# Management’s Discussion and Analysis

## Financial Review

### Financial Results

**Result Analysis**

The Group’s turnover for the year amounted to US$4.8 billion, an increase of 10.5% as compared to US$4.3 billion in 2013. Profit attributable to Owners of the Company amounted to US$300 million as compared to US$250 million in 2013, an increase of 20.0%. Basic earnings per share for the year improved to US16.41 cents as compared to US13.68 cents in 2013.

EBITDA amounted to US$500 million, an increase of 12.9% as compared to US$443 million in 2013.

EBIT amounted to US$351 million, an increase of 15.4% as compared to US$304 million in 2013.

**Gross Margin**

Gross margin improved to 35.2% as compared to 34.2% last year. The margin improvement was the result of new product introduction, category expansion, improvements in operational efficiency and supply chain productivity.

**Operating Expenses**

Total operating expenses for the year amounted to US$1,326 million as compared to US$1,175 million in 2013, representing 27.9% of turnover (2013: 27.3%). The increase was mainly due to the strategic spent on advertising and promotion on new products, particularly for the Floor Care division.

Investments in product design and development amounted to US$118 million, representing 2.5% of turnover (2013: 2.5%) reflecting our continuous strive for innovation. We will continue to invest to create breakthrough technology and deliver broad base end-user products and categories as these are most critical not only to maintain sales growth momentum but also margin expansions.

Net interest expenses for the year was maintained at US$25 million as compared to last year. Interest coverage, expressed as a multiple of EBITDA to total interest was 13.0 times (2013: 12.4 times).

The effective tax rate, being tax charged for the year to before tax profits was at 7.9% (2013: 10.5%). The Group will continue to leverage its global operations to sustain the overall tax efficiencies.

### Liquidity and Financial Resources

**Shareholders’ Funds**

Total shareholders’ funds amounted to US$2.0 billion as compared to US$1.7 billion in 2013. Book value per share was at US$1.07 as compared to US$0.95 last year, an increase of 12.6%.

**Financial Position**

The Group continued to maintain a strong financial position. As at December 31, 2014, the Group’s cash and cash equivalents amounted to US$690 million (2013: US$698 million), of which 41.0%, 31.0%, 11.6% and 16.4% were denominated in US$, RMB, EUR and other currencies respectively.

The Group’s net gearing, expressed as a percentage of total net borrowing (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, improved to 10.0% as compared to 10.6% last year. The gearing improvement is the result of very disciplined and focused management over working capital and free cash flow from operations applied to debt repayment. The Group remains confident that gearing will remain low going forward.

**Bank Borrowings**

Long term borrowings accounted for 36.3% of total debts (2013: 42.4%).

The Group’s major borrowings continued to be in US Dollars and in HK Dollars. Borrowings are predominantly LIBOR or Hong Kong best lending rates based. There is a natural hedge mechanism in place as the Group’s major revenues are in US Dollars and currency exposure therefore is low. Currency, interest rate exposures, and cash management functions are all being closely monitored and managed by the Group’s treasury team.

### Working Capital

Total inventory was at US$1,056 million as compared to US$884 million in 2013. Days inventory increased by 6 days from 75 days to 81 days. The increase was mainly due to the strategic decision to carry a higher level of inventory to support our service level, considering our high growth momentum. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivable turnover days were at 59 days as compared to 64 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 54 days as compared to 57 days last year. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing the credit exposure.

Trade payable days were 87 days as compared to 88 days in 2013.

Working capital as a percentage of sales was at 14.6% as compared to 13.9% in 2013.

### Capital Expenditure

Total capital expenditures for the year amounted to US$154 million (2013: US$105 million).

### Capital Commitments and Contingent Liabilities

As at December 31, 2014, total capital commitments amounted to US$12 million (2013: US$19 million) and there were no material contingent liabilities or off balance sheet obligations.

### Charge

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

### Major Customers and Suppliers

For the year ended December 31, 2014

(i) the Group's largest customer and five largest customers accounted for approximately 37.4% and 49.5% respectively of the Group's total turnover; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 5.3% and 18.5% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

As far as the Directors are aware, none of the Directors, their associates or any shareholders who owned more than 5% of TTI's share capital had any interest in the five largest customers or suppliers of the Group.

## Human Resources

The Group employed a total of 20,081 employees as at December 31, 2014 (2013: 18,746) in Hong Kong and overseas. Increase in the number of employees mainly due to the acquisitions completed during the past twelve months. Excluding the effect from acquisition, employees as at December 31, 2014 total to 19,100, very comparable to last year, with an increase in turnover. Total staff cost for the year under review amounted to US$678 million (2013: US$601 million).

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improving the quality, competence and skills of all employees. It provides job-related training and leadership development programs throughout the organisation. 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.

## Corporate Strategy and Business Model

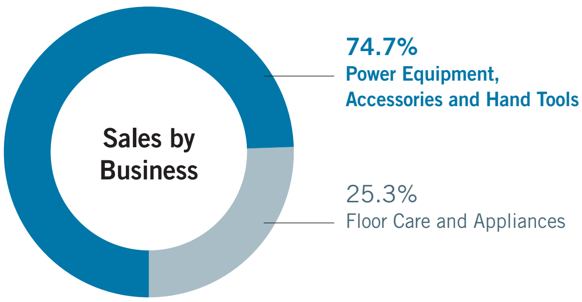
The Group is a world-class leader in design, manufacturing and marketing of power tools, outdoor power equipment and floor care for consumers, professional and industrial users in the home improvement, infrastructure and construction industries. We are committed to implementing our long term strategic plan that focuses on "Powerful brands, Innovative Products, Operational Excellence and Exceptional People".

We continue to strengthen our portfolio of powerful brands with a focused marketing approach. Brands extension into new product categories and under-represented markets enable us to generate outstanding growth. Geographic expansion will be a highlight of TTI's future, our long term strategy is to aggressively build our business outside the U.S. and we have spent relentless efforts to expand or establish presence in high potential markets around the world.

Introducing innovative new products is the centerpiece of our long term strategy. We continue to invest in building a high-speed product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a vigorous competitive advantage.

Our strategy in operational excellence will continue, we will drive further gains in efficiency across our manufacturing operations, supporting further margin improvement.

We continue to deploy our Leadership Development Program (LDP) to develop our pool of talent for the future. The LDP initiative is successfully feeding talent into key positions throughout the company.




## Review of Operations

TTI delivered another year of excellent record performance in 2014 with growth in all business segments and geographic regions. North America grew 8.8%, Europe 11.3% and rest of world 26.4%.

Across our product lines and brands, we drove gains with the introduction of innovative new technologies including expansion of our market-disrupting Lithium cordless platforms. Our MILWAUKEE business reported exceptional performance in all geographies, and RYOBI brand furthered its penetration across core consumer power tool and outdoor segments. We continued to transform Floor Care making operational improvements and launching new products to enhance profitability.

Our gross margin expanded driven by new products coupled with improvements in operational efficiency and supply chain productivity. We delivered profitability gains across our business units and brands. Working capital remained solid with the business generating positive free cash flow.

### Power Equipment

Power Equipment is our largest business and consists of power tools, hand tools, outdoor products, and accessories. For the year, sales in Power Equipment rose by 13.0% to US$3.6 billion with growth in all geographic markets and especially strong performance in our industrial division. The business accounted for 74.7% of Group turnover, against 73.1% in 2013. Based on new product introductions and enhancements in productivity, earnings grew 16.7% to US$305 million.

**Industrial**

Our industrial business, MILWAUKEE, outpaced the market with 22.2% growth across all geographic regions. A steady flow of innovative new products to our power tool, accessory, and hand tool lines remains central to our strong performance. Successful end-user and distribution channel initiatives as well as adjacent category expansion also played key roles in our gains.

Leveraging the tremendous upside potential of our successful M12 and M18 ranges, we continued investment in the industry's most comprehensive line of cordless industrial power tools with the launch of the ultra-fast cutting M12 FUEL HACKZALL reciprocal saw. We introduced the M18 FUEL HOLE HAWG Right Angle Drill and M18 FUEL Deep Cut Band Saw developed to provide game-changing productivity to the industrial sector. MILWAUKEE FUEL cordless products, applying innovation in both Lithium and brushless motors technology, are the first cordless power tools in their class with true corded power tool performance. Our new M18 FUEL circular saw is the market's most advanced cordless circular saw.

We grew our position in the power tool accessory market. New introductions including the DIAMOND PLUS, HOLE DOZER and SHOCKWAVE IMPACT DUTY hole saws effectively tapped growing market trends and user demands for applications focused solutions. These innovations and the strength of our range makes MILWAUKEE the first choice of demanding users. The acquisition of the world class KOTTMANN chisel bit business also enhanced our full service offering.

Our rapid expansion in hand tools also continued with new product additions including to the popular INKZALL Jobsite Markers line. The recently acquired EMPIRE business, a leading U.S. manufacturer of levels, squares, layout tools and safety and utility tapes, grew in momentum with a focus on new products.

**Consumer and Professional**

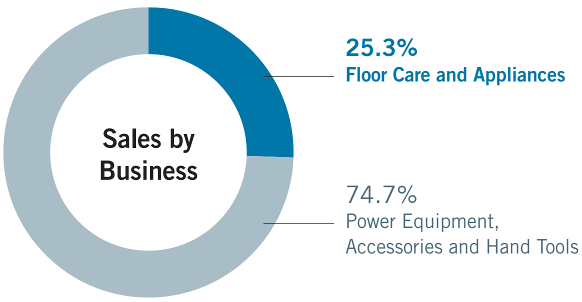
In 2014, our leading North American consumer power tool brand, RYOBI, generated gains through innovative product introductions and enhanced marketing. The RYOBI ONE+ platform continues to grow by more than one million new customers annually and penetrate further North American, Europe, Australia and New Zealand households. We continued to add products to our revolutionary 18V ONE+ SYSTEM of cordless tools for the worksite, like the high-performance compact rotary hammer drill, AC/DC hybrid 20w LED worklight and AC/DC hybrid fan. Our AIRSTRIKE technology, powered by the ONE+ system, deepened its footprint in the growing pneumatics segment with the introduction of the 16 gauge finish nailer and 18 gauge narrow crown stapler. RYOBI PHONE WORKS represented the first-to-market line of electronic pro-quality measuring tools that work in conjunction with smartphone technology to manage home improvement projects.

In Europe, RYOBI brand continued to expand its reach through the launch of innovative new ONE+ lithium products, as well as targeted media and digital marketing campaigns. RYOBI brand delivered double digit growth in Australia and New Zealand with additions to the ONE+ platform as well as the launch of an exciting pneumatic tool range under AIRWAVE and the cordless AIRSTRIKE nailer range. The AEG brand grew in Europe and rest of world geographies with a series of successful new Lithium products and focused marketing to drive brand awareness and sales.

**Outdoor Products**

Outdoor Products continued its steady growth in 2014 with our cordless Lithium products making impressive inroads in North America, Europe, and Australia. Sales were down slightly in North America due to unfavorable weather conditions, but this was balanced by improvements in operational efficiency and supply chain.

Our first-in-class RYOBI 18V ONE+ SYSTEM AC/DC hybrid blower has been highly successful. The "gas-like power" of the 40V RYOBI Lithium cordless platform continues to be well received and the range expanded into categories such as chainsaws, trimmers, blowers, and mowers. The recently launched RYOBI Inverter Generator is exceeding sales expectations. A series of promotional campaigns as well as growth in relationships with key retail partners also drove our positive momentum.




## Review of Operations *(contiuned)*

### Floor Care and Appliances

Floor Care and Appliances achieved another solid year on sales of US$1.2 billion accounting for 25.3% of group turnover. We realised significant profit improvements through realignment of operations and a focus on leveraging scale and optimising supply chain.

Applying TTI's innovative Lithium technology, we introduced the revolutionary HOOVER AIR cordless upright vacuum which delivers 50 minutes of non-stop run-time and the FLOORMATE Cordless Hard Floor Cleaner. We expanded the popular DIRT DEVIL LIFT & GO platform with a lightweight full size detachable upright, and the spray & mop series continued to perform well. The integration of ORECK brand was completed and a refreshed product range is being introduced. Our VAX business in Europe had a highly successful year with introduction of new AIR cordless upright products.

## Purchase, Sale or Redemption of Shares

Other than for satisfying the awarded shares granted under the Company's share award scheme, (details of which will be set out in the Corporate Governance Report), a total of 865,000 ordinary shares of the Company were bought back by the Company during the year at prices ranging from HK$20.80 to HK$24.15 per share. The aggregate amount paid by the Company for such buy-backs amounting to US$2,486,000 was charged to the retained earnings.

The shares bought back were cancelled and accordingly the issued share capital of the Company was reduced.

The buy-back of the Company's shares during the year were effected by the Directors pursuant to the mandate received from shareholders at the previous annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters, including the review of Group's consolidated financial statements for the year ended December 31, 2014. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

## Dividend

The Directors have recommended a final dividend of HK19.00 cents (approximately US2.45 cents) per share with a total of approximately US$44,782,000 for the year ended December 31, 2014 (2013: HK13.75 cents (approximately US1.77 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 29, 2015. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about June 26, 2015. This payment, together with the interim dividend of HK12.50 cents (approximately US1.61 cents) per share (2013: HK10.00 cents (approximately US1.29 cents)) paid on September 26, 2014, makes a total payment of HK31.50 cents (approximately US4.05 cents) per share for 2014 (2013: HK23.75 cents (approximately US3.06 cents)).

## Closure of Register of Members

The register of members of the Company will be closed for the following periods:

To ascertain members' eligibility to attend and vote at the 2015 Annual General Meeting, the register of members of the Company will be closed from May 21, 2015 to May 22, 2015, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2015 Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 20, 2015.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 29, 2015 when no transfers of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on May 28, 2015.