

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

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To the Board of Directors of
Techtronic Industries Company Limited
(incorporated in Hong Kong with limited liability)

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 10 to 20, which comprise the condensed consolidated statement of financial position as of June 30, 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The 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, 2017

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six-month period ended June 30, 2017

	Notes	2017 US\$'000 (Unaudited)	2016 US\$'000 (Unaudited)
Revenue	3	2,881,620	2,685,662
Cost of sales		(1,825,797)	(1,716,909)
Gross profit		1,055,823	968,753
Other income		2,271	2,151
Interest income		3,561	4,095
Selling, distribution and advertising expenses		(430,307)	(399,396)
Administrative expenses		(318,131)	(299,112)
Research and development costs		(77,181)	(71,041)
Finance costs		(12,653)	(12,094)
Profit before taxation		223,383	193,356
Taxation charge	4	(18,988)	(16,428)
Profit for the period	5	204,395	176,928
Other comprehensive income (loss):			
Item that will not be reclassified subsequently to profit or loss, net of related income tax:			
Remeasurement of defined benefit obligations		(193)	(107)
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss) gain on foreign currency forward contracts in hedge accounting		(30,082)	2,151
Exchange differences on translation of foreign operations		31,997	(50,051)
Other comprehensive income (loss) for the period		1,722	(48,007)
Total comprehensive income for the period		206,117	128,921
Profit for the period attributable to:			
Owners of the Company		204,433	177,033
Non-controlling interests		(38)	(105)
		204,395	176,928
Total comprehensive income attributable to:			
Owners of the Company		206,155	129,026
Non-controlling interests		(38)	(105)
		206,117	128,921
Earnings per share (US cents)	7		
Basic		11.17	9.69
Diluted		11.14	9.65

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Financial Position (Unaudited)

As at June 30, 2017

	Notes	June 30 2017 US\$'000 (Unaudited)	December 31 2016 US\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	8 & 16	624,710	601,230
Lease prepayments		30,186	29,581
Goodwill		554,508	553,194
Intangible assets	8	565,527	546,636
Interests in associates		3,217	3,667
Available-for-sale investments		756	613
Derivative financial instruments		9,986	9,986
Deferred tax assets		154,235	178,191
		1,943,125	1,923,098
Current assets			
Inventories		1,414,682	1,296,425
Trade and other receivables	9	1,129,410	950,882
Deposits and prepayments		102,120	98,638
Bills receivable	9	5,788	11,190
Tax recoverable		8,449	11,694
Trade receivables from an associate	10	1,470	3,540
Derivative financial instruments		1,240	20,199
Bank balances, deposits and cash		818,142	804,741
		3,481,301	3,197,309
Current liabilities			
Trade and other payables	11	1,402,753	1,330,807
Bills payable	11	43,722	54,137
Warranty provision		84,998	80,088
Tax payable		78,813	100,164
Derivative financial instruments		19,902	2,175
Obligations under finance leases – due within one year		3,071	2,982
Discounted bills with recourse		104,636	93,897
Unsecured borrowings – due within one year	12	447,073	403,825
Bank overdrafts		2,205	1,656
		2,187,173	2,069,731
Net current assets		1,294,128	1,127,578
Total assets less current liabilities		3,237,253	3,050,676

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Financial Position (Unaudited)

As at June 30, 2017

	Notes	June 30 2017 US\$'000 (Unaudited)	December 31 2016 US\$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	13	650,633	649,214
Reserves		1,881,934	1,750,324
Equity attributable to Owners of the Company		2,532,567	2,399,538
Non-controlling interests		(644)	(606)
Total equity		2,531,923	2,398,932
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		9,413	10,760
Unsecured borrowings – due after one year	12	542,453	490,452
Retirement benefit obligations		111,133	108,167
Deferred tax liabilities		42,331	42,365
		705,330	651,744
Total equity and non-current liabilities		3,237,253	3,050,676

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six-month period ended June 30, 2017

	Attributable to Owners of the Company							Attributable to non-controlling interests		
	Share capital US\$'000	Shares held for share award scheme US\$'000	Translation reserve US\$'000	Employee share-based compensation reserve US\$'000	Defined benefit obligations remeasurement reserve US\$'000	Hedging reserve US\$'000	Retained profits US\$'000	Total US\$'000	Share of net assets of subsidiaries US\$'000	Total US\$'000
At January 1, 2016 (audited)	647,109	(9,254)	(74,729)	6,050	(6,033)	(11,187)	1,604,027	2,155,983	(411)	2,155,572
Profit (loss) for the period	—	—	—	—	—	—	177,033	177,033	(105)	176,928
Remeasurement of defined benefit obligations	—	—	—	—	(107)	—	—	(107)	—	(107)
Fair value gain on foreign currency forward contracts in hedge accounting	—	—	—	—	—	2,151	—	2,151	—	2,151
Exchange differences on translation of foreign operations	—	—	(50,051)	—	—	—	—	(50,051)	—	(50,051)
Other comprehensive (loss) income for the period	—	—	(50,051)	—	(107)	2,151	—	(48,007)	—	(48,007)
Total comprehensive income (loss) for the period	—	—	(50,051)	—	(107)	2,151	177,033	129,026	(105)	128,921
Shares issued at premium on exercise of options	425	—	—	(81)	—	—	—	344	—	344
Shares for share award scheme	—	(789)	—	—	—	—	—	(789)	—	(789)
Recognition of equity-settled share-based payments	—	—	—	3,414	—	—	—	3,414	—	3,414
Final dividend – 2015	—	—	—	—	—	—	(54,881)	(54,881)	—	(54,881)
At June 30, 2016 (unaudited)	647,534	(10,043)	(124,780)	9,383	(6,140)	(9,036)	1,726,179	2,233,097	(516)	2,232,581
Profit (loss) for the period	—	—	—	—	—	—	231,949	231,949	(90)	231,859
Remeasurement of defined benefit obligations	—	—	—	—	(9,861)	—	—	(9,861)	—	(9,861)
Fair value gain on foreign currency forward contracts in hedge accounting	—	—	—	—	—	27,188	—	27,188	—	27,188
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	2,905	—	—	2,905	—	2,905
Exchange differences on translation of foreign operations	—	—	(31,949)	—	—	—	—	(31,949)	—	(31,949)
Other comprehensive (loss) income for the period	—	—	(31,949)	—	(6,956)	27,188	—	(11,717)	—	(11,717)
Total comprehensive income (loss) for the period	—	—	(31,949)	—	(6,956)	27,188	231,949	220,232	(90)	220,142
Shares issued at premium on exercise of options	1,680	—	—	(320)	—	—	—	1,360	—	1,360
Buy-back of shares	—	—	—	—	—	—	(5,425)	(5,425)	—	(5,425)
Vesting of awarded shares	—	8,087	—	(8,087)	—	—	—	—	—	—
Shares for share award scheme	—	(8,520)	—	—	—	—	—	(8,520)	—	(8,520)
Recognition of equity-settled share-based payments	—	—	—	6,034	—	—	—	6,034	—	6,034
Interim dividend - 2016	—	—	—	—	—	—	(47,240)	(47,240)	—	(47,240)
At December 31, 2016 and January 1, 2017 (audited)	649,214	(10,476)	(156,729)	7,010	(13,096)	18,152	1,905,463	2,399,538	(606)	2,398,932
Profit (loss) for the period	—	—	—	—	—	—	204,433	204,433	(38)	204,395
Remeasurement of defined benefit obligations	—	—	—	—	(193)	—	—	(193)	—	(193)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	(30,082)	—	(30,082)	—	(30,082)
Exchange differences on translation of foreign operations	—	—	31,997	—	—	—	—	31,997	—	31,997
Other comprehensive income (loss) for the period	—	—	31,997	—	(193)	(30,082)	—	1,722	—	1,722
Total comprehensive income (loss) for the period	—	—	31,997	—	(193)	(30,082)	204,433	206,155	(38)	206,117
Shares issued at premium on exercise of options	1,419	—	—	(277)	—	—	—	1,142	—	1,142
Buy-back of shares	—	—	—	—	—	—	(5,388)	(5,388)	—	(5,388)
Vesting of awarded shares	—	45	—	(45)	—	—	—	—	—	—
Recognition of equity-settled share-based payments	—	—	—	1,898	—	—	—	1,898	—	1,898
Final dividend – 2016	—	—	—	—	—	—	(70,778)	(70,778)	—	(70,778)
At June 30, 2017 (unaudited)	650,633	(10,431)	(124,732)	8,586	(13,289)	(11,930)	2,033,730	2,532,567	(644)	2,531,923

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six-month period ended June 30, 2017

	June 30 2017 US\$'000 (Unaudited)	June 30 2016 US\$'000 (Unaudited)
Net cash from operating activities	104,625	125,313
Net cash used in investing activities	(134,134)	(127,588)
Net cash from (used in) financing activities	29,114	(20,728)
Net decrease in cash and cash equivalents	(395)	(23,003)
Cash and cash equivalents at January 1	803,085	770,771
Effect of foreign exchange rate changes	13,247	(3,930)
Cash and cash equivalents at June 30	815,937	743,838
Analysis of the balances of cash and cash equivalents Represented by:		
Bank balances, deposits and cash	818,142	743,838
Bank overdrafts	(2,205)	—
	815,937	743,838

Condensed Consolidated Financial Statements

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“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 (the “Stock Exchange”).

The financial information relating to the year ended December 31, 2016 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended December 31, 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

No significant events and transactions have been noted in the current interim period.

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.

Except as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six-month ended June 30, 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

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:

For the period ended June 30, 2017

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	2,466,589	415,031	—	2,881,620
Inter-segment sales	—	991	(991)	—
Total segment revenue	2,466,589	416,022	(991)	2,881,620

For the period ended June 30, 2016

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Segment revenue				
External sales	2,204,254	481,408	—	2,685,662
Inter-segment sales	—	467	(467)	—
Total segment revenue	2,204,254	481,875	(467)	2,685,662

Inter-segment sales are charged at prevailing market rates.

Six-month period ended June 30

	2017			2016		
	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Consolidated US\$'000
Segment results	232,113	362	232,475	184,860	16,495	201,355
Interest income			3,561			4,095
Finance costs			(12,653)			(12,094)
Profit before taxation			223,383			193,356
Taxation charge			(18,988)			(16,428)
Profit for the period			204,395			176,928

Segment results represent the profit earned by each segment without the allocation of interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resources allocation and performance assessment.

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the chief operating decision makers for review.

4. Taxation charge

	Six-month period ended June 30	
	2017 US\$'000	2016 US\$'000
Current tax:		
Hong Kong	2,821	2,003
Overseas Tax	(8,561)	31,893
Deferred Tax	24,728	(17,468)
	18,988	16,428

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods.

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

5. Profit for the period

	Six-month period ended June 30	
	2017 US\$'000	2016 US\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	54,933	48,988
Amortisation of lease prepayments	174	179
Amortisation of intangible assets	45,298	42,097
Total depreciation and amortisation	100,405	91,264
Net exchange loss (gain)	5,285	(6,034)
Staff costs	464,697	408,095
Fair value loss on held-for-trading investments	—	141

6. Dividends

A dividend of HK30.00 cents (approximately US3.86 cents) per share with a total of approximately US\$70,778,000 (2016: HK23.25 cents (approximately US2.99 cents) per share with a total of approximately US\$54,881,000) was paid to shareholders as the final dividend for 2016 on June 23, 2017.

The Directors have determined that an interim dividend of HK27.75 cents (approximately US3.57 cents) per share with a total of approximately US\$65,478,000 (2016: HK20.00 cents (approximately US2.57 cents) per share) shall be paid to the shareholders of the Company whose names appear in the Register of Members on September 8, 2017.

7. Earnings per share

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

	Six-month period ended June 30	
	2017 US\$'000	2016 US\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the period attributable to Owners of the Company	204,433	177,033
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,829,895,206	1,827,745,438
Effect of dilutive potential ordinary shares:		
Share options	5,141,103	6,408,796
Share award	719,597	839,723
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,835,755,906	1,834,993,957

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

During the period, the Group spent approximately US\$72 million (for the six-month ended June 30, 2016: US\$81 million) and US\$66 million (for the six-month ended June 30, 2016: US\$54 million) on the acquisition of property, plant and equipment and intangible assets respectively.

9. Trade and other receivables/Bills receivable

The Group has a policy of allowing credit periods ranging mainly from 30 days to 120 days. The aging analysis of trade receivables, net of allowances for doubtful debts, presented on the basis of the revenue recognition date, which is usually the invoice date, at the end of the reporting period is as follows:

Age	June 30 2017 US\$'000	December 31 2016 US\$'000
	0 to 60 days	888,401
61 to 120 days	171,170	141,223
121 days or above	47,983	33,925
Total trade receivables	1,107,554	934,850
Other receivables	21,856	16,032
	1,129,410	950,882

All the Group's bills receivable at June 30, 2017 are due within 120 days.

10. Trade receivables from an associate

The trade receivables from an associate were aged and are due within 120 days.

11. Trade and other payables/Bills payable

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

Age	June 30	December 31
	2017	2016
	US\$'000	US\$'000
0 to 60 days	599,410	561,148
61 to 120 days	175,580	142,404
121 days or above	10,737	7,878
Total trade payables	785,727	711,430
Other payables	617,026	619,377
	1,402,753	1,330,807

All the Group's bills payable at June 30, 2017 were aged and are due within 120 days.

12. Unsecured borrowings

During the period, the Group obtained new bank borrowings of US\$1,089 million (2016: US\$817 million) which carry interest at the London Interbank Offered Rate, Euro Interbank Offered Rate or Hong Kong best lending rates. The Group also repaid the existing bank borrowings of US\$994 million (2016: US\$809 million).

13. Share capital

	Number of shares		Share capital	
	June 30 2017	December 31 2016	June 30 2017 US\$'000	December 31 2016 US\$'000
Ordinary shares				
Authorised shares	2,400,000,000	2,400,000,000	N/A	N/A
Issued and fully paid:				
At the beginning of the period	1,833,896,941	1,833,736,941	649,214	647,109
Issue of shares upon exercise of share options	995,000	1,660,000	1,419	2,105
Buy-back of shares	(1,500,000)	(1,500,000)	—	—
At the end of the period	1,833,391,941	1,833,896,941	650,633	649,214

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

Month of cancellation	No. of ordinary shares	Price per share		Aggregate consideration paid US\$'000
		Highest HK\$	Lowest HK\$	
January 2017	1,500,000	28.15	27.50	5,388

The shares bought back in December 2016 were settled and cancelled during the period. The consideration paid on the buy-back of the shares of approximately US\$5,388,000 was charged to retained profits.

14. Contingent liabilities

	June 30 2017 US\$'000	December 31 2016 US\$'000
Guarantees given to banks in respect of credit facilities utilised by associates	9,917	9,545

15. Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities are measured on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	June 30, 2017	December 31, 2016		
1) Acquisition right of certain property, plant and equipment classified as derivative financial instruments in the condensed consolidated statement of financial position	Acquisition right of certain property, plant and equipment: US\$9,986,000	Acquisition right of certain property, plant and equipment: US\$9,986,000	Level 2	Measured at the fair value of the land and buildings associated with the acquisition right which is based on a valuation by a 3 rd party independent valuer at the end of the financial year.
2) Foreign currency forward contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	Assets – US\$1,240,000; and Liabilities – US\$19,902,000	Assets – US\$20,199,000; and Liabilities – US\$2,175,000	Level 2	Quoted forward exchange rates matching maturities of the contracts.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values. There were no transfers between Level 1 and 2 in both periods.

16. Capital commitments

	June 30 2017 US\$'000	December 31 2016 US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	27,747	32,828