MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Results

Result Analysis

The Group reported a 37.1% growth in turnover to HK$22.36 billion for the year as compared to HK$16.30 billion reported last year. Net profit amounted to HK$1,019 million, an increase of 10.0% on HK$926 million reported in 2004.

EBITDA increased by 33.6% to HK$1.99 billion, representing a margin of 8.9%. Included in the EBITDA were non-recurring restructuring charges of HK$62 million. Excluding these non-recurring charges, EBITDA margin was at 9.2%, improved from 9.1% in 2004.

Basic earnings per share were at HK73.53 cents after accounted for the dilution effect of the placement of 96 million new shares on 8th September, 2005 as compared to HK69.28 cents in 2004, as restated.

Gross Margin

Gross margin continued to improve to 31.0% as compared to 30.3% reported last year despite continual pricing pressure on raw materials during the year. The improvement was the result of favorable product portfolio, introduction of new products from current and newly acquired business and continuous cost improvement programs at all levels within the Group.

Selling, Distribution, Advertising and Warranty Expenses

Selling, distribution, advertising and warranty expenses efficiency improved from 11.8% of turnover in 2004 to 11.3% for the period under review. The improvement was contributed by the cost synergies created from the integration of the newly acquired operations and further rationalization of the Group's cost structure.

The Group's own brand business now accounted for 80.0% of total turnover as compared to 72.2% reported last year. This is in line with the Group's long-term strategy to increase its own brand business.

Research and Development Expenses

Product innovation remains the Group's major focus to sustain growth momentum and to enhance profitability. In 2005, the Group invested HK$492 million, representing 2.2% of turnover, as compared to HK$339 million, or 2.1% of turnover in 2004.

Administrative Expenses

Administrative expenses increased by HK$892 million to HK$2,443 million, representing 10.9% of 2005 turnover as compared to 9.5% in 2004. The increase was mainly due to the full year consolidation of the acquired operations in 2005, which were less efficient than the Group's existing business. Included in the expenses were non-recurring restructuring charges as we began the relocation and integration of the Milwaukee® and AEG® production operations to the Group's China plants. The charges amounted to HK$62 million in 2005. The relocation and integration will create additional savings and synergies which will commence to accrue from 2006 onwards, and will result in improvement of margins in relation to such products transferred and overall efficiency and cost improvements within the Group.

Taxation

Effective tax rate for the year was 13.0% compared to 10.1% in 2004 as a result of the profits generated from higher tax jurisdiction and acquisition. The Group will continue to focus on improving tax efficiencies.

Bank Borrowings

The Group continues to maintain a well balanced and carefully structured loan portfolio to support its long-term growth strategy and is also able to secure additional financing at favorable terms. Taking advantage of the low interest rate environment, the Group tapped into the capital market with two transactions in first quarter 2005 through its wholly owned entity in the United States. The Group placed US$200 million fixed interest rate Notes in two tranches, of US$150 million for 10 years at 5.44% per annum, and US$50 million for 7 years at 5.17% per annum, with private investors in the United States. Another US$200 million LIBOR-based floating rate transferable term loan was arranged through an elite group of financial institutions for a 3-year period extendable to 5 years. Both issues received overwhelming support and were successfully placed in March 2005. The proceeds were used to refinance existing bank borrowings.

Foreign Exchange Risk Management

The Group's major borrowings including the ones issued during the period are in US Dollars and HK Dollars. Other than the fixed interest rate Notes, all borrowings are either LIBOR or Hong Kong best lending rates based. As the Group's major revenues are in US Dollars, there is a natural hedge mechanism in place and currency exposure is relatively low. To enhance overall risk management for its expansion, the Group had already strengthened its treasury management capability and will closely monitor and manage its currency and interest rate exposure.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to HK$6,112 million as at 31st December, 2005, representing an increase of over 77.0% from HK$3,454 million as reported last year. Book value per share, after the share placement and options exercised during the year, increased from HK$2.55 to HK$4.18.

Financial Position

As at 31st December, 2005, the Group's net gearing expressed as a percentage of total net borrowing to equity attributable to shareholders of the Company was at 68.3% (2004 as restated : 32.1%). The change was a result of the Milwaukee®, AEG® and Drebo® acquisitions which was fully funded by both internal resources and borrowing.

Net interest expenses amounted to HK$293 million, an increase of HK$195 million as compared to same period last year. The increase was due to additional borrowings for acquisition, expanded operation and the effective interest expense, a non-cash item, on the liability component of the convertible bonds in accordance with HKAS39. Interest coverage, expressed as a multiple of EBIT to total net interest remained at a healthy level of 5.0 times (2004 as restated : 11.6 times).

Working Capital

The Group's net current assets increased by HK$1.06 billion to HK$4.89 billion as compared to last year. Current ratio further improved to 1.66 from 1.49 in 2004.

Total inventory value increased by HK$1.18 billion as a result of the acquisition completed at the beginning of the year. Average inventory days improved by 4 days from 59 days to 55 days. Average finished goods inventory days improved from 42 days to 38 days while raw material and work in progress turnover days remained stable at 17 days. The effect of the inventory re-alignment program by the Group's major customers had no negative impact on the inventory level as the Group manages a very flexible and efficient procurement and manufacturing operation.

Trade receivables turnover period improved by 7 days from 53 days to 46 days. The Group did not experience any material bad debts that required writing off in 2005.

Trade and other payable days were at 53 days as compared to 56 days last year.

Capital Expenditure

Capital expenditure for the year amounted to HK$597 million. Excluding the land acquired for the China plant expansion, the capital expenditure during the year on operating assets was in line with the group's capital appropriation guidelines.

Capital Commitment and Contingent Liability

As at 31st December, 2005, total capital commitment amounted to HK$269 million (2004 : HK$154 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 any encumbrance.

Acquisition

The Group completed the purchase from Atlas Copco AB ("ATCO") all of ATCO's electric power tools and accessories business ("the Business") conducted under the brand names "Milwaukee®" and "AEG® " as well as "DreBo® " accessories businesses, ("the Acquired Companies"), with unanimous approval by all the shareholders present in person or by proxy at the Company's Extraordinary General Meeting on 3rd January, 2005.

The purchase price for the Business, which was paid in cash at the closing of the transaction, was US$627 million (approximately HK$4,887 million), consisting of the pre-adjustment purchase price of US$713 million (approximately HK$5,560 million), reduced by an agreed pre-closing adjustment of US$86 million (approximately HK$672 million) in respect of a portion of the accrued and unfunded post-retirement liabilities of certain of the Acquired Companies and adjustments with respect to related deferred asset accounts and to certain accruals. The purchase price was calculated on the basis of the Acquired Companies having no indebtedness or cash and their net tangible assets (excluding, among other things, cash and amounts in respect of pre-agreed adjustments) being US$285 million (approximately HK$2,223 million). On 31st October, 2005, the Group and ATCO concluded that there will be no adjustments to the purchase price and the acquisition completed.

The acquisition strengthens the Group's brand profile, product offerings and distribution network in the global power tool industry, particularly in the US and Europe.

The Group is moving forward with its integration plans to reap the synergistic benefits in engineering, manufacturing and the supply chain for our operations. Leveraging the strengths of the combined business, the Group will be able to compete more effectively in the global power tool industry and to further enhance its leadership position.

New Shares Placement

On 8th September, 2005, the Group placed an aggregate of 96 million shares to independent investors at a price of HK$19.25 per share. The new shares placed represented approximately 7.05% of the issued share capital of the Company of 1,361,898,652 shares at the date of placement and approximately 6.58% of the issued capital of the Company of 1,457,898,652 shares as enlarged by the placement.

The net proceeds approximated to HK$1,815 million have been used to repay existing debts and for general working capital purposes.

Major Customers and Suppliers

For the year ended 31st December, 2005

i. The Group's largest customer and five largest customers accounted for approximately 36.8% and 52.4% respectively of the Group's total turnover.

ii. The Group's largest supplier and five largest suppliers accounted for approximately 2.7% and 12.1% 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.

Human Resources

The Group employed a total of 22,053 employees (2004: 21,549 employees) in Hong Kong and overseas. Total staff costs for the period under review amounted to HK$2,533 million as compared to HK$1,390 million same period last year. The increase was due to the expansion of the Group's operations and the newly acquired business.

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 and bonuses to eligible staff, based on the performance of the Group and the individual employee.

Purchase, Sales or Redemption of Shares

There has been no purchase, sales or redemption of shares of the Company by the Company or any of its subsidiaries during the year.

Audit Committee

An Audit Committee was established in 1999, and on 11th April, 2006 the Board adopted written terms of reference for the role and function of the Audit Committee, which are published on the Group's website (www.ttigroup.com). The role and function of the Audit Committee is to assist the Board to ensure that an effective system of internal control and compliance with the Group's obligations under the Listing Rules and other applicable laws and regulations is in place, and to oversee the integrity of the financial statements of the Group.

The Audit Committee is comprised of the Board's three independent Non-executive Directors, and is chaired by Mr Joel Arthur Schleicher. All members of the Audit Committee have professional, financial or accounting qualifications.

Review of Financial Statements

The Audit Committee has reviewed with senior management of the Group and the Group’s external auditors, Messrs. Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31st December, 2005. The Board of Directors of the Company (the “Board”) acknowledges its responsibility for the preparation of the accounts of the Group.

Code on Corporate Governance Practices

The Group confirms that it has complied with all material provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, save that:

1. The roles of Chairman and the Chief Executive Officer are both performed by Mr Horst Julius Pudwill. The Group does not currently propose to separate the functions of Chairman and Chief Executive Officer, as both the Board and senior management of the Group has significantly benefited from the leadership, support and experience of Mr Pudwill.

2. The Board formally adopted written procedures on 11th April, 2006 to govern the delegation of daily management responsibilities to the senior management of the Group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the Group. The work of the Audit Committee will include reviewing on an ongoing basis the Group’s internal controls and the delegation and reporting procedures between the Board and senior management.

3. None of the Directors is appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of TTI. Under Article 103 of the Articles of Association of TTI, one third of the Board must retire by rotation at each Annual General Meeting and, if eligible, offer themselves for re-election.

Model Code for Securities Transactions by Directors

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Group confirms that, after specific enquiry with each Director, all Directors have confirmed compliance with the Model Code. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code, that applies to securities transactions of all relevant employees who may be in possession of unpublished price-sensitive information in relation to the Group's shares, and which is now published on the Group's website (www.ttigroup.com).

Dividend

The Directors recommend a final dividend of HK12.60 cents per share. Subject to the approval of the shareholders at the Annual General Meeting to be held on 22nd May, 2006. The final dividend will be paid to shareholders listed on the register of members of the Company on 16th June, 2006. It is expected that the final dividend will be paid on or about 28th July, 2006. This payment together with the interim dividend of HK6.00 cents per share paid on 30th September, 2005, makes a total payment of HK18.60 cents per share for 2005.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 12th June, 2006 to Friday, 16th June, 2006, both days inclusive. In order to qualify for the final dividend to be approved at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00p.m. on Friday, 9th June, 2006.

Dividend warrants will be despatched on or around 28th July, 2006 subject to shareholders' approval of payment of the final dividend having been obtained at the Annual General Meeting.