

Management's Discussion and Analysis

Record Performance

TTI delivered another set of record results in the first half of 2017 on strong revenue growth and excellent operational productivity. Revenue, gross profit and net income all reached record levels for the period. Revenues grew 7.3% to US\$2.9 billion and 8.1% before currency adjustment. Net profit margins improved by 50 basis points to 7.1% of sales, compared to 6.6% in the first half of 2016. Before currency adjustments, all geographic regions reported revenue growth. TTI continues to drive growth by launching leadership cordless products and through highly successful geographic expansion initiatives.

The Power Equipment segment outpaced the power tool industry with double-digit sales growth of 11.9% and 12.5% before currency adjustment. The MILWAUKEE industrial business again produced outstanding sales growth of 20.1% before currency adjustment. The Consumer Power Tool and Outdoor Product businesses delivered robust growth driven by the industry leading RYOBI ONE+ cordless system. The Floor Care and Appliances segment had a sales decline of 13.8% or 12.1% before currency adjustment, but made progress in revitalizing the product range.

TTI reported its ninth consecutive period of gross margin improvement with a 50 basis point increase in gross margin to 36.6% for the period. The gains are being generated by positive margin contributions from the new product stream as well as lean manufacturing and automation, global purchasing programs, and ongoing initiatives to boost supply chain efficiency. SG&A for the first half of 2017 remained at the same 28.7% of sales as last year. TTI continued the strategic investments in new product development, targeted geographic expansion, and marketing. These initiatives generated increased earnings before interest and taxes by 15.4% to US\$233 million, net profit attributable to shareholders of US\$204 million, which is a 15.5% increase from the prior year, and basic earnings per share increase of 15.3% to 11.17 US cents.

Business Review

Power Equipment, Accessories and Hand Tools

The Power Equipment business, the largest segment accounting for 85.6% of total sales, delivered a strong first half with US\$2.5 billion in global sales, representing an 11.9% increase compared with the same period in 2016. The growth was bolstered by the flow of new product introductions, strong account partnerships, geographic expansion, and focused end-user marketing. The EBIT increased 25.6% for the business in the first half of the year.

Industrial Tools

In the first half of 2017, the MILWAUKEE industrial business reported impressive results with world-wide sales growing by 20.1% in local currency. The effective execution of both distribution and end user conversion initiatives, introduction of innovative new products, and entry into large adjacent categories resulted in growth which outperformed the market.

Power Tools

The MILWAUKEE Power Tool business reported another period of double-digit sales growth with market share gains and category expansion. The M18 system is the fastest-growing cordless system for the professional end user, which will have over 135 compatible tool solutions on a single battery platform by year-end. MILWAUKEE is the leader in the global sub-compact cordless space, with the M12 cordless system offering over 80 compatible tools.

The MILWAUKEE FUEL technology leverages high-performance brushless motor technology, system electronics, and REDLITHIUM battery technology with sustained performance capable of replacing the need for cords. MILWAUKEE remains focused on developing new and innovative products integrating FUEL technology and currently offers over 55 M18 FUEL cordless power tools. The highly successful FUEL range was further expanded by the introduction of the M18 FUEL Outdoor Power Equipment range. The game changing performance of FUEL is converting users of traditional corded, pneumatic, and gas-powered tools and outdoor products to the MILWAUKEE M18 and M12 cordless systems.

The FORCELOGIC platform which replaces traditional corded, gas, and hydraulic tools continues to exceed end user expectations with the recent introduction of M18 FORCELOGIC 1590 ACSR Cable Cutter, M18 FORCELOGIC 12 Ton Crimper and the innovative M18 FORCELOGIC 3" Underground Cable Cutter. The successful MILWAUKEE High Output LED Lighting family, powered by the M12 and M18 cordless systems, continues to grow with innovations which utilize the most-advanced LED technology and incorporating versatile product designs.

Accessories

The MILWAUKEE Power Tool Accessory business delivered strong growth in the first half. The SHOCKWAVE line of driver bits and drill bits continues to grow globally through product line expansion tailored to regional needs and from the growth of cordless impact drivers. A new high performance SAWZALL reciprocating blade line up, THE AX with Carbide Teeth offers extreme life and versatility for wood and multi-purpose demolition jobs. Growth will continue to accelerate with the launch of the TORCH with Carbide Teeth for the toughest metal cutting applications.

Hand Tools

The Hand Tool business expansion continues. The successful MILWAUKEE Tape Measure range was upgraded with user benefits including reduced overall size, higher blade durability, and optimized hook design. Additions to the layout category include chalk reels that feature STRIPGUARD clutch technology to protect the planetary gear system from damage. The 18" and 24" Jobsite Rolling Bags have been added to the MILWAUKEE storage solutions which features 6" all-terrain wheels and 1680D ballistic material. MILWAUKEE continues to expand into new categories, such as framing hammers with SHOCKSHIELD grips that provide best-in-class grip durability and vibration reduction.

The EMPIRE brand business maintained strong growth with new product introductions and retail conversions in targeted sales channels. EMPIRE launched a series of digital levels with the first-ever auto-calibrate feature making it simple and easy to use and includes the industry's largest LCD screen, an audio indication feature, and IP67 rating for working in the toughest construction environments. Building on the successful launch of ULTRAVIEW, EMPIRE introduced the em95.10 ULTRAVIEW LED Torpedo level for best vial viewing in any light condition. This addition to the line is driving the lighted level category to take significant market share.

Consumer and Professional Tools

In the first half, the Consumer and Professional Tools business continued the sales growth momentum with the exciting flow of innovative products focusing on the construction and home improvement segments of the market. Marketing campaigns tied with end user relationship programs such as RYOBI Nation in North America continued to strengthen loyalty bonds with consumers and professionals alike, invigorating Ryobi's market leading position.

Sales of the RYOBI ONE+ 18V cordless system grew double-digit by expanding the product range with technology advancements in brushless tools and LED lighting. Along with the powerful next generation brushless drills, the RYOBI brand launched the first-to-market cordless brushless belt sander. The range additions of the brushless 7 ¼" circular saw, brushless 5" angle grinder, trim router and belt sander brought the RYOBI ONE+ system to over 100 integrated tools. The RYOBI brand is leading the home improvement industry in lithium ion battery technology.

Sales for the professional trade AEG brand power tools were up led by the AEG 18V system expansion and excellent growth in AEG accessories. The AEG impact-rated bits saw significant market acceptance establishing a platform for future growth. Partnerships with leading retailers are providing the distribution footprint as the business continues supporting new product development and investment in marketing initiatives aimed at the professional trade user.

Outdoor Products

Outdoor Products delivered a robust first half with solid growth in cordless tools, electric and gas pressure washers, inverter generators, gas chain saws and gas blowers. The leading RYOBI ONE+ cordless lawn and garden product line generated double-digit growth along with the RYOBI 40V cordless program led by the innovative 20" brushless mower. The business is applying cordless technology to everyday end user needs to deliver industry-first products such as the RYOBI 48V, 38" riding mower that has a run time of two hours, covering two acres per charge. Other significant launches included the RYOBI ONE+ cordless trimmer, AEG 58V jet fan blower, and AEG 18V outdoor range.

TTI is leading the cordless technology revolution in outdoor equipment for homeowners and professional trades by eliminating the need for power cords and gas from worksites. The growth is being supported with targeted marketing and advertising programs. This ongoing focus on innovation, quality and customer satisfaction will continue to deliver exceptional results.

Floor Care and Appliances

The Floor Care and Appliance segment sales declined by 13.8% in the first half as the business transitioned from old generation corded products to new technology and cordless platforms. The UK, being a substantial market for the Floor Care business in Europe, was negatively impacted by the combination of weak currency, the impact of Brexit and general softening of the UK retail appliance market. Another impact was the exit of a significant amount of non-strategic OEM shredder business in North America that resulted in no sales in the first half of 2017.

Consistent with the strategy, Floor Care has been streamlining operations by reducing legacy overhead, focusing to win in cordless, highly selective technically advanced corded products and commercial cleaning.

Encouragingly, two key markets, Canada and ANZ, grew impressively in the first half which bodes well for the new Floor Care strategy worldwide. Another highlight was the strong performance of the revitalized Dirt Devil business and the strong cordless stick vac POS for both Hoover and Dirt Devil in the US. The strong POS is not fully reflected in the North American results, but instills confidence that the new products will drive growth.

Floor Care is deploying a strategic plan designed to transform and revitalize the business into a global cordless leader. The market for cordless floor care products is growing dramatically and the business intends to be positioned in the vanguard of this generational transition. In fact, Floor Care cordless sales were up in the first half. The global floor care market is experiencing dramatic growth in cordless. The business looks forward to the continued launch of new products in the second half of this year and into 2018.

Outlook

After delivering another record first half performance, TTI enters the second half with continued strong momentum. The MILWAUKEE industrial business is gaining penetration into core end user groups through the constant flow of innovative technologies in FUEL, M12 and M18 cordless systems, accessories, and hand tools. The Consumer and Professional Tools and Outdoor Products businesses are expanding user demand under the highly-respected RYOBI and AEG brands through leading cordless platforms like the RYOBI ONE+ system. The Floor Care business, with its strong brand portfolio, is seeing encouraging progress with the rollout of the revitalized strategic product plan. TTI's high speed new product development system will continue to deliver product innovations.

The strategy of driving cordless products and relentless geographic expansion is yielding exciting results. TTI has the brands, people, and business processes in place to take it to the next level. The unrelenting focus on the TTI strategic foundation of powerful brands, innovative products, operational excellence, and exceptional people will continue delivering growth and driving profitability in the second half and years to come.

Recent Developments

No important events affecting the Group have occurred since June 30, 2017 that are material or otherwise require disclosure or commentary.

Financial Review

Financial Results

Reported revenue for the period grew by 7.3% as compared to the same period last year, amounting to US\$2,882 million, with negative currency headwind. Excluding the negative currency effect, revenue increased by 8.1% as compared to the same period last year. Profit attributable to Owners of the Company amounted to US\$204 million as compared to US\$177 million reported last year, an increase of 15.5%. Basic earnings per share was at US11.17 cents (2016: US9.69 cents).

EBITDA amounted to US\$333 million, an increase of 13.7% as compared to the US\$293 million reported in the same period last year.

EBIT amounted to US\$233 million, an increase of 15.4% as compared to the US\$201 million reported in the same period last year.

Result Analysis

Gross Margin

Gross margin improved to 36.6% as compared to 36.1% in the same period 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 period amounted to US\$826 million as compared to US\$770 million reported for the same period last year, representing 28.7% of revenue (2016: 28.7%). The increase was mainly due to the strategic spend on advertising and promotion on new products.

Investment in product design and development amounted to US\$77 million (2016: US\$71 million), representing 2.7% of revenue (2016: 2.6%), reflecting our continuous strive for innovation. We will continue to invest in breakthrough technology and deliver broad based 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\$9.1 million as compared to US\$8.0 million reported for the same period last year, representing 0.3% of revenue (2016: 0.3%). Interest cover, expressed as a multiple of EBITDA to total interest was at 26.6 times (2016: 24.5 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\$2.5 billion, an increase of 5.5% as compared to December 31, 2016. Book value per share was US\$1.38 as compared to US\$1.31 at December 31, 2016, an increase of 5.3%.

Financial Position

The Group continued to maintain a strong financial position. As at June 30, 2017, the Group's cash and cash equivalents amounted to US\$816 million (US\$803 million at December 31, 2016) after the payment of US\$70.8 million dividend during the period (US\$54.9 million in first half 2016), of which 50.0%, 23.4%, 13.7%, and 12.9% were denominated in US\$, RMB, 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 8.8% as compared to 16.0% as at June 30, 2016. The gearing improvement is the result of very disciplined and focused management over working capital and healthy cash flow generation. The Group remains confident that gearing will remain low going forward.

Bank Borrowings

Long term borrowing accounted for 52.1% of total debts (52.8% at December 31, 2016).

The Group's major borrowings continued to be in US\$ and HK\$. 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.

Working Capital

Total inventory was at US\$1,415 million as compared to US\$1,341 million as at June 30, 2016. The number of days inventory was at 88 days as compared to 91 days for same period last year. 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 on managing the inventory level and improve inventory turns.

Trade receivables turnover days were at 69 days as compared to 64 days as at June 30, 2016. Excluding the gross up of the receivables factored which is without recourse in nature, receivables turnover days was at 65 days as compared to 60 days as at June 30, 2016. The increase in days were mainly because of the timing of the shipments and is not related to the quality of the receivables. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing credit exposure.

Trade payables days increased to 87 days as compared to 86 days as at June 30, 2016.

Working capital as a percentage of sales was at 19.1% as compared to 18.8% for the same period of last year.

Capital Expenditures

Total capital expenditures for the period amounted to US\$72 million (2016: US\$81 million).

Capital Commitments and Contingent Liabilities

As at June 30, 2017, total capital commitments for the acquisition of property, plant and equipment contracted for but not provided amounted to US\$28 million (2016: US\$37 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 21,857 employees (21,288 employees as at June 30, 2016) in Hong Kong and overseas. Total staff cost for the period under review amounted to US\$465 million as compared to US\$408 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 HK27.75 cents (approximately US3.57 cents) (2016: HK20.00 cents (approximately US2.57 cents)) per share for the six-month period ended June 30, 2017. The interim dividend will be paid to shareholders listed on the register of members of the Company on September 8, 2017. It is expected that the interim dividend will be paid on or about September 22, 2017.

Closure of Register of Members

The register of members of the Company will be closed from September 7, 2017 to September 8, 2017, both days inclusive, during which period no transfer 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 6, 2017.