**TECHTRONIC INDUSTRIES CO. LTD.**
**創 科 實 業 有 限 公 司**
*(incorporated in Hong Kong with limited liability)*
**(Stock code: 669)**

# ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2008

## Highlights

| | **2008 HK$' million** | 2007 HK$' million | **2008 US$' million** | 2007 US$' million | **Changes** |
|---|---|---|---|---|---|
| **Turnover** | **26,615** | 24,775 | **3,412** | 3,176 | **+7.4%** |
| **EBITDA (before other income, before restructuring and relocation costs, before goodwill impairment)** | **2,002** | 1,585 | **257** | 203 | **+26.3%** |
| **EBITDA (after other income, before restructuring and relocation costs, before goodwill impairment)** | **2,074** | 1,962 | **266** | 251 | **+5.7%** |
| **EBITDA** | **1,278** | 1,219 | **164** | 156 | **+4.8%** |
| **Restructuring and relocation costs** | **718** | 743 | **92** | 95 | **-3.4%** |
| **Profit attributable to equity holders of the parent (before other income, before restructuring and relocation costs, before goodwill impairment)** | **899** | 491 | **115** | 63 | **+83.1%** |
| **Profit attributable to equity holders of the parent (after other income, before restructuring and relocation costs, before goodwill impairment)** | **971** | 868 | **124** | 111 | **+11.9%** |
| **Profit attributable to equity holder of the parent** | **175** | 125 | **22** | 16 | **+40.0%** |
| **Basic earnings per share (HK/US cents)** | **11.64** | 8.41 | **1.49** | 1.08 | **+38.4%** |
| **Dividend per share (HK/US cents)** | **6.00** | 8.00 | **0.77** | 1.03 | **-25.0%** |

- **Profit increases 40.0%**
- **Sales grow 7.4%**
- **New innovative products drive growth**
- **Strategic repositioning enhances competitiveness**
- **Lower operating expenses**
- **Free cash flow improves**

## BUSINESS HIGHLIGHTS

***Profit Increases 40.0% and Sales Grow 7.4%***

TTI Group delivered record sales in 2008 of HK$26.6 billion, an increase of 7.4% over the prior year and a full year profit of HK$175 million, a 40.0% increase over 2007. This includes the one-time restructuring costs of the Strategic Repositioning Plan which was announced in 2007. Profit without the restructuring and relocation costs, goodwill impairment, and other income grew 83.1% to HK$899 million from HK$491 million in 2007. Earnings per share increased 38.4% to HK11.64 cents over the prior year.

In 2008, the Group's momentum was maintained while tackling the global economic challenges. The resilience of the business is reflected in our sales, profit, and balance sheet improvements during the year. Positive results were achieved through new product development programs, cost containment initiatives, and implementation of our Strategic Repositioning Plan ahead of the economic challenges of 2008. The Plan has improved the manufacturing cost profile and the competitiveness of the Company, positioning it better for years to come.

The Group generated HK$740 million of free cash flow in 2008, reflecting improved working capital management and reduced capital expenditures. While capital investment for new product development continued, prudent management lowered overall spending by 16% to HK$719 million from HK$860 million in 2007. Additional cash was generated from operational improvements and global supply-chain consolidation resulting in a 24% reduction in inventory of HK$1.4 billion to HK$4.5 billion at the end of 2008 compared with 2007.

***New Innovative Products Drive Growth***

TTI is committed to delivering quality, innovation, and exceptional value to its customers. This focus has provided continuous gains in the Group's market position and has driven record sales results. TTI launched over 350 new products across all core categories and gained strong traction in new categories with substantial sales and profit growth potential. Approximately 30% of our 2008 sales were generated from new products. We were able to achieve this level of new product vitality through improved R&D productivity that managed spending below 2% of sales, consistent with historical levels and without compromising end-user driven innovation.

***Strategic Repositioning Enhances Competitiveness***

In 2007, the Board of Directors approved the Strategic Repositioning Plan, an initiative for the Group to fully leverage and exploit the synergies and growth opportunities offered by its acquisitions and business scale. The initiatives included a re-deployment of our global manufacturing and product development operations; a reorganisation of our structures and resources around newly created business units for more efficient management of brands and products; and investments to expand our highly-recognised brands and innovative products into markets where they were under-represented.

*Lower Operating Expenses*

The global management team addressed the challenge to drive down operating expenses and as a result, direct labor and manufacturing overhead were reduced by 9% from 2007 levels. The New Industrial Park in Dongguan, China achieved full production during the second half of the year and generated operating efficiencies reducing direct labor and manufacturing overhead costs. Even with higher sales, SG&A expenses were cut by HK$13 million leading to SG&A being reduced from 27.9% of sales in 2007 to 25.9% in 2008. This was achieved without sacrificing our commitment to product development, brand support, and product promotion through control and allocation of all areas of SG&A spend.

The sales volume increase and cost reduction activities increased Gross Profit to HK$8.2 billion in 2008 from HK$7.8 billion in 2007. Our Gross Margin percentage softened from 31.5% of 2007 sales to 30.8% of 2008 sales. Materials inflation led the erosion, but was partially offset by business and product mix improvements and reductions in the direct labor and manufacturing overheads. The lowering of SG&A expenses allowed the Profit from Operations to remain at 5.4% of sales which is the same rate as in 2007. The Floor Care and Appliances business continued its improvement following the Hoover integration as Profit from Operations expanded from 1.9% of sales in 2007 to 3.2% of 2008 sales.

*Free Cash Flow Improves*

The reduction of capital expenditure and lower inventory contributed to significant free cash flow improvement of HK$1.2 billion from the 2007 level. Better global inventory management resulted in lower days sales on hand of 62 days from 88 days in 2007. The Company reduced capital expenditures in 2008 leading to a decline in depreciation to HK$528 million from HK$562 million for 2007. The 2008 completion of the New Industrial Park means capital requirements will be lower going forward. Together with improved working capital management, we expect free cash flow to continue to improve.

The improvement in free cash flow has enabled the Group to pay down one of the major bank debts which amounted to HK$702 million in fourth quarter 2008. Our capital structure remains sound and we successfully refinanced approximately 80% of a HK$1.0 billion syndicated loan in March 2009. At December 2008, net gearing has reduced to 94.6%. The financing costs of the business were reduced slightly on higher volume to 1.8% of sales from 1.9% of sales.

## DIVIDEND

The Directors have recommended a final dividend of HK3.00 cents per share for the year ended December 31, 2008 (2007: HK1.50 cents) payable to the Company's shareholders whose names appear on the register of members of the Company on May 27, 2009. 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 July 31, 2009. This payment, together with the interim dividend of HK3.00 cents per share (2007: HK6.50 cents) paid on September 29, 2008, makes a total payment of HK6.00 cents per share for 2008 (2007: HK8.00 cents).

## REVIEW OF OPERATIONS

Our Power Equipment business delivered solid growth in 2008. The full year sales were HK$18.5 billion representing 69.6% of Group turnover and an increase of 9.8%. Sales growth was in part due to double digit gains in Outdoor Products after successful new product introductions and continued strength in lithium ion cordless tools where sales doubled. We are aggressively driving product development in all businesses and launched over 200 new products during the year. Professional and industrial tools improved against the prior year and benefited from the launch of the Milwaukee lithium ion M18 and M12 cordless product ranges. We entered the portable generator business where we anticipate strong sales and profit growth potential.

The Floor Care and Appliances business achieved positive sales growth and a turnaround in operating profit. Sales grew 2.3% to HK$8.0 billion representing 30.4% of Group turnover. In the first full year since acquisition and full integration into the Group, Hoover generated low single digit sales expansion in a declining North American market. The business outside of North America contributed low double digit sales growth. New product introductions were a driver in all our markets with over 100 products launched in 2008. We entered the shredders category and achieved strong support from both retailer and end-users. Profit before restructuring and relocation costs and goodwill impairment increase by 76.0%.

## OUTLOOK

The Group expects a challenging environment ahead in light of the ongoing economic weakness in our main markets of US and Europe. TTI will combat this with a focus on its core strengths of product innovation around powerful brands and best cost manufacturing to sustain its competitive advantage. TTI brands have an enormous loyalty with our end-users, customers, dealers, distributors, and retail partners who open the door to our brands and products across the world. We will nurture these relationships and deliver the innovative new products, services, and brands to continue to fuel market share gains.

Our commitment to innovation and high quality products at competitive costs is the engine of our business; driving sales, market share gains, and entry into new markets. We are encouraged by the end-user response to new products introduced last year and confident that we can build on this success. TTI has proven its ability to improve its market position during difficult market conditions.

Another important ingredient of TTI’s strength and competiveness is our unrelenting drive for cost efficiency. We have prioritised lowering manufacturing cost by increasing the scope of the Cost Improvement Programs and reducing our SG&A cost base as initiatives for 2009. This will allow us to expand gross margins, improve working capital management, and help to achieve the goal of growing free cash flow.

The Strategic Repositioning Plan has provided a powerful platform for further productivity gains and the New Industrial Park is generating manufacturing cost improvements through reduced labor and overhead costs, ongoing cost improvement programs, and a rigorous material purchasing regime. We are driving execution of cost savings programs through our Operating Cycle Deployment of quarterly operating reviews across all businesses and functional areas. Management has set aggressive internal cost goals and having already made many of the hard decisions to restructure the global manufacturing operations, is confident these will be accomplished.

## FINANCIAL REVIEW

### FINANCIAL RESULTS

***Result Analysis***

The Group's turnover for the year amounted to HK$26.6 billion, an increase of 7.4% as compared to the HK$24.8 billion reported in 2007. Profit attributable to equity holders of the parent, amounted to HK$175 million, as compared to HK$125 million reported in 2007. Basic earnings per share for the year was HK11.64 cents, improved as compared to HK8.41 cents in 2007.

EBITDA, after other income, before restructuring and relocation costs, before goodwill impairment, amounted to HK$2.1 billion, an increase of 5.7% as compared to HK$2.0 billion reported in 2007.

The Group's own brand business accounted for 85.2% of total turnover (2007: 85.9%). North America accounted for 73.8% (2007: 73.1%) of the Group's revenue.

***Gross Margin***

Gross profit margin softened slightly at 30.8% as compared to 31.5% in 2007. New products launched during the period and cost containment programs and Group synergies partially offset the raw material cost increases, higher manufacturing costs and the Renminbi appreciation in the first three quarters of 2008.

***Operating Expenses***

Total operating expenses remained flat on higher revenue, representing 25.9% of turnover (2007: 27.9%). The Group managed to control the non-strategic SG&A expenses and reinvested into strategic SG&A as planned.

Investments in product design and development amounted to HK$443 million, representing 1.7% of turnover (2007: 2.2%), reflecting efficiency improvements from the consolidated and effectively structured R&D resources.

Net interest expenses for the year amounted to HK$430 million as compared to HK$362 million reported in 2007, an increase of 18.7%. The increase was due to higher cost of funds during the year and additional working capital required for the restructuring and factory expansion. Interest coverage, expressed as a multiple of EBITDA before restructuring and relocation costs, before goodwill impairment was at 4.4 times (2007: 4.5 times).

During the year, there were tax credits of HK$100 million which translated from an effective tax rate of -26.5%. This was mainly due to certain tax efficiencies on restructuring and relocation costs that materialised in 2008. The Group will leverage its global operations to further improve overall tax efficiencies.

The Group made an impairment on goodwill of HK$78 million for the Floor Care and Appliances business.

## LIQUIDITY AND FINANCIAL RESOURCES

### *Shareholder's Funds*

Total shareholders' funds amounted to HK$6.8 billion as compared to HK$6.9 billion in 2007. Book value per share was HK$4.56 as compared to HK$4.61 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, was at 94.6% as compared to 104.3% as reported last year. The Group remains confident that gearing will improve after the successful implementation of the Strategic Repositioning Plan and initiatives to deliver focused and stringent working capital management.

### *Bank Borrowings*

The Group's major borrowings continued to be in US Dollars and HK Dollars. Other than the fixed rate notes and the Zero Coupon Convertible Bonds, 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 revenues are in US Dollars and currency exposure therefore is low. Currency, interest rate exposures and cash management functions are all being closely monitored and managed by the Group's treasury team.

### *Working Capital*

Total inventory decreased from HK$6.0 billion in 2007 to HK$4.5 billion in 2008 during the year as a result of the Strategic Repositioning Plan. The number of days inventory improved from 88 days to 62 days.

Trade receivable turnover days improved to 45 days as compared to 62 days as reported last year. The Group is comfortable with the quality of receivables and will continue to exercise due care in managing credit exposure.

Trade payable days declined from 66 days reported in 2007 to 52 days in 2008.

### *Capital Expenditures*

Total capital expenditures for the year amounted to HK$719 million with HK$275 million related to the new China Industrial Manufacturing and Innovation Campus.

### *Capital Commitment and Contingent Liability*

As at December 31, 2008, total capital commitments amounted to HK$259 million (2007: HK$391 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.

## HUMAN RESOURCES

The Group employed a total of 19,354 employees (2007: 23,685 employees) in Hong Kong and overseas. Total staff costs for the period under review amounted to HK$3.0 billion as compared to HK$3.2 billion same period last year.

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

# 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 Group's consolidated financial statements for the year ended December 31, 2008. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

# CODE ON CORPORATE GOVERNANCE PRACTICES

The Company confirms that it has complied with all the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") set out in Appendix 14 of the Listing Rules throughout the year ended December 31, 2008, save that:

1. The roles of Chairman and Chief Executive Officer of the Company were performed solely by Mr. Horst Julius Pudwill until February 1, 2008. Subsequent to the appointment of Mr. Joseph Galli Jr as Chief Executive Officer and Executive Director of the Company with effect from February 1, 2008, the two roles were separated and Mr. Horst Julius Pudwill remains in his role as Chairman and Executive Director and responsible for strategic planning and development of the Group.

2. None of the directors are 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 of the Company and, if eligible, offer themselves for re-election.

## CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiries with all its Directors, the company confirms that during the year all its Directors have complied with the required standards as set out in the Model Code.

## 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.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 25, 2009 to May 27, 2009, both days inclusive. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on May 22, 2009.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on May 27, 2009 at 10:00a.m. The notice of the annual general meeting will be published and dispatched to the shareholders of the Company in accordance with the requirement under the articles of association of the Company and the Listing Rules on or about April 27, 2009.

## APPRECIATION

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 their contribution.

By Order of the Board
**Horst Julius Pudwill**
Chairman

Hong Kong, April 22, 2009

*As at the date of this announcement, the Board comprises six group Executive Directors, namely Mr Horst Julius Pudwill (Chairman), Dr Roy Chi Ping Chung JP (Vice Chairman), Mr Joseph Galli Jr (Chief Executive Officer), Mr Patrick Kin Wah Chan, Mr Frank Chi Chung Chan and Mr Stephan Horst Pudwill, one Non-executive Director, namely Mr Vincent Ting Kau Cheung, and four Independent Non-executive Directors, namely Mr Joel Arthur Schleicher, Mr Christopher Patrick Langley OBE, Mr Manfred Kuhlmann and Mr Peter David Sullivan.*

*This results announcement is published on the websites of the Company (www.ttigroup.com) and the HKExnews website (www.hkexnews.com.hk).*

# RESULTS SUMMARY

## CONSOLIDATED INCOME STATEMENT

*For the year ended December 31, 2008*

| | *Notes* | **2008 HK$'000** | 2007 HK$'000 | **2008 US$'000 (Note 16)** | 2007 US$'000 (Note 16) |
|---|---|---|---|---|---|
| Turnover | *2* | **26,615,319** | 24,774,987 | **3,412,220** | 3,176,280 |
| Cost of Sales | | **(18,408,582)** | (16,965,980) | **(2,360,075)** | (2,175,125) |
| Gross profit | | **8,206,737** | 7,809,007 | **1,052,145** | 1,001,155 |
| Other income | *3* | **72,311** | 377,464 | **9,271** | 48,393 |
| Interest income | | **47,129** | 97,658 | **6,042** | 12,520 |
| Selling, distribution, advertising and warranty expenses | | **(3,447,929)** | (3,478,699) | **(442,042)** | (445,987) |
| Administrative expenses | | **(3,007,629)** | (2,898,057) | **(385,593)** | (371,546) |
| Research and development costs | | **(442,838)** | (535,134) | **(56,774)** | (68,607) |
| Finance costs | *4* | **(477,069)** | (459,779) | **(61,163)** | (58,946) |
| Profit before restructuring and relocation costs, share of results of associates, goodwill impairment and taxation | | **950,712** | 912,460 | **121,886** | 116,982 |
| Restructuring and relocation costs | *5* | **(717,971)** | (743,018) | **(92,048)** | (95,259) |
| Goodwill impairment | *6* | **(78,000)** | - | **(10,000)** | - |
| Share of results of associates | | **(3,077)** | (270) | **(394)** | (35) |
| Profit before taxation | | **151,664** | 169,172 | **19,444** | 21,688 |
| Taxation credit (charge) | *7* | **40,171** | (38,999) | **5,150** | (5,000) |
| Profit for the year | *8* | **191,835** | 130,173 | **24,594** | 16,688 |
| Attributable to: | | | | | |
| Equity holders of the parent | | **174,807** | 125,257 | **22,411** | 16,058 |
| Minority interests | | **17,028** | 4,916 | **2,183** | 630 |
| | | **191,835** | 130,173 | **24,594** | 16,688 |
| Dividends | | **67,556** | 287,501 | **8,661** | 36,859 |
| Earnings per share (HK/US cents) | *9* | | | | |
| Basic | | **11.64** | 8.41 | **1.49** | 1.08 |
| Diluted | | **11.64** | 7.40 | **1.49** | 0.95 |

# CONSOLIDATED BALANCE SHEET

*As at December 31, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 | 2008 US$'000 (Note 16) | 2007 US$'000 (Note 16) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | *10 & 14* | **2,354,914** | 2,612,534 | **301,912** | 334,940 |
| Lease prepayments | | **283,573** | 78,799 | **36,356** | 10,102 |
| Goodwill | | **4,071,585** | 4,164,129 | **521,998** | 533,863 |
| Intangible assets | | **2,446,548** | 2,176,077 | **313,660** | 278,984 |
| Interests in associates | | **206,328** | 203,637 | **26,452** | 26,107 |
| Available-for-sale investments | | **17,058** | 17,058 | **2,187** | 2,187 |
| Deferred tax assets | | **637,361** | 762,907 | **81,713** | 97,809 |
| | | **10,017,367** | 10,015,141 | **1,284,278** | 1,283,992 |
| Current assets | | | | | |
| Inventories | | **4,522,366** | 5,951,606 | **579,791** | 763,026 |
| Trade and other receivables | *11* | **3,515,583** | 4,471,844 | **450,716** | 573,313 |
| Deposits and prepayments | | **732,400** | 470,147 | **93,897** | 60,275 |
| Bills receivable | | **238,092** | 469,002 | **30,525** | 60,128 |
| Tax recoverable | | **313,172** | 271,134 | **40,150** | 34,761 |
| Trade receivables from associates | | **109** | 10,053 | **14** | 1,289 |
| Foreign currency forward contracts | | **53,576** | - | **6,869** | - |
| Held-for-trading investments | | **3,451** | 17,192 | **442** | 2,204 |
| Bank balances, deposits and cash | | **2,392,931** | 3,293,327 | **306,786** | 422,221 |
| | | **11,771,680** | 14,954,305 | **1,509,190** | 1,917,217 |
| Current liabilities | | | | | |
| Trade and other payables | *12* | **3,777,793** | 4,466,407 | **484,333** | 572,617 |
| Bills payable | | **152,759** | 299,223 | **19,584** | 38,362 |
| Warranty provision | | **`426,578** | 474,386 | **54,689** | 60,819 |
| Trade payable to an associate | | **1,407** | - | **180** | - |
| Tax payable | | **284,256** | 286,069 | **36,443** | 36,676 |
| Restructuring provision | | **145,426** | 418,380 | **18,644** | 53,638 |
| Obligations under finance leases | | | | | |
| - due within one year | | **16,815** | 17,635 | **2,156** | 2,261 |
| Discounted bills with recourse | | **2,462,611** | 3,036,449 | **315,719** | 389,288 |
| Unsecured borrowings | | | | | |
| - due within one year | | **3,089,852** | 2,566,503 | **396,135** | 329,038 |
| Convertible bonds | | **100,805** | - | **12,924** | - |
| Bank overdrafts | | **263,732** | 418,369 | **33,811** | 53,637 |
| | | **10,722,034** | 11,983,421 | **1,374,618** | 1,536,336 |
| Net current assets | | **1,049,646** | 2,970,884 | **134,572** | 380,881 |
| Total assets less current liabilities | | **11,067,013** | 12,986,025 | **1,418,850** | 1,664,873 |

| | *Notes* | **2008 HK$'000** | 2007 HK$'000 | **2008 US$'000 (Note 16)** | 2007 US$'000 (Note 16) |
|---|---|---|---|---|---|
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | *13* | **150,125** | 150,125 | **19,247** | 19,247 |
| Reserves | | **6,689,010** | 6,770,000 | **857,568** | 867,947 |
| Equity attributable to equity holders of the parent | | **6,839,135** | 6,920,125 | **876,815** | 887,194 |
| Minority interests | | **108,303** | 91,303 | **13,885** | 11,706 |
| Total equity | | **6,947,438** | 7,011,428 | **890,700** | 898,900 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Obligations under finance leases - due after one year | | **60,265** | 134,693 | **7,726** | 17,268 |
| Convertible bonds | | **-** | 98,299 | **-** | 12,602 |
| Unsecured borrowings - due after one year | | **2,870,703** | 4,240,475 | **368,038** | 543,650 |
| Retirement benefit obligations | | **768,236** | 980,528 | **98,492** | 125,709 |
| Deferred tax liabilities | | **420,371** | 520,602 | **53,894** | 66,744 |
| | | **4,119,575** | 5,974,597 | **528,150** | 765,973 |
| | | **11,067,013** | 12,986,025 | **1,418,850** | 1,664,873 |

# NOTES TO THE FINANCIAL STATEMENTS

**1. Basis of Preparation and Accounting Policies**

In the current year, the Group has applied, for the first time, the following new amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC) - Int 11 | HKFRS 2: Group and Treasury Share Transactions |
| HK(IFRIC) - Int 12 | Service Concession Arrangements |
| HK(IFRIC) - Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction |

The adoption of the new HKFRSs had no material effect on how the results or financial position of the Group 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 and revised standards or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible Hedged Items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments[2] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) - Int 9 & HKAS 39 (Amendments) | Embedded Derivatives[4] |
| HK(IFRIC) - Int 13 | Customer Loyalty Programmes[5] |
| HK(IFRIC) - Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC) - Int 16 | Hedges of a Net Investment in a Foreign Operation[6] |
| HK(IFRIC) - Int 17 | Distribution of Non-cash Assets to Owners[3] |
| HK(IFRIC) - Int 18 | Transfer of Assets from Customers[7] |

[1] Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5
[2] Effective for annual periods beginning on or after January 1, 2009
[3] Effective for annual periods beginning on or after July 1, 2009
[4] Effective for annual periods ending on or after June 30, 2009
[5] Effective for annual periods beginning on or after July 1, 2008
[6] Effective for annual periods beginning on or after October 1, 2008
[7] Effective for transfer on or after July 1, 2009

HKAS 23 (Revised) eliminated the option available under the previous version of HKAS 23 to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, HKAS 23 (Revised) requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred. The Group currently expenses all borrowing costs as incurred. As a result of the application of HKAS 23 (Revised), borrowing costs related to the acquisition, construction or production of a qualifying asset will be capitalised.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition date is on or after July 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

## 2. Segment Information

**Income Statement**

*For the year ended December 31, 2008*

| | Power Equipment HK$'000 | Floor Care and Appliances HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Turnover | | | | |
| External sales | **18,534,426** | **8,080,893** | **-** | **26,615,319** |
| Inter-segment sales | **12,054** | **165,756** | **(177,810)** | **-** |
| Total | **18,546,480** | **8,246,649** | **(177,810)** | **26,615,319** |

Inter-segment sales are charged at prevailing market rates.

| | Power Equipment HK$'000 | Floor Care and Appliances HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Result | | | | |
| Segment result before restructuring and relocation costs and goodwill impairment | **1,169,889** | **257,892** | **-** | **1,427,781** |
| Goodwill impairment | **-** | **(78,000)** | **-** | **(78,000)** |
| Restructuring and relocation costs | **(433,231)** | **(284,740)** | **-** | **(717,971)** |
| Segment result after restructuring and relocation costs and goodwill impairment | **736,658** | **(104,848)** | **-** | **631,810** |
| Finance costs | | | | **(477,069)** |
| Share of results of associates | | | | **(3,077)** |
| Profit before taxation | | | | **151,664** |
| Taxation | | | | **40,171** |
| Profit for the year | | | | **191,835** |

*For the year ended December 31, 2007*

| | Power Equipment HK$'000 | Floor Care and Appliances HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Turnover | | | | |
| External sales | 16,877,407 | 7,897,580 | - | 24,774,987 |
| Inter-segment sales | 4,818 | 252,646 | (257,464) | - |
| Total | 16,882,225 | 8,150,226 | (257,464) | 24,774,987 |

Inter-segment sales are charged at prevailing market rates.

| | Power Equipment HK$'000 | Floor Care and Appliances HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Result | | | | |
| Segment result before restructuring and relocation costs | 1,225,677 | 146,562 | - | 1,372,239 |
| Restructuring and relocation costs | (308,129) | (434,889) | - | (743,018) |
| Segment result after restructuring and relocation costs | 917,548 | (288,327) | - | 629,221 |
| Finance costs | | | | (459,779) |
| Share of results of associates | | | | (270) |
| Profit before taxation | | | | 169,172 |
| Taxation | | | | (38,999) |
| Profit for the year | | | | 130,173 |

| | Turnover | |
|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 |
| By geographical market location: | | |
| North America | **19,633,523** | 18,103,801 |
| Europe | **5,918,039** | 5,688,905 |
| Other countries | **1,063,757** | 982,281 |
| | **26,615,319** | 24,774,987 |

## 3. Other Income

Other income in 2008 mainly composed of claims to and reimbursement from customers.

Other income in 2007 included the settlement of a disputed legal matter. The settlement agreement contains non-disclosure items concerning the nature of the dispute, the parties to the dispute and other terms of the agreement. Other income in 2007 also included discount on acquisition of subsidiaries taken to income amounting to HK$49,340,000.

Other than the disclosure of the above items, the amount in 2007 also included various releases of overprovided accrued obligations and liabilities.

## 4. Finance Costs

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on: | | |
| Bank borrowings and overdrafts wholly repayable within five years | **308,393** | 321,959 |
| Obligations under finance leases | **10,145** | 9,567 |
| Fixed interest rate notes | **156,025** | 142,705 |
| Effective interest expense on convertible bonds | **2,506** | 14,385 |
| Total interest | **477,069** | 488,616 |
| Debt extinguishment gain | **-** | (28,837) |
| | **477,069** | 459,779 |

## 5. Restructuring and Relocation Costs

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Restructuring costs | **315,175** | 668,481 |
| Relocation costs not through restructuring provision | **402,796** | 74,537 |
| | **717,971** | 743,018 |

Relocation costs mainly represents expenses that would not qualify to be recognised as part of the restructuring provision but that still relate to the Group’s restructuring activities. These costs include: inventories written down; impairment of property, plant and equipment; and moving, set-up and transport costs.

## 6. Goodwill impairment

During the year ended December 31, 2008, management of the Group determined that a goodwill of HK$78,000,000 to the Floor Care and Appliances Cash Generating Unit.

## 7. Taxation credit (charge)

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| The total tax credit (charge) comprises: | | |
| Hong Kong profits tax | **(60,213)** | (98,575) |
| Overseas tax | **87,983** | 22,918 |
| Deferred tax | **12,401** | 36,658 |
| | **40,171** | (38,999) |

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

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

## 8. Profit for the Year

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit for the year has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | **526,697** | 559,972 |
| Amortisation of lease prepayments | **1,720** | 1,544 |
| Amortisation of intangible assets | **184,886** | 130,940 |
| Staff costs | **2,689,068** | 2,817,214 |

Staff costs disclosed above do not include an amount of HK$275,093,000 (2007: HK$382,867,000) relating to research and development activities, which is included under research and development costs.

## 9. 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:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Earnings for the purpose of basic earnings per share: | | |
| Profit for the year attributable to equity holders of the parent | **174,807** | 125,257 |
| Effect of dilutive potential ordinary shares: | | |
| Effective interest on convertible bonds | **-** | 14,385 |
| Debt extinguishment gain | **-** | (28,837) |
| Earnings for the purpose of diluted earnings per share | **174,807** | 110,805 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,501,252,152** | 1,490,103,389 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **4,672** | 1,071,527 |
| Convertible bonds | **-** | 5,722,679 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,501,256,824** | 1,496,897,595 |

The computation of diluted earnings per share for the year ended December 31, 2008 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share and does not assume the exercise of the Company's outstanding share options if the exercise price of those options is higher than the average market price for shares for both 2008 and 2007.

## 10. Additions of Property, Plant and Equipment

During the year, the Group spent approximately HK$719 million (2007: HK$860 million) on the acquisition of property, plant and equipment.

## 11. 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:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 60 days | **2,652,165** | 3,711,634 |
| 61 to 120 days | **353,212** | 300,597 |
| 121 days or above | **299,582** | 175,953 |
| Total trade receivables | **3,304,959** | 4,188,184 |
| Other receivables | **210,624** | 283,660 |
| | **3,515,583** | 4,471,844 |

## 12. Trade and Other Payables

The aged analysis of trade payables is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 60 days | **1,560,330** | 1,947,377 |
| 61 to 120 days | **483,519** | 370,703 |
| 121 days or above | **27,579** | 43,254 |
| Total trade payables | **2,071,428** | 2,361,334 |
| Other payables | **1,706,365** | 2,105,073 |
| | **3,777,793** | 4,466,407 |

## 13. Share Capital

| | **2008** | 2007 | **2008** | 2007 |
|---|---|---|---|---|
| | **Number of shares** | | **HK$'000** | HK$'000 |
| Ordinary shares | | | | |
| Authorised: | | | | |
| 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 January 1 | **1,501,252,152** | 1,465,223,652 | **150,125** | 146,522 |
| Repurchase of shares | **-** | (4,358,500) | **-** | (436) |
| Issued on exercise of share options | **-** | 40,387,000 | **-** | 4,039 |
| Shares of HK$0.10 each at December 31 | **1,501,252,152** | 1,501,252,152 | **150,125** | 150,125 |

## 14. Capital Commitments

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of the purchase of property, plant and equipment and a licence | **242,739** | 320,180 |
| Capital expenditure authorised but not contracted for in the financial statements in respect of the purchase of property, plant and equipment | **16,076** | 71,165 |

## 15. Contingent Liabilities

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Guarantees given to banks in respect of credit facilities utilised by associates | **31,659** | 30,865 |

## 16. Presentation and Functional Currencies

The functional currency of the Company is United States dollars. The presentation currency of the Group is Hong Kong dollars as the Company is a public limited company incorporated in Hong Kong. These have been arrived at based on the fixed exchange rate of HK$7.8 to US$1.0.