## Financial Review

### Financial Results

**Result Analysis**

The Group’s turnover for the year amounted to USD4.3 billion, an increase of 11.6% as compared to USD3.9 billion in 2012. Profit attributable to Owners of the Company amounted to USD250 million as compared to USD201 million in 2012, an increase of 24.5%. Basic earnings per share for the year improved to US13.68 cents as compared to US11.42 cents in 2012.

EBITDA amounted to USD443 million, an increase of 13.7% as compared to USD389 million in 2012.

EBIT amounted to USD304 million, an increase of 16.9% as compared to USD260 million in 2012.

**Gross Margin**

Gross margin improved to 34.2% as compared to 33.5% last year. The margin improvement was the result of new product introduction, category expansion, efficient production amongst various production facilities, effective supply chain management and volume leverage on our economies of scale.

**Operating Expenses**

Total operating expenses for the year amounted to USD1,175 million as compared to USD1,033 million in 2012, representing 27.3% of turnover (2012: 26.8%).

Investments in product design and development amounted to USD107 million, representing 2.5% of turnover (2012: 2.1%) reflecting our continuous strive for innovation. We will continue to invest in design and development as new products and category expansions are most critical not only to maintain sales growth momentum but also margin expansions.

Net interest expenses for the year amounted to USD25 million as compared to USD37 million in 2012. Interest coverage, expressed as a multiple of EBITDA to total interest was 12.4 times (2012: 8.7 times).

The effective tax rate, being tax charged for the year to before tax profits was at 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 USD1.7 billion as compared to USD1.5 billion in 2012. Book value per share was at USD0.95 as compared to USD0.85 last year, an increase of 11.8%.

**Financial Position**

The Group continued to maintain a strong financial position. As at December 31, 2013, the Group’s cash and cash equivalents amounted to USD698 million (2012: USD618 million), of which 49.2%, 25.5%, 13.6%, 3.7%, 3.6% and 4.4% were denominated in RMB, USD, EUR, AUD, HKD 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 10.6% as compared to 25.8% 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 can further improve going forward.

**Bank Borrowings**

Long term borrowings accounted for 42.4% of total debts (2012 : 34.3%).

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.

During the year, the Group repaid USD39 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 was at USD884 million as compared to USD689 million in 2012. Days inventory increased by 10 days from 65 days to 75 days. Part of the increase in inventory at year end was a result of pre-build of products before the Chinese New Year in January to prepare for the sales in February and to ensure the service quality level to customers will not be jeopardized having taken into consideration of our sales momentum. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivable turnover days were at 64 days as compared to 61 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 57 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 extended by 21 days from 67 days in 2012 to 88 days in 2013, partially offsetting the increase in inventory.

Working capital as a percentage of sales was at 13.9% as compared to 16.2% last year.

### Capital Expenditure

Total capital expenditures for the year amounted to USD105 million (2012: USD103 million).

### Capital Commitments and Contingent Liabilities

As at December 31, 2013, total capital commitments amounted to USD19 million (2012: USD18 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, 2013

(i) the Group's largest customer and five largest customers accounted for approximately 37.7% and 51.3% respectively of the Group's total turnover; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 4.6% and 17.0% 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 18,746 employees as at December 31, 2013 (2012: 18,068) in Hong Kong and overseas. Total staff cost for the year under review amounted to USD601 million (2012: USD538 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.

# Power Equipment, Accessories and Hand Tools USD3.1 billion – 73.1% of the total turnover

## Review Of Operations

TTI delivered another strong year on very good results across our business segments, brands, and geographic locations. North America grew 11.2%, Europe expanded 13.3% and rest of world increased 11.5%. The progress we are making in product development to deliver new and innovative products with advanced technologies and the expansion of our Lithium cordless platforms are driving our growth. We are focused on continuing our success in expanding our market share in Canada, Western Europe, Australia, and New Zealand, as well as the United States. Additionally, we strengthened our distribution footholds across Eastern Europe, Latin America, the Middle East, Africa, and Asia. Our MILWAUKEE® business had a stellar year in all markets as we continued to drive global expansion and made great strides in our Floor Care business. We made significant gains in channel penetration programs, while deepening strategic customer partnerships.

| Brand | Market Segment | Major Market |
|---|---|---|
| Milwaukee | Industrial | Global |
| AEG POWERTOOLS | Professional | Global |
| RYOBI | Consumer<br>▶ Power Tools & Accessories<br><br>Garden Enthusiasts<br>▶ Outdoor Products & Accessories | North America, Europe, Australasia |
| Homelite | Consumer<br>▶ Outdoor Products & Accessories | Global |

All business segments delivered record sales and profit this year. Our profit margins expanded, showing the strength of the businesses. We achieved significant cost improvements from our continued focus on value engineering, lean production, and supplier productivity. Our investments in automation are driving efficiency and increasing the quality in our manufacturing. The streamlining of our Floor Care operations boosted productivity and lowered costs. Working capital remained solid with the business generating positive free cash flow.

### Power Equipment

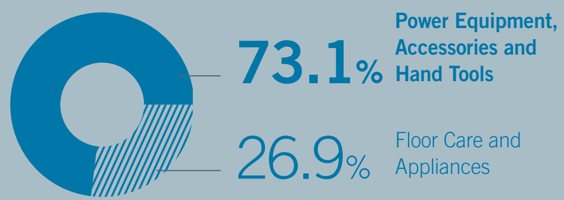
The Power Equipment business is our largest division and consists of power tools, hand tools, outdoor products and accessories. In 2013, sales in this business rose by 9.8% to a record USD3.1 billion. We delivered growth in all geographic markets and reported strong results in our industrial division. The business accounted for 73.1% of Group turnover, against 74.4% in 2012. Earnings grew 14.2% to USD261 million on new products, operational efficiency, and supply chain productivity.

**Industrial**

Our industrial division delivered another year of double digit growth with MILWAUKEE® expanding in key product categories. Our innovation and industry leadership is evident across our power tool, accessory, and hand tool businesses. We continued our solid growth through robust sales of new and innovative products and the ongoing performance of M12® and M18® cordless platforms, coupled with marketing support across all channels. New category expansion and key market initiatives were significant contributors to growth, resulting in substantial market penetration gains across major business segments.

We continued to advance our industry leading M12® and M18® cordless ranges as we introduced M12 FUEL™ Cordless Drilling and Fastening Solutions and the M12 FUEL™ SDS+ Rotary Hammer, delivering cutting edge innovation that separates us from our competitors in the compact 12V cordless space. M18

**Sales by Business**




FUEL™ Drilling and Fastening continued to draw new users into the M18® system while the expansion of the new M18 FUEL™ SAWZALL® Reciprocating Saw, High Torque Impact Wrenches, Circular Saw, and Grinders increased momentum for the FUEL® range globally.

The MILWAUKEE® brand has established itself as a preeminent player in the power tool accessories industry by addressing user challenges through innovative design and groundbreaking technology. MILWAUKEE® expanded the leading SAWZALL® blade program with the introduction of DOUBLE DUTY™ Metal Blades and moved into a new drilling segment with the introduction of JAM FREE™ Step Bits. Both of these accessories have proven to increase productivity and efficiency for the end users. The introduction of SHOCKWAVE® Expand to support the SHOCKWAVE® range of Impact Duty driver bits offers key productivity enhancement, allowing users to cover hundreds of applications with a handful of items.

MILWAUKEE® is striving to become the leader in productivity solutions in the industrial hand tool market. Overwhelming acceptance of MILWAUKEE® hand tools by our core users has come from a focus on innovation within key categories such as fastening, cutting, and layout. Our dedication to unveiling new products, such as the innovative HOLLOWCORE™ Nut Drivers and new line of FASTBACK™ Utility Knives, will continue to be a core part of the growth strategy.

### Consumer and Professional

We continue to expand our leading North American consumer power tool brand, RYOBI®, driven in large part by the innovative new 18V ONE+® product introductions that utilise the ONE+® Lithium ion battery platform, as well as increased marketing activities. RYOBI® ONE+® continues to add more than one million new customers each year through new product launches and promotional marketing campaigns. The launch of the RYOBI® 18V ONE+® AIRSTRIKE™ Brad Nailer has expanded our ONE+® system and has broadened our professional customer base. AIRSTRIKE™ eliminates the need for a compressor, hose, or gas cartridges and the 18V battery allows users to drive over 700 nails per charge. We are expanding the AIRSTRIKE™ technology with the introduction of the 18V ONE+® AIRSTRIKE™ Narrow Crown Stapler, another innovative category expansion.

Our professional business grew in all geographic markets with AEG® brand expanding in its core Europe and rest of world geographies. We have a focused distribution strategy in key markets and have nurtured strong distribution partnerships. Growth is being driven by the introduction of innovative new products, strong Lithium cordless platforms, and marketing support programs.

### Outdoor Products

Outdoor Products grew in all geographic regions. We increased profitability with new products, enhanced quality systems, operational efficiency, and supply chain productivity. Our cordless categories have shown tremendous growth over the past few years and 2013 was no exception. The growth came through the ongoing success of the RYOBI® 18V ONE+® program, expansion into higher voltages like RYOBI® 40V, and introducing innovations like the ONE+® Hybrid. The RYOBI® 40V range grew tremendously as users discovered that the run time is comparable to gas powered equipment. The uniqueness of the RYOBI® Hybrid is the dual power source, providing the user with the ability to choose between the powerful Lithium ONE+® battery and an extension cord.

In addition, we maintained our flow of new product innovations in our core gas product categories.

# Floor Care and Appliances USD1.2 billion – 26.9% of the total turnover

## Floor Care and Appliances

Floor Care and Appliances had a successful year. The business realigned its cost base to increase efficiencies, and invested significantly in product development and marketing. The result was a significant increase in sales and margin improvement. We generated sales growth of 17.0% over 2012 to USD1.2 billion with double digit growth in all geographic markets. Profitability moved higher on positive contributions from new product launches, the reorganization of our operations, and cost improvements. The business accounted for 26.9% of group turnover against 25.6% in 2012. During the year we acquired the ORECK® business which strengthens and expands our market penetration in independent and commercial channels.

| Brand | Market Segment | Major Market |
|---|---|---|
| Hoover | Premium Cleaning | North America, Asia, Middle East & Africa |
| ORECK | Commercial | North America |
| vax | High-Performance | Global |
| Dirt Devil | Consumer | Global |

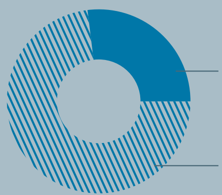
North America delivered double digit sales growth and improved margins driven by an increased investment in marketing and successful new product launches, backed by operational productivity. The HOOVER® FLOORMATE® family of hard floor washers experienced strong growth and the launch of the new HOOVER® AIR® range of lightweight, powerful upright vacuum cleaners was a success in an important product category. We initiated the expansion of our range and distribution of carpet cleaners with the HOOVER® DUAL POWER™ Carpet Washer, a new and innovative lightweight twin brushbar carpet washer. We are pleased with the performance of a new range of innovative DIRT DEVIL® quick clean products for everyday household cleaning, which is helping to revitalise the brand.

We delivered double digit sales growth in Europe and rest of the world from new products and marketing investments. Our VAX® business in Europe had another highly successful year with double digit expansion in the United Kingdom, Eastern Europe and Russia. In addition to delivering innovative new products supported by strategic marketing, we integrated the global supply chain and product development processes, and maintained our cost reduction programs and improved our working capital.

## Purchase, Sale or Redemption of Shares

A total of 3,300,000 ordinary shares of the Company were cancelled by the Company during the year. Among these cancelled shares, 2,000,000 shares were bought back and settled during the year at prices ranging from HKD17.74 to HKD19.16 and 1,300,000 shares were bought back in December 2012 and cancelled in January 2013 at prices ranging from HKD14.34 to HKD14.68. The aggregate amount paid by the Company for such buy-backs cancelled during 2013 amounting to USD7,158,000 was charged to the retained earnings. The issued share capital and the capital redemption reserve of the Company was reduced and increased respectively.

Sales by Business




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, 2013. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

## Dividend

The Directors have recommended a final dividend of HK13.75 cents (approximately US1.77 cents) per share with a total of approximately USD32,382,000 for the year ended December 31, 2013 (2012: HK10.75 cents (approximately US1.38 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 30, 2014. 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 27, 2014. This payment, together with the interim dividend of HK10.00 cents (approximately US1.29 cents) per share (2012: HK6.75 cents (approximately US0.87 cent)) paid on September 27, 2013, makes a total payment of HK23.75 cents (approximately US3.06 cents) per share for 2013 (2012: HK17.50 cents (approximately US2.25 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 2014 Annual General Meeting, the register of members of the Company will be closed from May 22, 2014 to May 23, 2014, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2014 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 (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from March 31, 2014) for registration not later than 4:00 p.m. on May 21, 2014.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed from May 29, 2014 to May 30, 2014, 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 (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from March 31, 2014) for registration not later than 4:00 p.m. on May 28, 2014.