



# Techtronic Industries Co. Ltd.

(Incorporated in Hong Kong with limited liability)  
(Stock Code: 669)

## Announcement of results for the six months period ended 30th June, 2005

### HIGHLIGHTS

	2005 HK\$ million	2004 HK\$ million	Changes
<b>Turnover</b>	<b>10,217</b>	6,724	<b>+ 52.0%</b>
<b>Profit from operations</b>	<b>723</b>	419	<b>+ 72.6%</b>
<b>Profit attributable to shareholders of the Company</b>	<b>456</b>	299	<b>+ 52.7%</b>
<b>Earnings per share, basic (HK cents)</b>	<b>33.65</b>	22.49	<b>+ 49.6%</b>
<b>Interim dividend per share (HK cents)</b>	<b>6.00</b>	4.50	<b>+ 33.3%</b>

The Board of Directors are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months period ended 30th June, 2005 together with the comparative figures in 2004.

### INTERIM DIVIDEND

The Directors recommend an interim dividend of HK6.00 cents per share (2004 interim dividend: HK4.50 cents). The interim dividend will be paid to shareholders listed on the register of members of the Company on 16th September, 2005. It is expected that the interim dividend will be paid on about 30th September, 2005.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

TTI's four-tiered strategic approach continues to deliver record performance (leading brands, exceed industry growth, commitment to innovation and unmatched operational efficiency). Total Group turnover for the six months period was HK\$10,217 million, an increase of 52.0% over the same period of 2004. Profit rose by 52.7% to HK\$456 million. Earnings per share grew 49.6% to HK\$33.65 cents. The Directors recommend an interim dividend of HK6.00 cents, as compared with HK4.50 cents at the interim of 2004, an increase of 33.3%.

Each business segment exhibited robust growth in turnover and profitability through well received new product introductions, additional placements in key channels and by creating market advantage through dedicated cost reduction efforts.

In January, we completed the acquisition of the Milwaukee® and AEG® professional power tool and accessories and Dreb® carbide drill bit business. The integration of the newly acquired businesses has been smooth. We are building on these acquired brands and their superior technology platforms by combining the Group's design and engineering resources. In addition, we have the most powerful field sales team in the power tool industry with TTI's best-in-industry Home Center sales force with Milwaukee® and AEG® best-in-industry Industrial/Contractor sales force.

During the period under review, we had several key product launches. Every brand has delivered growth in competitive markets. Our robust marketing programs successfully portray the high quality of the product lines and are designed to trigger value-driven purchases. We remain competitive by leveraging our unique economies of scale and other operational efficiencies, which contribute to sustaining our margins despite pressure from rising raw material prices.

### BUSINESS REVIEW

**Power Equipment Products**  
The Power Equipment Products division delivered robust turnover growth of 67.4% over the same period of 2004 to HK\$7,889 million, accounting for 77.2% of Group turnover. The strong growth was attributed to the double-digit growth of existing business and first six months' contribution from the recent acquisition.

Our leading position in North America is further strengthened with key innovative product launches for both professional and consumer markets. Targeting the professional/Industrial users, the V28™ cordless power tool line by Milwaukee® has exceeded expectations and has been recognized by a number of trade magazines as taking the tool industry to new levels. This new product line is a primary example of how innovation can positively impact an entire market. Since its initial launch in April this year, we have seen very strong demand and we expect tremendous growth potential from this technology platform.

RIGID® also continued to build strength and capture market share in the professional segment of the building industry with its new line of pneumatic fastening tools, exclusively featuring high performance FastenEdge Technology™. A well executed marketing event at the National Homebuilder's Show in January and an aggressive public relations campaign have kept the RIGID® brand in front of the customer base.

Our consumer line, under the Ryobi® brand, continued its success in the Ryobi® One+ System™, a revolutionary marketing concept well received by the end users. We successfully added new tools to the line during the first half, supported by robust advertising in trade magazines, the Home Depot circulars and a national TV campaign led to highly visible in-store displays.

Outside of North America, our power tool business continued its positive momentum. Ryobi® delivered double digit growth powered by new products and geographic expansion. AEG® and Dreb® businesses performed according to plan with a focus on leveraging product development and marketing synergies with the TTI Group.

The outdoor power equipment division also delivered excellent growth in the first half of the year. We continued to capitalize on the already strong position of Ryobi® and introduced a number of new products. The innovative design and function of the new gas powered pressure washer, under the Ryobi® brand, was one of several new product introductions based on specific customer research. HomeLife® continues to be a brand of choice adding to the growth of this division. We also enjoyed strong growth in Europe for the outdoor products, thanks to continuous introduction of new products.

**Floor Care Appliances**  
Turnover in the Floor Care Appliances division increased 15.3% over the same period of 2004, to HK\$1,980 million, accounting for 19.4% of Group turnover.

A strengthened North American management team is launching new marketing campaigns that highlight product innovations and cleaning solutions in response to customer research. The Dirt Devil® brand remained a consumer favorite exhibiting strong growth across all markets. A wide range of new products has been introduced, including the new Dynamic® line of vacuums and trendy Broom Vac. We continued to build on our strong relationship with the key retailers, providing them with well-received products and efficient sales support. Dirt Devil® in Europe also recorded double-digit growth for the first half on aggressive advertising and new products.

Dirt Devil® is celebrating the 100 year anniversary of the company with an innovative promotion campaign featuring a unique line of products, creative merchandising and packaging, and end-user promotions.

In the UK, Vax® is the fastest growing floor care brand and has captured market gains with its robust new product introductions such as the innovative upright carpet washers and easy-to-use bagless vacuums. Strong relationships with customers, energetic marketing campaigns and an array of new products promise continued growth.

Our OEM business delivered positive results as new products launched in late 2004 had exceptional end-user acceptance. The strategic investment continues in product development capabilities to support our OEM customer growth on new products. As planned, there are relentless efforts to improve product performance, increase manufacturing efficiencies and drive cost containment programs.

**Laser and Electronic Products**  
Turnover for the Laser and Electronic Products division climbed 18.0% over the same period of 2004 to HK\$348 million, accounting for 3.4% of Group turnover. The double-digit growth in sales and profits were the result of major new product introductions in key markets. Aggressive productivity measures were taken to contain costs. The product innovation and enhanced productivity helped strengthen the strategic alliance with our key ODM partners as we provided them continued product advantage at competitive costs.

### RESULTS SUMMARY

#### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	2005	2004	2005	2004
		HK\$'000	HK\$'000	US\$'000	US\$'000
Turnover	3	10,217,328	6,724,115	1,309,914	862,066
Cost of sales		(7,045,245)	(4,720,044)	(903,235)	(605,134)
Gross profit		3,172,083	2,004,071	406,679	256,932
Other operating income		15,092	14,074	1,935	1,804
Interest income		22,692	22,155	2,909	2,840
Selling, distribution, advertising and warranty expenses		(1,008,271)	(693,737)	(129,265)	(88,941)
Administrative expenses		(1,226,291)	(762,714)	(157,220)	(97,785)
Research and development costs		(251,880)	(164,759)	(32,292)	(21,123)
Profit from operations	4	723,425	419,090	92,746	53,727
Finance costs		(149,734)	(58,702)	(19,197)	(7,526)
Profit before share of results of associates and taxation		573,691	360,388	73,549	46,201
Share of results of associates		(2,999)	(626)	(384)	(80)
Profit before taxation		570,692	359,762	73,165	46,121
Taxation	5	(93,741)	(42,677)	(12,018)	(5,471)
Profit for the period		476,951	317,085	61,147	40,650
Attributable to:					
Shareholders of the Company		456,362	298,858	58,507	38,313
Minority interests		20,589	18,227	2,640	2,337
Profit for the period		476,951	317,085	61,147	40,650
Dividends		(169,651)	(118,444)	(21,750)	(15,185)
Earnings per share (HK / US cents)	6				
Basic		33.65	22.49	4.31	2.88
Diluted		31.89	21.78	4.09	2.79

#### CONDENSED CONSOLIDATED BALANCE SHEET

as at 30th June, 2005

	Note	30th June 2005	31st December 2004	30th June 2005	31st December 2004
		HK\$'000	HK\$'000	US\$'000	US\$'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment		1,746,805	879,846	223,949	112,801
Lease prepayment		69,309	4,772	8,886	612
Goodwill		4,060,924	653,504	520,631	83,783
Negative goodwill		-	(28,868)	-	(3,701)
Intangible assets		473,522	232,881	60,708	29,857
Interests in securities		168,982	160,442	21,664	20,569
Investments in associates		-	27,193	-	3,486
Available-for-sale investments		23,259	-	2,982	-
Deferred tax assets		377,125	329,711	48,349	42,271
Other assets		1,195	1,195	153	153
		6,921,121	2,260,676	887,322	289,831
<b>Current assets</b>					
Inventories		4,372,339	2,787,059	560,556	357,315
Trade and other receivables		3,378,887	2,762,156	433,190	354,123
Deposits and prepayments		441,051	382,421	56,545	49,028
Bills receivable		359,074	256,836	46,035	32,928
Tax recoverable		31,453	872	4,032	112
Trade receivables from associates		1,276	1,247	164	160
Bank balances, deposits and cash		1,733,787	5,452,057	222,280	698,982
		10,317,867	11,642,648	1,322,802	1,492,648
<b>Current liabilities</b>					
Trade, bills and other payables		4,063,120	3,395,650	520,913	435,340
Warranty provision		261,258	241,375	33,495	30,946
Trade payable to an associate		29,228	21,593	3,747	2,768
Tax payable		129,119	105,092	16,554	13,473
Dividend payable		169,651	-	21,750	-
Obligations under finance leases - due within one year		14,874	6,266	1,907	803
Discounted bills with recourse		2,477,588	3,208,964	317,639	411,406
Borrowings - due within one year		746,875	840,450	95,754	107,750
		7,891,713	7,819,390	1,011,759	1,002,486
Net current assets		2,426,154	3,203,258	311,043	490,162
Total assets less current liabilities		9,347,275	6,083,934	1,198,365	779,993
<b>SHARE AND RESERVES</b>					
Share capital	7	135,907	135,230	17,424	17,337
Reserves		3,627,990	3,318,586	465,122	425,641
Equity attributable to shareholders of the Company		3,763,897	3,453,816	482,546	442,798
Minority interests		101,147	82,032	12,968	10,517
Total Equity		3,865,044	3,535,848	495,514	453,315
<b>NON-CURRENT LIABILITIES</b>					
Obligations under finance leases - due after one year		139,641	8,989	17,903	1,152
Convertible bonds		1,064,664	1,051,257	136,495	134,777
Borrowings - due after one year		4,233,124	1,446,292	542,709	185,422
Deferred tax liabilities		44,802	41,548	5,744	5,327
		5,482,231	2,548,086	702,851	326,678
		9,347,275	6,083,934	1,198,365	779,993

### FINANCIAL REVIEW

#### Acquisition

The Group completed the purchase from Atlas Copco AB ("ATCO") all of ATCO's electric power tools and accessories business ("the Business") conducted under the brand names "Milwaukee" and "AEG" as well as "Dreb" accessories businesses, ("the Sold Companies"), with unanimous approval by all the shareholders present in person or by proxy at the Company's Extraordinary General Meeting on 3rd January, 2005.

The purchase price for the Business, which was paid in cash at the closing of the transaction, was US\$627 million (approximately HK\$4,887 million), consisting of the pre-adjustment purchase price of US\$713 million (approximately HK\$5,560 million), reduced by an agreed pre-closing adjustment of US\$86 million (approximately HK\$672 million) in respect of a portion of the accrued and unfunded post-retirement liabilities of certain of the Sold Companies and adjustments with respect to related deferred asset accounts and to certain accruals. The purchase price was calculated on the basis of the Sold Companies having no indebtedness or cash and their net tangible assets (excluding, among other things, cash and amounts in respect of pre-agreed adjustments) being US\$285 million (approximately HK\$2,223 million). The parties are in the process of finalizing the closing statements for the Business and the net tangible assets of the Business as shown in such agreed closing statements are less than US\$285 million (approximately HK\$2,223 million), the purchase price will be reduced by the amount of the shortfall. If the net tangible assets of the Business as shown in such agreed closing statements are greater than US\$285 million (approximately HK\$2,223 million), the purchase price will be increased by the amount of such excess.

The accounting for the acquisition of the Business was provisionally determined pending completion of the procedures stipulated in the Sales and Purchase Agreement to determine the final adjustment to the purchase price.

The acquisition strengthens the Group's brand profile, product offerings and distribution network in the global power tool industry, particularly in the US and European markets.

The Group has moved forward with its integration plans to reap the synergistic benefits in engineering, manufacturing and the supply chain for our operations. Leveraging the strengths of the combined business, the Group will be able to compete more effectively in the global power tool industry and to further enhance its leadership position.

#### Results Analysis

The Group's turnover growth of 52.0% for the period under review to HK\$10.22 billion, contributed by strong organic growth of all business units and the newly acquired business completed on 3rd January, 2005. Profit attributable to shareholders of the Company for the period increased by 52.7% to HK\$456 million from HK\$299 million. Profit margin improved to 4.47%, despite higher administrative and financing expenses and effective tax rate from acquisition. Earnings per share increased by 49.6% from HK\$22.49 cents to HK\$33.65 cents.

Gross margin continued to improve from 29.8% to 31.0% as a result of a more favorable product portfolio from current and newly acquired business and cost containment programs adopted by all operations, offsetting higher raw material prices.

The Group's EBITDA (earnings before interest, tax, depreciation and amortization) for the period under review increased by 68.2% to HK\$939 million from HK\$558 million. EBITDA margin improved from 8.3% to 9.2%.

Selling, distribution, advertising and warranty expenses efficiency improved from 10.3% to turnover reported last year to 9.9% for the period under review. The Group had already identified various cost improvements opportunities through integration and consolidation with the newly acquired operations to further rationalize the cost structure and improve efficiencies.

The Group continued to invest in the design and development of innovative high quality products. For the current period under review, the Group spent HK\$292 million on R&D for the Group's revenue, compared to 2.5% to revenue of HK\$169 million same period last year.

Following the completion of the acquisition, the Group's own and licensed brand business expanded to 81.5% of Group total turnover (2004: 74.1%), an increase of over 67.3%. North America remained to be the Group's major market with turnover growth of 44.8%, representing 74.5% of Group turnover (2004: 78.2%). The Group's business in Europe and other countries increased by 77.6%, accounting for 25.5% (2004: 21.8%) of Group turnover, in line with the Group's strategy to expand business beyond the North American market.

Effective tax rate increased from 11.9% to 16.4% as a result of the recent acquisition. The Group will continue to capitalize its global operation for more effective tax planning.

#### Liquidity and Financial Resources

The Group's working capital remained healthy. As at 30th June, 2005, net current assets was at HK\$2.43 billion as compared to HK\$2.15 billion same period last year.

Total inventory value, as a result of the acquisition completed at beginning of the year, increased to HK\$4.37 billion. Average inventory days improved by 4 days to 64 days as compared to same period last year with finished goods turnover days improved by 6 days to 43 days. Excluding the acquired inventory, the increase was in line with the organic growth of the Group.

Trade receivables increased by 3 days to 51 days when compared to same period last year. The increase was mainly due to different credit terms of the acquired business.

Trade and other payables were at 59 days, as compared to 53 days same period last year.

The Group continues to maintain a well balanced and carefully structured loan portfolio to support its long-term growth strategy and is also able to secure additional financing at favorable terms. Taking advantage of the low interest rate environment, the Group tapped into the capital market with two transactions in first quarter 2005 through its wholly owned entity in the United States. The Group placed US\$200 million fixed interest rate Notes in two tranches, of US\$150 million for 10 years at 5.44% per annum, and US\$50 million for 7 years at 5.17% per annum, with private investors in the United States. Another US\$200 million LIBOR-based floating rate convertible term loan was arranged through an elite group of financial institutions for a 3-year period extendable to 5 years. Both issues received overwhelming support and were successfully closed in March 2005. The proceeds were used to refinance existing bank borrowings.

The Group's net gearing, expressed as a percentage of total net borrowing to equity attributable to shareholders of the Company, was at 118.6% as a result of the Milwaukee® and AEG® acquisition, which was fully funded by internal resources and borrowings. In addition, the Group's working capital requirement is higher in the first half to prepare for the peak shipment period in the second half. With the Group's strong cash flow generating capability, the gearing ratio is expected to improve by end of the year.

Net interest expenses amounted to HK\$127 million, as compared to HK\$37 million same period last year as a result of additional borrowings and the effective interest expense, a non-cash item, on the liability component of the convertible bonds in accordance with HKAS 39. Interest coverage, expressed as ratio of earnings before interest and tax to total net interest remained at healthy level of 5.33 times (2004: 10.35 times).

The Group's major borrowings including the ones issued during the period are in US Dollars and HK Dollars. Other than the fixed interest rate Notes, all borrowings are either LIBOR or Hong Kong best lending rates based. As the Group's major revenues are in US Dollars, there is a natural hedge mechanism in place and currency exposure is relatively low. The current 2% appreciation of the RMB also has very little impact on our operation as our RMB cost base is relatively small. To enhance overall risk management for its expansion, the Group had already strengthened its treasury management capability and will closely monitor and manage its currency and interest rate exposures.

Capital expenditure for the period amounted to HK\$289 million with depreciation charges of HK\$245 million.

**Capital Commitment and Contingent Liabilities**  
Total capital commitment as at 30th June, 2005 amounted to HK\$282 million compared to HK\$154 million as at 31st December, 2004.

As at 30th June, 2005, there was no material contingent liabilities or off balance sheet obligations.

#### Charges

None of the Group's assets are charged or subject to any encumbrance.

#### Human Resources

The Group employed a total of 24,825 employees (2004: 16,294 employees) in Hong Kong and overseas. Total staff costs for the period under review amounted to HK\$1,091 million as compared to HK\$647 million same period last year. The increase was due to the expansion of the Group's operations.

### NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

	HKAS 17	HKAS 32 & HKAS 39	HKFRS 2	HKFRS 3	Total effect on adoption of HKFRSs and HKASs
<b>1. Basis of preparation</b>					
The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities in the Stock Exchange of Hong Kong Limited ("the Listing Rules") and with Hong Kong Accounting Standard 34 Interim Financial Reporting.					
<b>2. Changes in accounting policies</b>					
The condensed financial statements have been prepared on the historical cost basis.					
The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below.					
In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have had an effect on how the results for the current or prior accounting periods are prepared and presented:					
<b>Business Combinations</b>					
In the current period, the Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 on the Group are summarized below:					
(i) Goodwill					
In previous periods, goodwill arising on acquisitions was capitalized and amortized over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalized on the balance sheet, the Group has discontinued amortizing such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.					
(ii) Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")					
In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognized immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill at 1st January, 2005, with a corresponding increase to retained earnings.					
<b>Share-based Payments</b>					
In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002					