Management's Discussion and Analysis

Record Performance

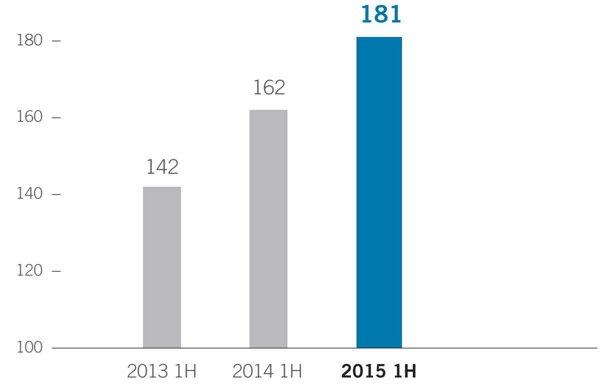
In the first half of 2015, TTI delivered record results with double-digit growth in revenue, gross profit and net income. Profit margins continued to improve with revenues increasing by 10.0% or 14.4% when excluding the effect of foreign currency exchange. All regions delivered impressive organic growth, demonstrating the company's ability to capture market share through innovation. The Power Equipment segment, comprising 79.1% of the Group's revenue, generated double-digit sales growth of 16.7%, outpacing the power tool industry with our Milwaukee Tool business recording a 24.4% increase in global sales. The Consumer Power Tools and Outdoor Products businesses showed strong momentum also delivering double-digit increases in sales. Accounting for one-fifth of the Group's revenue, the Floor Care and Appliance division continued to grow in the cordless product category although the overall division was down by 9.7%, primarily due to a mandated European Union (EU) Energy Labeling Directive and the strategic exit of our low margin OEM businesses. We view this as episodic and the business will resume its normal course in the years to come.

The Group's strong first half results reflect the continued success of our strategy to bring to market exciting new products with cutting-edge technology such as our industry-leading lithium cordless platforms, powerful brands built on in-depth understanding of customer needs, loyalty from end-users, and consistent commitment to continued improvements in operational efficiency.

Our focus on driving the gross margin to new levels, has yielded the seventh consecutive reporting period of gross margin improvement. The relentless efforts on manufacturing productivity, global purchasing programs, and ongoing initiatives to boost supply chain efficiency, combined with the impact from our high margin new product stream and volume leverage resulted in a 60 basis point improvement in gross margin to 35.6%. Investments in R&D, geographic expansion and marketing programs have driven the flow of new and innovative products, increasing our distribution reach. Our EBIT increased by 12.1% and net profit attributable to shareholders reached US$159 million, which is a 16.5% expansion. Basic earnings per share increased 16.4% to 8.67 US cents.

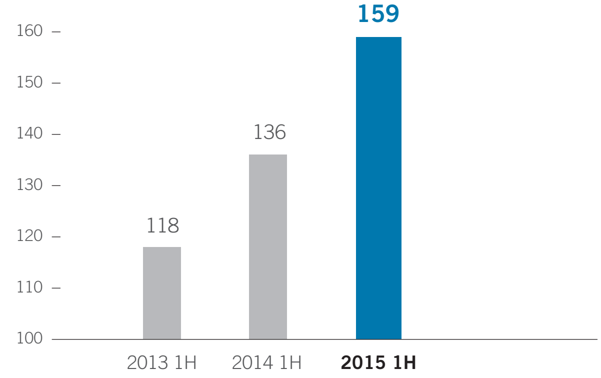
EBIT

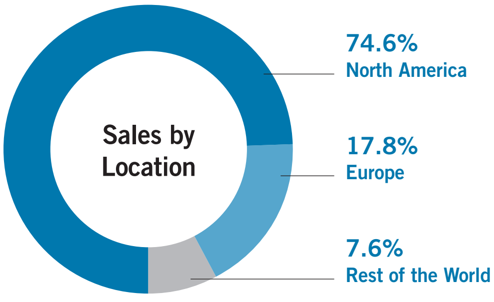
US$m



Profit Attributable to Owners of the Company

US$m

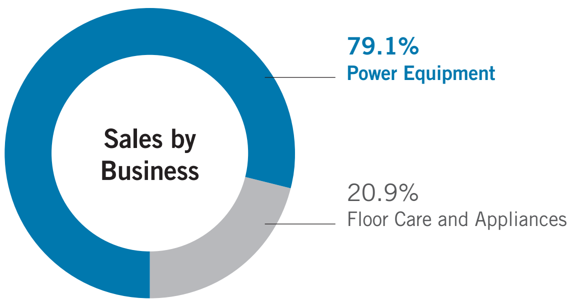




Business Review

Power Equipment

The Power Equipment business had a strong first half delivering US$1,958 million in revenue, a 16.7% increase compared with the same period in 2014, accounting for 79.1% of the Group's revenue.



Industrial

Our Milwaukee Tool business delivered another exceptional first half growing 24.4% globally with double-digit sales across all regions. We continue to take market share with a consistent flow of innovative new products, implementation of targeted end-user initiatives and a focus on operational excellence.

The MILWAUKEE M12 and M18 lithium cordless power tool platforms continued to penetrate global markets and were supported by a number of innovative new product additions. The brand's disruptive FUEL technology franchise was fortified with the introduction of breakthrough products such as the industry's first sub-compact 12 volt brushless circular saw. FUEL technology continues to receive an extremely positive response from end users and distribution channels throughout our global markets. Powered by industry-leading technology, the MILWAUKEE brand continues to accelerate professional and industrial users' transition from traditional corded tools to lithium cordless power tools. The introduction of the M18 compact brushless drill driver, hammer drill driver and impact drivers strengthened the MILWAUKEE brand's position among the cordless drilling and driving solutions segment. In the second half of the year, an extensive flow of additional M18 cordless products will be released to bolster our industrial product and productivity solutions offerings.

Our MILWAUKEE brand continues to grow in the power tool accessory business by bringing to market new products that offer productivity enhancing solutions to end-users. We introduced HOLE DOZER bi-metal hole saws, providing end users with high-performance hole-cutting solutions engineered to withstand the extreme conditions of jobsites. In addition, the new MILWAUKEE adjustable hole saw reinforces the brand's position as a leading solutions provider for challenging electrical and plumbing installations.

We strengthened our hand tool business with the introduction of an innovative line of lightweight and compact pliers, storage products that deliver game-changing user-focused solutions, and tape measures with longer-lasting blade life. Continued development of the tape measure business has resulted in double-digit market share gains in targeted markets. We invested in the expansion of our layout and measurement business through EMPIRE levels, which is receiving strong commercial support throughout the U.S. and Canada, and continued expansion across global markets. In addition, operational enhancements within our hand tool business have resulted in significant productivity gains while setting the stage for rapid and sustained growth.

Consumer Power Tools

We recorded substantial gains in our Consumer Power Tools business delivering double-digit organic growth across North America, Europe ("EMEA"), and Australia and New Zealand ("ANZ"). RYOBI is the number one do-it-yourself ("DIY") power tools brand in the world and is based on our flagship 18V ONE+ SYSTEM platform. To build on the leadership position of the ONE+ brand, we continue to expand the system through innovative products with industry-leading technological improvements such as the new 5.0ah lithium battery pack. The ONE+ brand is generating customer loyalty with backward compatible new batteries and tools that work with all previous RYOBI 18V ONE+ tools and batteries.

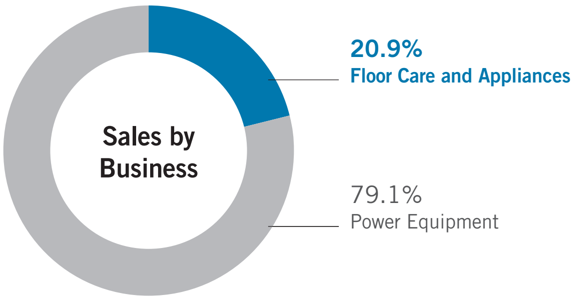
The AEG tradesman brand delivered exceptional growth in EMEA and ANZ. The brand gained traction with a further expansion of the 18V lithium cordless range that has best-in-class features and industry leading lithium technology including the recently launched brushless motor technology.

Outdoor Products

The Outdoor Products business achieved outstanding double-digit growth across the North American, EMEA and ANZ markets. This growth was the result of favorable weather conditions and an exciting range of new products. We are leading the industry's transition to lithium cordless outdoor tools with new products additions to the RYOBI lithium cordless platforms. By driving the benefits of lithium cordless-powered outdoor products, the highly successful RYOBI 18V ONE+ SYSTEM platform and 40V programs generated robust sales and delivered share gains in key markets. In the traditional corded and gas product categories, a number of new additions such as the RYOBI electric pressure washers, RYOBI full crank gas trimmers, and RYOBI gas powered 2800PSI pressure washer contributed to overall business growth. Positive momentum was generated by product marketing events, product training for our retail partners and promotional marketing campaigns.

Floor Care and Appliances

Floor Care and Appliances, accounting for 20.9% of the Group's revenue, declined 9.7% to US$516 million in the first half of 2015.



As part of our continued focus on building strong brands, we are by design strategically exiting our low margin OEM appliance businesses, which had a significant impact to the revenue decline in this segment. In addition, we underestimated the EMEA sales impact of complying with the EU Energy Labeling Directive. This resulted in higher than expected engineering costs and an oversupply of legacy products in the channel. Fortunately, the episodic impact on our business is behind us and we will be on track for growth in the years to come. On a positive note, our European cordless program is flourishing and holds great promise for the floor care business.

Our North American business exceeded overall industry growth driven by the HOOVER brand at key mass retailers and with our commercial cleaning partners using the HOOVER and ORECK commercial brands. Category share gains were achieved with the expansion of our HOOVER cordless cleaning line of products that are powered by leveraging TTI's lithium cordless technology. We are driving demand for cordless cleaning with the introduction of two revolutionary products including the industry's first cordless upright cleaner with a detachable "lift off" canister and the first cordless hard floor cleaner designed on our market-leading FLOORMATE platform. The ORECK brand generated solid double-digit growth with continued partner store expansion and new product introductions. In addition, our commercial HOOVER brand launched a new innovative platform of products that features industry-leading performance and new HUSHTONE technology, which enables high-performance, quiet cleaning for noise-sensitive commercial environments such as offices, hotels and hospitals.

Outlook

TTI is firmly positioned to build on the positive momentum generated by our businesses and we are confident that we will sustain solid organic growth in the second half of the year. At the core of our successful business is a sophisticated product development process that aims to solve end-user needs. Our innovative products, powerful brands, and relentless efforts to pursue operational excellence have set a solid foundation for delivering exceptional organic sales growth and ongoing positive financial performance. We remain focused on propelling our business forward through investments in product development, marketing, and geographic expansion. Our ongoing commitment in these areas will continue to deliver value to support robust business growth and meet financial objectives.

Financial Review

Financial Results

Reported revenue for the period grew by 10.0% as compared to the same period last year, amounted to US$2,474 million, with negative currency headwind. Excluding the negative currency effect, revenue increased by 14.4% as compared to the same period last year. Profit attributable to Owners of the Company amounted to US$159 million as compared to US$136 million reported last year, an increase of 16.5%. Basic earnings per share was at US8.67 cents (2014: US7.45 cents).

EBITDA amounted to US$262 million, an increase of 14.1% as compared to the US$229 million reported in the same period last year.

EBIT amounted to US$181 million, an increase of 12.1% as compared to the US$162 million reported in the same period last year.

Result Analysis

Gross Margin

Gross margin improved to 35.6% as compared to 35.0% in the same period last year. The margin improvement was the result of new product introduction, category expansion, product mix, improvements in operational efficiency and supply chain productivity.

Operating Expenses

Total operating expenses for the period amounted to US$703 million as compared to US$627 million reported for the same period last year, representing 28.4% of revenue (2014: 27.9%). The increase was 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$66 million (2014: US$57 million), representing 2.6% of revenue (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 period amounted to US$7.6 million as compared to US$12.6 million reported for the same period last year, a reduction of US$5.0 million or 39.9%. Interest cover, expressed as a multiple of EBITDA to total interest was at 20.3 times (2014: 11.5 times).

Effective tax rate for the period was maintained at 8.5% as compared to the same period last year. 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$2.0 billion, an increase of 4.2% as compared to December 31, 2014. Book value per share was US$1.12 as compared to US$1.07 at December 31, 2014, an increase of 4.7%.

Financial Position

The Group continued to maintain a strong financial position. As at June 30, 2015, the Group's cash and cash equivalents amounted to US$725 million (US$690 million at December 31, 2014) after the payment of US$44.8 million dividend during the period (US$32.4 million in first half 2014), of which 44.7%, 34.8%, 8.7%, and 11.8% were denominated in RMB, US$, 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 17.7% as compared to 22.8% as at June 30, 2014. The gearing improvement is the result of very disciplined and focused management over working capital. The Group remains confident that gearing will remains low going forward.

Bank Borrowings

Long term borrowing accounted for 36.5 % of total debts (36.3% at December 31, 2014).

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.

During the period, the Group repaid US$96 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 US$1,131 million as compared to US$1,025 million as at June 30, 2014. The number of days inventory was maintained at 83 days as compared to the same period last year. When compared to the year end level, inventory at the end of the first half of the year is normally higher in preparation for the peak shipment period in the second half of the year and to maintain the high service quality level to customers having taken into consideration of our sales momentum. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivables turnover days were at 63 days as compared to 69 days as at June 30, 2014. Excluding the gross up of the receivables factored which is without recourse in nature, receivables turnover days were at 58 days as compared to 62 days as at June 30, 2014. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing credit exposure.

Trade payables days were maintained at 84 days as compared to the same period last year.

Working capital as a percentage of sales was at 17.1% as compared to 18.4% for the same period of last year.

Capital Expenditure

Total capital expenditures for the period amounted to US$137 million (2014: US$64 million), including US$70 million of office premises located in Hong Kong.

Capital Commitment and Contingent Liability

As at June 30, 2015, total capital commitments amounted to US$14 million (2014: US$19 million), and there were no material contingent liabilities or off balance sheet obligations.

Charges

None of the Group's assets are charged or subject to encumbrance.

Human Resources

The Group employed a total of 20,964 employees (20,355 employees as at June 30, 2014) in Hong Kong and overseas. Total staff cost for the period under review amounted to US$367 million as compared to US$336 million in the same period last year.

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improve 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, share awards and bonuses to eligible staff, based on the performance of the Group and the individual employee.

Interim Dividend

The Directors have resolved to declare an interim dividend of HK16.00 cents (approximately US2.06 cents) (2014: HK12.50 cents (approximately US1.61 cents)) per share for the six months period ended June 30, 2015. The interim dividend will be paid to shareholders listed on the register of members of the Company on September 7, 2015. It is expected that the interim dividend will be paid on or about September 25, 2015.

Closure of Register of Members

The register of members of the Company will be closed on September 7, 2015 when no transfers of shares will be effected. In order to qualify for the interim 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 September 4, 2015.