

Report on Review of Interim Financial Information



To the Board of Directors of
Techtronic Industries Company Limited

Introduction

We have reviewed the condensed consolidated financial statements of Techtronic Industries Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 7 to 18, which comprises the condensed consolidated statement of financial position as of June 30, 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting”(“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

August 16, 2012

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months period ended June 30, 2012

	Notes	2012 USD' 000 (Unaudited)	2011 USD' 000 (Unaudited)
Turnover	3	1,854,793	1,783,909
Cost of sales		(1,232,684)	(1,197,565)
Gross profit		622,109	586,344
Other income		2,187	2,760
Interest income		4,075	1,793
Selling, distribution, advertising and warranty expenses		(255,615)	(242,411)
Administrative expenses		(204,611)	(199,964)
Research and development costs		(37,362)	(31,257)
Finance costs		(26,483)	(29,298)
Profit before share of results of associates and taxation		104,300	87,967
Share of results of associates		—	(273)
Profit before taxation		104,300	87,694
Taxation charge	4	(7,916)	(7,024)
Profit for the period	5	96,384	80,670
Other comprehensive income			
Exchange differences on translation of foreign operations and other comprehensive (loss) income for the period		(1,458)	15,685
Total comprehensive income for the period		94,926	96,355
Profit for the period attributable to:			
Owners of the Company		96,362	80,259
Non-controlling interests		22	411
		96,384	80,670
Total comprehensive income attributable to:			
Owners of the Company		94,906	95,909
Non-controlling interests		20	446
		94,926	96,355
Earnings per share (US cents)	7		
Basic		5.69	5.00
Diluted		5.51	4.79

Condensed Consolidated Statement of Financial Position (Unaudited)

As at June 30, 2012

	Notes	June 30 2012 USD' 000 (Unaudited)	December 31 2011 USD' 000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	8 & 15	358,912	360,082
Lease prepayments		36,034	36,432
Goodwill		530,401	530,856
Intangible assets	8	391,787	371,275
Interests in associates		18,415	20,165
Available-for-sale investments		1,269	1,269
Deferred tax assets		76,156	73,633
		1,412,974	1,393,712
Current assets			
Inventories		752,186	704,419
Trade and other receivables	9	726,610	673,457
Deposits and prepayments		89,211	72,897
Bills receivable	9	25,022	35,760
Tax recoverable		7,945	12,361
Trade receivables from an associate		78	205
Derivative financial instruments		5,983	8,867
Held-for-trading investments		7,060	8,288
Bank balances, deposits and cash		530,076	459,650
		2,144,171	1,975,904
Current liabilities			
Trade and other payables	10	704,606	618,863
Bills payable	10	55,184	42,991
Warranty provision		42,722	44,748
Trade payables to an associate		—	4,037
Tax payable		8,024	10,937
Derivative financial instruments		6,498	9,002
Restructuring provision		1,426	3,743
Dividend payable		18,185	—
Obligations under finance leases – due within one year		1,206	1,730
Discounted bills with recourse		539,385	518,897
Unsecured borrowings – due within one year	11	217,488	194,025
Convertible bonds	12	—	134,001
Bank overdrafts		22,329	19,972
		1,617,053	1,602,946
Net current assets		527,118	372,958
Total assets less current liabilities		1,940,092	1,766,670

	Notes	June 30 2012 USD' 000 (Unaudited)	December 31 2011 USD' 000 (Audited)
CAPITAL AND RESERVES			
Share capital	13	23,372	20,533
Reserves		1,433,030	1,225,043
Equity attributable to owners of the Company		1,456,402	1,245,576
Non-controlling interests		8,572	8,552
Total equity		1,464,974	1,254,128
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		4,313	4,755
Unsecured borrowings – due after one year	11	361,592	396,877
Retirement benefit obligations		81,637	82,937
Deferred tax liabilities		27,576	27,973
		475,118	512,542
Total equity and non-current liabilities		1,940,092	1,766,670

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months period ended June 30, 2012

	Attributable to owners of the Company								Attributable to non-controlling interests	
	Share capital	Share premium	Capital redemption reserve	Convertible bonds equity reserve	Translation reserve	Employee share-based compensation reserve	Retained profits	Total	Share of net assets of subsidiaries	Total
	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000
At January 1, 2011 (audited)	20,598	459,866	56	8,833	(8,701)	7,451	626,656	1,114,759	14,948	1,129,707
Profit for the period	—	—	—	—	—	—	80,259	80,259	411	80,670
Exchange differences on translation of foreign operations and other comprehensive income for the period	—	—	—	—	15,650	—	—	15,650	35	15,685
Total comprehensive income for the period	—	—	—	—	15,650	—	80,259	95,909	446	96,355
Shares issued at premium on exercise of options	5	437	—	—	—	(81)	—	361	—	361
Recognition of equity-settled share-based payments	—	—	—	—	—	539	—	539	—	539
Lapse of share options	—	—	—	—	—	(1,108)	1,108	—	—	—
Final dividend – 2010	—	—	—	—	—	—	(12,907)	(12,907)	—	(12,907)
At June 30, 2011 (unaudited)	20,603	460,303	56	8,833	6,949	6,801	695,116	1,198,661	15,394	1,214,055
Profit for the period	—	—	—	—	—	—	70,567	70,567	(305)	70,262
Exchange differences on translation of foreign operations and other comprehensive income for the period	—	—	—	—	(10,062)	—	—	(10,062)	20	(10,042)
Total comprehensive income for the period	—	—	—	—	(10,062)	—	70,567	60,505	(285)	60,220
Shares issued at premium on exercise of options	1	69	—	—	—	(10)	—	60	—	60
Repurchase of shares	(71)	—	71	—	—	—	(3,817)	(3,817)	—	(3,817)
Recognition of equity-settled share-based payments	—	—	—	—	—	514	—	514	—	514
Lapse of share options	—	—	—	—	—	(697)	697	—	—	—
Interim dividend – 2011	—	—	—	—	—	—	(10,347)	(10,347)	(6,557)	(16,904)
At December 31, 2011 and January 1, 2012 (audited)	20,533	460,372	127	8,833	(3,113)	6,608	752,216	1,245,576	8,552	1,254,128
Profit for the period	—	—	—	—	—	—	96,362	96,362	22	96,384
Exchange differences on translation of foreign operations and other comprehensive income for the period	—	—	—	—	(1,456)	—	—	(1,456)	(2)	(1,458)
Total comprehensive income for the period	—	—	—	—	(1,456)	—	96,362	94,906	20	94,926
Shares issued at premium on exercise of options	5	508	—	—	—	(138)	—	375	—	375
Repurchase of shares	(43)	—	43	—	—	—	(3,870)	(3,870)	—	(3,870)
Recognition of equity-settled share-based payments	—	—	—	—	—	226	—	226	—	226
Lapse of share options	—	—	—	—	—	(1,937)	1,937	—	—	—
Conversion of convertible bonds	2,877	143,330	—	(8,833)	—	—	—	137,374	—	137,374
Final dividend – 2011	—	—	—	—	—	—	(18,185)	(18,185)	—	(18,185)
At June 30, 2012 (unaudited)	23,372	604,210	170	—	(4,569)	4,759	828,460	1,456,402	8,572	1,464,974

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months period ended June 30, 2012

	June 30 2012 USD' 000 (Unaudited)	June 30 2011 USD' 000 (Unaudited)
Net cash from operating activities	141,697	126,789
Net cash used in investing activities	(76,211)	(65,412)
Net cash from (used in) financing activities	3,929	(64,466)
Net increase (decrease) in cash and cash equivalents	69,415	(3,089)
Cash and cash equivalents at January 1	439,678	490,543
Effect of foreign exchange rate changes	(1,346)	10,881
Cash and cash equivalents at June 30	507,747	498,335
Analysis of the balances of cash and cash equivalents		
Represented by:		
Bank balances, deposits and cash	530,076	524,583
Bank overdrafts	(22,329)	(26,248)
	507,747	498,335

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of preparation and accounting policies

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

2. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended June 30, 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2011.

In the current interim period, the Group has applied for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are mandatory effective for the current interim period.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Segment information

The following is an analysis of the Group’s revenue and results by reportable and operating segments for the period under review:

For the period ended June 30, 2012

	Power Equipment USD’ 000	Floor Care and Appliances USD’ 000	Eliminations USD’ 000	Consolidated USD’ 000
Turnover				
External sales	1,407,426	447,367	—	1,854,793
Inter-segment sales	6,960	457	(7,417)	—
Total segment turnover	1,414,386	447,824	(7,417)	1,854,793

3. Segment information *(continued)*

For the period ended June 30, 2011

	Power Equipment USD' 000	Floor Care and Appliances USD' 000	Eliminations USD' 000	Consolidated USD' 000
Turnover				
External sales	1,294,529	489,380	—	1,783,909
Inter-segment sales	10,710	1,811	(12,521)	—
Total segment turnover	1,305,239	491,191	(12,521)	1,783,909

Inter-segment sales are charged at prevailing market rates.

	Six months period ended June 30					
	Power Equipment USD' 000	2012 Floor Care and Appliances USD' 000	Consolidated USD' 000	Power Equipment USD' 000	2011 Floor Care and Appliances USD' 000	Consolidated USD' 000
Segment results	114,801	15,982	130,783	89,803	27,462	117,265
Finance costs			(26,483)			(29,298)
Share of results of associates			—			(273)
Profit before taxation			104,300			87,694
Taxation charge			(7,916)			(7,024)
Profit for the period			96,384			80,670

Segment profit represents the profit earned by each segment without allocation of share of results of associates and finance costs. This is the measure reported to the Group's Chief Executive Officer, the chief operating decision maker ("CODM") of the Group, for the purpose of resource allocation and performance assessment.

The following is an analysis of the Group's assets by reportable and operating segments reported to the CODM of the Group:

	June 30 2012 USD' 000	December 31 2011 USD' 000
Power Equipment	2,292,598	2,175,535
Floor Care and Appliances	625,972	619,405
	2,918,570	2,794,940

Notes to the Condensed Consolidated Financial Statements (Unaudited)

4. Taxation charge

	Six months period ended June 30	
	2012 USD' 000	2011 USD' 000
Current tax:		
Hong Kong	569	700
Overseas Tax	6,219	12,679
Deferred Tax	1,128	(6,355)
	7,916	7,024

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the period.

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

5. Profit for the period

	Six months period ended June 30	
	2012 USD' 000	2011 USD' 000
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	36,172	34,866
Amortisation of lease prepayments	163	159
Amortisation of intangible assets	24,773	20,237
Total depreciation and amortisation	61,108	55,262
Exchange loss (gain)	4,942	(10,082)
Staff costs	263,391	250,747
Fair value loss on held-for-trading investments	1,228	762

6. Dividends

A dividend of HK7.75 cents (approximately US1.00 cent) per share (2011: HK6.25 cents (approximately US0.80 cent) per share) was paid to shareholders as the final dividend for 2011 on July 6, 2012.

The Directors have determined that an interim dividend of HK6.75 cents (approximately US0.87 cent) per share (2011: HK5.00 cents (approximately US0.64 cent) per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on September 14, 2012.

7. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary shareholders of the Company is based on the following data:

	Six months period ended June 30	
	2012 USD' 000	2011 USD' 000
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to owners of the Company	96,362	80,259
Effect of dilutive potential ordinary shares:		
Effective interest on convertible bonds (net of tax)	4,457	7,772
Earnings for the purpose of diluted earnings per share	100,819	88,031
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,694,876,782	1,606,738,752
Effect of dilutive potential ordinary shares:		
Share options	5,430,285	6,617,803
Convertible bonds	129,688,975	223,557,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,829,996,042	1,836,913,555

The computation of diluted earnings per share for the six months ended June 30, 2012 and June 30, 2011 does not assume the exercise of the Company's outstanding share options if the exercise price of these options is higher than the average market price for the Company's shares.

8. Additions to property, plant and equipment/intangible assets

During the period, the Group spent approximately USD37 million (for the six months ended June 30, 2011: USD44 million) and USD45 million (for the six months ended June 30, 2011: USD23 million) on the acquisition of property, plant and equipment and intangible assets respectively.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

9. Trade and other receivables/Bills receivable

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

	June 30 2012 USD' 000	December 31 2011 USD' 000
0 to 60 days	612,456	569,695
61 to 120 days	24,937	17,145
121 days or above	21,267	19,806
Total trade receivables	658,660	606,646
Other receivables	67,950	66,811
	726,610	673,457

All the Group's bills receivable at June 30, 2012 are due within 120 days.

10. Trade and other payables/Bills payable

The aging analysis of trade payables based on the invoice date is as follows:

	June 30 2012 USD' 000	December 31 2011 USD' 000
0 to 60 days	324,459	259,435
61 to 120 days	112,124	93,376
121 days or above	11,530	7,048
Total trade payables	448,113	359,859
Other payables	256,493	259,004
	704,606	618,863

All the Group's bills payable at June 30, 2012 are due within 120 days.

11. Unsecured borrowings

During the period, the Group obtained new bank borrowings in the amount of USD353 million (2011: USD161 million) which are London Interbank Offered Rate, Euro Interbank Offered Rate or Hong Kong best lending rates based. The Group repaid the existing bank borrowings in the amount of USD332 million (2011: USD336 million).

12. Convertible bonds

In 2009, the Group issued two tranches of 5-year 8.5% coupon convertible bonds with an aggregate principal amount of USD150,000,000 (“Convertible Bonds 2014”). Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds 2014 will be redeemed at their principal amount on the maturity date on April 30, 2014.

At the option of the Convertible Bonds 2014’s holders, on April 30, 2012, the holders could redeem Convertible Bond 2014 at the principal amount plus accrued interest to the date of redemption. Accordingly, the Convertible Bonds 2014 were classified as current liabilities as of December 31, 2011.

The weighted average effective interest rate of Convertible Bonds 2014 is 15.57%.

During the period, all the Convertible Bonds 2014 were converted into 223,557,689 shares of the Company at HKD5.20 per share.

13. Share capital

	Number of shares		Share capital	
	June 30 2012	December 31 2011	June 30 2012 USD' 000	December 31 2011 USD' 000
Ordinary shares of HKD0.10 each Authorised	2,400,000,000	2,400,000,000	30,769	30,769
Issued and fully paid:				
At the beginning of the period	1,601,564,252	1,606,625,752	20,533	20,598
Issue of shares upon exercise of share options	395,000	455,000	5	6
Repurchase of shares	(3,330,000)	(5,516,500)	(43)	(71)
Conversion of convertible bonds	223,557,689	—	2,877	—
At the end of the period	1,822,186,941	1,601,564,252	23,372	20,533

During the period, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares at HKD0.10 each	Price per share		Aggregate consideration paid USD' 000
		Highest HKD	Lowest HKD	
January 2012	200,000	8.01	7.93	205
May 2012	1,980,000	9.85	8.59	2,316
June 2012	1,150,000	9.40	8.75	1,349
	3,330,000			3,870

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the par value of the shares cancelled of USD43,000 was transferred to the capital redemption reserve. The consideration paid on the repurchase of the shares of approximately USD3,870,000 was charged to retained profits.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

14. Contingent liabilities

	June 30 2012 USD' 000	December 31 2011 USD' 000
Guarantees given to banks in respect of credit facilities utilised by associates	11,013	10,858

15. Capital commitments

	June 30 2012 USD' 000	December 31 2011 USD' 000
Capital expenditure in respect of the purchase of property, plant and equipment:		
Contracted for but not provided	17,684	15,484
Authorised but not contracted for	1,447	287

16. Event after the reporting period

On August 3, 2012, the Company has entered into an USD146,000,000 medium term loan with final maturity in 2016. The loan will be applied to refinance loans due.