MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

Financial Results

Result Analysis

The Group's turnover for the year amounted to USD3.9 billion, an increase of 5.1% as compared to USD3.7 billion in 2011. Profit attributable to Owners of the Company amounted to USD201 million as compared to USD152 million in 2011. Basic earnings per share for the year improved to US11.42 cents as compared to US9.47 cents in 2011.

EBITDA amounted to USD389 million, an increase of 14.8% as compared to USD339 million in 2011.

EBIT amounted to USD260 million, an increase of 18.6% as compared to USD219 million in 2011.

Gross Margin

Gross margin improved to 33.5% as compared to 32.6% last year. The margin improvement was the result of new product introduction, category expansion, all with higher margin, efficient production in the new PRC facility, effective supply chain management and volume leverage on our economies of scale.

Operating Expenses

Total operating expenses for the year amounted to USD1,033 million as compared to USD983 million in 2011, representing 26.8% of turnover (2011: 26.8%).

Investments in product design and development amounted to USD80 million, representing 2.1% of turnover (2011: 1.9%) reflecting our continuous investment in R&D even in times of economic challenge. With our new innovation centre in full operation in 2013, efficiency and cost effectiveness are expected to be further improved in the coming years.

Net interest expenses for the year amounted to USD37 million as compared to USD58 million in 2011. Interest coverage, expressed as a multiple of EBITDA to total interest was 8.7 times (2011: 5.5 times).

The effective tax rate, being tax charged for the year to before tax profits was at 10.0%. The Group will continue to leverage its global operations to further improve the overall tax efficiencies.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to USD1.5 billion as compared to USD1.2 billion in 2011. Book value per share was at USD0.85 as compared to USD0.78 last year, an increase of 9.0%.

Financial Position

The Group continued to maintain a strong financial position. As at December 31, 2012, the Group's cash and cash equivalents amounted to USD618 million, of which 42.5%, 31.9%, 10.3%, 7.0%, 5.9% and 2.4% were denominated in USD, RMB, HKD, AUD, 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 25.8% as compared to 59.3% last year. The gearing improvement is the result of our business growth and all the convertible bonds being converted into shares during the year. The Group remains confident that gearing will improve further after the successful implementation of key initiatives to deliver focused and stringent working capital management.

Bank Borrowings

Long term borrowings accounted for 34.3% of total debts (33.1% at December 31, 2011).

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.

During the year, the Group repaid USD30 million of fixed interest rate notes, refinanced by other bank facilities with lower interest rates. This refinancing arrangement will lower our interest cost in future periods.

Working Capital

Total inventory decreased from USD704 million in 2011 to USD689 million in 2012. Days inventory improved from 70 days to 65 days. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivable turnover days were at 61 days as compared to 60 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 53 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 extended by 5 days from 62 days in 2011 to 67 days in 2012.

The Group's current ratio improved from 1.23 times in 2011 to 1.37 times and the quick ratio also improved to 0.93 from 0.79 in 2011.

Working capital as a percentage of sales was at 16.2% as compared to 18.9% last year.

Capital Expenditure

Total capital expenditures for the year amounted to USD103 million (2011: USD95 million).

Capital Commitments and Contingent Liabilities

As at December 31, 2012, total capital commitments amounted to USD18 million (2011: USD16 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, 2012

(i) the Group's largest customer and five largest customers accounted for approximately 37.9% and 52.8% respectively of the Group's total turnover; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 3.6% and 14.2% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

According to the knowledge of the Directors, 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 18,068 employees as at December 31, 2012 (17,818 employees at December 31, 2011) in Hong Kong and overseas. Total staff cost for the year under review amounted to USD538 million (2011: USD493 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 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.

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

Power Equipment

The Power Equipment business comprises power tools, hand tools, outdoor products and accessories. In 2012, sales at this business rose by 7.6% to USD2.9 billion, supported by growth in all geographic markets and the strong global expansion of MILWAUKEE®. We have solid momentum behind the MILWAUKEE® REDLITHIUM™ cordless platforms and there has been further growth in Hand Tools and Power Tool Accessories. RYOBI® cordless lithium ion power tools and outdoor products continue to make impressive gains with consumers. The business accounted for 74.4% of Group turnover, against 72.6% in 2011. We generated approximately one third of sales from new products, in line with our plans.

Industrial

MILWAUKEE® had a strong year, delivering double-digit sales growth globally, driven by the introduction of innovative new products, execution of targeted field initiatives and continued market penetration. With the consistent execution of new products in the M12® and M18® lithium ion Systems, the global penetration of MILWAUKEE® cordless continues to build momentum, achieving significant market share gains. The launch of the M18® FUEL® cordless range has further established MILWAUKEE® as a global leader in advanced power tools technology. FUEL® offers heavy duty users a potent combination of unbeatable battery performance with the most advanced on-board electronics and brushless motor, to maximize efficiency, power, life and com actness. Innovative trade-specific solutions such as the M12® 600 MCM Cable Cutter and the M12® and M18® Force Logic™ Press Tool Systems also highlighted the focus on delivering cordless productivity solutions for the skilled trades. Hand Tools experienced rapid growth through game-changing solutions in snips and pliers targeted at the core professional trades, while Power Tool Accessories built on the Shockwave™ franchise with an expanded range. In addition, sales of Test and Measurement tools doubled through entry into the Thermal Imaging category and the introduction of the world's first Fluorescent Lighting Tester.

Consumer and Professional

In 2012, the North American Consumer Power Tools business posted strong gains within the home improvement market, despite continued economic pressures. The majority of growth for RYOBI® and our OEM brands came from strong cordless sales, new product introductions and robust promotional activity. The industry leading RYOBI® ONE+® 18V cordless system of tools benefited from a major advertising campaign in collaboration with our retail partner and the second-half launch of next generation lithium ion batteries. The enhanced lithium ion battery options include Lithium+™ high-performance 4 amp hour cells, which deliver up to four times more run-time than previous lithium ion batteries, are lighter in weight and offer extreme weather performance. The batteries can also be purchased individually to improve the performance of any RYOBI® ONE+ System® tool. RYOBI® lithium ion batteries received the "ECO-Options" certification seal, certifying them as a better environmental choice than the traditional battery chemistry, Nickel Cadmium. These new programs further cement RYOBI®'s leadership position in the consumer power tool market.

The consumer markets across Europe experienced tough trading conditions with many retailers reporting lower sales than expected. Hyper-green RYOBI® lithium ion power tools and new products have delivered significant margin improvement. We achieved double-digit sales growth in Australia and New Zealand driven by further penetration of the RYOBI® ONE+ System® and introduction of new generation tools. Power Tool Accessories have also performed well due to winning additional retail space with our key retail partner. RYOBI® continues to substantially outperform the market due to exciting new products and marketing initiatives.

Outdoor Products

Outdoor products delivered a solid performance. Improved profitability came from an expanded range of RYOBI® lithium ion cordless products that offer long run time and easy starting, an increase in sales of accessories and markedly higher generator sales.

The success of the RYOBI® 18-volt ONE+ System® has continued from power tools into outdoor products and we continue to benefit from the large installed base of RYOBI® ONE+ System® users. We launched a new 40-volt lithium ion product range comprising a trimmer, blower, chain saw, mower and hedge trimmer, which has proven very successful with end users. These outstanding products are winning consumer acceptance owing to their competition-beating run time and reliability, as well as sleek ergonomic design. Sales were further supported by a significant advertising effort to communicate the benefits of the RYOBI® 18-volt ONE+ System® and the expansion of on-line marketing for both RYOBI® and HOMELITE®.

Outdoor products in Europe benefited from the introduction of 36-volt lithium ion products and further development of key customers. However, overall growth in Europe was slow due to poor weather and the impact of weak consumer spending. In Australia and New Zealand, outdoor products produced positive retail results. The introduction of the 36-volt range of products, which has been well received by consumers, and the RYOBI® ONE+ System®, were the key growth drivers.

Floor care and Appliances

Floor care and Appliances margins improved significantly, but sales fell slightly by 1.6% over 2011 to USD1.0 billion following a rationalization of the business which has seen non-performing operations cut and expenses reduced in North America. Our global product development process and centralized purchasing initiatives are bringing benefits. Key gains were made in Europe, with double-digit revenue growth, while global new products sales were maintained at one third of total sales. The business accounted for 25.6% of Group turnover against 27.4% in 2011.

In North America, we improved our profitability and are undertaking further rationalization of the product ranges to invest in developing consumer-driven innovative products and simplification of operations to lower costs. We are also increasing the focus on sales and marketing to drive both the HOOVER® and DIRT DEVIL® brands. During the year HOOVER® continued to grow its highly regarded range of MaxExtract® deep cleaning carpet washers, which use proprietary technology to offer an increasing array of cleaning solutions to consumers. The brand's upright vacuum category is being strengthened by the introduction of new products such as the WindTunnel® Air3® Bagless Upright. This latest example of our floor care technology has a multi-cyclonic filtration system that cleans the air by moving it through the filter to ensure no loss of suction, resulting in superior performance. Both MaxExtract® and WindTunnel® Air3® were supported by television advertising campaigns, boosting their profile in the market.

Sales of VAX® and DIRT DEVIL® increased steadily in Europe, the Middle East and Africa, led by a very strong performance from VAX® in the UK. VAX® delivered double-digit growth built on its leadership in the steam cleaning market, the launch of the Air3® uprights, and significant investment in advertising. We had penetration gains in the key markets of Germany and France on the back of new product launches and increased distribution. Our Australian Floor Care and Appliances business achieved solid momentum on the back of new steam products and strong consumer demand for new bag-less cylinders. These factors, along with ongoing promotion programs, helped the VAX® brand to outperform the category as a whole, and to increase market share significantly despite a challenging retail environment.

Purchase, Sale or Redemption of Shares

A total of 5,630,000 ordinary shares of HKD0.10 each were repurchased by the Company during the year at prices ranging from HKD7.93 to HKD14.68 per share. Among these repurchased shares, 4,330,000 shares were settled and cancelled during 2012 and 1,300,000 shares were settled and were cancelled in January 2013. The aggregate amount paid by the Company for such repurchases cancelled during 2012 amounting to USD5,653,000 was charged to the retained earnings.

The repurchased shares were cancelled and the issued share capital and the capital redemption reserve of the Company was reduced and increased respectively by the par value thereof.

The repurchase 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, 2012. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Dividend

The Directors have recommended a final dividend of HK10.75 cents (approximately US1.38 cents) per share for the year ended December 31, 2012 (2011: HK7.75 cents (approximately US1.00 cent)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 31, 2013. 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 28, 2013. This payment, together with the interim dividend of HK6.75 cents (approximately US0.87 cent) per share (2011: HK5.00 cents (approximately US0.64 cent)) paid on September 28, 2012, makes a total payment of HK17.50 cents (approximately US2.25 cents) per share for 2012 (2011: HK12.75 cents (approximately US1.64 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 2013 Annual General Meeting, the register of members of the Company will be closed from May 23, 2013 to May 24, 2013, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2013 Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on May 22, 2013.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed from May 30, 2013 to May 31, 2013, both days inclusive, during which period 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 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on May 29, 2013.