RYOBI® lithium cordless products are rapidly gaining popularity among a growing segment of end-users who are adopting lithium cordless technology. As a result, lithium cordless outdoor products represent the fastest-growing segment in the outdoor category. The new RYOBI® outdoor lithium 40-volt products have been launched globally. This more powerful, higher-voltage lithium platform further strengthens the RYOBI® cordless offering, which includes 24-volt and the well-known, consumer market-leading RYOBI® 18-volt ONE+ System®.

Floor Care and Appliances Business Review

The Floor Care and Appliance business, reported USD 0.5 billion in sales, 7.9% lower than the same period last year before adjustments for currency. The business accounted for 24.1% of overall Group sales.

Sales of our branded floor care business declined 1.4% before currency adjustment, with Europe and rest-of-world growing double-digit while our OEM business contracted. The business in North America faced a challenging environment. Sales increased in Europe as we continued to expand distribution and sales in core categories. Australia and New Zealand achieved significantly higher sales as VAX® products gained market share.

Outlook

The Group enters the second half with strong momentum across our businesses and is firmly positioned to build on the positive first half performance.

We are excited about the new products, such as the expanding range of new cordless lithium tools and innovative accessories, which will be launched. Also, as part of our aggressive strategy to continue achieving progress in operational excellence, we will drive further gains in efficiency across our manufacturing operations, supporting further margin improvement.

In Power Equipment, the MILWAUKEE®'s M12® and M18® cordless platforms and the RYOBI®'s 18-volt ONE+ System® will continue to see expansion as we add to the ranges and more end-users adopt our highly advanced lithium technology. In Outdoor Products, we will be expanding our lithium cordless product range to capture the growing demand for cordless.

Profitability for Floor Care has shown improvement when compared to the second half of last year. We anticipate that the improvements will continue, supported by a stream of innovative new products and first half operational changes.

With our stable of powerful brands and pipeline of new products, we are confident of delivering another period of record sales and profit.

Financial Review

Financial Results

Turnover for the period under review amounted to USD 1,855 million, 4.0% higher than the USD 1,784 million reported for the same period last year. Profit attributable to Owners of the Company amounted to USD 96 million as compared to USD 80 million reported last year, an increase of 20.1%. Basic earnings per share was at US 5.69 cents (2011: US 5.00 cents).

EBITDA amounted to USD 188 million, an increase of 10.4% as compared to the USD 170 million reported in the same period last year.

EBIT amounted to USD 127 million, an increase of 10.4% as compared to the USD 115 million reported in the same period last year.

Result Analysis

Gross Margin

Gross margin improved to 33.5% as compared to 32.9% in the same period last year. The margin improvement was the result of new product introduction, category expansion all with higher margin, efficient production in the new PRC facilities, effective supply chain management and volume leverage on our economies of scale.

Operating Expenses

Total operating expenses for the period amounted to USD 498 million as compared to USD 474 million reported for the same period last year, representing 26.8% of turnover (2011: 26.6%). The Group continued to control non-strategic SG&A expenses and reinvested into strategic SG&A as planned.

Financial Review *(continued)*

Operating Expenses *(continued)*

Investment in product design and development amounted to USD 37 million (2011: USD 31 million), representing 2.0% of turnover (2011: 1.8%) reflecting our continuous investment in R&D even in times of economic challenge. With our new innovation centre in full operation in current period, efficiency and cost effectiveness is expected to be further improved in the coming years.

Net interest expenses for the period amounted to USD 22 million as compared to USD 28 million reported for the same period last year. Interest cover, expressed as a multiple of EBITDA to total interest was at 7.2 times (2011: 5.9 times).

Effective tax rate for the period was at 7.6% (2011: 8.0%). The Group will continue to leverage its global operations to further improve overall tax efficiencies.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to USD 1.5 billion, as compared to USD 1.2 billion at December 31, 2011, an increase of 16.9%. Book value per share was USD 0.80 as compared to USD 0.78 at December 31, 2011, an increase of 2.6%.

Financial Position

The Group's net gearing, expressed as a percentage of total net borrowings (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, improved to 37.4% as compared to 66.1% as at June 30, 2011. The gearing improvement is the result of our business growth and all the convertible bonds been converted into shares during the period. The Group remains confident that gearing will improve further after the successful implementation of key initiatives to deliver focused and stringent working capital management.

Bank Borrowings

Long term borrowing accounted for 33.7% of total debts (33.1% at December 31, 2011).

The Group's major borrowings continued to be in US Dollars and HK Dollars. Borrowings are predominantly 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 exposure, and cash management functions are all being closely monitored and managed by the Group's treasury team.

During the period, the Group repaid USD 30 million of fixed interest rate notes, refinanced by other bank facilities with lower interest rates. This refinancing arrangement will lower our interest cost in future periods.

Working Capital

Total inventory was at USD 752 million as compared to USD 801 million for the same period last year. The number of days inventory was at 73 days as compared to 82 days as at June 30, 2011. When compared to the year end level, inventory at the end of the first half of the year is normally higher in preparation for the peak shipment period in the second half of the year.

Trade receivables turnover days were at 64 days as compared to 68 days as at June 30, 2011. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 57 days as compared to 61 days as at June 30, 2011. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing credit exposure.

Trade payables days were 69 days (62 days at December 31, 2011).

The Group's current ratio increased from 1.23 times to 1.33 times and the quick ratio also increased from 0.79 as at December 31, 2011 to 0.86.

Working capital as a percentage of sales was at 18.9% as compared to 22.1% for the same period last year.

Capital Expenditure

Total capital expenditures for the period amounted to USD 37 million (2011: USD 44 million).

Capital Commitment and Contingent Liability

As at June 30, 2012, total capital commitments amounted to USD 19 million (2011: USD 10 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 18,521 employees (2011: 19,360 employees) in Hong Kong and overseas. Total staff cost for the period under review amounted to USD 263 million as compared to USD 251 million in the same period last year.

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

Interim Dividend

The Directors have resolved to declare an interim dividend of HK6.75 cents (approximately US 0.87 cent) (2011: HK5.00 cents (approximately US 0.64 cent)) per share for the six months period ended June 30, 2012. The interim dividend will be paid to shareholders listed on the register of members of the Company on September 14, 2012. It is expected that the interim dividend will be paid on or about September 28, 2012.

Closure of Register of Members

The register of members of the Company will be closed from September 13, 2012 to September 14, 2012, 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, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on September 12, 2012.