



Techtronic Industries

# INNOVATION EXECUTION

Interim Report 2006

Stock Code: 669



## Corporate Profile

Techtronic Industries Co. Ltd. (“TTI” or “the Group”) is a market and innovation leader in power equipment products, floor care appliances, laser and electronic products. We have a powerful portfolio of trusted brands, recognized for setting new standards in innovative design, technical advancements, marketing concepts and speed-to-market. Our portfolio of global brands include Milwaukee®, AEG®, Ryobi® and Homelite® for power equipment products, Royal®, Dirt Devil®, Regina® and Vax® for floor care appliances.

TTI products are marketed through home centers, major retailers, full-line tool distributors and other channels in North America, Europe and other select markets. TTI is also the preferred partner of leading OEM brands and private label retail brands in North America and Europe.

Headquartered in Hong Kong, the Group recorded sales of HK\$22.36 billion in 2005, a collective achievement of its over 23,000 staff worldwide.

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# FINANCIAL HIGHLIGHTS

For the six months period ended 30th June, 2006	2006		2005		2006		2005		Changes
	HK\$ m		HK\$ m		US\$ m		US\$ m		%
<b>Results</b>									
Turnover	<b>10,737</b>		10,217		<b>1,377</b>		1,310		+5.1
EBITDA	<b>1,010</b>		939		<b>130</b>		120		+7.6
Profit attributable to equity holders of the parent	<b>504</b>		456		<b>65</b>		59		+10.4
Basic earnings per share (HK / US cents)	<b>34.40</b>		33.65		<b>4.41</b>		4.31		+2.2
Interim dividend per share (HK / US cents)	<b>6.50</b>		6.00		<b>0.83</b>		0.77		+8.3
<b>Financial Position</b>									
Equity attributable to equity holders of the parent	<b>6,503</b>		6,112*		<b>834</b>		784*		+6.4
Net book value per share (HK\$ / US\$)	<b>4.44</b>		4.18*		<b>0.57</b>		0.54*		+6.2
<b>Turnover by Principal Activity</b>									
Power Equipment Products	<b>8,756</b>	<b>82%</b>	7,889	78%	<b>1,123</b>	1,011	+11.0		
Floor Care Appliances	<b>1,822</b>	<b>17%</b>	1,980	19%	<b>234</b>	254	-8.0		
Laser and Electronic Products	<b>159</b>	<b>1%</b>	348	3%	<b>20</b>	45	-54.4		
<b>Turnover by Geographical Market Location</b>									
North America	<b>7,856</b>	<b>73%</b>	7,616	74%	<b>1,007</b>	976	+3.2		
Europe and other countries	<b>2,881</b>	<b>27%</b>	2,601	26%	<b>370</b>	334	+10.7		

\* as at 31st December, 2005

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Highlights

- Record first half turnover and profits
- Power Equipment brands delivered double digit growth
- Efficiency gains from ongoing integration of operations

The Group's leading brands continued to drive growth, expand global reach and penetrate new markets, which contributed to the solid performance in the first six months of 2006. Profit attributable to equity holders of the parent for the period was HK\$504 million, representing a year-on-year growth of 10.4%, accomplished through innovative new products and aggressive cost reduction programs. Basic earnings per share rose 2.2% to HK34.40 cents. The Directors declare an interim dividend of HK6.50 cents, as compared with HK6.00 cents at the interim of 2005.

Total Group turnover was HK\$10,737 million, representing an increase of 5.1% over the same period of 2005, led by the robust performance of the Power Equipment Products. Innovation continued to play an important role in our growth, performance and profitability. By leveraging our R&D investments through efficient centers of competencies, we produced new innovative products that fueled the growth of our businesses during the period.

The period under review saw the continued integration of the Milwaukee/AEG operations, consolidating the growth platform for long-term business opportunities. We have successfully transferred some products to our facilities in China ensuring a smooth relocation while maintaining best product quality. Our key strategy of matching a passion for innovation with efficiency improvements offset material price pressures during the period and provided the operational agility to meet the challenges of a tightening supply chain. Positively, the Group reduced June ending inventories by HK\$176 million versus prior year June.

## Business Review

### Power Equipment Products

The Power Equipment Products division achieved strong growth of 11.0% over the same period of 2005 to HK\$8,756 million, accounting for 81.6% of Group turnover. Our leading brands achieved double digit turnover growth in aggregate with margin improvement through numerous new product introductions, marketing programs, and maintaining strong interactive relationships with our customers. We continued to work closely with major customers to focus on delivering efficiency gains in the supply chain and inventory management, improving speed to market and eliminating non-value added activities.

In power tools, Milwaukee® contributed excellent growth in the United States and Europe with the expanded V28™ lithium-ion battery line of power tools, capturing additional share in the cordless market. Milwaukee® also expanded its range of heavy duty power tools with a new line of quality pneumatic tools introduced in the first quarter of 2006. AEG® delivered positive gains in turnover growth and profitability through operational improvements and a new range of cordless tools.

The Ryobi® branded One + System™ expanded its base of loyal end users for its unique 18-volt cordless platform. In the United States, we established a new kiosk merchandiser, designed to tell the One +™ story to end users by creating a permanent end cap display which also ensures a constant flow of products on display and readily available inventory to boost retail sell through. During late 2005, we introduced the One + System™ to Europe where this product line was viewed as a major innovation in the industry and is now delivering solid results in leading high volume home centers.

RIDGID® has steadfastly broadened its line for professionals and the RIDGID® Lifetime Service Agreement (LSA) is one example of a market solution that is gaining trade industry recognition and appreciation. RIDGID® also responded to a market need for a longer running 18-volt NiCd battery by introducing the powerful 2.5 Amp 18-volt battery and combo kits with initial sales surpassing expectations.

The Group also extended its strategic alliance with Sears Holdings to develop and manufacture Craftsman® line of products to 2010. We were presented the supplier award, 2005 “Partners in Progress”, from Sears highlighting our product innovations in cordless portable tools, corded drills and bench-top products.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In the Outdoor Power Equipment division, we have expanded the business with new products including high-pressure washers, trimmer/edger combos, gas chain saws and trimmer attachments. Weather related factors resulted in slower than expected demand in the large markets of North America and Europe. We continued to drive improvements in our manufacturing operations and maintained excellent fill rates to our customers during the high seasonal period.

### Floor Care Appliances

The Floor Care Appliances division experienced an 8.0% decrease in turnover to HK\$1,822 million, accounting for 17.0% of Group turnover. As discussed in our 2005 annual report, we anticipated the transition of the OEM business would continue through 2006, which is a result of our strategy to increase our branded business. On top of the lower sales volume, margins were also affected by material cost pressures and manufacturing consolidations, which have been restructured to provide the platform for future cost efficient growth.

Competition in the North American market remains keen as pricing pressure continues. During the first half, Dirt Devil® branded products gained or held share in their key product categories and importantly, increased average selling prices. This was accomplished with the introduction of a range of new products including the innovative D2 Dual-Cyclonic Reaction™ vacuum that gained broad distribution and was supported by an aggressive consumer advertising campaign. In addition, Sears Holdings presented us with the 2005 "Partners in Progress" supplier award for our ongoing commitment and partnership in driving the Sears floor care business forward.

The Vax® line of floor care products consolidated its number two position in the UK delivering robust top line and market share growth in a contracting market. The growth was driven by new listings and product launches with existing customers plus business expansion with new customers. During the period under review, over 15 new products, including several carpet washers with pre-treatment functionality and hand vacs, were introduced to the market aided by strong marketing and promotions.

### Laser and Electronic Products

The Laser and Electronic Products division saw a decline of 54.4% in turnover to HK\$159 million, accounting for 1.5% of Group turnover. We were still seeing a slowdown in the laser measurement and solar light markets due to increased market saturation. The introduction of new ODM products in infant care and relentless operational initiatives helped partially offset the negative impact of the laser products segment. Margin for the division was negatively affected due to lower operating leverage despite gains from our continuous efforts to improve operational efficiency.

## Outlook

The Group is excited about the potential for growth going forward. We are, once again, poised to introduce an array of innovative new products in all product categories. The aggressive expansion in lithium-ion power tools is one example of the powerful combination that innovation and execution play in creating market leadership opportunities. The expected strength and expanded reach of the AEG and Milwaukee distribution network will continue to add valuable new avenues for our product lines. In addition, our vigorous efforts in maximizing operational efficiencies across all company functions should deliver margin growth and competitive advantages.

The Power Equipment Products division will continue to lead the growth with key product launches in the lithium-ion power tools. We believe our lithium-ion chemistry represents the superior lithium-ion solution for power tools. In addition to the Milwaukee® V28™ success, we are expanding the lithium-ion platform to deliver the most comprehensive range of lithium-ion power tools in the industry. These expansions include: 1) the Milwaukee® V18™ line of heavy duty 18-volt lithium-ion power tools, 2) the RIDGID® XLi™ 24-volt line of lithium-ion power tools and 3) the RIDGID® Max Select™ system of dual-voltage (can use either the 18-volt NiCd or the 24-volt lithium-ion batteries) cordless power tools. We are bringing more “firsts” to the power tool industry, setting the industry standard for cordless performance and providing TTI a powerful growth platform going forward.

As for our consumer line, we are adding nine products for the large and expanding end user base that has established the One + System™ as their power tool platform. New products included a stapler, hand planer and laser jig saw, bringing the total number of products to over 30. The strong performance of One + System™ is expected to continue with the kiosk program and new product rollouts. The One + System™ successfully distinguishes itself from the competition by its single battery interface platform and immense range of products. The wide acceptance of the One + System™ in Europe and the UK also bodes well for future growth.

In the Outdoor Power Equipment division, our product categories of chains saws, pressure washers and blowers will drive the second half of 2006. We are launching a new chain saw under Ryobi® and expect continued success with the recently launched Homelite® chain saw. In addition, we are also introducing a new pressure washer, which further expands our range with the new pressure washers offered in the first half of the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In the Floor Care Appliances division, our major brands , Dirt Devil® and Vax® will continue to deliver a steady flow of innovative products that meet consumer needs. Dirt Devil® in North America will strengthen its position in the portable hand vacuum category by launching a high performance cordless hand vac, KONE™, that is a creative collaboration with designer Karim Rashid. Thanks to the simplicity of design, we expect KONE™ to have wide appeal. We are also excited about an innovative Dirt Devil® product launching in Germany, the first hygienic vacuum cleaner with an “antiinfective filter system”, which stops and reduces bacterial growth and unpleasant odors. This break-through product range will benefit from the simultaneous marketing introduction of the Melitta Swirl® antiinfective vacuum bags. On the OEM/ODM side, we expect to reverse the sales decline as we have established several new partnerships and also expanded our partnership with Sears to produce the Kenmore® line of upright vacuum cleaners, that will positively impact 2007 and beyond.

The Laser and Electronic Products division expects a challenging second half due to the keen competitive environment as discussed earlier. Ongoing new development projects for our ODM customers and the Group's brands should begin to positively impact 2007. We expect the laser level business will begin to return to a more normal ordering pattern after 2006.

We are confident of being able to deliver a strong performance in the second half of 2006. Our product platform no change in power tools have the potential for truly significant growth. The synergies across all product lines are producing valuable cost efficiencies that enable our brands to sustain competitive advantages in our important markets. We remain committed to being first in innovation; to delivering the unique products that end users need today; and building strong partnerships with our customers. In addition, as we expand our global distribution and reach, we positively shift our business base, reducing reliance on any one market for sustainability and growth, while ensuring enhanced performance to all served customers and markets. There are tremendous opportunities going forward and, most importantly, we are ready to perform.



# FINANCIAL REVIEW

## Result Analysis

Turnover for the period under review amounted to HK\$10,737 million, an increase of 5.1% as compared to same period last year. Profit attributable to equity holders of the parent increased by 10.4% to HK\$504 million, with margin slightly improved to 4.7% from 4.5% reported last year. Basic earnings per share were at HK34.40 cents as compared to HK33.65 cents reported last year, after having accounted for the placement of 96 million new shares on the 8th September, 2005.

Gross margin continued to improve to 31.3% from 31.0% same period last year despite continuous pricing pressure on raw materials and components. The improvement mainly was the result of the continuous flow of new products and the Group's capability to leverage the expanded volume of business and cost containment programs.

During the period under review, total operating expenses accounted for 24.7% of Group turnover compared to 24.3% same period last year. The increase was due to additional expenditures in selling and advertising in preparation for various new product programs to be launched in the second half of the year. Investment in product design and development amounted to HK\$223 million, representing 2.1% of Group turnover compared to 2.5% last year, reflecting the efficiency gains in our consolidated R&D resources. Administrative expenses were well contained compared to same period last year as we continued to drive cost efficiencies, representing an improvement to 11.5% of Group turnover from 12.0% reported in the first half of 2005. The Group will remain focused on improving the cost efficiencies of various operations. Together with the higher volume leverage and savings expected from the integration programs beginning to materialize in the second half of the year, SG&A as a percentage of turnover is expected to improve for the full year.

Interest expenses for the period increased compared to the same period last year. Since the loans arranged for the acquisition were only drawn in the beginning of the second quarter of last year, only three months of interest on loans was charged in 2005. EBITDA for the period increased by 7.6% to HK\$1,010 million.

The Group remains focused on its long-term strategy to develop its own brand business. This has proven, once again, a successful strategy as the Group's leading brands continued to fuel the growth during the period. The Group's own and licensed brands represented 84.4% of Group turnover, as compared to 81.5% reported last year.

## FINANCIAL REVIEW

North America remained as the major market of the Group, accounting for 73.2% (2005: 74.5%) of Group turnover while Europe and other countries expanded its share of Group turnover to 26.8% (2005: 25.5%), which is in line with the Group's strategy to focus expansion beyond the North American market.

Effective tax rate was 13.1% compared to 16.4% same period last year and 13.0% for the full year in 2005. The Group will continue to leverage its global operation to improve tax efficiencies where feasible.

### Liquidity and Financial Resources

The Group's working capital continued to improve. Net current assets were at HK\$5.25 billion as compared to HK\$2.43 billion same period last year and HK\$4.89 billion as at 31st December, 2005. Current ratio was at 1.80 as compared to 1.31 same period last year.

Average inventory days were at 69 days as compared to 71 days same period last year or 62 days at last year end. Inventory days were higher at the interim period in preparation for the peak shipment period in the second half.

Trade receivable days reduced by 7 days to 51 days as compared to the same period last year and decreased by 2 days as compared to last year end.

Average trade and other payables were at 56 days, as compared to 61 days same period last year and 55 days reported last year end.

The Group's net gearing, expressed as a percentage of total net borrowings to equity attributable to equity holders of the parent was 76.2%, very much improved from 184.5% same period last year. Gearing was at 68.3% at end 2005, reflecting the cyclical nature of the business. The gearing ratio is expected to improve when the Group enters the peak shipment period in the second half of the year which will generate strong cash flow.

Interest coverage, expressed as a multiple of EBIT to total net interest, continued to be at a healthy level of 5.14 times, compared to 5.33 times reported same period last year.

The Group continues to maintain a well-balanced and carefully structured loan portfolio. Under the rising interest rate environment during the period, the Group managed to benefit from its fixed interest rate exposure which accounted for 67.4% of the total long-term borrowings. The Group is in a comfortable financial position to support its long-term growth.

The Group's major borrowings are in US Dollars and HK Dollars. Other than the fixed rate debts, borrowings are either LIBOR or Hong Kong best lending rate based. As a majority of the Group's revenues are in US Dollars, there is a natural hedge mechanism in place which minimizes the Group's currency exposures. The Group's Treasury department will continue to closely monitor and manage its currency and interest rate exposures.

Capital expenditure for the period totalled HK\$240 million while depreciation charges amounted to HK\$253 million, in line with the Group's guidelines.

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

As at 30th June, 2006, total capital commitment amounted to HK\$158 million compared to HK\$269 million as at 31st December, 2005. In addition, the Company has authorized but not contracted for the construction costs in regard to the new factory in Dongguan amounted to RMB527 million (approximately HK\$513 million).

There were no material contingent liabilities or off balance sheet obligations at 30th June, 2006.

### **Charges**

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

### **Human Resources**

The Group employed a total of 23,468 employees (2005: 24,825 employees) in Hong Kong and overseas. Total staff cost for the period under review amounted to HK\$1,271 million as compared to HK\$1,244 million 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 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 HK6.50 cents per share (2005 interim dividend: HK6.00 cents) for the six months period ended 30th June, 2006. The interim dividend will be paid to shareholders listed on the register of members of the Company on 15th September, 2006. It is expected that the interim dividend will be paid on or about 28th September, 2006.

## **Closure of Register of Members**

The register of members of the Company will be closed from Wednesday, 13th September, 2006 to Friday, 15th September, 2006, 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 registrar, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 12th September, 2006.

# FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months period ended 30th June, 2006

	Notes	2006 HK\$'000	2005 HK\$'000	2006 US\$'000 (Note 12)	2005 US\$'000 (Note 12)
Turnover	2	<b>10,736,950</b>	10,217,328	<b>1,376,532</b>	1,309,914
Cost of sales		<b>(7,376,562)</b>	(7,045,245)	<b>(945,713)</b>	(903,235)
Gross profit		<b>3,360,388</b>	3,172,083	<b>430,819</b>	406,679
Other income		<b>17,253</b>	15,092	<b>2,212</b>	1,935
Interest income		<b>42,310</b>	22,692	<b>5,424</b>	2,909
Selling, distribution, advertising and warranty expenses		<b>(1,195,151)</b>	(1,008,271)	<b>(153,224)</b>	(129,265)
Administrative expenses		<b>(1,234,575)</b>	(1,226,291)	<b>(158,279)</b>	(157,220)
Research and development costs		<b>(223,086)</b>	(251,880)	<b>(28,601)</b>	(32,292)
Finance costs		<b>(182,491)</b>	(149,734)	<b>(23,396)</b>	(19,197)
Profit before share of results of associates and taxation		<b>584,648</b>	573,691	<b>74,955</b>	73,549
Share of results of associates		<b>(1,149)</b>	(2,999)	<b>(147)</b>	(384)
Profit before taxation		<b>583,499</b>	570,692	<b>74,808</b>	73,165
Taxation	3	<b>(76,591)</b>	(93,741)	<b>(9,819)</b>	(12,018)
Profit for the period	4	<b>506,908</b>	476,951	<b>64,989</b>	61,147
Attributable to:					
Equity holders of the parent		<b>503,630</b>	456,362	<b>64,569</b>	58,507
Minority interests		<b>3,278</b>	20,589	<b>420</b>	2,640
		<b>506,908</b>	476,951	<b>64,989</b>	61,147
Dividends paid		<b>(184,609)</b>	(169,651)	<b>(23,668)</b>	(21,750)
Earnings per share (HK / US cents)	5				
Basic		<b>34.40</b>	33.65	<b>4.41</b>	4.31
Diluted		<b>32.94</b>	31.89	<b>4.22</b>	4.09

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2006

	Notes	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)	30th June 2006 US\$'000 (Note 12)	31st December 2005 US\$'000 (Note 12)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	6 & 10	1,767,867	1,755,025	226,650	225,003
Lease prepayment		65,790	65,829	8,435	8,440
Goodwill		4,016,648	3,943,935	514,955	505,633
Intangible assets		1,527,710	1,461,453	195,860	187,366
Interests in associates		219,972	189,453	28,202	24,289
Available-for-sale investments		13,363	13,363	1,713	1,713
Deferred tax assets		696,382	646,758	89,280	82,918
Other assets		2,195	2,195	281	281
		<b>8,309,927</b>	8,078,011	<b>1,065,376</b>	1,035,643
<b>Current assets</b>					
Inventories		4,196,112	3,971,216	537,963	509,130
Trade and other receivables	7	3,303,328	3,265,355	423,504	418,635
Deposits and prepayments		609,461	513,062	78,136	65,777
Bills receivable		318,558	431,121	40,841	55,272
Tax recoverable		92,035	68,544	11,799	8,788
Trade receivables from associates		34,609	1,310	4,437	168
Bank balances, deposits and cash		3,268,036	4,046,122	418,979	518,734
		<b>11,822,139</b>	12,296,730	<b>1,515,659</b>	1,576,504
<b>Current liabilities</b>					
Trade, bills and other payables	8	3,365,014	4,141,663	431,412	530,982
Warranty provision		298,083	338,211	38,216	43,360
Trade payable to an associate		7,416	21,946	951	2,814
Tax payable		165,883	116,624	21,267	14,952
Dividend payable		184,609	–	23,668	–
Obligations under finance leases – due within one year		16,301	18,107	2,090	2,321
Discounted bills with recourse		1,925,481	2,101,171	246,857	269,381
Unsecured borrowings – due within one year		611,133	673,277	78,350	86,317
		<b>6,573,920</b>	7,410,999	<b>842,811</b>	950,127
Net current assets		<b>5,248,219</b>	4,885,731	<b>672,848</b>	626,377
Total assets less current liabilities		<b>13,558,146</b>	12,963,742	<b>1,738,224</b>	1,662,020

	Note	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)	30th June 2006 US\$'000 (Note 12)	31st December 2005 US\$'000 (Note 12)
<b>CAPITAL AND RESERVES</b>					
Share capital	9	146,515	146,172	18,784	18,740
Reserves		6,356,620	5,966,167	814,951	764,895
Equity attributable to equity holders of the parent		6,503,135	6,112,339	833,735	783,635
Minority interests		77,446	120,670	9,929	15,471
Total equity		6,580,581	6,233,009	843,664	799,106
<b>NON-CURRENT LIABILITIES</b>					
Obligations under finance leases – due after one year		128,374	125,467	16,458	16,086
Convertible bonds		1,091,950	1,078,307	139,994	138,244
Unsecured borrowings – due after one year		4,453,003	4,225,411	570,898	541,719
Retirement benefit obligations		793,434	786,337	101,722	100,812
Deferred tax liabilities		510,804	515,211	65,488	66,053
		6,977,565	6,730,733	894,560	862,914
		13,558,146	12,963,742	1,738,224	1,662,020

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months period ended 30th June, 2006

	<b>30th June 2006</b> HK\$'000	30th June 2005 HK\$'000	<b>30th June 2006</b> US\$'000 (Note 12)	30th June 2005 US\$'000 (Note 12)
Net cash used in operating activities	<b>(319,827)</b>	(359,419)	<b>(41,003)</b>	(46,080)
Net cash used in investing activities	<b>(405,571)</b>	(5,415,728)	<b>(51,996)</b>	(694,324)
Net cash (used in) from financing activities	<b>(91,510)</b>	2,028,835	<b>(11,732)</b>	260,108
Net decrease in cash and cash equivalents	<b>(816,908)</b>	(3,746,312)	<b>(104,731)</b>	(480,296)
Cash and cash equivalents at 1st January	<b>3,807,194</b>	5,314,518	<b>488,102</b>	681,349
Effect of foreign exchange rate changes	<b>(16,928)</b>	47,726	<b>(2,171)</b>	6,117
Cash and cash equivalents at 30th June	<b>2,973,358</b>	1,615,932	<b>381,200</b>	207,170
Analysis of the balances of cash and cash equivalents				
Represented by:				
Bank balances, deposits and cash	<b>3,268,036</b>	1,733,787	<b>418,979</b>	222,280
Bank overdrafts	<b>(294,678)</b>	(117,855)	<b>(37,779)</b>	(15,110)
	<b>2,973,358</b>	1,615,932	<b>381,200</b>	207,170



# CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months period ended 30th June, 2006

	Equity attributable to equity holders of the parent								
	Share capital HK\$'000	Share premium HK\$'000	Convertible bonds equity reserve HK\$'000	Translation reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1st January, 2005	135,230	810,611	26,334	71,498	-	2,439,011	3,482,684	82,032	3,564,716
Exchange differences on translation of overseas operations	-	-	-	(70,511)	-	-	(70,511)	(1,474)	(71,985)
Shares issued at a premium	677	61,012	-	-	-	-	61,689	-	61,689
Recognition of equity-settled share based payments	-	-	-	-	3,324	-	3,324	-	3,324
Profit for the period	-	-	-	-	-	456,362	456,362	20,589	476,951
Final dividend – 2004	-	-	-	-	-	(169,651)	(169,651)	-	(169,651)
At 30th June, 2005	135,907	871,623	26,334	987	3,324	2,725,722	3,763,897	101,147	3,865,044
Exchange differences on translation of overseas operations	-	-	-	(6,111)	-	-	(6,111)	(71)	(6,182)
Share of reserve of an associate	-	-	-	(1,081)	-	-	(1,081)	-	(1,081)
Shares issued at a premium	10,265	1,895,688	-	-	-	-	1,905,953	-	1,905,953
Transaction costs attributable to issue of new shares	-	(34,502)	-	-	-	-	(34,502)	-	(34,502)
Recognition of equity-settled share based payments	-	-	-	-	3,379	-	3,379	-	3,379
Profit for the period	-	-	-	-	-	562,622	562,622	19,594	582,216
Interim dividend – 2005	-	-	-	-	-	(81,818)	(81,818)	-	(81,818)
At 31st December, 2005 and at 1st January, 2006	146,172	2,732,809	26,334	(6,205)	6,703	3,206,526	6,112,339	120,670	6,233,009
Exchange differences on translation of overseas operations	-	-	-	42,005	-	-	42,005	147	42,152
Dividends paid to minority equity holders	-	-	-	-	-	-	-	(39,005)	(39,005)
Purchase of additional interests in a subsidiary	-	-	-	-	-	-	-	(7,644)	(7,644)
Shares issued at a premium	343	21,499	-	-	-	-	21,842	-	21,842
Recognition of equity-settled share based payments	-	-	-	-	7,928	-	7,928	-	7,928
Profit for the period	-	-	-	-	-	503,630	503,630	3,278	506,908
Final dividend – 2005	-	-	-	-	-	(184,609)	(184,609)	-	(184,609)
<b>At 30th June, 2006</b>	<b>146,515</b>	<b>2,754,308</b>	<b>26,334</b>	<b>35,800</b>	<b>14,631</b>	<b>3,525,547</b>	<b>6,503,135</b>	<b>77,446</b>	<b>6,580,581</b>

# NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

## 1. Basis of preparation and accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2005 except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRS”), HKAS and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) which have become effective for accounting periods beginning on or after 1st January, 2006, that are adopted the first time for the current period’s financial statements:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new/revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

## 2. Segment information

	Six months period ended 30th June			
	Turnover		Segment results	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacturing and trading of:				
Power Equipment Products	<b>8,756,458</b>	7,889,483	<b>677,714</b>	549,588
Floor Care Appliances	<b>1,821,803</b>	1,979,827	<b>67,608</b>	103,514
Laser and Electronic Products	<b>158,689</b>	348,018	<b>21,817</b>	70,323
	<b>10,736,950</b>	10,217,328	<b>767,139</b>	723,425
By geographical market location:				
North America	<b>7,855,786</b>	7,615,796	<b>588,058</b>	562,793
Europe and other countries	<b>2,881,164</b>	2,601,532	<b>179,081</b>	160,632
	<b>10,736,950</b>	10,217,328	<b>767,139</b>	723,425

### 3. Taxation

	Six months period ended 30th June	
	2006 HK\$'000	2005 HK\$'000
The total tax charge (credit) comprises:		
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the period	<b>21,624</b>	22,305
Overseas Tax	<b>102,585</b>	44,770
Deferred Tax	<b>(47,618)</b>	26,666
	<b>76,591</b>	93,741

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

### 4. Profit for the period

	Six months period ended 30th June	
	2006 HK\$'000	2005 HK\$'000
Profit for the period has been arrived at after charging:		
Depreciation and amortization of property, plant and equipment	<b>251,880</b>	244,969
Amortization of lease prepayment	<b>691</b>	425
Amortization of intangible assets	<b>37,252</b>	16,755
Staff costs	<b>1,271,128</b>	1,243,816

### 5. Earnings per share

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

	Six months period ended 30th June	
	2006 HK\$'000	2005 HK\$'000
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to equity holders of the parent	<b>503,630</b>	456,362
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	<b>11,255</b>	11,061
Earnings for the purpose of diluted earnings per share	<b>514,885</b>	467,423
Weighted average number of ordinary shares for the purpose of basic earnings per share:	<b>1,463,993,084</b>	1,356,152,770
Effect of dilutive potential ordinary shares:		
Share options	<b>33,052,278</b>	43,505,459
Convertible bonds	<b>65,922,585</b>	65,922,585
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,562,967,947</b>	1,465,580,814

## NOTES TO THE FINANCIAL STATEMENT (UNAUDITED)

### 6. Additions of property, plant and equipment

During the period, the Group spent approximately HK\$240 million (for the six months ended 30th June, 2005: HK\$288 million) on the acquisition of property, plant and equipment.

### 7. Trade and other receivables

The Group has a policy of allowing credit periods ranging from 60 days to 120 days. The aging analysis of trade receivables is as follows:

	<b>30th June 2006</b> HK\$'000	31st December 2005 HK\$'000
0 to 60 days	<b>2,707,386</b>	2,622,904
61 to 120 days	<b>228,458</b>	255,728
121 days or above	<b>62,674</b>	115,733
Total trade receivables	<b>2,998,518</b>	2,994,365
Other receivables	<b>304,810</b>	270,990
	<b>3,303,328</b>	3,265,355

### 8. Trade, bills and other payables

The aging analysis of trade payables is as follows:

	<b>30th June 2006</b> HK\$'000	31st December 2005 HK\$'000
0 to 60 days	<b>1,442,593</b>	1,552,235
61 to 120 days	<b>100,324</b>	278,482
121 days or above	<b>42,053</b>	70,475
Total trade payables	<b>1,584,970</b>	1,901,192
Bills payables	<b>267,421</b>	550,964
Other payables	<b>1,512,623</b>	1,689,507
	<b>3,365,014</b>	4,141,663

## 9. Share capital

	Number of shares		Share capital	
	30th June 2006	31st December 2005	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorized	<b>2,400,000,000</b>	2,400,000,000	<b>240,000</b>	240,000
Issued and fully paid:				
At 1st January	<b>1,461,720,652</b>	1,352,304,652	<b>146,172</b>	135,230
Issued on exercise of share options	<b>3,431,000</b>	13,416,000	<b>343</b>	1,342
Issued on share placement	<b>–</b>	96,000,000	<b>–</b>	9,600
	<b>1,465,151,652</b>	1,461,720,652	<b>146,515</b>	146,172

The shares issued during the period rank pari passu in all respects with the existing shares.

## 10. Capital commitments

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the purchase of property, plant and equipment and licence	<b>133,291</b>	199,554
Capital expenditure authorized but not contracted for in the financial statements in respect of the purchase of property, plant and equipment	<b>24,616</b>	68,957

During the period, the Company has authorized but not contracted for the construction costs in regard to the new factory in Dongguan amounted to RMB527 million (approximately HK\$513 million).

## 11. Contingent liabilities

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Guarantees given to banks in respect of credit facilities utilized by associates	<b>32,562</b>	30,654

## 12. US Dollar equivalents

These are shown for reference only and have been arrived at based on the fixed exchange rate of HK\$7.8 to US\$1.0.

## 13. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation of the financial statements.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## Directors' and Chief Executive's Interests

As at 30th June, 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and as adopted by the Company, were as follows:

Name of directors	Name of company/ associated corporation	Capacity/ Nature of interests	Interests in shares (other than pursuant to equity derivatives) <sup>(1)</sup>	Interests in underlying shares pursuant to equity derivatives <sup>(1)</sup>	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	The Company	Beneficial owner	77,609,500	26,688,000	327,717,294	22.37%
	The Company	Interests of spouse	760,000	—		
	The Company	Interests of controlled corporation	222,659,794 <sup>(2)</sup>	—		
Mr Roy Chi Ping Chung JP	The Company	Beneficial owner	113,541,948	13,824,000	164,576,978	11.23%
	The Company	Interests of spouse	136,000	—		
	The Company	Interests of controlled corporation	37,075,030 <sup>(3)</sup>	—		
Mr Kin Wah Chan	The Company	Beneficial owner	—	1,000,000	1,000,000	0.07%
Mr Chi Chung Chan	The Company	Beneficial owner	—	3,000,000	3,000,000	0.20%
Mr Stephan Horst Pudwill	The Company	Beneficial owner	4,054,500	100,000	4,154,500	0.28%
Mr Vincent Ting Kau Cheung	The Company	Beneficial owner	1,920,000	—	1,920,000	0.13%
Mr Joel Arthur Schleicher	The Company	Beneficial owner	100,000	300,000	460,000	0.03%
	The Company	Interests of spouse	—	60,000 <sup>(1)</sup>		
Mr Christopher Patrick Langley OBE	The Company	Beneficial owner	500,000	200,000	700,000	0.05%
Mr Manfred Kuhlmann	The Company	Beneficial owner	—	100,000	100,000	0.01%

Notes:

(1) Interests in shares and underlying shares stated above represent long positions.

The interests of the directors of the Company in the underlying shares pursuant to equity derivatives, which were held as beneficial owner, represent share options granted to them respectively pursuant to the share option schemes adopted by the Company. These share options are physically settled and unlisted.

The interests of the spouse of Mr Joel Arthur Schleicher in the underlying shares pursuant to listed equity derivatives represent an interest in 60,000 underlying shares held in the form of 12,000 American Depositary Receipts, each representing 5 shares of the Company.

(2) These shares were held by the following companies in which Mr Horst Julius Pudwill has a beneficial interest:

	No. of shares
Sunning Inc.	185,584,764
Cordless Industries Company Limited*	37,075,030
	<b>222,659,794</b>

(3) These shares were held by Cordless Industries Company Limited\* in which Mr Roy Chi Ping Chung JP has a beneficial interest.

\* Cordless Industries Company Limited is owned as to 70% by Mr Horst Julius Pudwill and as to 30% by Mr Roy Chi Ping Chung JP.

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 30th June, 2006.

## Share Options

The following table discloses movements in the Company's share options during the six months period ended 30th June, 2006:

Share option holder	Date of share options granted	Share option scheme category <sup>(1)</sup>	Outstanding at beginning of the period	Granted during the period <sup>(2)</sup>	Exercised during the period <sup>(3)</sup>	Outstanding at end of the period	Subscription price HK\$	Exercise period
<b>Directors</b>								
Mr Horst Julius Pudwill	28.6.2002	C	25,728,000	–	–	25,728,000	3.600	28.6.2002 – 27.6.2007
	19.9.2003	C	560,000	–	–	560,000	8.685	19.9.2003 – 18.9.2008
	25.2.2004	C	400,000	–	–	400,000	12.170	25.2.2004 – 24.2.2009
Mr Roy Chi Ping Chung JP	28.6.2002	C	12,864,000	–	–	12,864,000	3.600	28.6.2002 – 27.6.2007
	19.9.2003	C	560,000	–	–	560,000	8.685	19.9.2003 – 18.9.2008
	25.2.2004	C	400,000	–	–	400,000	12.170	25.2.2004 – 24.2.2009
Mr Kin Wah Chan	1.3.2004	C	1,000,000	–	–	1,000,000	12.525	1.3.2004 – 28.2.2009
Mr Chi Chung Chan	17.7.2003	C	1,000,000	–	–	1,000,000	7.625	17.7.2003 – 16.7.2008
	19.9.2003	C	500,000	–	–	500,000	8.685	19.9.2003 – 18.9.2008
	25.2.2004	C	1,000,000	–	–	1,000,000	12.170	25.2.2004 – 24.2.2009
	1.3.2004	C	500,000	–	–	500,000	12.525	1.3.2004 – 28.2.2009
Mr Stephan Horst Pudwill	1.3.2004	C	100,000 <sup>(4)</sup>	–	–	100,000	12.525	1.3.2004 – 28.2.2009
Mr Joel Arthur Schleicher	30.4.2002	C	100,000	–	100,000	–	3.200	30.4.2002 – 29.4.2007
	17.7.2003	C	200,000	–	–	200,000	7.625	17.7.2003 – 16.7.2008
	25.2.2004	C	100,000	–	–	100,000	12.170	25.2.2004 – 24.2.2009
Mr Christopher Patrick Langley OBE	17.7.2003	C	200,000	–	100,000	100,000	7.625	17.7.2003 – 16.7.2008
	25.2.2004	C	100,000	–	–	100,000	12.170	25.2.2004 – 24.2.2009
Mr Manfred Kuhlmann	7.2.2005	C	100,000	–	–	100,000	17.750	7.2.2005 – 6.2.2010
<b>Total for directors</b>			45,412,000 <sup>(4)</sup>	–	200,000	45,212,000		

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Share option holder	Date of share options granted	Share option scheme category <sup>(1)</sup>	Outstanding at beginning of the period	Granted during the period <sup>(2)</sup>	Exercised during the period <sup>(3)</sup>	Outstanding at end of the period	Subscription price HK\$	Exercise period
Employees	23.7.2001	B	300,000	–	300,000	–	1.058	23.7.2001 – 22.7.2006
	30.4.2002	C	1,880,000	–	665,000	1,215,000	3.200	30.4.2002 – 29.4.2007
	5.7.2002	C	500,000	–	500,000	–	3.350	5.7.2002 – 4.7.2007
	17.7.2003	C	3,482,000	–	724,000	2,758,000	7.625	17.7.2003 – 16.7.2008
	19.9.2003	C	204,000	–	–	204,000	8.685	19.9.2003 – 18.9.2008
	1.3.2004	C	6,867,000 <sup>(4)</sup>	–	982,000	5,885,000	12.525	1.3.2004 – 28.2.2009
	14.4.2004	C	200,000	–	–	200,000	12.950	14.4.2004 – 13.4.2009
	5.5.2004	C	300,000	–	–	300,000	11.050	5.5.2004 – 4.5.2009
	7.6.2004	C	200,000	–	–	200,000	12.000	7.6.2004 – 6.6.2009
	18.8.2004	C	60,000	–	60,000	–	11.250	18.8.2004 – 17.8.2009
	2.10.2004	C	1,000,000	–	–	1,000,000	15.350	2.10.2004 – 1.10.2009
	13.12.2004	C	250,000	–	–	250,000	15.710	13.12.2004 – 12.12.2009
	17.1.2005	C	150,000	–	–	150,000	16.520	17.1.2005 – 16.1.2010
	7.2.2005	C	100,000	–	–	100,000	17.750	7.2.2005 – 6.2.2010
	7.4.2005	C	200,000	–	–	200,000	17.210	7.4.2005 – 6.4.2010
	27.4.2005	C	25,000	–	–	25,000	17.660	27.4.2005 – 26.4.2010
	10.5.2005	C	200,000	–	–	200,000	17.200	10.5.2005 – 9.5.2010
	1.6.2005	C	20,000	–	–	20,000	17.420	1.6.2005 – 31.5.2010
	17.6.2005	C	250,000	–	–	250,000	17.950	17.6.2005 – 16.6.2010
	27.6.2005	C	500,000	–	–	500,000	19.200	27.6.2005 – 26.6.2010
	1.1.2006	C	–	300,000	–	300,000	18.690	1.1.2006 – 31.12.2010
	1.3.2006	C	–	3,564,000	–	3,564,000	13.970	1.3.2006 – 28.2.2011
	10.3.2006	C	–	150,000	–	150,000	14.350	10.3.2006 – 9.3.2011
	25.4.2006	C	–	20,000	–	20,000	13.700	25.4.2006 – 24.4.2011
	15.6.2006	C	–	200,000	–	200,000	10.270	15.6.2006 – 14.6.2011
	17.6.2006	C	–	350,000	–	350,000	10.550	17.6.2006 – 16.6.2011
	<b>Total for employees</b>			16,688,000 <sup>(4)</sup>	4,584,000	3,231,000	18,041,000	
<b>Total for all categories</b>			62,100,000	4,584,000	3,431,000	63,253,000		
								Percentage to total Company's shares in issue at end of the period
Total under Scheme B			300,000	–	300,000	–		0.00%
Total under Scheme C			61,800,000	4,584,000	3,131,000	63,253,000		4.32%
<b>Total</b>			<b>62,100,000</b>	<b>4,584,000</b>	<b>3,431,000</b>	<b>63,253,000</b>		<b>4.32%</b>

### Notes:

- (1) Scheme B is the share option scheme adopted on 25th May, 2001 and terminated on 28th March, 2002 by the Company. Scheme C is the share option scheme adopted by the Company on 28th March, 2002.
- (2) The closing prices of the Company's shares immediately before 1st January, 2006, 1st March, 2006, 10th March, 2006, 25th April, 2006, 15th June, 2006, 17th June, 2006, being the dates of grant of share options during the period, were HK\$18.45, HK\$13.45, HK\$14.15, HK\$13.40, HK\$10.00, and HK\$10.55 respectively. Share options granted during the period may be exercised at any time from the date of grant to the fifth anniversary thereof.
- (3) The weighted average closing price of the Company's shares immediately before various dates on which the share options were exercised was HK\$14.89.
- (4) Mr Stephan Horst Pudwill has been appointed as an Group Executive Director of the Company since 22nd May, 2006. The 100,000 share options held by him was classified under the category of "Employees" previously. For the purpose of disclosing these 100,000 share options held by Mr Stephan Horst Pudwill in the above table, corresponding adjustments have been made as if he held these 100,000 share options in the capacity of a director of the Company at the beginning of the period.



(5) No option lapsed or was cancelled during the period.

(6) The Company considers that disclosure of value of share options granted during the period is not appropriate as the market price of the Company's shares as at the period end date was below the respective exercise prices of the majority share options granted and any valuation of the above share options would be subject to a number of assumptions that would be subjective and uncertain.

### Arrangements to Purchase Shares or Debentures

Other than as disclosed above, at no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

### Substantial Shareholders' Interests

As at 30th June, 2006, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company, which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, had been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Total interests in shares <sup>(1)</sup>	Approximate aggregate percentage of interests
Commonwealth Bank of Australia <sup>(2)</sup>	118,223,300	8.069%
JPMorgan Chase & Co. <sup>(3)</sup>	193,118,579	13.181%

Notes:

(1) Interests in shares stated above represent long positions.

(2) The following is a breakdown of the interests in shares of Commonwealth Bank of Australia:

Name	Remarks	Total interests in shares		Approximate percentage of interests
		Direct interests	Deemed interests	
Commonwealth Bank of Australia	(a)	—	118,223,300	8.069%
Colonial Holding Company Limited	(b)	—	118,223,300	8.069%
Commonwealth Insurance Holdings Limited	(b)	—	118,223,300	8.069%
Colonial First State Group Ltd.	(b)	—	118,223,300	8.069%
First State Investment Managers (Asia) Ltd.	(b)(c)	—	12,349,100	0.843%
First State Investments (UK Holdings) Limited	(b)(c)(d)	—	112,018,500	7.646%
Colonial First State Investments Limited	(b)(d)	5,632,000	—	0.384%
First State Investments (Bermuda) Ltd.	(b)(c)	—	12,349,100	0.843%
First State (Hong Kong) LLC	(b)(c)(e)	454,500	10,772,100	0.766%
First State Investments (Hong Kong) Limited	(b)(c)(e)	10,772,100	—	0.735%
First State Investments Holdings (Singapore) Limited	(b)(e)	—	3,338,000	0.228%
First State Investments (Singapore)	(b)(e)	3,338,000	—	0.228%
SI Holdings Limited	(b)(c)(d)	—	112,018,500	7.646%
First State Investment Management (UK) Limited	(b)(c)(d)	75,901,800	36,116,700	7.646%
First State Investments International Limited	(b)	36,116,700	—	2.465%

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Remarks:

- (a) Commonwealth Bank of Australia is listed on the Australian Stock Exchange. The capacity of Commonwealth Bank of Australia in holding the 118,223,300 shares was as controlled corporation.
- (b) Colonial Holding Company Limited, Commonwealth Insurance Holdings Limited, Colonial First State Group Ltd., First State Investment Managers (Asia) Ltd., First State Investments (UK Holdings) Limited, Colonial First State Investments Limited, First State Investments (Bermuda) Ltd., First State (Hong Kong) LLC, First State Investments (Hong Kong) Limited, First State Investments Holdings (Singapore) Limited, First State Investments (Singapore), SI Holdings Limited, First State Investment Management (UK) Limited and First State Investments International Limited were all direct or indirect subsidiaries of Commonwealth Bank of Australia and by virtue of the SFO, Commonwealth Bank of Australia was deemed to be interested in the shares held by these subsidiaries.
- (c) The 75,901,800 shares and the 10,772,100 shares held directly by First State Investment Management (UK) Limited and First State Investments (Hong Kong) Limited respectively include 6,224,800 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investments (UK Holdings) Limited, SI Holdings Limited, First State Investment Managers (Asia) Ltd., First State Investments (Bermuda) Ltd. and First State (Hong Kong) LLC also include the 6,224,800 shares.
- (d) The 75,901,800 shares and the 5,632,000 shares held directly by First State Investment Management (UK) Limited and Colonial First State Investments Limited respectively include 5,551,500 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investments (UK Holdings) Limited and SI Holdings Limited also include the 5,551,500 shares.
- (e) The 3,338,000 shares and the 10,772,100 shares held directly by First State Investments (Singapore) and First State Investments (Hong Kong) Limited respectively include 2,215,500 shares held jointly by these subsidiaries. By virtue of the SFO, the deemed interests of First State Investments Holdings (Singapore) Limited and First State (Hong Kong) LLC also include the 2,215,500 shares.
- (3) The following is a breakdown of the interests in shares of JPMorgan Chase & Co.:

Name	Remarks	Total interests in shares		Approximate percentage of interests
		Direct interests	Deemed interests	
JPMorgan Chase & Co.	(a)	—	193,118,579	13.181%
JPMorgan Chase Bank, N.A.	(b)	70,188,362	3,225,500	5.011%
JPMorgan Asset Management Holdings Inc.	(b)	—	119,704,717	8.170%
JPMorgan Asset Management (Asia) Inc.	(b)	—	119,655,500	8.167%
J.P. Morgan Investment Management Inc.	(b)	49,217	—	0.003%
JF International Management Inc.	(b)	1,970,500	—	0.134%
JF Asset Management (Singapore) Limited	(b)	300,000	—	0.020%
JF Asset Management Limited	(b)	117,173,000	212,000	8.012%
JF Funds Limited	(b)	—	212,000	0.014%
JF Asset Management (Taiwan) Limited	(b)	212,000	—	0.014%
J.P. Morgan International Inc.	(b)	—	3,225,500	0.220%
Bank One International Holdings Corporation	(b)	—	3,225,500	0.220%
J.P. Morgan International Finance Limited	(b)	—	3,225,500	0.220%
J.P. Morgan Capital Holdings Limited	(b)	—	1,503,000	0.103%
J.P. Morgan Chase (UK) Holdings Limited	(b)	—	1,503,000	0.103%
J.P. Morgan Chase International Holdings Limited	(b)	—	1,503,000	0.103%
J.P. Morgan Securities Ltd.	(b)	1,503,000	—	0.103%
J.P. Morgan Overseas Capital Corporation	(b)	—	1,722,500	0.118%
J.P. Morgan Whitefriars Inc.	(b)	1,722,500	—	0.118%

Remarks:

- (a) JPMorgan Chase & Co. is listed on the New York Stock Exchange.  
The capacity of JPMorgan Chase & Co. in holding the 193,118,579 shares was as to 3,225,500 shares as beneficial owner, as to 119,704,717 shares as investment manager and as to 70,188,362 shares as custodian/approved lending agent.  
The 193,118,579 shares included a lending pool of 70,188,362 shares.
- (b) JPMorgan Chase Bank, N.A., JPMorgan Asset Management Holdings Inc., JP Morgan Asset Management (Asia) Inc., J.P. Morgan Investment Management Inc., JF International Management Inc., JF Asset Management (Singapore) Limited, JF Asset Management Limited, JF Funds Limited, JF Asset Management (Taiwan) Limited, J.P. Morgan International Inc., Bank One International Holdings Corporation, J.P. Morgan International Finance Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Chase International Holdings Limited, J.P. Morgan Securities Ltd., J.P. Morgan Overseas Capital Corporation and J.P. Morgan Whitefriars Inc. were all direct or indirect subsidiaries of JPMorgan Chase & Co. and by virtue of the SFO, JPMorgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.

Save as disclosed above, no other person was interested in or had a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 30th June, 2006.

### **Compliance with the Code on Corporate Governance Practices of the Listing Rules**

The Company confirms that it has complied with all material code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the six months period ended 30th June, 2006, save that:

1. The roles of Chairman and the Chief Executive Officer are both performed by Mr Horst Julius Pudwill. The Group does not currently propose to separate the functions of Chairman and Chief Executive Officer, as both the Board and senior management of the Group has significantly benefited from the leadership, support and experience of Mr Horst Julius Pudwill.
2. The Board formally adopted written procedures on 11th April, 2006 to govern the delegation of daily management responsibilities to the senior management of the Group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the Group. The work of the Audit Committee will include reviewing on an ongoing basis the Group's internal controls and the delegation and reporting procedures between the Board and senior management.
3. None of the directors is appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under Article 103 of the Articles of Association of the Company, one third of the Board must retire by rotation at each annual general meeting of the Company and, if eligible, offer themselves for re-election.

### **Compliance with the Model Code of the Listing Rules**

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("the Model Code"). The Company confirms that, after specific enquiry with each Director, all Directors have confirmed compliance with the Model Code during the six months period ended 30th June, 2006. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code, that applies to securities transactions of all relevant employees who may be in possession of unpublished price-sensitive information in relation to the Company's shares, and which has been published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)).

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Committees of the Board

**Audit Committee:** An Audit Committee was established in 1999, and on 11th April, 2006, the Board adopted written terms of reference for the role and function of the Audit Committee, published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)). The role and function of the Audit Committee is to assist the Board to ensure that an effective system of internal control and compliance with the Company's obligations under the Listing Rules and other applicable laws and regulations is in place, and to oversee the integrity of the financial statements of the Company.

The Audit Committee is comprised of three Independent Non-executive Directors of the Company, namely Mr Joel Arthur Schleicher (Chairman), Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann. All members of the Audit Committee have professional, financial or accounting qualifications.

The Audit Committee has committed to four regularly scheduled meetings during 2006. The Audit Committee held two meetings during the period.

An Internal Audit ("IA") function was established in 2005 under terms of reference approved by the Audit Committee to actively monitor and participate in the improvement of the Group risk management and internal control framework. The Head of IA reports directly to the Audit Committee on audit matters and to the Chief Executive Officer on administration matters. IA uses a risk-assessment approach to establish its annual audit plan. The 2006 audit plan was submitted to and approved by the Audit Committee in August 2005. Independent reviews of different financial, business and functional operations and activities will be conducted with audit resources being focused on higher risk areas. Ad hoc reviews may also be conducted on areas of concern identified by the Audit Committee and management.

**Remuneration Committee:** A Remuneration Committee was established during 2005, and on 11th April, 2006, the Board adopted written terms of reference for the role and function of the Remuneration Committee, published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)). The role and function of the Remuneration Committee is to assist the Board in developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the Group and the remuneration of directors and senior management of the Group, and for determining their remuneration packages, on the basis of their merit, qualifications and competence, and having regard to the Company's operating results, individual performance and comparable market statistics. The Company has maintained a share option scheme as an incentive to directors and eligible employees, details of the movements in the Company's share options during the six months period ended 30th June, 2006 is set out under the heading of "Share Options" of this section.

The Remuneration Committee is comprised of three members, and is chaired by Mr Vincent Ting Kau Cheung (Non-executive Director), the other members being Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann (both being Independent Non-executive Directors). The Remuneration Committee has committed to two regular meetings during 2006. The Remuneration Committee held one meeting during the period.

**Nomination Committee:** A Nomination Committee was established in April 2006, and the Board adopted written terms of reference for the role and function of the Nomination Committee, published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)). The role and function of the Nomination Committee is to ensure a fair and transparent process of Board appointments, and in particular to assist the Board to identify suitable candidates and make recommendations for consideration of the Board and the shareholders of the Company.

The Nomination Committee is comprised of three members, and is chaired by Mr Vincent Ting Kau Cheung (Non-executive Director), the other members being Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann (both being Independent Non-executive Directors). The Nomination Committee has committed to meeting twice during 2006. The Nomination Committee held one meeting during the period.

## Review of Accounts

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The Audit Committee has reviewed with senior management of the Group this report, in particular the unaudited financial statements for the six months period ended 30th June, 2006. It has also reviewed with senior management of the Group the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

## Investor Relations and Shareholder Communications

The Group understands the importance of maintaining effective communication with our shareholders and the investment community. The Board has adopted a Policy on Market Disclosure, Investor and Media Relations, published on the Company's website ([www.ttigroup.com](http://www.ttigroup.com)), to ensure that the Company complies with its disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by the Group.

## Directors' Interests in Contracts of Significance

No contract of significance, to which the Company, or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## Purchase, Sales or Redemption of Shares

There was no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the period.

By order of the Board

**Horst Julius Pudwill**

Chairman and Chief Executive Officer

Hong Kong

22nd August, 2006

# CORPORATE INFORMATION

## Board of Directors

### Group Executive Directors

Mr Horst Julius Pudwill  
*Chairman and Chief Executive Officer*

Mr Roy Chi Ping Chung JP  
*Group Managing Director*

Mr Patrick Kin Wah Chan  
Mr Frank Chi Chung Chan  
Mr Stephan Horst Pudwill

### Non-executive Director

Mr Vincent Ting Kau Cheung

### Independent Non-executive Directors

Mr Joel Arthur Schleicher  
Mr Christopher Patrick Langley OBE  
Mr Manfred Kuhlmann

## Financial Calendar 2006

30th June:	Six months interim period end
22nd August:	Announcement of 2006 interim results
12th September:	Last day to register for 2006 interim dividend
13th-15th September:	Book closure period for interim dividend
28th September:	Interim dividend payment
31st December:	Financial year end

## Investor Relations Contact

Investor Relations and Communications  
Techtronic Industries Co. Ltd.  
24/F., CDW Building  
388 Castle Peak Road  
Tsuen Wan, N.T.  
Hong Kong  
email: ir@tti.com.hk

## Website

[www.ttigroup.com](http://www.ttigroup.com)

Earning results, annual/interim reports are available online

## Listing Information

The Stock Exchange of Hong Kong Limited  
Ordinary Shares (stock code: 669)  
Zero Coupon Convertible Bonds 2009 (code: 2591)  
ADR Level 1 Programme (symbol: TTNDY)

## Share Registrar and Transfer Office

Secretaries Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Hong Kong  
Tel: (852) 2980 1888

## ADR Depositary

The Bank of New York

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited  
Citibank N.A.  
Standard Chartered Bank  
Hang Seng Bank Ltd.

## Solicitors

Vincent T K Cheung Yap & Co

## Auditors

Deloitte Touche Tohmatsu

## Qualified Accountant

Mr Frank Chi Chung Chan

## Company Secretary

Mr Frank Chi Chung Chan

## Trademarks

All trademarks used are intellectual property of their respective owners and are protected under trademark law.

The use of the trademark Ryobi® is pursuant to a license granted by Ryobi Limited.

RIDGID® is a registered trademark of Ridgid, Inc., part of Emerson Professional Tools, a business of St. Louis-based Emerson (NYSE: EMR). The orange color used on these products and the combination of orange and grey are trademarks for RIDGID® brand power tools.

Sears®, Craftsman® and Kenmore® brands are registered trademarks of Sears Brands, LLC.

## Asia

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F (852) 2413 5971

Gimelli Laboratories Co. Ltd.  
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F (852) 2498 8264

Solar Wide Industrial Ltd.  
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Homelite Asia (Dongguan) Co. Ltd.  
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OWT Industries, Inc.  
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Royal Appliance Mfg. Co.  
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