

# Management's Discussion and Analysis

## Financial Review

### Financial Results

#### Result Analysis

The Group's revenue for the year amounted to US\$5.0 billion, an increase of 6.0% as compared to US\$4.8 billion in 2014. Profit attributable to Owners of the Company amounted to US\$354 million as compared to US\$300 million in 2014, an increase of 18.0%. Basic earnings per share for the year improved to US19.37 cents as compared to US16.41 cents in 2014.

EBITDA amounted to US\$570 million, an increase of 14.1% as compared to US\$500 million in 2014.

EBIT amounted to US\$400 million, an increase of 14.0% as compared to US\$351 million in 2014.

#### Gross Margin

Gross margin improved to 35.7% as compared to 35.2% 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\$1,403 million as compared to US\$1,326 million in 2014, representing 27.9% of turnover (2014: 27.9%). The increase was mainly due to the strategic spent on advertising and promotion on new products, and the one time costs associated with the exiting of non-strategic Floor Care operations.

Investments in product design and development amounted to US\$128 million, representing 2.5% of turnover (2014: 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 amounted to US\$13 million as compared to US\$25 million in 2014, a reduction of US\$12 million or 48.8%. Interest coverage, expressed as a multiple of EBITDA to total interest was 24.8 times (2014: 13.0 times).

The effective tax rate, being tax charged for the year to before tax profits was at 8.5% (2014: 7.9%). 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\$2.2 billion as compared to US\$2.0 billion in 2014. Book value per share was at US\$1.18 as compared to US\$1.07 last year, an increase of 10.3%.

### Financial Position

The Group continued to maintain a strong financial position. As at December 31, 2015, the Group's cash and cash equivalents amounted to US\$775 million (2014: US\$690 million), of which 40.6%, 26.6%, 14.0% and 18.8% were denominated in US\$, RMB, HK\$ 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, was at 13.4% as compared to 10.0% last year. Excluding the one time cash charge of US\$70 million for the purchase of the Group's head office premise in Hong Kong, the net gearing was at 9.9%. The group remains confident that gearing will remain low going forward.

### Bank Borrowings

Long term borrowings accounted for 42.9% of total debts (2014: 36.3%).

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.

# Management's Discussion and Analysis

## Working Capital

Total inventory was at US\$1,190 million as compared to US\$1,056 million in 2014. Days inventory increased by 5 days from 81 days to 86 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 60 days as compared to 59 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 55 days as compared to 54 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 84 days as compared to 87 days in 2014.

Working capital as a percentage of sales was at 17.0% as compared to 14.6% in 2014.

## Capital Expenditure

Total capital expenditures for the year amounted to US\$232 million (2014: US\$154 million), including US\$70 million of office premises located in Hong Kong.

## Capital Commitments and Contingent Liabilities

As at December 31, 2015, total capital commitments amounted to US\$23 million (2014: US\$12 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, 2015

- (i) the Group's largest customer and five largest customers accounted for approximately 42.7% and 52.3% respectively of the Group's total revenue; and
- (ii) the Group's largest supplier and five largest suppliers accounted for approximately 4.6% and 16.6% 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 20,517 employees as at December 31, 2015 (2014: 20,081) in Hong Kong and overseas. Total staff cost for the year under review amounted to US\$727 million (2014: US\$678 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.

# Management's Discussion and Analysis

## Purchase, Sale or Redemption of Securities

Other than for satisfying the awarded shares granted under the Company's share award scheme (details of which will be set out in this Annual Report), 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, 2015. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

## Dividend

The Directors have recommended a final dividend of HK23.25 cents (approximately US2.99 cents) per share with a total of approximately US\$54,871,000 for the year ended December 31, 2015 (2014: HK19.00 cents (approximately US2.45 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 27, 2016. 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 24, 2016. This payment, together with the interim dividend of HK16.00 cents (approximately US2.06 cents) per share (2014: HK12.50 cents (approximately US1.61 cents)) paid on September 25, 2015, makes a total payment of HK39.25 cents (approximately US5.05 cents) per share for 2015 (2014: HK31.50 cents (approximately US4.05 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 2016 Annual General Meeting, the register of members of the Company will be closed from May 19, 2016 to May 20, 2016, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2016 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 18, 2016.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 27, 2016 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 26, 2016.