Results Analysis

Strong core business growth and acquisitions equally contributed to 55.6% year-on-year growth in turnover. Excluding the acquisitions, the Group's core business accounted for over half of the Group's revenue growth. With improvements in margins, net profit increased by 71.1% despite a certain dilution effect on earnings from the newly acquired operations. Return on shareholders' funds also improved to 22.7% as compared to 21.6% in 2001.

	2002 HK$ m	2001 HK$ m	2000 HK$ m
Turnover	9,493	6,101	4,551
Gross profit	2,467	1,507	967
Gross profit margin	26.0%	24.7%	21.2%
Other operating income	69	41	31
Selling, distribution and advertising	795	516	296
Research and Development	112	80	39
Administrative Expenses	1,054	596	375
Operating Profit	575	356	288
Operating Margin	6.1%	5.8%	6.3%

Cost Structure As the Group transforms from an OEM/ODM manufacturer to a brand owner and expands its business, its income and cost structure has changed. The Group is benefiting from the economies of scale and additional wholesale margins. The wider scope of businesses has, however, resulted in a larger cost base and exposure to international taxation. Although the majority of the businesses acquired during the past three years had lower operating margins than TTI, potentially diluting the Group's consolidated operating margins, through effective integration, restructuring and cost control, the Group's operating margin has improved from 5.8% in 2001 to 6.1%.

The Group will continue to implement rationalisation programmes and leverage the substantial increase in business volumes to improve cost efficiencies.

Gross Margin Gross margin again improved during the year, from 24.7% in 2001 to 26.0%. Since the newly acquired operations had lower gross margins than the existing core businesses, the improvement shows that the Group improved overall manufacturing margins through economies of scale, leveraging the expanded business volume with new products launched during the year. Gross margin is expected to improve further as we restructure the cost base of the new businesses and launch additional products.

Research and Development and Advertising Expense The Group remained very focused on new product design and development, which we believe is the driving force for revenue growth and margin enhancement. During the year, the Group spent HK$112 million, approximately 1.2% of revenue, on R&D. Since the Group's turnover increased, advertising and promotion expenses represented approximately 4.4% of revenue, slightly lower than the 4.8% spent in 2001 despite the increase in brands, product categories and markets.

Administrative Expenses The increase in administrative expenses was mainly due to the consolidation of the newly acquired businesses, which have higher cost structures than the Group's existing businesses, as well as a 194.0% increase in warranty provisions from HK$27 million in 2001 to HK$79 million in 2002 as a result of increased brand sales and expanded product categories.

Excluding expenses from the operations acquired and the warranty, administrative expenses increased in line with turnover.

Taxation The effective tax rate for the year was approximately 14.3% as compared to 8.7% in 2001. The increase came from the improvements in performance recorded in the higher tax jurisdictions compared to the previous year. Following the restructuring of the Group's loan portfolio, the Group can now be more pro-active in global tax planning and improve its effective tax rate.

Liquidity and Financial Resources

Shareholders' Funds Total shareholders' funds increased from HK$1,103 million at 31st December 2001 to HK$1,801 million at 31st December 2002. The improvement is mainly due to the share placement arranged during the year together with profit retained for the full year. Despite the increase in the number of shares in issue following the placement, net tangible assets per share amounted to HK$2.56 per share, an increase of 39.9% as compared to the HK$1.83 per share reported in 2001.

Bank Borrowings Total bank borrowings at 31st December 2002 amounted to HK$1.3 billion compared to HK$893 million for 2001. The increase reflects the medium term loan arranged for the Homelite acquisition together with certain loans taken over during the year from the acquired businesses. Bank balances and cash, however, increased nearly two-fold. The term loans have maturities ranging from three to five years and are all in US Dollars and LIBOR based.

The Group intends to replace its medium term loans with long term fixed interest rate borrowings, locking in the current historically low interest rates by way of a private placement of a US dollar fixed coupon note with an average life of over seven years. As the majority of the Group's revenue is in US Dollars, the effect of any exchange rate fluctuation is expected to be minimal.

Following the note issue, the Group will have a well-structured debt portfolio and a healthy financial base, putting it in a strong position to obtain favorable financing terms.

Financial Position As at 31st December 2002, the Group is in a net cash position as compared to the gearing ratio of 54.9% reported for 2001. The Group's gearing is expected to increase upon the completion of the acquisition of Royal by the second quarter of 2003, but will reduce by year end.

Net interest expense amounted to HK$70.2 million for the year. Despite the increase in the scale of operations and the various acquisitions net interest expense was lower than that of 2001 at HK$76.6 million, reflecting lower interest rate environment and efficient working capital management. Interest cover, expressed as a multiple of profit before interest and taxation over total net interest expenses was at 7.8 times as compared to 4.4 times in 2001.

Capital Expenditure Capital expenditure for the year, apart from acquisitions, amounted to HK$241 million and was in line with our guideline that the amount be matched by the depreciation charged for year of HK$263 million.

Cash Flow Cash and cash equivalents increased by HK$1.17 billion, against HK$586 million cash increase in 2001. The increase was mainly due to the free cash flow generated from operating activities, proceeds from share placements and higher bank borrowing.

Net cash generated from operations amounted to HK$832.8 million, slightly lower than that of 2001, mainly due to the increase in inventory levels and trade receivable amounts resulting from higher business volumes and businesses acquired during the year. Inventory turnover, however, improved from 50 days to 46 days, while average trade debtor turnover days remained comparable to the previous year at about 33 days. Average creditor days were at 92 days as compared to 80 days in 2001.

The Group will continue to focus in improving its cost structure and working capital efficiency.

Placing of New Shares On 28th April 2002, the Group raised approximately HK$367 million by placing 60 million new shares to independent investors at a price of HK$6.275 per share. The placement provided the Group with sufficient funding to support its global brands and put it in a strong financial position to acquire Royal. The new shares issued represented approximately 10.3% of the Group's issued share capital immediately before the placement and approximately 9.3% of the enlarged issued share capital.

Acquisitions As part of its global brand building strategy, the Group during the year acquired several major home improvement brands. Through these acquisitions, the Group has expanded globally each of its three core businesses downstream from manufacturing to wholesaling and marketing.

The Homelite acquisition, for which we entered into an agreement in November 2001, was completed during the year. The consideration was US$17.1 million (HK$133.6 million) in cash. In February 2002, the Group acquired the Ryobi power tool and outdoor power equipment business in Australia and New Zealand at a total consideration of AUD$5.9 million (HK$23.7 million). The integration and consolidation of these operations were completed.

On 17th December 2002, the Group entered into an agreement with Royal to offer all shareholders of the company US$7.37 (HK$57.49) per share in cash, representing a total purchase price of approximately US$105 million (HK$819 million). The transaction was approved by the Group's shareholders and Royal's shareholders on 31st March and subject to approval on 22nd April 2003 respectively. Royal has been a major floor care customer of the Group since 1995. TTI's sales to Royal in 2002 were approximately HK$416 million. Royal will continue to be led by its existing management team. As with the previous Ryobi and Homelite acquisitions, the Group's management anticipates a smooth vertical integration that will create synergies which will create a highly efficient and competitive global supply chain.

The acquisitions in 2002 in aggregate, incurred goodwill of approximately HK$ 87.1 million. The goodwill will be amortised over its useful economic life ranges from 9 to 20 years, while the negative goodwill will be recognized over the remaining average useful life of a period of 11 years.

Major Customers and Suppliers

For the year ended 31st December 2002:

i. The Group's largest customer and five largest customers accounted for approximately 41.2% and 74.5% respectively of the Group's total turnover.

ii. The Group's largest supplier and five largest suppliers accounted for approximately 5.2% and 18.0% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

According to the knowledge of the directors, 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.