

Report on Review of Condensed Consolidated Financial Statements



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 9 to 20, which comprise the condensed consolidated statement of financial position as of June 30, 2014 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 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 20, 2014

Condensed Consolidated Financial Statements

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

For the six months period ended June 30, 2014

	Notes	2014 US\$'000 (Unaudited)	2013 US\$'000 (Unaudited)
Turnover	3	2,249,941	2,042,387
Cost of sales		(1,463,108)	(1,348,373)
Gross profit		786,833	694,014
Other income		1,213	1,896
Interest income		7,953	5,334
Selling, distribution, advertising and warranty expenses		(319,020)	(278,624)
Administrative expenses		(251,473)	(227,272)
Research and development costs		(56,703)	(48,185)
Finance costs		(20,582)	(19,698)
Profit before taxation		148,221	127,465
Taxation charge	4	(12,599)	(10,197)
Profit for the period	5	135,622	117,268
Other comprehensive loss:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		(5,059)	(5,113)
Items that may be subsequently reclassified to profit or loss:			
Fair value (loss) gain on foreign currency forward contracts in hedge accounting		(15,892)	3,920
Exchange differences on translation of foreign operations		(7,376)	(4,902)
Other comprehensive loss for the period		(28,327)	(6,095)
Total comprehensive income for the period		107,295	111,173
Profit for the period attributable to:			
Owners of the Company		136,274	117,564
Non-controlling interests		(652)	(296)
		135,622	117,268
Total comprehensive income attributable to:			
Owners of the Company		107,947	111,469
Non-controlling interests		(652)	(296)
		107,295	111,173
Earnings per share (US cents)	7		
Basic		7.45	6.43
Diluted		7.41	6.40

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Financial Position (Unaudited)

As at June 30, 2014

	Notes	June 30 2014 US\$'000 (Unaudited)	December 31 2013 US\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	8 & 16	399,735	383,949
Lease prepayments		35,296	36,364
Goodwill	15	556,315	532,488
Intangible assets	8	484,756	459,440
Interests in associates		14,789	15,766
Available-for-sale investments		520	520
Derivative financial instruments		11,741	12,647
Deferred tax assets		85,341	79,064
		1,588,493	1,520,238
Current assets			
Inventories		1,024,771	884,230
Trade and other receivables	9	901,969	783,795
Deposits and prepayments		95,967	76,057
Bills receivable	9	29,402	26,054
Tax recoverable		22,757	15,375
Trade receivables from an associate		2,828	2,590
Derivative financial instruments		989	5,073
Held-for-trading investments		1,093	1,000
Bank balances, deposits and cash		655,681	698,147
		2,735,457	2,492,321
Current liabilities			
Trade and other payables	10	1,042,900	1,039,923
Bills payable	10	41,613	40,613
Warranty provision		56,364	52,628
Tax payable		78,462	50,197
Derivative financial instruments		25,171	13,082
Obligations under finance leases – due within one year		1,032	977
Discounted bills with recourse		96,890	116,704
Unsecured borrowings – due within one year	11	662,068	454,624
Bank overdrafts		8,495	7,887
		2,012,995	1,776,635
Net current assets		722,462	715,686
Total assets less current liabilities		2,310,955	2,235,924

	Notes	June 30 2014 US\$'000 (Unaudited)	December 31 2013 US\$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	12	642,520	23,471
Reserves		1,175,326	1,717,242
Equity attributable to Owners of the Company		1,817,846	1,740,713
Non-controlling interests		4,071	4,723
Total equity		1,821,917	1,745,436
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		2,600	3,173
Unsecured borrowings – due after one year	11	373,179	374,744
Retirement benefit obligations		107,016	106,296
Deferred tax liabilities		6,243	6,275
		489,038	490,488
Total equity and non-current liabilities		2,310,955	2,235,924

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Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months period ended June 30, 2014

	Attributable to Owners of the Company									Attributable to non-controlling interests	Total
	Share capital US\$'000	Share premium US\$'000	Capital redemption reserve 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		
At January 1, 2013 (audited)	23,461	613,090	183	1,119	3,213	7,174	(1,254)	901,891	1,548,877	7,645	1,556,522
Profit (loss) for the period	—	—	—	—	—	—	—	117,564	117,564	(296)	117,268
Remeasurement of defined benefit obligations	—	—	—	—	—	(5,113)	—	—	(5,113)	—	(5,113)
Fair value gain on foreign currency forward contracts in hedge accounting	—	—	—	—	—	—	3,920	—	3,920	—	3,920
Exchange differences on translation of foreign operations	—	—	—	(4,902)	—	—	—	—	(4,902)	—	(4,902)
Other comprehensive (loss) income for the period	—	—	—	(4,902)	—	(5,113)	3,920	—	(6,095)	—	(6,095)
Total comprehensive (loss) income for the period	—	—	—	(4,902)	—	(5,113)	3,920	117,564	111,469	(296)	111,173
Shares issued at premium on exercise of options	48	4,156	—	—	(780)	—	—	—	3,424	—	3,424
Buy-back of shares	(16)	—	16	—	—	—	—	(2,429)	(2,429)	—	(2,429)
Recognition of equity-settled share-based payments	—	—	—	—	269	—	—	—	269	—	269
Final dividend – 2012	—	—	—	—	—	—	—	(25,330)	(25,330)	—	(25,330)
At June 30, 2013 (unaudited)	23,493	617,246	199	(3,783)	2,702	2,061	2,666	991,696	1,636,280	7,349	1,643,629
Profit (loss) for the period	—	—	—	—	—	—	—	132,720	132,720	(2,626)	130,094
Remeasurement of defined benefit obligations	—	—	—	—	—	(4,030)	—	—	(4,030)	—	(4,030)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	—	(3,819)	—	(3,819)	—	(3,819)
Exchange differences on translation of foreign operations	—	—	—	4,162	—	—	—	—	4,162	—	4,162
Other comprehensive income (loss) for the period	—	—	—	4,162	—	(4,030)	(3,819)	—	(3,687)	—	(3,687)
Total comprehensive income (loss) for the period	—	—	—	4,162	—	(4,030)	(3,819)	132,720	129,033	(2,626)	126,407
Shares issued at premium on exercise of options	4	317	—	—	(60)	—	—	—	261	—	261
Buy-back of shares	(26)	—	26	—	—	—	—	(4,729)	(4,729)	—	(4,729)
Recognition of equity-settled share-based payments	—	—	—	—	97	—	—	—	97	—	97
Lapse of share options	—	—	—	—	(6)	—	—	6	—	—	—
Deferred tax liability on remeasurement of defined benefit obligations	—	—	—	—	—	3,325	—	—	3,325	—	3,325
Interim dividend – 2013	—	—	—	—	—	—	—	(23,554)	(23,554)	—	(23,554)
At December 31, 2013 and January 1, 2014 (audited)	23,471	617,563	225	379	2,733	1,356	(1,153)	1,096,139	1,740,713	4,723	1,745,436
Profit (loss) for the period	—	—	—	—	—	—	—	136,274	136,274	(652)	135,622
Remeasurement of defined benefit obligations	—	—	—	—	—	(5,059)	—	—	(5,059)	—	(5,059)
Fair value loss on foreign currency forward contracts in hedge accounting	—	—	—	—	—	—	(15,892)	—	(15,892)	—	(15,892)
Exchange differences on translation of foreign operations	—	—	—	(7,376)	—	—	—	—	(7,376)	—	(7,376)
Other comprehensive loss for the period	—	—	—	(7,376)	—	(5,059)	(15,892)	—	(28,327)	—	(28,327)
Total comprehensive (loss) income for the period	—	—	—	(7,376)	—	(5,059)	(15,892)	136,274	107,947	(652)	107,295
Shares issued at premium on exercise of options	14	1,247	—	—	(237)	—	—	—	1,024	—	1,024
Recognition of equity-settled share-based payments	—	—	—	—	562	—	—	—	562	—	562
Final dividend – 2013	—	—	—	—	—	—	—	(32,400)	(32,400)	—	(32,400)
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance (Note)	619,035	(618,810)	(225)	—	—	—	—	—	—	—	—
At June 30, 2014 (unaudited)	642,520	—	—	(6,997)	3,058	(3,703)	(17,045)	1,200,013	1,817,846	4,071	1,821,917

Note: The Company's shares have no par value from the commencement date of Chapter 622 of the new Hong Kong Companies Ordinance (i.e. March 3, 2014).

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months period ended June 30, 2014

	June 30 2014 US\$'000 (Unaudited)	June 30 2013 US\$'000 (Unaudited)
Net cash (used in) from operating activities	(65,266)	83,912
Net cash used in investing activities	(127,186)	(87,026)
Net cash from (used in) financing activities	153,477	(36,904)
Net decrease in cash and cash equivalents	(38,975)	(40,018)
Cash and cash equivalents at January 1	690,260	610,561
Effect of foreign exchange rate changes	(4,099)	(1,840)
Cash and cash equivalents at June 30	647,186	568,703
Analysis of the balances of cash and cash equivalents		
Represented by:		
Bank balances, deposits and cash	655,681	573,312
Bank overdrafts	(8,495)	(4,609)
	647,186	568,703

Condensed Consolidated Financial Statements

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.

Except as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended June 30, 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and 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 HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int 21	Levies

The application of the above new interpretation and 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, 2014

	Power Equipment US\$’000	Floor Care and Appliances US\$’000	Eliminations US\$’000	Consolidated US\$’000
Turnover				
External sales	1,678,055	571,886	—	2,249,941
Inter-segment sales	—	529	(529)	—
Total segment turnover	1,678,055	572,415	(529)	2,249,941

3. Segment information *(continued)*

For the period ended June 30, 2013

	Power Equipment US\$'000	Floor Care and Appliances US\$'000	Eliminations US\$'000	Consolidated US\$'000
Turnover				
External sales	1,519,190	523,197	—	2,042,387
Inter-segment sales	5,124	470	(5,594)	—
Total segment turnover	1,524,314	523,667	(5,594)	2,042,387

Inter-segment sales are charged at prevailing market rates.

	Six months period ended June 30					
	2014			2013		
	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	142,683	26,120	168,803	128,272	18,891	147,163
Finance costs			(20,582)			(19,698)
Profit before taxation			148,221			127,465
Taxation charge			(12,599)			(10,197)
Profit for the period			135,622			117,268

Segment profit represents the profit earned by each segment without allocation of finance costs. This is the measure reported to the Group's Chief Executive Officer for the purpose of resource 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 months period ended June 30	
	2014 US\$'000	2013 US\$'000
Current tax:		
Hong Kong	3,219	1,231
Overseas Tax	15,536	10,281
Deferred Tax	(6,156)	(1,315)
	12,599	10,197

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

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

Condensed Consolidated Financial Statements

Notes to the Condensed Consolidated Financial Statements (Unaudited)

5. Profit for the period

	Six months period ended June 30	
	2014 US\$'000	2013 US\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	37,341	37,369
Amortisation of lease prepayments	186	185
Amortisation of intangible assets	30,149	28,274
Total depreciation and amortisation	67,676	65,828
Exchange gain	(7,665)	(15,972)
Staff costs	336,010	289,708
Fair value (gain) loss on held-for-trading investments	(93)	1,993

6. Dividends

A dividend of HK13.75 cents (approximately US1.77 cents) per share with a total of approximately US\$32,400,000 (2013: HK10.75 cents (approximately US1.38 cents) per share) was paid to shareholders as the final dividend for 2013 on June 27, 2014.

The Directors have determined that an interim dividend of HK12.50 cents (approximately US1.61 cents) per share with a total of approximately US\$29,456,000 (2013: HK10.00 cents (approximately US1.29 cents) per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on September 12, 2014.

7. Earnings per share

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

	Six months period ended June 30	
	2014 US\$'000	2013 US\$'000
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to owners of the Company	136,274	117,564
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,830,205,875	1,829,371,737
Effect of dilutive potential ordinary shares:		
Share options	8,003,462	7,132,521
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,838,209,337	1,836,504,258

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

During the period, the Group spent approximately US\$64 million (for the six months ended June 30, 2013: US\$47 million) and US\$46 million (for the six months ended June 30, 2013: US\$47 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 aged 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:

	June 30 2014 US\$'000	December 31 2013 US\$'000
0 to 60 days	731,691	625,004
61 to 120 days	84,208	95,120
121 days or above	30,237	31,741
Total trade receivables	846,136	751,865
Other receivables	55,833	31,930
	901,969	783,795

All the Group's bills receivable at June 30, 2014 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 2014 US\$'000	December 31 2013 US\$'000
0 to 60 days	505,509	467,635
61 to 120 days	143,593	148,839
121 days or above	2,231	29,502
Total trade payables	651,333	645,976
Other payables	391,567	393,947
	1,042,900	1,039,923

All the Group's bills payable at June 30, 2014 are due within 120 days.

Condensed Consolidated Financial Statements

Notes to the Condensed Consolidated Financial Statements (Unaudited)

11. Unsecured borrowings

During the period, the Group obtained new bank borrowings of US\$1,524 million (2013: US\$552 million) which carry interest at the London Interbank Offered Rate, Euro Interbank Offered Rate or Hong Kong best lending rates based. The Group repaid the existing bank borrowings of US\$1,318 million (2013: US\$613 million).

12. Share capital

	Number of shares		Share capital	
	June 30 2014	December 31 2013	June 30 2014 US\$'000	December 31 2013 US\$'000
Ordinary shares				
Authorised shares (Note)	2,400,000,000	2,400,000,000	N/A (Note)	30,769

Note: Under Chapter 622 of the new Hong Kong Companies Ordinance, with effect from March 3, 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

Issued and fully paid:				
At the beginning of the period	1,829,883,941	1,829,080,941	23,471	23,461
Issue of shares upon exercise of share options	1,090,000	4,103,000	14	52
Buy-back of shares	—	(3,300,000)	—	(42)
Transfer of share premium and capital redemption reserve upon abolition of par value under the new Hong Kong Companies Ordinance	—	—	619,035	—
At the end of the period	1,830,973,941	1,829,883,941	642,520	23,471

13. Contingent liabilities

	June 30 2014 US\$'000	December 31 2013 US\$'000
Guarantees given to banks in respect of credit facilities utilised by associates	8,883	9,099

14. 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 market 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	Significant unobservable input	Relationship of unobservable inputs to fair value
	June 30, 2014	December 31, 2013				
	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\$11,741,000				
2) Foreign currency forward contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	Assets – US\$989,000; and Liabilities – US\$22,543,000	Assets – US\$5,073,000; and Liabilities – US\$9,880,000	Level 2	Quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.	N/A	N/A
3) Held-for-trading non-derivative financial assets classified as held-for-trading investments in the condensed consolidated statement of financial position	Unlisted investment fund: US\$1,093,000	Unlisted investment fund: US\$1,000,000	Level 2	Quoted prices based on the prices of stocks invested by the investment fund.	N/A	N/A
4) Interest rate swaps classified as derivative financial instruments in the condensed consolidated statement of financial position	Liabilities (not designated for hedging) – US\$2,628,000	Liabilities (not designated for hedging) – US\$3,202,000	Level 2	Measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.	N/A	N/A

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.

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

15. Acquisition of Businesses

In January 2014, the Group acquired certain assets and business from Index Measuring Tape Co., Ltd (“Index”) for a total consideration of approximately US\$17.8 million. Index’s business was acquired so as to continue the expansion of the Group’s power equipment business. Index is engaged in manufacture and trading of tape measure products and is included in the Power Equipment segment.

In May 2014, the Group acquired certain assets, liabilities and business from Empire Level Mfg. Corp. (“Empire”) for a total consideration of approximately US\$30.0 million. Empire’s business was acquired so as to continue the expansion of the Group’s power equipment business. Empire is engaged in manufacture and trading of hand tools products and is included in the Power Equipment segment.

Intangible assets of US\$9.7 million and goodwill of US\$24.0 million arose on the acquisitions of Index and Empire’s business from trademarks, patents, retailer and service relationships and the anticipated profitability arising from new product synergies and cost savings within the Power Equipment segment, respectively.

Acquisition-related costs are insignificant, have been excluded from the consideration transferred and recognised as an expense in the current period.

The businesses acquired contributed approximately US\$6,743,000 to the Group’s turnover, and approximately US\$54,000 decrease in the Group’s profit before taxation for the period between the respective dates of acquisition and the reporting date as at June 30, 2014.

The revenue and profit or loss of the acquired businesses for the current reporting period as though the acquisition date for the acquisitions that occurred during the year has been as of the beginning of the reporting period is not presented as it was impracticable to obtain various values in various acquiree’s operations prior to the acquisition.

16. Capital commitments

	June 30 2014 US\$’000	December 31 2013 US\$’000
Capital expenditure in respect of the purchase of property, plant and equipment:		
Contracted for but not provided	12,920	17,613
Authorised but not contracted for	6,140	1,134