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

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31st December, 2006.

Share Options

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

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

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1.00 in cash by way of consideration for the grant thereof. Share options may be exercised at any time from the date which the offer of share options is accepted to the fifth anniversary thereof. The subscription price is set at not less than the higher of the nominal value of the shares and 80.00% 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 10.00% 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 25.00% of the aggregate number of shares for the time being issued and issuable under Scheme B.

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

Share Options *(continued)*

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

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

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

Share options granted must be taken up within 21 days of the date of grant, upon payment of HK$1.00 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 30.00% of the issued share capital of the Company from time to time or 10.00% of shares in issue as at the adoption date of Scheme C. No person shall be granted an option which exceeds 1.00% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

Scheme C expired on 27th March, 2007.

Share Options *(continued)*

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

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

Share Options *(continued)*

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

	Outstanding at the beginning of the year	Granted during the year	Exercised during the year	Outstanding at end of year	Percentage to total Company's shares in issue at end of the year
Total under Scheme B	300,000	—	300,000	—	0.00%
Total under Scheme C	61,800,000	6,484,000	3,203,000	65,081,000	4.44%
Total	**62,100,000**	**6,484,000**	**3,503,000**	**65,081,000**	**4.44%**

Share Options *(continued)*

The closing prices of the Company's shares immediately before various dates of grant ranged from HK$10.00 to HK$18.45.

The weighted average closing price of options on their grant date during 2006 and 2005 were HK$13.00 and HK$17.94, respectively.

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

The fair values of the share options granted in the current year measured at various dates of grant ranged from HK$2.46 to HK$4.72 per option.

No option lapsed or was cancelled during the year.

Note:

(1) Mr Stephan Horst Pudwill has been appointed as a Group Executive Director of the Company since 22nd May, 2006. The 100,000 share options held by him was classified under the category of "Employees" previously. For the purpose of disclosing these 100,000 share options held by Mr Stephan Horst Pudwill in the above table, corresponding adjustments have been made as if he held these 100,000 share options in the capacity of a director of the Company as at 31st December, 2005 and 1st January, 2006 respectively.

Arrangements to Purchase Shares or Debentures

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

Directors' Interests in Contracts of Significance

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

Substantial Shareholders' Interests

As at 31st December, 2006, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Total interests in shares (1)	Approximate aggregate percentage of interests
Commonwealth Bank of Australia(2)	103,264,800	7.05%
JPMorgan Chase & Co.(3)	108,201,129	7.38%

Notes:

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

(2) The following is a breakdown of the interests in shares of Commonwealth Bank of Australia:

		Total interests in shares		
Name	Remarks	Direct interests	Deemed interests	Approximate percentage of interests
Colonial First State Group Ltd.	(b)	—	103,264,800	7.05%
Colonial First State Investments Limited	(b)(d)	4,683,500	—	0.32%
Colonial Holding Company Limited	(b)	—	103,264,800	7.05%
Commonwealth Bank of Australia	(a)	—	103,264,800	7.05%
Commonwealth Insurance Holdings Limited	(b)	—	103,264,800	7.05%
First State (Hong Kong) LLC	(b)(c)(e)	—	23,804,800	1.62%
First State Investment Management (UK) Limited	(b)(c)(d)	57,863,800	24,418,200	5.62%
First State Investment Managers (Asia) Ltd.	(b)(c)	—	25,391,800	1.73%
First State Investments (Bermuda) Ltd.	(b)(c)	—	25,391,800	1.73%
First State Investments Holdings (Singapore) Limited	(b)(e)	—	4,601,500	0.31%
First State Investments (Hong Kong) Limited	(b)(c)(e)	23,804,800	—	1.62%
First State Investments International Limited	(b)	24,418,200	—	1.67%
First State Investments (Singapore)	(b)(e)	4,601,500	—	0.31%
First State Investments (UK Holdings) Limited	(b)(c)(d)	—	82,282,000	5.62%
SI Holdings Limited	(b)(c)(d)	—	82,282,000	5.62%

Substantial Shareholders' Interests *(continued)*

Remarks:

(a) Commonwealth Bank of Australia is listed on the Australian Stock Exchange.

The capacity of Commonwealth Bank of Australia in holding the 103,264,800 shares was as controlled corporation.

(b) Colonial Holding Company Limited, Commonwealth Insurance Holdings Limited, Colonial First State Group Ltd., First State Investment Managers (Asia) Ltd., First State Investments (UK Holdings) Limited, Colonial First State Investments Limited, First State Investments (Bermuda) Ltd., First State (Hong Kong) LLC, First State Investments (Hong Kong) Limited, First State Investments Holdings (Singapore) Limited, First State Investments (Singapore), SI Holdings Limited, First State Investment Management (UK) Limited and First State Investments International Limited were all direct or indirect subsidiaries of Commonwealth Bank of Australia and by virtue of the SFO, Commonwealth Bank of Australia was deemed to be interested in the shares held by these subsidiaries.

(c) The 57,863,800 shares and the 23,804,800 shares held directly by First State Investment Management (UK) Limited and First State Investments (Hong Kong) Limited respectively include 4,489,500 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investments (UK Holdings) Limited, SI Holdings Limited, First State Investment Managers (Asia) Ltd., First State Investments (Bermuda) Ltd. and First State (Hong Kong) LLC also include the 4,489,500 shares.

(d) The 57,863,800 shares and the 4,683,500 shares held directly by First State Investment Management (UK) Limited and Colonial First State Investments Limited respectively include 4,603,000 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investments (UK Holdings) Limited and SI Holdings Limited also include the 4,603,000 shares.

(e) The 4,601,500 shares and the 23,804,800 shares held directly by First State Investments (Singapore) and First State Investments (Hong Kong) Limited respectively include 3,014,500 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investments Holdings (Singapore) Limited and First State (Hong Kong) LLC also include the 3,014,500 shares.

Substantial Shareholders' Interests *(continued)*

(3) The following is a breakdown of the interests in shares of JPMorgan Chase & Co.:

Name	Remarks	Total interests in shares		Approximate percentage of interests
		Direct interests	Deemed interests	
Bank One International Holdings Corporation	(b)	—	2,404,000	0.16%
JF Asset Management Limited	(b)	52,654,500	—	3.59%
JF International Management Inc.	(b)	305,000	—	0.02%
J.P. Morgan Capital Holdings Limited	(b)	—	2,090,500	0.14%
J.P. Morgan Chase International Holdings Limited	(b)	—	2,090,500	0.14%
J.P. Morgan Chase (UK) Holdings Limited	(b)	—	2,090,500	0.14%
J.P. Morgan International Finance Limited	(b)	—	2,404,000	0.16%
J.P. Morgan International Inc.	(b)	—	2,404,000	0.16%
J.P. Morgan Investment Management Inc.	(b)	148,067	—	0.01%
J.P. Morgan Overseas Capital Corporation	(b)	—	313,500	0.02%
J.P. Morgan Securities Ltd.	(b)	2,090,500	—	0.14%
J.P. Morgan Whitefriars Inc.	(b)	313,500	—	0.02%
JPMorgan Asset Management (Asia) Inc.	(b)	—	52,959,500	3.61%
JPMorgan Asset Management Holdings Inc.	(b)	—	53,107,567	3.62%
JPMorgan Chase & Co.	(a)	—	108,201,129	7.38%
JPMorgan Chase Bank, N.A.	(b)	52,689,562	2,404,000	3.76%

Remarks:

(a) JPMorgan Chase & Co. is listed on the New York Stock Exchange.

The capacity of JPMorgan Chase & Co. in holding the 108,201,129 shares was, as to 2,404,000 shares, as beneficial owner, 53,107,567 shares, as investment manager and, as to 52,689,562 shares, as custodian/approved lending agent.

The 108,201,129 shares included a lending pool of 52,689,562 shares.

(b) JPMorgan Chase Bank, N.A., JPMorgan Asset Management Holdings Inc., JP Morgan Asset Management (Asia) Inc., J.P. Morgan Investment Management Inc., JF International Management Inc., JF Asset Management Limited, J.P. Morgan International Inc., Bank One International Holdings Corporation, J.P. Morgan International Finance Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Chase International Holdings Limited, J.P. Morgan Securities Ltd., J.P. Morgan Overseas Capital Corporation and J.P. Morgan Whitefriars Inc. were all direct or indirect subsidiaries of JPMorgan Chase & Co., and by virtue of the SFO, JPMorgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.

Save as disclosed above, no other person was interested in or had a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 31st December, 2006.

Sufficiency of Public Float
The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

Donations
During the year, the Group made charitable and other donations totalling HK$5,049,000.

Post Balance Sheet Event
Details of significant events occurring after the balance sheet date are set out in Note 49 to the consolidated financial statements.

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

On behalf of the Board

Horst Julius Pudwill
Chairman and Chief Executive Officer
Hong Kong
18th April, 2007

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Techtronic Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 70 to 126, which comprise the consolidated and Company balance sheets as at 31st December, 2006 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18th April, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 HK$'000 (Note 53)	2005 HK$'000 (Note 53)	2006 US$'000	2005 US$'000
Turnover	7	**21,822,597**	22,358,387	**2,797,769**	2,866,460
Cost of sales		**(14,929,737)**	(15,416,176)	**(1,914,069)**	(1,976,433)
Gross profit		**6,892,860**	6,942,211	**883,700**	890,027
Other income		**43,423**	46,630	**5,567**	5,978
Interest income	8	**91,454**	60,368	**11,725**	7,739
Selling, distribution, advertising and warranty expenses		**(2,529,631)**	(2,537,555)	**(324,312)**	(325,328)
Administrative expenses		**(2,414,135)**	(2,443,035)	**(309,504)**	(313,208)
Research and development costs		**(428,311)**	(492,234)	**(54,912)**	(63,107)
Finance costs	9	**(391,679)**	(353,041)	**(50,215)**	(45,262)
Profit before share of results of associates and taxation		**1,263,981**	1,223,344	**162,049**	156,839
Share of results of associates		**(895)**	(6,463)	**(115)**	(829)
Profit before taxation		**1,263,086**	1,216,881	**161,934**	156,010
Taxation	10	**(184,017)**	(157,714)	**(23,592)**	(20,220)
Profit for the year	11	**1,079,069**	1,059,167	**138,342**	135,790
Attributable to:					
Equity holders of the parent		**1,071,864**	1,018,984	**137,418**	130,638
Minority interests		**7,205**	40,183	**924**	5,152
		1,079,069	1,059,167	**138,342**	135,790
Dividends paid	14	**279,845**	251,469	**35,878**	32,240
Earnings per share (HK/US cents)	15				
Basic		**73.18**	73.53	**9.38**	9.43
Diluted		**70.12**	69.75	**8.99**	8.94

Consolidated Balance Sheet

As at 31st December, 2006

	Notes	2006 HK$'000 (Note 53)	2005 HK$'000 (Note 53)	2006 US$'000	2005 US$'000
Assets					
Non-current assets					
Property, plant and equipment	16	**1,791,746**	1,755,025	**229,711**	225,003
Lease prepayments	17	**66,659**	65,829	**8,546**	8,440
Goodwill	18	**4,042,996**	3,990,967	**518,333**	511,662
Intangible assets	19	**1,620,181**	1,461,453	**207,716**	187,366
Interests in associates	22	**192,989**	189,453	**24,742**	24,289
Available-for-sale investments	23	**43,315**	15,558	**5,553**	1,994
Deferred tax assets	42	**706,493**	646,758	**90,576**	82,918
		8,464,379	8,125,043	**1,085,177**	1,041,672
Current assets					
Inventories	24	**4,019,883**	3,971,216	**515,370**	509,130
Trade and other receivables	25	**3,827,038**	3,265,355	**490,646**	418,635
Deposits and prepayments		**544,977**	466,030	**69,869**	59,748
Bills receivable	26	**578,560**	431,121	**74,174**	55,272
Tax recoverable		**150,312**	68,544	**19,271**	8,788
Trade receivables from associates	28	**8,554**	1,310	**1,097**	168
Held-for-trading investments in Hong Kong	29	**7,800**	—	**1,000**	—
Bank balances, deposits and cash	30	**3,718,798**	4,046,122	**476,769**	518,734
		12,855,922	12,249,698	**1,648,196**	1,570,475
Current liabilities					
Trade and other payables	31	**3,118,120**	3,590,699	**399,759**	460,346
Bills payable	32	**335,455**	550,964	**43,007**	70,636
Warranty provision	33	**369,638**	338,211	**47,389**	43,360
Trade payable to an associate	34	**11,811**	21,946	**1,514**	2,814
Tax payable		**168,769**	116,624	**21,637**	14,952
Obligations under finance leases					
— due within one year	35	**18,535**	18,107	**2,376**	2,321
Discounted bills with recourse	36	**2,501,155**	2,101,171	**320,661**	269,381
Unsecured borrowings — due within one year	38	**421,849**	434,349	**54,083**	55,685
Bank overdrafts		**268,725**	238,928	**34,452**	30,632
		7,214,057	7,410,999	**924,878**	950,127
Net current assets		**5,641,865**	4,838,699	**723,318**	620,348
Total assets less current liabilities		**14,106,244**	12,963,742	**1,808,495**	1,662,020

Consolidated Balance Sheet

	Notes	2006 HK$'000 (Note 53)	2005 HK$'000 (Note 53)	2006 US$'000	2005 US$'000
Capital and Reserves					
Share capital	39	**146,522**	146,172	**18,785**	18,740
Reserves		**6,850,008**	5,966,167	**878,208**	764,895
Equity attributable to equity holders of the parent		**6,996,530**	6,112,339	**896,993**	783,635
Minority interests		**81,445**	120,670	**10,442**	15,471
Total equity		**7,077,975**	6,233,009	**907,435**	799,106
Non-current Liabilities					
Obligations under finance leases					
— due after one year	35	**125,529**	125,467	**16,093**	16,086
Convertible bonds	37	**1,105,834**	1,078,307	**141,774**	138,244
Unsecured borrowings — due after one year	38	**4,464,353**	4,225,411	**572,353**	541,719
Retirement benefits obligations	41	**834,087**	786,337	**106,934**	100,812
Deferred tax liabilities	42	**498,466**	515,211	**63,906**	66,053
		7,028,269	6,730,733	**901,060**	862,914
		14,106,244	12,963,742	**1,808,495**	1,662,020

The financial statements on pages 70 to 126 were approved and authorised for issue by the Board of Directors on 18th April, 2007 and are signed on its behalf by:

Chi Chung Chan
Group Executive Director

Dr Roy Chi Ping Chung JP
Vice Chairman

Balance Sheet

as at 31st December, 2006

	Notes	2006 HK$'000	2005 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	16	**196,753**	196,832
Lease prepayments	17	**4,514**	4,643
Intangible assets	19	**220,192**	138,579
Investments in subsidiaries	21	**630,546**	551,396
Interests in associates	22	**184,638**	173,026
Available-for-sale investments	23	**1,195**	1,195
		1,237,838	1,065,671
Current assets			
Inventories	24	**428,805**	333,683
Trade and other receivables	25	**44,663**	42,362
Deposits and prepayments		**406,444**	195,605
Bills receivable	26	**349,825**	200,754
Tax recoverable		**—**	4,637
Amounts due from subsidiaries	27	**5,969,107**	5,608,841
Bank balances, deposits and cash	30	**1,347,008**	2,442,099
		8,545,852	8,827,981
Current liabilities			
Trade and other payables	31	**639,384**	878,734
Bills payable	32	**312,553**	482,758
Amounts due to subsidiaries	27	**17,934**	416,118
Amounts due to associates	34	**11,811**	21,946
Tax payable		**10,126**	—
Discounted bills with recourse	36	**1,859,874**	1,557,483
Unsecured borrowings — due within one year	38	**38,889**	234,000
		2,890,571	3,591,039
Net current assets		**5,655,281**	5,236,942
Total assets less current liabilities		**6,893,119**	6,302,613

Balance Sheet

	Notes	2006 HK$'000	2005 HK$'000
Capital and Reserves			
Share capital	39	**146,522**	146,172
Reserves	40	**5,391,935**	5,057,800
		5,538,457	5,203,972
Non-current Liabilities			
Convertible bonds	37	**1,105,834**	1,078,307
Unsecured borrowings — due after one year	38	**233,334**	—
Deferred tax liabilities	42	**15,494**	20,334
		1,354,662	1,098,641
		6,893,119	6,302,613

Chi Chung Chan
Group Executive Director

Dr Roy Chi Ping Chung JP
Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

	Equity attributable to equity holders of the parent								
	Share capital	Share premium	Convertible bonds equity reserve	Translation reserve	Employee share-based compensation reserve	Retained profits	Total	Minority interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2005	135,230	810,611	26,334	71,498	—	2,439,011	3,482,684	82,032	3,564,716
Exchange differences on translation of overseas operations	—	—	—	(76,622)	—	—	(76,622)	(1,545)	(78,167)
Share of reserve of an associate	—	—	—	(1,081)	—	—	(1,081)	—	(1,081)
Net loss recognized directly in equity	—	—	—	(77,703)	—	—	(77,703)	(1,545)	(79,248)
Profit for the year	—	—	—	—	—	1,018,984	1,018,984	40,183	1,059,167
Total recognized income and expense for the year	—	—	—	(77,703)	—	1,018,984	941,281	38,638	979,919
Shares issued at a premium	10,942	1,956,700	—	—	—	—	1,967,642	—	1,967,642
Transaction costs attributable to issue of new shares	—	(34,502)	—	—	—	—	(34,502)	—	(34,502)
Recognition of equity-settled share based payments	—	—	—	—	6,703	—	6,703	—	6,703
Final dividend — 2004	—	—	—	—	—	(169,651)	(169,651)	—	(169,651)
Interim dividend — 2005	—	—	—	—	—	(81,818)	(81,818)	—	(81,818)
At 31st December, 2005	146,172	2,732,809	26,334	(6,205)	6,703	3,206,526	6,112,339	120,670	6,233,009
Exchange differences on translation of overseas operations	—	—	—	62,691	—	—	62,691	146	62,837
Net income recognized directly in equity	—	—	—	62,691	—	—	62,691	146	62,837
Profit for the year	—	—	—	—	—	1,071,864	1,071,864	7,205	1,079,069
Total recognized income and expense for the year	—	—	—	62,691	—	1,071,864	1,134,555	7,351	1,141,906
Shares issued at a premium	350	22,040	—	—	—	—	22,390	—	22,390
Recognition of equity-settled share based payments	—	—	—	—	7,091	—	7,091	—	7,091
Final dividend — 2005	—	—	—	—	—	(184,609)	(184,609)	—	(184,609)
Interim dividend — 2006	—	—	—	—	—	(95,236)	(95,236)	—	(95,236)
Interim dividend — 2006 paid by a subsidiary to minority interests	—	—	—	—	—	—	—	(39,005)	(39,005)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(7,571)	(7,571)
At 31st December, 2006	**146,522**	**2,754,849**	**26,334**	**56,486**	**13,794**	**3,998,545**	**6,996,530**	**81,445**	**7,077,975**

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Notes	2006 HK$'000 (Note 53)	2005 HK$'000 (Note 53)	2006 US$'000	2005 US$'000
Operating Activities					
Profit before taxation		**1,263,086**	1,216,881	**161,934**	156,010
Adjustments for:					
Amortization/write-off of intangible assets		**89,417**	49,125	**11,464**	6,298
Amortization of lease prepayments		**1,402**	1,402	**180**	180
Depreciation on property, plant and equipment		**451,278**	471,178	**57,856**	60,407
Employee share-based expense		**7,091**	6,703	**909**	859
Finance costs		**391,679**	353,041	**50,215**	45,262
Impairment loss of investment securities recognized		**—**	13,830	**—**	1,773
Interest income		**(91,454)**	(60,368)	**(11,725)**	(7,739)
Profit on disposal of property, plant and equipment		**(6,926)**	(2,690)	**(888)**	(345)
Share of results of associates		**895**	6,463	**115**	828
Operating cash flows before movements in working capital		**2,106,468**	2,055,565	**270,060**	263,533
Decrease (increase) in inventories		**40,697**	(361,469)	**5,218**	(46,342)
(Increase) decrease in trade and other receivables, deposits and prepayments		**(549,199)**	86,729	**(70,410)**	11,119
Increase in bills receivable		**(133,105)**	(103,654)	**(17,065)**	(13,289)
Increase in trade receivables from associates		**(7,244)**	(63)	**(929)**	(8)
Increase in held-for-trading investments in Hong Kong		**(7,800)**	—	**(1,000)**	—
Decrease in trade and other payables		**(522,540)**	(77,872)	**(66,992)**	(9,984)
(Decrease) increase in bills payable		**(215,509)**	40,820	**(27,629)**	5,233
Increase in warranty provision		**26,164**	9,177	**3,354**	1,177
(Decrease) increase in trade payable to an associate		**(10,135)**	353	**(1,299)**	45
Decrease in retirement benefits obligations		**(25,729)**	(87,675)	**(3,299)**	(11,240)
Cash generated from operations		**702,068**	1,561,911	**90,009**	200,244
Interest paid		**(364,152)**	(325,991)	**(46,686)**	(41,794)
Hong Kong profits tax paid		**(59,577)**	(109,349)	**(7,638)**	(14,019)
Overseas tax paid		**(227,893)**	(258,064)	**(29,217)**	(33,085)
Hong Kong profits tax refunded		**440**	—	**56**	—
Overseas tax refunded		**17,902**	2,325	**2,295**	298
Net Cash from Operating Activities		**68,788**	870,832	**8,819**	111,644

	Notes	2006 HK$'000 (Note 53)	2005 HK$'000 (Note 53)	2006 US$'000	2005 US$'000
Investing Activities					
Purchase of property, plant and equipment		**(471,742)**	(525,334)	**(60,480)**	(67,351)
Additions to intangible assets		**(242,846)**	(261,070)	**(31,134)**	(33,470)
Purchase of additional interests in subsidiaries		**(54,074)**	—	**(6,933)**	—
Further consideration paid on acquisition of subsidiaries in prior years	18	**—**	(12,807)	**—**	(1,642)
Purchase of available-for-sale investments		**(27,757)**	(1,000)	**(3,559)**	(128)
Advances to associates		**(4,431)**	(36,555)	**(568)**	(4,686)
Interest received		**91,454**	60,368	**11,725**	7,739
Proceeds from disposal of property, plant and equipment		**34,913**	71,933	**4,476**	9,222
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	43	**—**	(4,769,329)	**—**	(611,452)
Addition to lease prepayments		**—**	(63,674)	**—**	(8,163)
Net Cash Used in Investing Activities		**(674,483)**	(5,537,468)	**(86,473)**	(709,931)
Financing Activities					
Increase (decrease) in discounted bills with recourse		**399,984**	(1,107,793)	**51,280**	(142,025)
New bank loans obtained		**295,247**	5,202,095	**37,852**	666,935
Increase (decrease) in trust receipt loans		**24,744**	(87,309)	**3,172**	(11,193)
Proceeds from issue of shares		**22,390**	1,933,140	**2,871**	247,838
Dividends paid		**(279,845)**	(251,469)	**(35,878)**	(32,240)
Repayment of bank loans		**(98,716)**	(4,135,671)	**(12,656)**	(530,214)
Dividend paid to minority shareholders		**(39,005)**	—	**(5,001)**	—
Repayment of obligations under finance leases		**(13,346)**	(11,397)	**(1,711)**	(1,461)
Proceeds from issue of fixed interest rate notes		**—**	1,538,458	**—**	197,238
Net Cash from Financing Activities		**311,453**	3,080,054	**39,929**	394,878
Net Decrease in Cash and Cash Equivalents		**(294,242)**	(1,586,582)	**(37,725)**	(203,409)
Cash and Cash Equivalents at Beginning of the Year		**3,807,194**	5,314,518	**488,102**	681,349
Effect of Foreign Exchange Rate Changes		**(62,879)**	79,258	**(8,060)**	10,162
Cash and Cash Equivalents at End of the Year		**3,450,073**	3,807,194	**442,317**	488,102
Analysis of the Balances of Cash and Cash Equivalents					
Represented by:					
Bank balances, deposits and cash		**3,718,798**	4,046,122	**476,769**	518,734
Bank overdrafts		**(268,725)**	(238,928)	**(34,452)**	(30,632)
		3,450,073	3,807,194	**442,317**	488,102

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

1. General

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

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

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

2. Application of New Hong Kong Financial Reporting Standards

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

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

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

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

3. Significant Accounting Policies

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

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

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

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

3. Significant Accounting Policies *(continued)*

Goodwill *(continued)*

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

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

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

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

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

Investments in Subsidiaries

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

Interests in Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Intangible Assets

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

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

3. Significant Accounting Policies *(continued)*

Research and Development Expenditure

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

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

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

Impairment

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

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of impairment loss is recognized as income immediately.

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

Leasing

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

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

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

Lease Prepayments

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

3. Significant Accounting Policies *(continued)*

Property, Plant and Equipment

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

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

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

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

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

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

Impairment Losses other than Goodwill and Intangible Assets with Indefinite Lives

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognized as income immediately.

3. Significant Accounting Policies *(continued)*

Financial Instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

Available-for-sale investments

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

Financial assets at fair value through profit or loss

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

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

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

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

Financial Liabilities and Equity

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

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

3. Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*

Financial Liabilities and Equity *(continued)*

Convertible bonds

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

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

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

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

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

Equity instruments

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

Derivative Financial Instruments

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

Derecognition

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

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

Provisions

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

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

3. Significant Accounting Policies *(continued)*

Inventories

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

Revenue Recognition

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

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

Commission income is recognized when services are provided.

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

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

Taxation

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

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

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

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

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

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

3. Significant Accounting Policies *(continued)*

Foreign Currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which case, the exchange differences are also recognized directly in equity.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2006 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

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

Borrowing Costs

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

Equity-settled Share-based Payment Transactions

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

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

3. Significant Accounting Policies *(continued)*

Retirement Benefit Schemes

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

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10.00 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the amended benefits become vested. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The amount recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below.

Estimated Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2006, the carrying amount of goodwill is HK$4,042,996,000. Details of the recoverable amount calculation are disclosed in Note 20.

Estimated Impairment of Intangible Assets

During the year, management reconsidered the carrying amount of its intangible assets. In determining whether the intangible asset is impaired, the management takes into consideration the anticipated revenues and estimated future cash flows from the underlying projects, and the progress of these projects. When the actual revenues and future cash flows are less than expected, a material loss may arise. Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments will be made in future periods, if future market activity indicates that such adjustments are appropriate.

Income Taxes

As at 31st December, 2006, a deferred tax asset of HK$195,563,000 in relation to unused tax losses and HK$156,598,000 in relation to employee related provisions has been recognized in the Group's balance sheet. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognized in the income statement for the period in which such a reversal takes place.

5. Financial Risks Management Objectives and Policies

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

(a) Currency Risk

The revenue and costs of the Group are primarily denominated in either Hong Kong dollars and US dollars. Several overseas subsidiaries of the Company have sales and assets denominated in foreign currencies which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts and options are employed to hedge against the committed and highly probable foreign currency transactions in accordance with the Group's risk management policies. The terms of the foreign currency forward contracts match closely with the underlying transactions although hedge accounting has not been adopted.

(b) Interest Rate Risk

(i) Cash flow interest rate risk

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

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

(ii) Fair value interest rate risk

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

(c) Credit Risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group performs comprehensive credit evaluations to assess the financial conditions of its prospective customers before entering into business relations with them. The credit risk is minimized by the Group's credit control procedures for monitoring and reporting such risk on a regular basis.

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

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

(d) Liquidity Risk

The Group finances its operations by a combination of borrowings and equity. With substantial cash balances and adequate banking facilities at the balance sheet date, the Group's liquidity position remains strong. The Group has sufficient financial resources to meet its commitments and working capital requirements.

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

(e) Fair Value of Financial Instruments

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid and ask prices;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

6. Business and Geographical Segments

Business Segments

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

Income Statement

For the year ended 31st December, 2006

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

Inter-segment sales are charged at prevailing market rates.

	Power Equipment HK$'000	Floor Care HK$'000	Laser and Electronics HK$'000	Eliminations HK$'000	Consolidated HK$'000
Result					
Segment results	1,462,030	156,757	36,873	—	1,655,660
Finance costs					(391,679)
Share of results of associates					(895)
Profit before taxation					1,263,086
Taxation					(184,017)
Profit for the year					1,079,069

6. Business and Geographical Segments *(continued)*

Business Segments *(continued)*

Balance Sheet

As at 31st December, 2006

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

Other Information

For the year ended 31st December, 2006

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

6. Business and Geographical Segments *(continued)*

Business Segments *(continued)*

Income Statement

For the year ended 31st December, 2005

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

Inter-segment sales are charged at prevailing market rates.

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

Balance Sheet

As at 31st December, 2005

	Power Equipment HK$'000	Floor Care HK$'000	Laser and Electronics HK$'000	Consolidated HK$'000
Assets				
Segment assets	16,758,492	2,229,624	481,870	19,469,986
Interests in associates				189,453
Unallocated corporate assets				715,302
Consolidated total assets				20,374,741
Liabilities				
Segment liabilities	(6,424,536)	(1,004,834)	(87,630)	(7,517,000)
Unallocated corporate liabilities				(6,624,732)
Consolidated total liabilities				(14,141,732)

6. Business and Geographical Segments *(continued)*

Business Segments *(continued)*

Other Information

For the year ended 31st December, 2005

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

Geographical Segments

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

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

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

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

7. Turnover

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

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

8. Interest Income

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

9. Finance Costs

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

10. Taxation

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

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

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

The tax expenses for the year are reconciled as follows:

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

Details of deferred tax are set out in Note 42.

11. Profit for the Year

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

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

12. Directors' Emoluments

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

For the year ended 31st December, 2006

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

For the year ended 31st December, 2005

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

13. Employees' Emoluments

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

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

During each of the two years ended 31st December, 2006 and 2005, no emoluments have been paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during those years.

14. Dividends Paid

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

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

15. Earnings per Share

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

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

16. Property, Plant and Equipment

	Freehold land and buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Moulds and tooling HK$'000	Vessels HK$'000	Construction in progress HK$'000	Total HK$'000
The Group									
Cost									
At 1st January, 2005	431,135	154,653	482,832	515,175	21,170	1,129,394	11,835	40,796	2,786,990
Currency realignment	(55,048)	(1,745)	(19,337)	(80,404)	(1,087)	(58,083)	—	(2,266)	(217,970)
Additions	1,278	22,769	112,911	127,517	7,430	178,914	—	82,415	533,234
Acquisition of subsidiaries	571,356	14,549	168,688	1,327,128	4,977	836,921	—	90,371	3,013,990
Disposals	(74,713)	(14,793)	(13,633)	(115,322)	(1,923)	(17,178)	—	—	(237,562)
Reclassification	14,928	—	11,206	24,476	258	10,210	—	(61,078)	—
At 31st December, 2005	888,936	175,433	742,667	1,798,570	30,825	2,080,178	11,835	150,238	5,878,682
Currency realignment	40,362	1,646	20,703	66,748	1,018	46,887	—	2,402	179,766
Additions	14,289	25,966	68,459	79,585	4,173	138,709	64	141,915	473,160
Disposals	(54,540)	(9,661)	(16,186)	(40,285)	(2,428)	(180,563)	—	—	(303,663)
Reclassification	36,492	10,335	17,504	51,565	(459)	37,216	—	(152,653)	—
At 31st December, 2006	**925,539**	**203,719**	**833,147**	**1,956,183**	**33,129**	**2,122,427**	**11,899**	**141,902**	**6,227,945**
Depreciation and Amortization									
At 1st January, 2005	118,913	104,196	341,260	378,960	16,246	943,657	3,912	—	1,907,144
Currency realignment	(26,180)	(1,114)	(13,116)	(70,687)	(795)	(53,979)	—	—	(165,871)
Provided for the year	36,553	12,959	86,064	125,834	4,134	203,927	1,707	—	471,178
Acquisition of subsidiaries	187,560	5,568	139,396	995,950	3,952	747,099	—	—	2,079,525
Eliminated on disposals	(19,696)	(4,681)	(13,633)	(113,479)	(1,242)	(15,588)	—	—	(168,319)
Reclassification	(64)	—	(11,890)	11,886	—	68	—	—	—
At 31st December, 2005	297,086	116,928	528,081	1,328,464	22,295	1,825,184	5,619	—	4,123,657
Currency realignment	20,395	541	13,386	56,495	601	45,522	—	—	136,940
Provided for the year	31,807	17,387	87,844	116,227	3,282	193,020	1,711	—	451,278
Eliminated on disposals	(34,275)	(7,926)	(16,079)	(35,893)	(2,394)	(179,109)	—	—	(275,676)
Reclassification	—	26	864	(878)	(137)	125	—	—	—
At 31st December, 2006	**315,013**	**126,956**	**614,096**	**1,464,415**	**23,647**	**1,884,742**	**7,330**	**—**	**4,436,199**
Net Book Values									
At 31st December, 2006	**610,526**	**76,763**	**219,051**	**491,768**	**9,482**	**237,685**	**4,569**	**141,902**	**1,791,746**
At 31st December, 2005	591,850	58,505	214,586	470,106	8,530	254,994	6,216	150,238	1,755,025

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

	Buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Moulds and tooling HK$'000	Total HK$'000
The Company							
Cost							
At 1st January, 2005	65,945	59,691	103,973	219,622	10,019	525,133	984,383
Additions	—	10,334	21,007	12,143	709	53,922	98,115
Transfer to subsidiaries	—	(1,544)	(1,398)	(91,800)	—	(81)	(94,823)
Disposals	—	—	(4)	(3,085)	(158)	(637)	(3,884)
At 31st December, 2005	65,945	68,481	123,578	136,880	10,570	578,337	983,791
Additions	—	16,062	16,120	14,943	920	37,109	85,154
Transfer from (to) subsidiaries	—	258	(879)	13,652	—	(39,171)	(26,140)
Disposals	—	—	(6)	(947)	(1,401)	(973)	(3,327)
At 31st December, 2006	**65,945**	**84,801**	**138,813**	**164,528**	**10,089**	**575,302**	**1,039,478**
Depreciation and Amortization							
At 1st January, 2005	20,759	54,025	77,845	178,276	8,575	431,480	770,960
Provided for the year	2,638	4,462	13,770	13,253	861	58,079	93,063
Transfer to subsidiaries	—	(1,303)	(921)	(71,739)	—	(27)	(73,990)
Eliminated on disposals	—	—	(4)	(2,712)	(158)	(200)	(3,074)
At 31st December, 2005	23,397	57,184	90,690	117,078	9,278	489,332	786,959
Provided for the year	2,638	6,136	16,576	13,883	774	43,442	83,449
Transfer to subsidiaries	—	—	(784)	(1,463)	—	(22,521)	(24,768)
Eliminated on disposals	—	—	(5)	(947)	(1,401)	(562)	(2,915)
At 31st December, 2006	**26,035**	**63,320**	**106,477**	**128,551**	**8,651**	**509,691**	**842,725**
Net Book Values							
At 31st December, 2006	**39,910**	**21,481**	**32,336**	**35,977**	**1,438**	**65,611**	**196,753**
At 31st December, 2005	42,548	11,297	32,888	19,802	1,292	89,005	196,832

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

The net book values of properties shown above comprise:

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

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

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

17. Lease Prepayments

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

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

18. Goodwill

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

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

19. Intangible Assets

	Deferred development costs HK$'000	Patents and trademarks HK$'000	Manufacturing know-how HK$'000	Total HK$'000
The Group				
Cost				
At 1st January, 2005	52,764	195,958	3,510	252,232
Currency realignment	(5,217)	(6,596)	—	(11,813)
Additions	173,939	87,131	—	261,070
Acquisition of subsidiaries	58,988	987,805	—	1,046,793
Written off in the year	(2,029)	(2,791)	—	(4,820)
At 31st December, 2005	278,445	1,261,507	3,510	1,543,462
Currency realignment	5,733	2,672	—	8,405
Additions	192,830	50,016	—	242,846
Written off in the year	—	(4,325)	—	(4,325)
At 31st December, 2006	**477,008**	**1,309,870**	**3,510**	**1,790,388**
Amortization				
At 1st January, 2005	—	17,537	1,814	19,351
Currency realignment	(701)	(2,042)	—	(2,743)
Provided for the year	21,965	24,417	702	47,084
Acquisition of subsidiaries	7,197	13,899	—	21,096
Eliminated on write off	—	(2,779)	—	(2,779)
At 31st December, 2005	28,461	51,032	2,516	82,009
Currency realignment	1,139	1,967	—	3,106
Provided for the year	59,815	28,900	702	89,417
Eliminated on write off	—	(4,325)	—	(4,325)
At 31st December, 2006	**89,415**	**77,574**	**3,218**	**170,207**
Carrying Amounts				
At 31st December, 2006	**387,593**	**1,232,296**	**292**	**1,620,181**
At 31st December, 2005	249,984	1,210,475	994	1,461,453

19. Intangible Assets *(continued)*

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

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

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

The trademarks are considered by the management of the Group as having an indefinite useful life because they expected to contribute to net cash inflows indefinitely. The trademarks will not be amortized until their useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in Note 20.

20. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives

The carrying amounts of goodwill and trademarks with indefinite useful lives as at 31st December, 2006 allocated to the following cash-generating units ("CGUs") are as follows:

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

During the year ended 31st December, 2006, management of the Group determined that there is no impairment of any of its CGUs containing goodwill or trademarks with indefinite useful lives.

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

The recoverable amount of the CGUs are determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate at 5% and 12% and extrapolated using a steady 3% growth rate.

21. Investments in Subsidiaries

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

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

22. Interests in Associates

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

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

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

22. Interests in Associates *(continued)*

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

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

At the balance sheet date, amongst the associates, the Group held 40.8% of the shares of Gimelli International (Holdings) Limited and its subsidiaries (together "Gimelli Group companies"). The carrying value of the Group's interests in the Gimelli Group companies is nil at both 31st December, 2006 and 31st December, 2005.

23. Available-for-sale Investments

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

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

24. Inventories

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

25. Trade and Other Receivables

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

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

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

26. Bills Receivable

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

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

27. Amounts Due from (to) Subsidiaries

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

28. Trade Receivables from Associates

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

29. Held-for-trading Investments in Hong Kong

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

30. Bank Balances, Deposits and Cash

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

31. Trade and Other Payables

The aged analysis of trade payables is as follows:

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

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

32. Bills Payable

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

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

33. Warranty Provision

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

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

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

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

35. Obligations under Finance Leases

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

The maturity of obligations under finance leases is as follows:

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

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at 31st December, 2006, approximates their carrying amount.

36. Discounted Bills with Recourse

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

37. Convertible Bonds

On 16th June, 2004, the Group announced the issue of 5-year Zero Coupon Convertible Bonds at par, due in July, 2009 (the "Bonds"), for an aggregate principal amount of US$140,000,000 (approximately HK$1,092,000,000). The Bonds are convertible, at the option of bondholders, into ordinary shares of HK$0.10 each of the Company at an initial conversion price of US$2.1247 per share at any time from 7th August, 2005 to 1st July, 2009. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at 107.76% of its principal amount on the maturity date of 8th July, 2009. However, on or after 8th July, 2007 and prior to the maturity date, the bondholders may, at their option, require the Company to redeem all or some of the Bonds at 104.59% of the principal amount.

The Bonds contain two components, a liability and an equity element. Upon the application of HKAS 32 Financial Instruments: Disclosure and Presentation, the Bonds were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity as "Convertible bonds equity reserve". The effective interest rate of the liability component is 2.11%.

37. Convertible Bonds *(continued)*

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

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

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

38. Unsecured Borrowings

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

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

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

38. Unsecured Borrowings *(continued)*

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

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

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

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

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

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

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

39. Share Capital

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

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

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

Details of the share options are set out in Note 47.

40. Reserves

	Share premium HK$'000	Convertible bonds equity reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
The Company					
At 1st January, 2005	810,611	26,334	—	2,018,991	2,855,936
Premium on shares issued	1,956,700	—	—	—	1,956,700
Transaction costs attributable to issue of new shares	(34,502)	—	—	—	(34,502)
Recognition of equity-settled share based payment	—	—	6,703	—	6,703
Profit for the year	—	—	—	524,432	524,432
Final dividend — 2004	—	—	—	(169,651)	(169,651)
Interim dividend — 2005	—	—	—	(81,818)	(81,818)
At 1st January, 2006	2,732,809	26,334	6,703	2,291,954	5,057,800
Premium on shares issued	22,040	—	—	—	22,040
Recognition of equity-settled share based payment	—	—	7,091	—	7,091
Profit for the year	—	—	—	584,849	584,849
Final dividend — 2005	—	—	—	(184,609)	(184,609)
Interim dividend — 2006	—	—	—	(95,236)	(95,236)
At 31st December, 2006	**2,754,849**	**26,334**	**13,794**	**2,596,958**	**5,391,935**

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

41. Retirement Benefits Obligations

	2006 HK$'000	2005 HK$'000
Pension plan obligations (Note i)	**672,117**	621,737
Post-retirement, medical, dental and life insurance plan obligations (Note ii)	**146,965**	151,770
Others	**15,005**	12,830
	834,087	786,337

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

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

41. Retirement Benefits Obligations *(continued)*

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. Under the plan, the employees are entitled to retirement benefits varying between 10.00 and 20.00 per cent of final salary on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out on 1st January 2007 by BDO Deutsche Warentreuhand Aktiengesellschaft, Germany.

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

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the USA, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on 1st January, 2007 by Mercer Human Resource Consulting. There are no assets segregated and restricted for these benefits and the plans are funded on a pay-as-you-go basis.

The main actuarial assumptions used were as follows:

	Pension plan	Post-retirement medical, dental and life insurance plan
	2006	**2006**
Discount rate	**4.00%**	**5.80%**
Expected rate of salary increases	**2.00%**	**N/A**
Future pension increases	**2.00%**	**N/A**
Medical cost inflation (ultimate)	**N/A**	**5.00%**

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

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

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

41. Retirement Benefits Obligations *(continued)*

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

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

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

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

One World Technologies, Inc., a subsidiary of the Group in the USA operates another defined benefit scheme. The pension costs of this defined benefit scheme are assessed in accordance with an actuarial valuation as at 1st January, 2007 performed by Aon Consulting, an employee benefits consulting group, using the Projected Unit Credit method. No medical trend rate assumption is necessary as at 31st December, 2006 and 2005 since all retirees are assumed to be affected by the fixed dollar subsidy and a discount rate of 5.80% (2005: 5.50%) was assumed for calculating the actuarial valuation.

There are no assets set aside for these benefits and the plan is funded on a pay-as-you-go basis. The accrued benefit costs under this scheme are to be reimbursed by a former shareholder of the overseas subsidiary in accordance with an assignment assumption, reimbursement and indemnification agreement. As such, the overseas subsidiary has set up a receivable and an accrued benefit cost of the same amount of approximately HK$22,000,000 (2005: HK$23,000,000) as at 31st December, 2006.

42. Deferred Tax Assets (Liabilities)

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

	Accelerated tax depreciation HK$'000	Warranty provision HK$'000	Convertible bonds equity reserve HK$'000	Employee related provision HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
The Group							
At 1st January, 2005	(29,677)	70,925	(5,586)	29,927	147,486	75,088	288,163
Acquisition of subsidiaries	(119,720)	27,920	—	125,890	19,483	(251,430)	(197,857)
Currency realignment	2,616	(876)	—	(10,276)	(8,680)	(17,099)	(34,315)
(Charge) credit to income for the year	43,579	(2,445)	—	10,082	40,838	(16,498)	75,556
At 1st January, 2006	(103,202)	95,524	(5,586)	155,623	199,127	(209,939)	131,547
Currency realignment	(2,536)	(6,028)	—	10,860	19,210	(1,743)	19,763
(Charge) credit to income for the year	24,315	12,038	—	(9,885)	(22,774)	53,023	56,717
At 31st December, 2006	**(81,423)**	**101,534**	**(5,586)**	**156,598**	**195,563**	**(158,659)**	**208,027**

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

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

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

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

43. Acquisition of Subsidiaries

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

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

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

43. Acquisition of Subsidiaries *(continued)*

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

The subsidiaries acquired contributed approximately HK$5,940,957,000 to the Group's turnover, and approximately HK$354,605,000 to the Group's profit before taxation and interest for the period between the date of acquisition and the balance sheet date as at 31st December, 2005.

44. Major Non-cash Transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of HK$1,418,000 (2005: HK$7,900,000).

45. Lease Commitments

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

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

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

46. Contingent Liabilities

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

In addition, the Company has given guarantees to banks and independent third parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilized by the subsidiaries as at 31st December, 2006 amounted to HK$5,546,886,000 (2005: HK$5,467,275,000).

47. Share Options

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

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

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

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

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

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

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

(i) employees; or

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

(iii) suppliers or customers; or

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

(v) shareholders.

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

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

Scheme C expired on 27th March, 2007.

47. Share Options *(continued)*

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

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

47. Share Options *(continued)*

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

47. Share Options *(continued)*

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

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

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

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

	Outstanding at 1st January	**Granted during the year**	**Exercised during the year**	**Reclassification**	**Outstanding at 31st December**
2006	**45,312,000**	**—**	**200,000**	**100,000***	**45,212,000**

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

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

No option lapsed or was cancelled during the year.

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

47. Share Options *(continued)*

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

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

All the share options are fully vested at grant date.

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

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

The weighted average closing price of the Company's shares on various dates of grant was HK$13.00 per option.

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

The Group recognized total expense of HK$7,091,000 for the year ended 31st December, 2006 (2005: HK$6,703,000) in relation to share options granted by the Company.

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

48. Capital Commitments

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

49. Post Balance Sheet Event

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

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

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

50. Related Party Transactions

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

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

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

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

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

51. Particulars of Principal Subsidiaries

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

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
A&M Electric Tools GmbH	Germany	€20,451,675	—	100	Trading and manufacture of power equipment products
Digiwireless Limited	Hong Kong	HK$2	100	—	Investment holding
DreBo Werkzeugfabrik GmbH	Germany	€1,000,000	—	100	Trading and manufacture of power equipment products
Homelite Asia (Dongguan) Company Limited	PRC	US$17,700,000	—	100	Manufacture of outdoor power equipment products
Homelite Asia Ltd.	British Virgin Islands ("BVI")	US$1	—	100	Investment holding
Homelite Consumer Products, Inc.	USA	US$10	—	100	Trading of outdoor power equipment products
Homelite Far East Company Limited	Hong Kong	HK$2	100	—	Trading of outdoor power equipment products
Homelite Technologies Ltd.	Bermuda	US$12,000	100	—	Investment holding
MacEwen Property Co. Inc.	USA	US$100	100	—	Property holding
Marco Polo Industries & Merchandising Company Limited	Hong Kong	HK$100,000	100	—	Trading of household electronic and electrical products
Milwaukee Electric Tool Corporation	USA	US$50,000,000	—	100	Trading and manufacture of power equipment products
One World Technologies, Inc.	USA	US$10	—	100	Investment holding
OWT France SAS	France	€1,750,000	—	100	Investment holding
OWT Industries, Inc.	USA	US$10	—	100	Manufacture of electric components and power equipment products
Royal Appliance International GmbH	Germany	€2,050,000	100	—	Trading of household electronic and electrical products
Royal Appliance Mfg. Co.	USA	US$1	—	100	Trading and manufacture of floor care products

51. Particulars of Principal Subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Ryobi Technologies Canada Inc.	Canada	C$600,000	—	100	Trading of electric power equipment products
Ryobi Technologies GmbH	Germany	€500,000	100	—	Trading of electric power equipment products
Ryobi Technologies S.A.S.	France	€14,919,832	—	100	Trading of electric power equipment products
Ryobi Technologies (UK) Limited	United Kingdom	£4,000,000	—	100	Trading of electric power equipment products
Sang Tech Industries Limited	Hong Kong	HK$1,000,000	100	—	Manufacture of plastic parts
Santo Industries Limited	Hong Kong	HK$2,000,000	100	—	Manufacture of metallic parts
Solar Wide Industrial Limited	Hong Kong	HK$2,000,000	75.725	—	Manufacture of electronic products
Techpower Engineering Company Limited	Hong Kong	HK$2	100	—	Manufacture of components
Techtronic Appliances (Hong Kong) Limited	Hong Kong	HK$2	—	100	Trading and manufacture of floor care products
Techtronic Appliances International Ltd.	BVI	US$1	—	100	Investment holding
Techtronic Industries Australia Pty. Ltd.	Australia	A$5,500,000	100	—	Trading of electric power equipment products
Techtronic Industries (Dongguan) Co. Ltd.	PRC	US$12,500,000	—	100	Manufacture of power equipment products
Techtronic Industries N.Z. Ltd.	New Zealand	NZ$1,165,500	100	—	Trading of electric power equipment products
Techtronic Industries North America, Inc.	USA	US$10	98.4	1.6	Investment holding
Techtronic Industries (Taiwan) Co. Ltd.	Taiwan	NT$5,000,000	100	—	Provision of inspection services
TTI Investments (Dongguan) Company Limited	Hong Kong	HK$2	100	—	Investment holding
Vax Appliances (Australia) Pty. Ltd.	Australia	A$1,200,008	100	—	Assembly and distribution of floor care products
Vax Limited	United Kingdom	£33,000	100	—	Assembly, procurement and distribution of floor care products

51. Particulars of Principal Subsidiaries *(continued)*

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

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

52. Particulars of Associates

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

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

53. US Dollar Equivalents

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

54. Comparative Figures

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

Financial Summary

Results

	Year ended 31st December,				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	9,492,938	13,182,808	16,304,140	22,358,387	**21,822,597**
Profit before share of results of associates and taxation	495,780	769,228	1,076,344	1,223,344	**1,263,981**
Share of results of associates	121	(987)	(845)	(6,463)	**(895)**
Profit before taxation	495,901	768,241	1,075,499	1,216,881	**1,263,086**
Taxation	(70,246)	(66,811)	(108,829)	(157,714)	**(184,017)**
Profit for the year	425,655	701,430	966,670	1,059,167	**1,079,069**
Attributable to:					
Equity holders of the parent	413,414	673,973	926,356	1,018,984	**1,071,864**
Minority interests	12,241	27,457	40,314	40,183	**7,205**
Profit for the year	425,655	701,430	966,670	1,059,167	**1,079,069**
Basic earnings per share	33.24 cents	51.56 cents	69.28 cents	73.53 cents	**73.18 cents**

Assets and Liabilities

	At 31st December,				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	6,423,105	9,646,268	13,903,324	20,374,741	**21,320,301**
Total liabilities	4,576,251	7,087,010	10,367,476	14,141,732	**14,242,326**
	1,846,854	2,559,258	3,535,848	6,233,009	**7,077,975**
Equity attributable to equity holders of the parent	1,827,937	2,512,884	3,453,816	6,112,339	**6,996,530**
Minority interests	18,917	46,374	82,032	120,670	**81,445**
	1,846,854	2,559,258	3,535,848	6,233,009	**7,077,975**

Corporate Information

Board of Directors

Group Executive Directors

Mr Horst Julius Pudwill
Chairman and Chief Executive Officer

Dr Roy Chi Ping Chung JP
Vice Chairman

Mr Patrick Kin Wah Chan
Mr Frank Chi Chung Chan
Mr Stephan Horst Pudwill

Non-executive Director

Mr Vincent Ting Kau Cheung

Independent Non-executive Directors

Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley OBE
Mr Manfred Kuhlmann

Financial Calendar 2007

18th April:	Announcement of 2006 annual results
23rd May:	Last day to register for 2006 final dividend
25th – 29th May:	Book closure period
29th May:	Annual General Meeting
5th July:	Final dividend payment
30th June:	Six months interim period end
31st December:	Financial year end

Investor Relations Contact

Investor Relations and Communications
Techtronic Industries Co. Ltd.
24/F., CDW Building
388 Castle Peak Road
Tsuen Wan, N.T.
Hong Kong
email: ir@tti.com.hk

Website

www.ttigroup.com

Earning results, annual/interim reports are available online.

Listing Information

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

Share Registrar and Transfer Office

Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong
Tel: (852) 2980 1888

ADR Depositary

The Bank of New York

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Citibank N.A.
Standard Chartered Bank
Hang Seng Bank Ltd.

Solicitors

Vincent T K Cheung Yap & Co

Auditors

Deloitte Touche Tohmatsu

Qualified Accountant

Mr Frank Chi Chung Chan

Company Secretary

Mr Frank Chi Chung Chan

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3 Super UltraSonic Telemeter – Ryobi® branded
4 Milwaukee® V28™ Cordless Lithium ion Sawzall® Reciprocating Saw
5 Craftsman® Professional ½" Pro Router
6 Milwaukee® V18™ Cordless Lithium ion Hammer Drill
7 18v One+™ System 18v Impact Driver – Ryobi® branded
8 RLT 5030AH - 500 Watt Electric Line Trimmer – Ryobi® branded
9 Homelite® MightyLite™ 26CC Gas Curved Shaft String Trimmer
10 Milwaukee® Tilt-Lok™ 7-1/4 in. AC Circular Saw
11 18v One+™ System 2-Speed Hammer Drill – Ryobi® branded
12 AEG® 18v BSB 18 STX Percussion Drill Driver
13 RIDGID® 18v Cordless 1/2" Hammer Drill/Driver
14 Nomad® 12v Auto Power Portable Pressure Cleaner
15 Dirt Devil® Reaction™D2 Dual-Cyclonic Technology™ Upright Vacuum
16 2 Channel Rechargeable Baby Monitor
17 18v One+™ System CornerCat™ Finish Sander – Ryobi® branded
18 18v One+™ System 5-1/2" Circular Saw with Laser – Ryobi® branded
19 BackPack 25.4cc Gas Commercial Grade 25.4cc Blower – Ryobi® branded
20 RCS-4046C 40cc Gas Chainsaw – Ryobi® branded
21 AEG® PM10E Corded Demolition Hammer Drill
22 Homelite® MightyLite™ 26CC Gas Lightweight Blower
23 Dirt Devil® BroomVac® Rechargeable Cordless Stick Vac
24 Dirt Dirt® KONE™ Cordless Hand Held Vacuum
25 7 hp 3000 PSI Premium Pressure Washer – Ryobi® branded
26 Hoover® WindTunnel™2 Bagless Hard Floor Upright Vacuum
27 Hoover® FloorMate™ SpinScrub™ 800 Vacuum
28 AEG® WS 21-230 GVX - 2100W Angle Grinder
29 Vax® VZL-702 Performance Zero Bagless Cylinder Vacuum

Powerful Brands
Innovative Products
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