

Management's Discussion and Analysis

Financial Review

Financial Results

Turnover for the period under review amounted to US\$2,250 million, 10.2% higher than the US\$2,042 million reported for the same period last year. Profit attributable to Owners of the Company amounted to US\$136 million as compared to US\$118 million reported last year, an increase of 15.9%. Basic earnings per share was at US7.45 cents (2013: US6.43 cents).

EBITDA amounted to US\$229 million, an increase of 10.2% as compared to the US\$208 million reported in the same period last year.

EBIT amounted to US\$162 million, an increase of 13.6% as compared to the US\$142 million reported in the same period last year.

Result Analysis

Gross Margin

Gross margin improved to 35.0% as compared to 34.0% in the same period 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 period amounted to US\$627 million as compared to US\$554 million reported for the same period last year, representing 27.9% of turnover (2013: 27.1%). The increase mainly due to the strategic spent on advertising and promotion on new products, particularly for the Floor Care division.

Investment in product design and development amounted to US\$57 million (2013: US\$48 million), representing 2.5% of turnover (2013: 2.4%), 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 period amounted to US\$12.6 million as compared to US\$14.4 million reported for the same period last year, a reduction of US\$1.7 million or 12.1%. Interest cover, expressed as a multiple of EBITDA to total interest was at 11.5 times (2013: 10.8 times).

Effective tax rate for the period was at 8.5% (2013: 8.0%). The Group will continue to leverage its global operations to further improve overall tax efficiencies.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to US\$1.8 billion, as compared to US\$1.7 billion at December 31, 2013, an increase of 4.4%. Book value per share was US\$0.99 as compared to US\$0.95 at December 31, 2013, an increase of 4.2%.

Financial Position

The Group continued to maintain a strong financial position. As at June 30, 2014, the Group's cash and cash equivalents amounted to US\$656 million (US\$698 million at December 31, 2013) after the payment of US\$32.4 million dividend during the period (US\$25.3 million in first half 2013), of which 48.8%, 28.2%, 11.9%, and 11.1% were denominated in RMB, US\$, EUR and other currencies respectively.

The Group's net gearing, expressed as a percentage of total net borrowings (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, improved to 22.8% as compared to 26.2% as at June 30, 2013. The gearing improvement is the result of very disciplined and focused management over working capital. The Group remains confident that gearing can further be improved going forward.

Bank Borrowings

Long term borrowing accounted for 34.9% of total debts (42.4% at December 31, 2013).

The Group's major borrowings continued to be in US Dollars and 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 exposure, and cash management functions are all being closely monitored and managed by the Group's treasury team.