



Techtronic Industries Company Limited  
創 科 實 業 有 限 公 司

(Incorporated in Hong Kong with limited liability)

## Announcement of results for the period ended 30th June, 2003

### HIGHLIGHTS

	2003	2002	Changes
	HK\$' million	HK\$' million	%
- Turnover	4,815	3,959	+21.6
- Profit for the period	211	170	+24.1
- Earnings per share – basic (HK cents)	32.55	28.39	+14.7
- Dividend per share (HK cents)	7.25	6.00	+20.8

The Board of Directors are pleased to announce the unaudited consolidated results of the Company and its subsidiaries ( the “Group” ) for the six months ended 30th June, 2003 together with the comparative figures in 2002.

### INTERIM DIVIDEND

The Directors recommend an interim dividend of HK 7.25 cents per share (2002 interim dividend : HK6.00 cents). The interim dividend will be paid to shareholders listed on the register of members of the Company on 19th September, 2003. It is expected that the interim dividend will be paid on or about 30th September, 2003.

### MANAGEMENT DISCUSSION AND ANALYSIS

TTI recorded a very solid performance in the first half of 2003, with revenues increasing by 21.6% over the same period of last year to HK\$4.8 billion and profits rising by 24.1% to HK\$210.8 million. Our robust double-digit revenue and profit increases came largely from existing businesses.

During the six months under review, an unprecedented combination of negative factors prevailed. The war with Iraq, together with the outbreak of severe acute respiratory syndrome (SARS), affected the confidence of consumers and retailers. Despite this, there was little impact on TTI’s businesses, testifying to our highly competitive position in the home improvement market and the relatively resilient nature of the market itself. Nonetheless, we shifted the timing of several new product launches to the second half of the year, further positioning the Group for even stronger growth in revenue in that period.

Sales were driven by good performances across the board in power tools, outdoor power equipment, floor care equipment and solar powered lighting and electronic measuring products, under both our own growing stable of brands and for our private label customers.

At the same time, we were able to maintain our overall margins despite a slight dilution effect from our recently acquired Royal business and its related acquisition costs. We continue to improve our margins through rationalising our operations, leveraging the economies of scale provided by our higher revenue base, as well as centralisation of functions such as raw material purchasing.

While achieving excellent results from our existing core businesses and successfully concluding the Royal acquisition, we have also developed a new line of professional power tools. This will be an important new growth driver that complements our existing power tool product categories.

In June 2003, we issued a US\$145 million fixed rate note. The issue was a great success and has helped the Group to continue to balance its rapid growth with prudent financing structure and strong management control.

## **BUSINESS REVIEW**

### **Power Tools and Outdoor Power Equipment**

The Power Tools and Outdoor Power Equipment Division achieved an increase in turnover of 13.1% as compared with the first of last year to HK\$3.7 billion, accounting for 76.7% of Group turnover.

Growth was seen in all key markets and all product segments, despite an inventory adjustment by retailers in the first quarter and, in the case of outdoor power equipment, the negative effect of unusually wet weather. Sales of Ryobi power tools were again satisfactory as we significantly expanded the product line and continued to align the brand in global markets.

We have also successfully developed a range of professional grade power tools that will be available nationally under the RIDGID® brand in industrial supply channels and The Home Depot (the world's largest home improvement specialty retailer) in the United States and Canada beginning in October. Extensive consumer research provided a springboard for developing the tools, which will give us entry to this important market segment in the second half of 2003.

In Europe, significant progress was made in developing a continent wide structure and management processes. This not only creates efficiencies, but also allows improved product introductions and marketing programs across the region, aiming at the high volume consumer retail market.

In outdoor power equipment, we have completed the transfer of manufacturing from Mexico to our facilities in the United States and China. The expanded capacity following the plant relocation enables us to benefit from further increased economies of scale, resulting in improved profitability. New products were introduced, with the “Expand-it” attachment system being particularly well received by the market. Overall, this division continues to move ahead of the industry in its performance.

The solar powered lighting and electronic measuring products business also recorded very outstanding results. Robust sales of portable electronic and laser tools were the main contributors to this impressive performance.

### **Floor Care Appliances**

Turnover at the Floor Care Appliances Division grew by 61.4% over the same period of 2002 to HK\$1.1 billion, accounting for 23.3% of Group turnover.

The solid growth reported by this division was mainly driven by healthy OEM sales in the US market. The performance of Royal was in line with expectations and the integration of the acquisition since April has been smooth, with the very effective original management team remaining in place.

The division continued to be aggressive in containing costs. Centralised purchasing on higher volumes reduced average raw material costs. The programme to involve product suppliers in product development began to bear fruit as quality improved and we were able to secure improved terms from suppliers.

## **FINANCIAL REVIEW**

### **Acquisition**

The Group completed the acquisition of Royal Appliance Manufacturing Co. (“Royal”) on 23rd April 2003. The total consideration was US\$105.6 million (approximately HK\$823.7 million), financed by internal resources and bank borrowings. Upon completion of the transaction, Royal began operating as a wholly owned subsidiary of TTI.

Royal is an innovative floor care company whose Dirt Devil® and Royal® brands are among the market leaders in North America. The Royal acquisition represented a significant step in the Group’s worldwide strategy, giving it a major brand in each of its core business divisions. While strengthening the Group’s position in the floor care market, the Royal acquisition also provides potential cross-marketing synergies with major retailers for the Group’s power tool and floor care lines of business in the US and European markets, as well as potential operational synergies in logistics and customer service.

**Notes Issue**

On 30th June 2003, the Group announced its debut issue of fixed interest rate Notes, through its wholly-owned entity in the United States, for an aggregate principal amount of US\$145 million. The Notes were issued in two fixed rate tranches, of US\$120 million for 10 years at 4.7% per annum, and US\$25 million for 7 years at 4.09% per annum.

The proceeds of the Notes will be applied to refinance existing medium term debts and for general working capital purposes. The issue has provided the Group with a well balanced loan portfolio structure that will support the Group's long-term growth and enable it to obtain additional financing at more favorable terms.

**Results Analysis**

TTI's core business divisions all showed outstanding performance, resulting in a turnover growth of 21.6% to HK\$4.8 billion, as compared to the same period last year. As the acquisition of Royal was only completed towards the end of April 2003, the majority of the increase in revenue can safely be attributed to organic growth.

Margins, despite certain dilution effect on earnings from the Royal acquisition and its related costs, improved when compared to same period last year and were comparable to those for the full year 2002. Excluding expenses from the newly acquired operation, the increase in total operating expenses was less than our revenue growth. With expansion into the professional power tool segment under the RIDGID® brand, R & D expenses increased. The development and design charges incurred were all expensed during the period while the new line of professional tools are due to launch in the second half of 2003. The Group will continue to implement various cost rationalisation programs and will focus particularly on improving the cost efficiencies of the newly acquired operations. It is therefore expected that total operating expenses as a percentage of revenue will improve to levels comparable to those of the previous year.

As the Group now carries various major brands for its core divisions, advertising expenses as a percentage of sales was higher than same period last year but were also comparable to that for the full year 2002. The Group's branded businesses accounted for 56.4% of turnover while its contract businesses, which remain strategically important, contributed 43.6% of turnover.

**Liquidity and Financial Resources**

Increases in inventories and receivables were partly due to the acquisition and partly to prepare for the peak shipment period and the launching of the RIDGID® professional tools line that is scheduled to occur in the second half of the year. Number of days for inventory turnover and receivables turnover were at 78 days and 50 days respectively (2002 – 49 days and 38 days). Trade payables also increased in line with increased operations and following the acquisition.

The Group's major borrowings are in US Dollars and HK Dollars. Other than the fixed interest rate Note issued during the period, borrowings are all based on LIBOR or HK best lending rates. As at the period end, total borrowings amounted to HK\$2.4 billion, representing an increase of HK\$1.1 billion, compared to the 31st December, 2002 balance of HK\$1.3 billion. The increase in borrowings was due to the inclusion of debts from Royal and the issue of the fixed interest rate Note. Bank balance and cash remained at a healthy level of HK\$1.3 billion. As the Group's revenue is mainly in US Dollars, and major payments are either in US Dollars or HK Dollars, currency risk is relatively low. However, the Group will continue to monitor and actively manage its interest rate and currency exposure.

The Group's gearing ratio as at 30th June, 2003, expressed as a percentage of total net borrowings to total equity, was at 53.1% as compared to a net cash position as at 31st December, 2002. The increase in the gearing was partly a result of the Royal acquisition, which was fully funded by internal resources. Moreover, the Group's debt level is normally higher in the first half of the year as additional working capital is required to prepare for the peak production and shipment period in the second half of the year. Given the Group's high cash flow generating capabilities, the gearing ratio is expected to improve in the second half of the year and beyond.

Net interest expenses for the period under review amounted to HK\$33.6 million as compared to HK\$33.9 million same period last year. Interest coverage, expressed as a multiple of profit before interest and taxation to total net interest was 8.17 times, an improvement from 6.45 times for same period last year and 7.89 times for the full year ending 31st December, 2002.

Capital expenditure for the period, other than in relation to acquisitions, amounted to HK\$102.6 million and was in accordance with the Group's CAPEX guideline of having capital expenditure matched with the depreciation charges, which were HK\$137.1 million for the period under review.

#### **Capital Commitment and Contingent Liabilities**

During the period, the Company has entered into an agreement for acquisition of a piece of land in Dongguan PRC amounted to approximately HK\$50.3 million. As at the date of balance sheet preparation, the capital commitment not provided amounted to approximately HK\$42.8 million. As at 30th June, 2003, there are no material contingent liabilities or off balance sheet obligations other than trade bills discounted in the ordinary course of business.

#### **Human Resources**

The Group employed a total of 16,112 employees in Hong Kong and overseas. Total staff costs for the period under review amounted to HK\$372.0 million as compared to HK\$292.9 million in the same period last year. The increase was partly due to the acquisition completed during the period.

The Group believes that human capital is vital for continuous growth and profitability and therefore encourages and provides job-related training to all staff to improve their skills and competencies.

The Group's remuneration policies have remained unchanged. In addition to the competitive remuneration packages offered, discretionary share options and bonuses are also granted to eligible staff based on individual and Group performances.

### **Charges**

At the end of June 2003, the Group has pledged certain freehold land and building having an aggregate net book value of HK\$14.5 million to secure general banking facilities granted to the Group.

## **OUTLOOK**

Our current order book remains robust, indicating an even better performance for the second half of 2003. We believe our business to be highly resilient to changes in consumer sentiment and spending patterns, given the nature of the home improvement market and the range of price points our products cover, combined with flexible production processes.

Power tools will remain one of the key growth drivers. We expect continuing strong sales of Ryobi® brand products to be complemented by an aggressive launch of our RIDGID® range of professional tools. These are leading edge products that by virtue of their design, durability and handling comfort have seen a very enthusiastic response from our retail partner and the trade. Together with the need we already perceive of retailers to rebuild inventory, the usual cyclical pattern of a bias in sales towards the second half of the year will be accentuated in 2003.

Solar powered lighting and electronic measuring products are forecast to repeat their outstanding sales performance of the first half. We expect the rapid momentum to be maintained as we broaden our ODM partnerships, enter into value added new product categories and invest into developing new technologies for the future.

The Royal operation will benefit from a number of innovative items to be launched in the second half, boosting its revenue contributions to the Group. We also expect our Vax operations to gain from the greatly increased economies of scale we now have in floorcare appliances and from the new line of products that we are adapting from the Royal range. Armed with an impressive array of patents and the important, high volume retail distribution channels Royal offers, we expect to build on our leading position in this sector.

Rationalisation of operations is allowing us to achieve much higher volumes on a steady overhead. The shift of production to Asia, especially for floorcare appliances and outdoor power equipment, will continue to drive down manufacturing and R&D costs. The Group expects this will enhance the overall margin.

In summary, short of any major adverse shocks to economic activity, we see our business well positioned to deliver strong growth in the second half, as we continue to build our profile in world markets.

## **AUDIT COMMITTEE**

The Audit Committee is composed of a majority of independent non-executive directors. The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements for the six months ended 30th June, 2003.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the period, in compliance with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

## **PURCHASE, SALES 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 period.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Monday, 15th September, 2003 to Friday, 19th September, 2003, both days inclusive. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Secretaries Limited, at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00p.m. on Thursday, 11th September, 2003.

## **PUBLICATION OF INTERIM RESULTS ON WEBSITE**

The financial information required to be disclosed under paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited at [www.hkex.com.hk](http://www.hkex.com.hk) and TTI's website at [www.tti.com.hk](http://www.tti.com.hk) in due course.

By Order of the Board  
**Horst Julius Pudwill**  
*Chairman and Chief Executive Officer*

Hong Kong, 18th August, 2003

## RESULTS SUMMARY

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30th June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (As restated)
Turnover	2	<b>4,814,649</b>	3,958,850
Cost of sales		<b>(3,519,725)</b>	(2,994,707)
Gross profit		<b>1,294,924</b>	964,143
Other operating income		<b>38,738</b>	38,508
Selling, distribution and advertising expenses		<b>(438,604)</b>	(269,562)
Administrative expenses		<b>(532,145)</b>	(459,431)
Research and development costs		<b>(69,842)</b>	(46,071)
Profit from operations	3	<b>293,071</b>	227,587
Finance costs		<b>(38,990)</b>	(37,548)
Profit before share of results of associates and taxation		<b>254,081</b>	190,039
Share of results of associates		<b>187</b>	(168)
Profit before taxation		<b>254,268</b>	189,871
Taxation	4	<b>(30,437)</b>	(15,066)
Profit before minority interests		<b>223,831</b>	174,805
Minority interests		<b>(13,008)</b>	(4,904)
Profit for the period		<b>210,823</b>	169,901
Dividends		<b>(65,388)</b>	(45,025)
Earnings per share	5		
Basic		<b>32.55 cents</b>	28.39 cents
Diluted		<b>31.82 cents</b>	27.95 cents

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000 (As restated)
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	996,489	846,766
Goodwill	654,791	107,714
Negative goodwill	(35,329)	(37,481)
Intangible assets	25,939	12,858
Interests in associates	128,711	117,265
Investments in securities	55,447	55,447
Deferred tax asset	201,017	168,196
Other assets	1,195	1,195
	<b>2,028,260</b>	1,271,960
Current assets		
Inventories	2,510,019	1,592,034
Trade and other receivables	1,585,234	1,213,434
Deposits and prepayments	292,060	197,997
Bills receivable	62,333	261,186
Investments in securities	7,385	7,385
Tax recoverable	80,732	16,858
Trade receivable from an associate	624	6,760
Bank balances, deposits and cash	1,288,907	1,855,491
	<b>5,827,294</b>	5,151,145
Current liabilities		
Trade, bills and other payables	3,143,609	3,075,664
Warranty provision	128,023	79,315
Taxation payable	38,582	52,787
Dividend payable	65,388	—
Obligations under finance leases – due within one year	7,581	7,336
Bank borrowings – due within one year	826,003	781,156
	<b>4,209,186</b>	3,996,258
Net current assets	<b>1,618,108</b>	1,154,887
Total assets less current liabilities	<b>3,646,368</b>	2,426,847
<b>CAPITAL AND RESERVES</b>		
Share capital	130,776	129,143
Reserves	1,908,069	1,698,794
	<b>2,038,845</b>	1,827,937
<b>MINORITY INTERESTS</b>	<b>31,925</b>	18,917
<b>NON-CURRENT LIABILITIES</b>		
Obligations under finance leases – due after one year	17,025	3,497
Bank borrowings – due after one year	432,240	554,059
Long-term liability	1,089,204	—
Deferred tax liability	37,129	22,437
	<b>1,575,598</b>	579,993
	<b>3,646,368</b>	2,426,847

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

### 1. Adoption of Revised Statements of Standard Accounting Practice

In current period, the Group has adopted the revised Statement of Accounting Practice (“SSAP”) No. 12 (Revised) Income Taxes, issued by the Hong Kong Society of Accountants. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the income statement liability method, i.e. liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly, the opening retained profits as at 1st January, 2003 have been increased by HK\$25,585,000 (2002: HK\$21,002,000), which is the cumulative effect of the change in policy on the results for periods prior to 2003. The effect of the change to income tax for the six months ended 30th June, 2002 is HK\$146,000.

### 2. Segment Information

	Turnover		Contribution to profit from operations	
	Six months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	(As restated) HK\$'000
By principal activity:				
Manufacture and trading of				
Power tools and outdoor				
power equipment	<b>3,692,934</b>	3,263,923	<b>239,699</b>	205,360
Floor care appliances	<b>1,121,715</b>	694,927	<b>53,372</b>	22,227
	<b>4,814,649</b>	3,958,850	<b>293,071</b>	227,587
By geographical market				
location:				
North America	<b>3,784,207</b>	3,307,651	<b>230,073</b>	200,009
Europe	<b>766,976</b>	506,408	<b>46,205</b>	16,847
Other countries	<b>263,466</b>	144,791	<b>16,793</b>	10,731
	<b>4,814,649</b>	3,958,850	<b>293,071</b>	227,587

### 3. Profit from Operations

	<b>Six months period ended 30th June</b>	
	<b>2003</b>	2002 (As restated)
	HK\$'000	HK\$'000
Profit from operations is arrived after charging (crediting):		
Depreciation of property, plant and equipment	<b>137,085</b>	127,889
Amortisation of intangible assets	<b>2,531</b>	383
Amortisation of goodwill	<b>7,596</b>	912
Release of negative goodwill to income	<b>(2,152)</b>	(2,154)

### 4. Taxation

	<b>Six months period ended 30th June</b>	
	<b>2003</b>	2002 (As restated)
	HK\$'000	HK\$'000
The total tax charge comprises:		
Hong Kong Profits Taxation	<b>23,009</b>	13,877
Overseas taxation	<b>7,266</b>	1,043
Deferred taxation	<b>162</b>	146
	<b>30,437</b>	15,066

Hong Kong Profits tax is calculated at the rate of 17.5% (2002:16.0%) on the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 5. Earnings Per Share

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

	<b>Six months period ended 30th June</b>	
	<b>2003</b>	2002
	HK\$'000	(As restated) HK\$'000
Earnings for the purposes of basic and diluted earnings per shares:		
Profit for the period	<b>210,823</b>	169,901
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>647,740,882</b>	598,395,714
Effect of dilutive potential ordinary shares:		
Options	<b>14,712,064</b>	9,583,121
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>662,452,946</b>	607,978,835

**24/F, CDW Building, 388 Castle Peak Road, N.T., Hong Kong. Tel: (852) 2402 6888 Fax: (852) 2413 5971 Website: [www.tti.com.hk](http://www.tti.com.hk)**

Please also refer to the publish version of this announcement in the South China Morning Post.