



MILWAUKEE M18 FUEL SUPER SAWZALL Reciprocating Saw

## Focus on cordless innovation

**17.0%**

Revenue growth of  
Power Equipment business

**US\$598 million**

The business delivered operating  
profit of **US\$598 million**, a **16.9%**  
increase over the previous year

**The MILWAUKEE and RYOBI  
brands both delivered double-digit  
sales growth**

## Review of Operations

Power Equipment, Accessories and Hand Tools

Representing 85.6% of total sales, the Power Equipment business reported global sales of US\$ 6.0 billion, a 17.0% increase over the same period in 2017.

A multitude of strategic factors contributed to the record performance including innovative new product introductions, product category expansion, geographic expansion and market share gains. Operating profit was US\$598 million, an increase of 16.9% over last year.

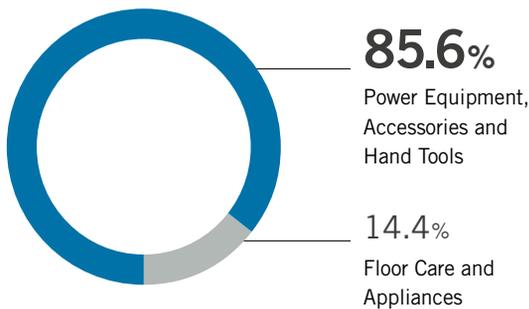
## Industrial Tools

The Milwaukee Tool business generated excellent results with worldwide sales up 28.2% over the previous period with double-digit growth in all geographic regions. The dedicated focus on cordless innovation is producing a volume of disruptive products across targeted product categories in markets we serve. Consequently, the Milwaukee Tool business continues to significantly outperform the global market by providing tool solutions to the professional user in a growing number of categories and industries.

# US\$6.0 billion

## Sales in Power Equipment, Accessories and Hand Tools

### Sales by Business



**AEG**

**RYOBI**

**Homelite®**



**IMPERIAL BLADES**



**HART**

### Power Tools

The Milwaukee Tool business continues to expand cordless product solutions on their M18 and M12 battery platforms. The M18 system, the fastest-growing cordless system for the professional end user, offers over 165 compatible tool and lighting solutions on a single battery platform. In addition, Milwaukee Tool is the dominant leader in the global sub-compact cordless space, with the M12 cordless system offering over 100 compatible tools and lighting solutions.

In 2018, Milwaukee Tool introduced the most powerful line of M18 FUEL products ever. These tools have the performance of traditional corded tools but with the productivity and safety of cordless. The M18 FUEL ½" Hammer Drill Driver is the most powerful and compact in the Milwaukee Tool range. The powerful M18 SUPER SAWZALL reciprocating saw was launched with faster cut speeds than a corded reciprocating saw delivering up to 150 cuts per charge. The new M18 FUEL Table Saw allows contractors to rip large jobsite materials to size while creating more power than a

corded saw and providing unmatched run time. The break-through M18 16" Chainsaw was introduced with the power to address the most demanding application and the capability to outperform gas and higher voltage competitors. These are just a few of the exciting FUEL products that were introduced during the year.

Ongoing technology advancements keep MILWAUKEE on the leading edge of cordless performance. Our most powerful M18 REDLITHIUM HIGH OUTPUT HD12.0 Battery produces more work per charge while remaining compatible with the M18 System. We continued to bring more innovations with the next generation POWERSTATE Brushless Motor, the most powerful motor ever produced by Milwaukee Tool. The latest REDLINK PLUS is the most intelligent and powerful microprocessor ever used in a power tool by Milwaukee Tool and manages significantly more current under demanding applications.



MILWAUKEE M18 FUEL 1/2" Hammer Drill/Driver

## Management's Discussion and Analysis

### HIGH OUTPUT and Personal Lighting

The MILWAUKEE HIGH OUTPUT Lighting program is another example of entering a traditional market with cordless technology. With recent introductions into the personal lighting and temporary lighting markets, Milwaukee Tool now offers the most comprehensive work lighting portfolio in the industry. The M12 ROCKET Dual Power Tower Light is the lightest, most compact tower light in its class with the ability to broadcast light in any direction. The M18 RADIUS Compact Site Light with Flood Mode has with 18 hours of run time and a compact size that allows users to effortlessly bring and remove this light from the jobsite.



MILWAUKEE M12 ROCKET Dual Power Tower Light

### Accessories

End users demand the same attention to quality, durability, and innovation in their accessories as they do in their tools. Focusing on problem solving new technologies, Milwaukee Tool launched the HOLE DOZER Hole Saw with Carbide Teeth and the BIG HAWG Hole Cutter with Carbide Teeth, both innovative cutting accessories with carbide strength which deliver superior life, versatility, and user productivity in the most demanding applications.

Milwaukee Tool acquired the Imperial Blades company in 2018 which manufactures a full range of blades for use in oscillating multi-tools. Founded in 2008 and the original inventor of the universal shank for use in oscillating multi-tools, the company has grown at an impressive rate with new product technology such as STORM Titanium coating and the Carbide Extreme Blade. The acquisition is part of the ongoing effort to provide the most complete range of accessories on the market.

### Hand Tools & Storage

Milwaukee Tool is providing break-through product innovations in hand tools and storage aimed at our core trade users. We launched over 115 new innovative products in the hand tool and storage category during 2018 helping to drive another year of significant growth. The PACKOUT storage system, designed to provide users with the ability to interchange and interlock a wide assortment of heavy duty tool boxes, organizers, and storage totes, added new innovative products to the system including Tool Bags, Low Profile Organizers, Backpacks, Tech Bags, and a Cooler. A new range of Mechanics Hand Tools was also introduced that include Sockets with patented FOUR FLAT sides featuring anti-roll and wrench-ready design and an innovative 90 tooth ratchet tool with 4° of arc swing with a slim profile design allowing users to work in tighter, confined spaces. The EMPIRE business again outpaced its competitors in the layout category with a complete new line of squares.



MILWAUKEE PACKOUT Modular Storage System



MILWAUKEE Ratchet & Socket Set



RYOBI 18-volt ONE+ PEX Crimp Ring Press Tool

## DIY and Professional Tools

### RYOBI DIY Power Tools

The RYOBI DIY Power Tool business continued to grow in 2018. Innovative cordless product launches and significant retail merchandising programs contributed to driving the growth. The leading DIY RYOBI ONE+ cordless system, with hundreds of tools that all operate on the same 18V battery platform, continues to expand with innovative products. Our deep household penetration has established a loyal following of users.

We continue to bring high performance tools to the DIY user with the RYOBI ONE+ Brushless line, all utilizing the RYOBI ONE+ battery system. New tools in this range were the variable speed jig saw providing more run time, faster cuts, increased power, and longer motor life. The innovative RYOBI ONE+ PEX Crimp Ring Press Tool delivering 320 crimps per charge and easy one-handed crimping operation helps eliminate user fatigue while increasing productivity. A new series of high performance lithium-ion batteries with advanced electronics was introduced effectively adding capacity to all 18V RYOBI ONE+ tools that enhanced run time, power, and overall performance in more demanding applications. The RYOBI ONE+ family of LED lighting products is a growing range for the DIY user. This includes the innovative Color Range LED Worklight with variable color temperature providing the end user with the most accurate view of the work space.

### AEG Professional Tools

We continue to broaden the AEG range of cordless tools. Our strategic approach to expand the brand in certain key markets has allowed us to capture market share with the trade professional. Twelve new products were added to the AEG 18V platform bringing the total to over 52 in 2018. Other new product introductions included two new 18V jobsite radios, 18V Brushless large angle grinder, 18V brushless small angle grinder with paddle switch, and the 18V 9.0Ah battery. Looking forward, we have a formidable and exciting pipeline of new 18V tools and 18V kits to be introduced in 2019.

### RYOBI Outdoor Products

The movement to innovative cordless products was evident in the RYOBI brand outdoor products business which delivered double digit sales growth. We made market share gains through cordless penetration into traditional gas product categories with new product introductions that utilize our RYOBI ONE+ and 40V battery systems. There were a number of key product innovations that drove the growth and expanded the cordless platform. These include the brushless 40V self-propelled mower, the 40V brushless string trimmer, and the 18V RYOBI ONE+ Bazooka jet fan blower. Product development for the popular 40V battery system continues to expand across a growing number of lawn and garden product categories that require long runtime.



RYOBI 40-volt 20 inch self propelled BRUSHLESS Mower



VAX BLADE 2 Max 40V Cordless Vacuum Cleaner

**The Floor Care and Appliance business grew 9.3%, with sales of US\$1.0 billion**

**Focus on carpet washing and cordless cleaning**

**The business continued to drive efficiency and lower costs**

Floor Care and Appliances

The Floor Care and Appliance business returned to positive sales growth in 2018 with cordless vacuums and carpet washing products driving our 9.3% growth.

The business continued to drive efficiency and lower costs to align the business around the strategic plan of increasing market share and profitability through the focus on carpet washing and cordless cleaning. This is allowing resources to be dedicated to the future as we invest in the global cordless product development under our HOOVER, VAX, DIRT DEVIL and ORECK brands, all with major product launches planned for 2019. We remain confident that the focus on carpet washing and the significant portfolio transition to cordless cleaning will continue to improve the business.

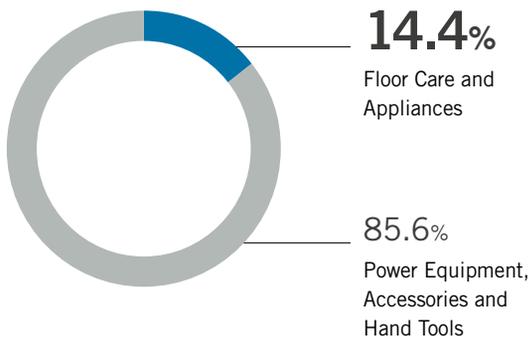
**North America**

The sales increase in North America was driven by Hoover's carpet cleaning product line with the launch of SMARTWASH, an innovative motion sensing Automatic Cleaning Technology that washes when pushed forward and dries when pulled back. The addition of new FLEXFORCE Power Brushes makes this Hoover's best full-size carpet cleaner. Hoover also introduced the highly successful new compact POWERDASH designed for the trend to smaller living spaces with double the cleaning power of competitive compact cleaners.

# US\$1.0 billion

## Sales in Floor Care and Appliances

### Sales by Business



**ORECK**

**vax**



Additionally, carpet cleaning solutions, used in the carpet washers, continue to be a focus as we invest and grow in the carpet washing category.

### Europe

The EMEA business had solid sales growth. The focus on our cordless strategy and carpet washing products continued to be the driving force fueling this growth. The BLADE cordless stick vac range contributed to the growth as distribution and sales velocity continue to build across the region. With its new floor cleaning head and direct helix technology, the VAX BLADE delivers the cleaning performance of a corded vacuum, is lightweight, converts easily to a handheld, and has a superior 45 minute run time. The BLADE 2 MAX, with 3X more suction power, is proven to clean carpets better than the top ten selling cordless vacuums in the UK. Alongside the cordless expansion, the business generated substantial growth in the carpet washing category with the innovative launch of the new VAX PLATINUM Powermax Pro which is our best cleaning carpet washer and rids up to 93% of bacteria. We are looking forward to 2019 with the continued introductions of exciting new carpet washers and cordless products.



HOOVER POWERDASH Pet Compact Carpet Cleaner



VAX PLATINUM Power Max Carpet Cleaner

**US\$7,021 million**  
Revenue

**US\$846 million**  
EBITDA

**US\$1.67**  
(2017: US\$1.49)  
Book Value per Share

**2.9% of Turnover**  
(2017: 2.7% of turnover)  
Investments in Product Design  
and Development

## Financial Review

### Financial Results

The Group's revenue for the year amounted to US\$7.0 billion, an increase of 15.8% as compared to US\$6.1 billion in 2017.

### Result Analysis

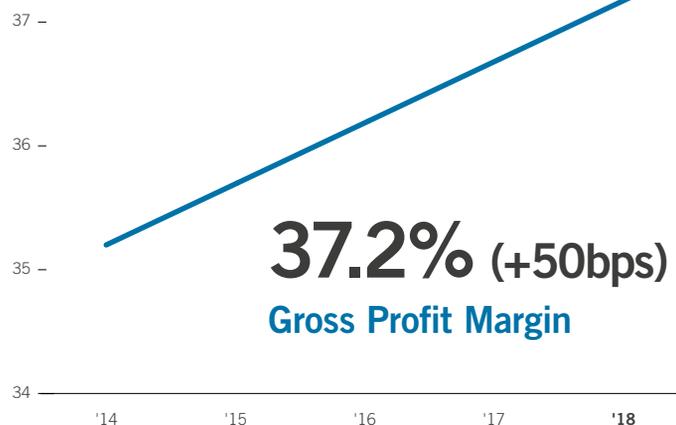
Profit attributable to Owners of the Company amounted to US\$552 million as compared to US\$470 million in 2017, an increase of 17.4%. Basic earnings per share for the year improved to US30.16 cents as compared to US25.66 cents in 2017.

EBITDA amounted to US\$846 million, an increase of 16.2% as compared to US\$728 million in 2017.

EBIT amounted to US\$607 million, an increase of 17.0% as compared to US\$519 million in 2017.

### Gross Margin

Gross margin improved to 37.2% as compared to 36.7% last year. The margin improvement was the result of new product introduction, product mix, category expansion, improvements in operational efficiency and supply chain productivity.



### **Operating Expenses**

Total operating expenses for the year amounted to US\$2,014 million as compared to US\$1,712 million in 2017, representing 28.7% of turnover (2017: 28.2%). The increase was mainly due to the strategic investments in new products and promotional activities to maintain the sales growth momentum and continual margin improvements.

Investments in product design and development amounted to US\$203 million, representing 2.9% of turnover (2017: 2.7%) reflecting our continuous strive for innovation. We will continue to invest in 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\$14 million in 2017, a reduction of 1 million or 6.2%. Interest coverage, expressed as a multiple of EBITDA to total interest was 22.9 times (2017: 30.2 times).

The effective tax rate, being tax charged for the year to before tax profits was at 7.1% (2017: 6.9%). The Group will continue to leverage its global operations and align its strategy to cope with various tax policies change globally to further improve overall tax efficiencies.

## **Liquidity and Financial Resources**

### **Shareholders' Funds**

Total shareholders' funds amounted to US\$3.1 billion as compared to US\$2.7 billion in 2017. Book value per share was at US\$1.67 as compared to US\$1.49 last year, an increase of 12.1%.

### **Financial Position**

The Group continued to maintain a strong financial position. As at December 31, 2018, the Group's cash and cash equivalents amounted to US\$1,104 million (2017: US\$864 million), of which 54.1%, 23.3%, 11.4% and 11.2% 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, was at net cash in 2018. The gearing improvement is the result of very disciplined and focused management over working capital. The Group remains confident that gearing, if any, will remain low going forward.

### **Bank Borrowings**

Long term borrowings accounted for 56.0% of total debts (2017: 66.5%).

The Group's major borrowings continued to be in US Dollars. Borrowings are predominantly LIBOR 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.

Amongst the bank borrowings, fixed rate debts account for 10.9% of the total bank borrowings, the balance being floating rate debts.

### **Working Capital**

Total inventory was at US\$1,767 million as compared to US\$1,467 million in 2017. Days inventory increased by 4 days from 88 days to 92 days. The higher inventory days as compared to past years 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 57 days as compared to 67 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 53 days as compared to 62 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 100 days as compared to 95 days in 2017 as the Group managed to leverage the volume and order visibility for better trade terms from suppliers.

Working capital as a percentage of sales was at 13.3% as compared to 16.5% in 2017.

## Capital Expenditure

Total capital expenditures for the year amounted to US\$259 million (2017: US\$205 million).

## Capital Commitments and Contingent Liabilities

As at December 31, 2018, total capital commitments for the acquisition of property, plant and equipment contracted for but not provided amounted to US\$119 million (2017: US\$22 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, 2018

- (i) the Group's largest customer and five largest customers accounted for approximately 45.5% and 54.2% respectively of the Group's total revenue; and
- (ii) the Group's largest supplier and five largest suppliers accounted for approximately 7.2% and 22.2% 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 23,279 employees as at December 31, 2018 (2017: 22,033) in Hong Kong and overseas. Total staff cost for the year under review amounted to US\$1,062 million (2017: US\$963 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 both inside and outside North America and we have spent relentless efforts to expand and 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.

## Our Commitment to ESG

TTI is committed to operating its business in line with environmental, social and governance (ESG) best practices, and to do so in compliance with all applicable laws and regulations. We understand that a large measure of our ability to grow, innovate and prosper depends on our ESG performance.

We have a robust risk management system in place which allows us to identify and address issues in an appropriate and timely manner as well as mitigate risk to our business. We have identified legal and regulatory requirements related to ESG practices that have the potential to have a significant impact to our operations and performance. We had no reports of ESG-related non-compliance in 2018.

In 2018, we developed a Sustainability Strategy and Implementation Plan to align our actions and goals globally with the United Nations Sustainable Development Goals (UN SDGs). We also sharpened our focus on human rights, labor, environment, governance and anti-corruption practices with specific initiatives and goals. In terms of governance, we have formalized the role of the ESG Working Committee to oversee our ESG direction and activities. The committee will continue to review and lead our Sustainability Strategy and monitor our performance against our goals and targets.

TTI understands the importance of continuous engagement with our stakeholders to monitor and address their expectations and evolving legal and industry requirements. We have various communication channels with our key stakeholders including employees, customers, investors, shareholders and suppliers. Communication occurs via regular meetings, focus group discussions and training sessions.

Details on our ESG commitments, relevant policies and standards is provided throughout this report. Specific ESG key performance results and initiatives of 2018 are shared on pages 78 to 111.

### **Purchase, Sale or Redemption of Securities**

A total of 8,600,000 ordinary shares were bought back by the Company during 2018 at prices ranging from HK\$36.25 to HK\$47.55 per share. Among these shares bought back and settled by the Company in 2018, 7,100,000 shares were cancelled during 2018 and 1,500,000 shares were cancelled in January 2019. The aggregate amount paid by the Company for such buy-backs cancelled during 2018 amounting to US\$38,608,000 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-backs of the Company's shares during the year were effected by the Directors pursuant to the mandate granted by shareholders at the previous annual general meeting of the Company, 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, 2018. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

### **Dividend**

The Directors have recommended a final dividend of HK50.00 cents (approximately US6.44 cents) per share with a total of approximately US\$117,666,000 for the year ended December 31, 2018 (2017: HK39.75 cents (approximately US5.12 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 24, 2019. 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 21, 2019. This payment, together with the interim dividend of HK38.00 cents (approximately US4.89 cents) per share (2017: HK27.75 cents (approximately US3.57 cents)) paid on September 21, 2018, makes a total payment of HK88.00 cents (approximately US11.33 cents) per share for 2018 (2017: HK67.50 cents (approximately US8.69 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 2019 Annual General Meeting, the register of members of the Company will be closed from May 15, 2019 to May 17, 2019, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2019 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 14, 2019.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 24, 2019 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 23, 2019.