Financial Review

Acquisition

The Group completed the acquisition of Royal Appliance Mfg. Co. ("Royal") on 23rd April 2003 (US Time). The total consideration was US$105.6 million (approximately HK$823.7 million), financed by internal resources and bank borrowings. Upon completion of the transaction, Royal began operating as a wholly owned subsidiary of TTI.

Royal is an innovative floor care company whose Dirt Devil® and Royal® brands are among the market leaders in North America. The Royal acquisition represented a significant step in the Group's worldwide strategy, giving it a major brand in each of its core business divisions. While strengthening the Group's position in the floor care market, the Royal acquisition also provides potential cross-marketing synergies with major retailers for the Group's power tool and floor care lines of business in the US and European markets, as well as potential operational synergies in logistics and customer service.

Notes Issue

On 30th June 2003, the Group announced its debut issue of fixed interest rate note, through its wholly-owned entity in the United States, for an aggregate principal amount of US$145 million. The Notes were issued in two fixed rate tranches, of US$120 million for 10 years at 4.7% per annum, and US$25 million for 7 years at 4.09% per annum.

The proceeds of the Notes will be applied to refinance existing medium term debts and for general working capital purposes. The issue has provided the Group with a well balanced loan portfolio structure that will support the Group's long-term growth and enable it to obtain additional financing at more favorable terms.

Results Analysis

TTI's core business divisions all showed outstanding performance, resulting in a turnover growth of 21.6% to HK$4.8 billion, as compared to the same period last year. As the acquisition of Royal was only completed towards the end of April 2003, the majority of the increase in revenue can safely be attributed to organic growth.

Margins, despite certain dilution effect on earnings from the Royal acquisition and its related costs, improved when compared to same period last year and were comparable to those for the full year 2002. Excluding expenses from the newly acquired operation, the increase in total operating expenses was less than our revenue growth. With expansion into the professional power tool segment under the RIDGID® brand, R&D expenses increased. The development and design charges incurred were all expensed during the period while the new line of professional tools are due to launch in the second half of 2003. The Group will continue to implement various cost rationalisation programs and will focus particularly on improving the cost efficiencies of the newly acquired operations. It is therefore expected that total operating expenses as a percentage of revenue will improve to levels comparable to those of the previous year.

As the Group now carries various major brands for its core divisions, advertising expenses as a percentage of sales was higher than same period last year but were also comparable to that for the full year 2002. The Group's branded businesses accounted for 56.4% of turnover while its contract businesses, which remain strategically important, contributed 43.6% of turnover.

Liquidity and Financial Resources

Increases in inventories and receivables were partly due to the acquisition and partly to prepare for the peak shipment period and the launching of the RIDGID® professional tools line that is scheduled to occur in the second half of the year. Number of days for inventory turnover and receivables turnover were at 78 days and 50 days respectively (2002 – 49 days and 38 days). Trade payables also increased in line with increased operations and following the acquisition.

The Group's major borrowings are in US Dollars and HK Dollars. Other than the fixed interest rate note issued during the period, borrowings are all based on LIBOR or HK best lending rates. As at the period end, total borrowings amounted to HK$2.4 billion, representing an increase of HK$1.1 billion, compared to the 31st December, 2002 balance of HK$1.3 billion. The increase in borrowings was due to the inclusion of debts from Royal and the issue of the fixed interest rate note. Bank balance and cash remained at a healthy level of HK$1.3 billion. As the Group's revenue is mainly in US Dollars, and major payments are either in US Dollars or HK Dollars, currency risk is relatively low. However, the Group will continue to monitor and actively manage its interest rate and currency exposure.

The Group's gearing ratio as at 30th June 2003, expressed as a percentage of total net borrowings to total equity, was at 53.1% as compared to a net cash position as at 31st December 2002. The increase in the gearing was partly a result of the Royal acquisition, which was fully funded by internal resources. Moreover, the Group's debt level is normally higher in the first half of the year as additional working capital is required to prepare for the peak production and shipment period in the second half of the year. Given the Group's high cash flow generating capabilities, the gearing ratio is expected to improve in the second half of the year and beyond.

Net interest expenses for the period under review amounted to HK$33.6 million as compared to HK$33.9 million same period last year. Interest coverage, expressed as a multiple of profit before interest and taxation to total net interest was 8.17 times, an improvement from 6.45 times for same period last year and 7.89 times for the full year ending 31st December 2002.

Capital expenditure for the period, other than in relation to acquisitions, amounted to HK$102.6 million and was in accordance with the Group's CAPEX guideline of having capital expenditure matched with the depreciation charges, which were HK$137.1 million for the period under review.

Capital Commitment and Contingent Liabilities

During the period, the Company has entered into an agreement for acquisition of a piece of land in Dongguan, PRC amounted to approximately HK$50.3 million. As at the date of balance sheet preparation, the capital commitment not provided amounted to approximately HK$42.8 million. As at 30th June 2003, there are no material contingent liabilities or off balance sheet obligations other than trade bills discounted in the ordinary course of business.

Human Resources

The Group employed a total of 16,112 employees in Hong Kong and overseas. Total staff costs for the period under review amounted to HK$372.0 million as compared to HK$292.9 million in the same period last year. The increase was partly due to the acquisition completed during the period.

The Group believes that human capital is vital for continuous growth and profitability and therefore encourages and provides job-related training to all staff to improve their skills and competencies.

The Group's remuneration policies have remained unchanged. In addition to the competitive remuneration packages offered, discretionary share options and bonuses are also granted to eligible staff based on individual and Group performances.

Charges

At the end of June 2003, the Group has pledged certain freehold land and building having an aggregate net book value of HK$14.5 million to secure general banking facilities granted to the Group.