Management's Discussion and Analysis

Financial Results

Result Analysis

The Group's turnover for the year was at HK$21.82 billion, 2.39% lower than the HK$22.36 billion reported last year. Profit attributable to equity holders of the parent amounted to HK$1,072 million, an increase of 5.19% on HK$1,019 million reported in 2005, with margin improved to 4.91% compared to 4.56% last year.

EBITDA increased by 5.49% to HK$2.10 billion, representing a margin of 9.61% as compared to the 8.90% reported last year. EBIT margin also improved to 7.13% as compared to 6.57% in 2005.

Basic earnings per share for the year, having accounted for the full dilution effect of the share placement in September 2005 was at HK73.18 cents per share, marginally lower than HK73.53 cents reported in 2005.

Gross Margin

Despite the continuous increase in raw material and component costs, gross margin continued to improve to 31.59% as compared to 31.05% reported last year. The improvement was the result of the Group's focused strategy of introducing a constant supply of new products to the market, favorable product mix and leveraging on the expanded volume of business and the results of the continuous cost improvement programs at all levels within the Group.

Operating Expenses

Selling, distribution, advertising and warranty expenses remained comparable to that of last year at HK$2,530 million (2005: HK$2,538 million). Improvements as a result of synergies created amongst various newly acquired operations through integration and cost rationalization were partially offset by higher advertising and promotion spending during the year.

The Group's own brand business continues to account for 80.24% (2005: 79.96%) of total turnover. The long term strategy of the Group remains focused on developing and expanding its own brand business.

Investments in product design and development amounted to HK$428 million representing 1.96% (2005: 2.20%) of the Group's turnover, reflecting the efficiency improvements from the consolidated, effectively structured R&D resources.

Administrative expenses reduced by HK$29 million, an improvement of 1.18%. The improvement was mainly due to the synergies created with the acquired Milwaukee® and AEG® operations together with effective continuous cost improvement programs within the Group.

Net interest expenses for the year amounted to HK$300 million as compared to HK$293 million in 2005, an increase of only 2.58%. The increase was mainly due to full interest costs for the loans arranged for the acquisition for the year whereas only 9 months of interest was charged in 2005, and the overall increase in interest rates. Interest coverage, expressed as multiple of earnings before interest and tax to total net interest, remained at a healthy level of 5.18 times (2005: 5.02 times).

Effective tax rate for the year was at 14.57% as compared to 12.96% in 2005. The Group will continue to leverage its global operations to further improve the overall tax efficiencies.

The Group's major borrowings are in US Dollars and HK Dollars. Other than the fixed interest rate notes and the zero coupon convertible bonds outstanding, all borrowings are either LIBOR or Hong Kong best lending rates based. There is a natural hedge mechanism in place as the Group's major revenue are in US Dollars and currency exposure is relatively low. The Group's treasury team will continue to closely monitor and manage its currency and interest rate exposure.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to HK$7.00 billion as compared to HK$6.11 billion in 2005, representing an increase of 14.47%. Book value per share increased to HK$4.78 as compared to HK$4.18 as reported last year.

Financial Position

The Group's net gearing, expressed as a percentage of total net borrowing to equity attributable to equity holders of the parent was at 74.14%, improved from the 76.24% as reported in 30th June, 2006. The net gearing was higher than the 68.31% in 2005, mainly due to a more challenging market condition than expected in the second half of the year. The Group however remains comfortable even at this gearing level and expects continuous improvements through the successful integration of various operations and a focus on working capital management.

Bank Borrowings

The Group continues to maintain a well balanced and structured loan portfolio. We benefited from its fixed interest rate exposure through the fixed rate notes issued in 2003 and 2005 and other long-term borrowings, which account for 62.54% of the Group's total borrowing. The Group is comfortable with the current position to support its long-term growth strategy.

Working Capital

The Group's net current assets increased by 16.60% to HK$5.64 billion. Current ratio and quick ratio further improved to 1.78 (2005: 1.66) and 1.22 (2005: 1.12) respectively.

Total inventory value increased by 1.23% to HK$4.02 billion. Average inventory days increased by 12 days, the increase in number of days was because of higher finished goods inventory at balance sheet date due to shipment and deliveries arrangements. A major portion of the finished goods inventory was delivered in early 2007.

Trade receivables turnover days increased by 8 days due to the increased volume of business in Europe, which normally carries a longer credit term. The Group has evaluated the quality of the customer portfolio and remains comfortable with the quality of the trade receivables carried.

Average trade and other payables days increased to 56 days (2005: 53 days).

Capital Expenditure

Capital expenditure for the year amounted to HK$473 million. Excluding the factory expansion plan in China, the capital expenditure during the year on operating assets was in line with the Group's capital appropriate guideline.

Capital Commitments and Contingent Liabilities

As of 31st December, 2006, total capital commitment amounted to HK$620 million (2005: HK$269 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.

Acquisition

On 7th December, 2006, the Directors announced that the Company on, 6th December, 2006, (US Eastern Standard Time) entered into the conditional Purchase and Sale Agreement ("PSA") to purchase the Hoover® floor care business from certain subsidiaries of Whirlpool Corporation. The total consideration for the purchase of the Hoover® assets and two operating subsidiaries consists of the payment of US$107 million (approximately HK$831 million) in cash to Maytag Corporation (on behalf of itself and the other sellers).

To effect the purchase of the Hoover® floor care business, the Company will assume certain assumed obligations as they exist at the closing date. Based on unaudited financial information provided by Whirlpool Corporation as of 30th September, 2006, the assumed obligations were approximately US$128 million (approximately HK$994 million) (consisting of approximately US$74 million (approximately HK$577 million) of accounts payable and other accrued liabilities, and approximately US$54 million (approximately HK$417 million) of long-term post-retirement medical and life insurance benefits for the transferred employees which shall be payable over the lifetime of such employees).

The total unaudited asset value of the Hoover® floor care business as of 30th September, 2006 was approximately US$354 million (approximately HK$2,747 million).

All of the conditions set out in the PSA have been fulfilled as per our announcement dated 30th January, 2007 and the transaction was completed on 31st January, 2007, and was fully settled at the closing of the transaction by internal resources.

The Directors believe that the acquisition of the Hoover® floor care business will enable the Company to enhance its position in the floor care industry on a worldwide basis. Through this acquisition, the Company will acquire Hoover®'s strong brand name, as well as its comprehensive line of products for general and special purpose vacuuming, including full-size uprights and canisters, deep cleaners, and hard-floor cleaners. The Directors believe that the engineering and design capability of Hoover® can be leveraged across the Company's existing product portfolio. The Company expects to benefit from many operational synergies and efficiencies through the combination of Hoover® with its Royal® and Dirt Devil® business and technological synergies through the combination of their patent portfolios and able engineering staffs. These, in conjunction with the Company's efficient manufacturing platform, are expected to strengthen and expand the Hoover® brand throughout the international markets in which it competes.

The Group is already preparing aggressive plans to integrate the business to reap the synergies as described above.

Major Customers and Suppliers

For the year ended 31st December, 2006

(i) the Group's largest customer and five largest customers accounted for approximately 35.61% and 49.95% respectively of the Group's total turnover; and

(ii) the Group's largest supplier and five largest suppliers accounted for approximately 2.75% and 12.07% 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 of the Group.

Human Resources

The Group employed a total of 20,679 employees (2005: 22,053 employees) in Hong Kong and overseas. Total staff cost for the year under review amounted to HK$2,456 million as compared to HK$2,533 million last year.

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed in improving the quality, competence and skills of all employees and in providing related training and leadership development programs. The Group offers competitive remuneration packages, discretionary share options and bonuses to eligible staff, based on the performance of the Group and the individual employee.

Purchase, Sale or Redemption of Shares

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

Audit Committee

An Audit Committee of the Board (the "Audit Committee") was established in 1999 and on 11th April, 2006, the Board of Directors of the Company (the "Board") adopted written terms of reference for the role and function of the Audit Committee and published these on the Company's website, www.ttigroup.com. The role and function of the Audit Committee is to assist the Board in ensuring 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 Company.

The Audit Committee is comprised of three Independent Non-executive Directors of the Company, namely Mr Joel Arthur Schleicher (Chairman), Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann. All members of the Audit Committee have professional, financial, or accounting qualifications.

Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Company and has discussed internal controls and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31st December, 2006. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Compliance with the Model Code of the Listing Rules

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 Company confirms that, after specific enquiry with each Director, all Directors have confirmed compliance with the Model Code during the year ended 31st December, 2006. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code, which applies to securities transactions of all relevant employees who may be in possession of unpublished price-sensitive information in relation to the Company's shares, and which has been published on the Company's website, www.ttigroup.com.

Dividend

The Directors have recommended a final dividend of HK12.60 cents per share for the year ended 31st December, 2006 (2005: HK12.60 cents) payable to the Company's shareholders whose names appear on the register of members of the Company on 29th May, 2007. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about 5th July, 2007. This payment, together with the interim dividend of HK6.50 cents per share (2005: HK6.00 cents) paid on 28th September, 2006, makes a total payment of HK19.10 cents per share for 2006 (2005: HK18.60 cents).

Closure of Register of Members

The register of members of the Company will be closed from Friday, 25th May, 2007 to Tuesday, 29th May, 2007, both days inclusive. In order to qualify for the proposed final dividend, 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 4:00 p.m. on Wednesday, 23rd May, 2007.