

Management's Discussion and Analysis

REVIEW OF OPERATIONS

Power Equipment

The TTI Power Equipment segment delivered sales of US\$12.8 billion in 2023, up 3.8% in reported currency and up 4.1% in local currency.

MILWAUKEE

Our flagship MILWAUKEE business grew 10.7% in local currency with reported sales up 10.3%. All our MILWAUKEE growth categories performed well, with the Hand Tools, PACKOUT Storage, and Personal Protective Equipment (PPE) businesses outperforming the fleet average. In local currency, North America grew 9.9%, Europe delivered 13.7% growth and Rest of World delivered 13.0% growth.

MILWAUKEE significantly expanded its market leadership position in 2023 with the launch of our MILWAUKEE FORGE battery technology. MILWAUKEE pioneered lithium-ion batteries in the power tool industry in 2005. Since then, we have relentlessly advanced this state-of-the-art cell technology. The RED LITHIUM MILWAUKEE FORGE batteries, used in conjunction with the advanced electronics in our MILWAUKEE Superchargers, can reach 80% charge in 15 minutes or less. This advancement significantly boosts productivity for our users on the jobsite and is just another example of demonstrably better product that commands a price premium. This is part of our virtuous cycle of developing innovative products with an accretive gross margin, which funds strategic SG&A investment to drive sales and further gross margin improvement.

Our industry-leading MILWAUKEE M18 platform now contains 284 products for users in verticals like Infrastructure, Construction, Power Utility, Renewable Energy, Mining, Data-Com, and Transportation Maintenance, to name just a few. The MILWAUKEE M18 Strut Shear, commonly used in the Infrastructure vertical, is one example of breakthrough cordless innovation that allows users to make high quality cuts on the jobsite, saving time and energy versus the hydraulic competition.

MILWAUKEE continues to invest in the sub-compact MILWAUKEE M12 system which now features 153 products. The recently launched MILWAUKEE M12 Auto Technician Borescope is an example of a new product intended for users in the expanding Transportation Maintenance vertical.

At the recent World of Concrete event in Las Vegas, Nevada, we announced the addition of 5 MILWAUKEE MX FUEL Light Equipment products, bringing the total of this system to 23. All products, from the MX FUEL RAMMER to the MX FUEL HIGH CYCLE BACKPACK CONCRETE VIBRATOR, were extremely well received. We are at the beginning of our buildout of the MILWAUKEE MX FUEL Light Equipment platform, and this system holds massive future growth potential.

Our MILWAUKEE Hand Tool business continues to grow at impressive rates. This year we launched a range of Made-in-USA electrician's hand tools manufactured in West Bend, Wisconsin. Pliers manufactured in the factory are forged for strength and each cutting edge is laser hardened for long life. Screwdrivers made in our West Bend factory feature patent pending laser etched tips that provide superior grip when fastening.

MILWAUKEE PACKOUT modular storage solutions continue to perform well with end-users. This system now contains 102 interchangeable products that have changed the way professionals transport materials from the jobsite to their vehicles, and to their shops. MILWAUKEE PACKOUT is another example of the success of the network effect at TTI. Like our battery platforms, when we add additional products to the MILWAUKEE PACKOUT system, it enhances the value of the network overall and increases the loyalty of end users already in the system.

Our MILWAUKEE Personal Protective Equipment (PPE) product line continues to gain end-user support and adoption. The innovation within our MILWAUKEE BOLT hard hat and helmet system allows users to customize safety equipment to their specific jobsite needs. With the addition of the MILWAUKEE BOLT compatible Personal Cooling Solutions, this system now contains 49 interchangeable accessories.

RYOBI

Our Consumer Power Equipment business improved in the second half of 2023, led by the strength of our RYOBI brand worldwide. The actions we have taken to size the SG&A and overhead structure of this business to support our DIY growth projections, will allow us to continue to improve profitability in 2024 and beyond.

We are extremely excited to announce the launch of our new RYOBI 18V LITHIUM HP EDGE Batteries. A combination of advanced lithium cell designs and onboard electronics enable these new batteries to enhance the performance of all our existing tools and take the RYOBI ONE+ system to a whole new level of performance.

The RYOBI 18V ONE+ platform now contains 307 products with 186 Power Tools, 89 Outdoor, and 32 Cleaning products. In 2023, we introduced the new RYOBI 18V ONE+ HP AIRSTRIKE Framing Nailer. The performance capability of the new cordless framing nailer showcases our cordless innovation, allowing users to get the performance they need without the compressors, air hoses or gas cartridges of legacy competitors.

The RYOBI 40V platform powers 91 products including our 21inch RYOBI WHISPER Series Mower. This mower is one of many RYOBI products leading the outdoor power equipment industry towards battery-powered cordless solutions. The transition to cordless is increasingly gaining traction as many jurisdictions are beginning to regulate noise and carbon emissions. As an example, in the

United States, the state of Colorado is encouraging cordless adoption by offering consumer rebates for purchasing cordless outdoor power equipment. We are working with our partners to maximize this user conversion opportunity.

Our RYOBI USB LITHIUM series provides compact, portable, rechargeable solutions that are perfect for day-to-day use. Offering a variety of products, from ratchets for household assembly projects, to clamp fans and other products for hobby and craft enthusiasts, this system is rapidly gaining traction. The USB LITHIUM system will have over 23 products by June 2024.

Floorcare & Cleaning

Our Floorcare and Cleaning business delivered sales growth in 2023 of 1.5% in local currency to US\$937 million and profit increased US\$65.3 million versus last year to US\$27.2 million. Our streamlined and refocused approach to this business has allowed us to improve profitability, while developing exciting new products. In Q4 2023, we introduced the industry's first cordless Carpet Washer with the launch of the HOOVER ONEPWR SMARTWASH Carpet Washer.

FINANCIAL REVIEW

Financial Results

Result Analysis

The Group's revenue for the year amounted to US\$13.7 billion, an increase of 3.6% as compared to US\$13.3 billion in 2022. Profit attributable to Owners of the Company amounted to US\$976 million as compared to US\$1,077 million in 2022, a decrease of 9.4%. Basic earnings per share for the year was at US53.36 cents as compared to US58.86 cents in 2022.

EBIT amounted to US\$1,135 million, a decrease of 5.5% as compared to US\$1,201 million in 2022.

Gross Margin

Gross margin improved to 39.5% as compared to 39.3% last year. The margin improvement was the result of mix improvements by MILWAUKEE's growth and the high margin aftermarket battery business and accretive innovative new products.

Operating Expenses

Total operating expenses for the year amounted to US\$4,302 million as compared to US\$4,025 million in 2022, representing 31.3% of turnover (2022: 30.4%). The increase was mainly due to our strategic investments and promotional activities to drive inventory reductions and the increase in in-field marketing representatives.

Investments in product design and development amounted to US\$548 million, representing 4.0% of turnover (2022: 3.7%) reflecting our continuous focus on innovation. We will continue to invest in 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 expansion.

Net interest expense for the year amounted to US\$79 million as compared to US\$44 million in 2022, representing 0.6% of turnover (2022: 0.3%). The increase was mainly due to the eleven consecutive interest rate increases since 2022.

The effective tax rate, being tax charged for the year to before tax profits was at 7.5% (2022: 6.9%). The Group will continue to leverage its global operations and align its strategy to manage various tax policies changes globally to further improve overall tax efficiencies.

Liquidity And Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to US\$5.7 billion as compared to US\$5.2 billion in 2022. Book value per share was at US\$3.13 as compared to US\$2.84 last year, an increase of 10.2%.

Financial Position

The Group continued to maintain a strong financial position. As at December 31, 2023, the Group's cash and cash equivalents amounted to US\$953 million (2022: US\$1,429 million), of which 44.6%, 16.2%, 13.8%, and 25.4% were denominated in EUR, US\$, AUD and other currencies respectively.

The Group generated free cash flow of US\$1,281 million for the year as compared to US\$329 million last year. (Free cash flow equals to net cash from operating activities, less purchase of property, plant and equipment, less additions to intangible assets, and add proceeds from disposal of property, plant and equipment).

The Group's net gearing, expressed as a percentage of total net borrowing (excluding bank advance from factored trade receivables which are without recourse in nature) to equity attributable to Owners of the Company, was at 17.1% as compared to 32.1% in 2022.

Bank Borrowings

Long term borrowings accounted for 53.3% of total debts (2022: 38.7%).

The Group's major borrowings continued to be in US\$. Borrowings are predominantly Secured Overnight Financing Rate ("SOFR") based. There is a natural hedge mechanism in place as the Group's major revenues are in US\$ and currency exposure therefore is low. Currency, interest rate exposures, and cash management functions are all being closely monitored and managed by the Group's treasury team.

Amongst the bank borrowings, fixed rate debts after interest rate hedging account for 60.3% of the total bank borrowings, the balance being floating rate debts.

Working Capital

Total inventory was at US\$4,098 million as compared to US\$5,085 million in 2022. Inventory days decreased by 31 days from 140 days to 109 days. The Group will continue to focus on managing the inventory level and improve inventory turns. Raw material inventory decreased by 2 days to 22 days while Finished Goods inventory reduced by 29 days to 84 days when compared to last year.

Trade receivable turnover days were at 45 days as compared to 41 days last year. Excluding the gross up of the receivables factored which are without recourse in nature, receivable turnover days were at 45 days as compared to 40 days last year. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing the credit exposure.

Trade payable days were at 90 days as compared to 104 days in 2022. The reduction in days is mainly due to our prudent procurement strategy in 2023 as we continued to reduce inventory.

Working capital as a percentage of sales was at 17.7% as compared to 21.2% in 2022.

Capital Expenditure

Total capital expenditures for the year amounted to US\$502 million (2022: US\$581 million) representing 3.7% of sales.

Capital Commitments and Guarantees

As at December 31, 2023, total capital commitments for the acquisition of property, plant and equipment and equity interest in a subsidiary contracted for but not provided amounted to US\$178 million (2022: US\$328 million), and there were no material guarantees or off balance sheet obligations.

Charge

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

Major Customers and Suppliers

For the year ended December 31, 2023

- (i) the Group's largest customer and five largest customers accounted for approximately 44.0% and 53.6% respectively of the Group's total revenue; and
- (ii) the Group's largest supplier and five largest suppliers accounted for approximately 7.5% and 17.5% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

As far as the Directors are aware, 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 47,224 employees as at December 31, 2023 (2022: 44,705) in Hong Kong and overseas. Total staff cost for the year under review amounted to US\$2,454 million (2022: US\$2,420 million).

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improving 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.

Corporate Strategy and Business Model

The Group is a world-class leader in design, manufacturing and marketing of power tools, outdoor power equipment and floorcare & cleaning for consumers, professional and industrial users in the home improvement, infrastructure and construction industries. We are committed to implementing our long term strategic plan that focuses on "Powerful brands, Innovative Products, Operational Excellence and Exceptional People".

We continue to strengthen our portfolio of powerful brands with a focused marketing approach. Our extension into new product categories and under-represented markets enable us to generate outstanding growth. Geographic expansion will be a highlight of TTI's future, our long term strategy is to aggressively build our business both inside and outside North America and we are relentlessly focused on expanding and establishing presence in high potential markets around the world.

Introducing innovative new products is the centerpiece of our long term strategy. We continue to invest in building a high-speed product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a vigorous competitive advantage.

Our strategy in operational excellence will continue, we will drive further gains in efficiency across our manufacturing operations, supporting further margin improvement.

We continue to deploy our Leadership Development Program (LDP) to develop our pool of talent for the future. The LDP initiative is successfully feeding talent into key positions throughout the company.

Our Commitment to ESG

TTI is committed to operating its business in line with Environmental, Social and Governance (ESG) best practices, and to do so in compliance with all applicable laws and regulations. We understand that a large measure of our ability to grow, innovate and prosper depends on our ESG performance. We have a robust risk management system in place which allows us to identify and address issues in an appropriate and timely manner as well as mitigate risk to our business. We have identified legal and regulatory requirements related to ESG practices that have the potential to have a significant impact to our operations and performance. We had no reports of material ESG-related non-compliance in 2023.

In 2023, we continued to develop our Sustainability Strategy and Implementation Plan to align our actions and goals globally with the United Nations Sustainable Development Goals. We deepened our commitment to clean technology and environmental preservation by focusing on the development of cordless lithium-ion battery-powered products. We made progress towards our goal of reducing absolute Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions by 60% in 2030. Our efforts resulted in a noteworthy 8% improvement in emission intensity in 2023, leading to a total reduction of 8k tonnes of CO₂e emissions. We also made significant progress in the mapping of our Scope 3 emissions, as we work towards our Science Based Target Initiatives (SBTI) commitment. In terms of governance, the ESG Working Committee with the guidance of the ESG Executive Committee and the Board of Directors has continued to implement our sustainability strategy and monitor activities and ESG performance against our goals.

Details on our ESG commitments, relevant policies, standards, specific ESG key performance results and initiatives of 2023 are shared in our ESG Report.

Purchase, Sale or Redemption of Securities

Other than 350,000 shares of the Company purchased on-market by the trustee for satisfying the awarded shares granted under the Company's share award schemes (details of which will be set out in the Corporate Governance Report to be included in this Annual Report), a total of 500,000 ordinary shares of the Company were bought back by the Company during the year at prices ranging from HK\$67.90 to HK\$68.70 per share. The aggregate amount paid by the Company for such buy-backs amounting to US\$4,408,000 was charged to the retained earnings.

The shares bought back were cancelled immediately and accordingly the issued share capital of the Company was reduced correspondingly. The buy-backs of the Company's shares during the year were effected by the Directors pursuant to the mandate granted by shareholders at the previous annual general meeting of the Company, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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 Group and has discussed internal controls and financial reporting matters, including the review of Group's consolidated financial statements for the year ended December 31, 2023. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Dividend

The Directors have recommended a final dividend of HK98.00 cents (approximately US12.61 cents) per share with a total of approximately US\$231,355,000 for the year ended December 31, 2023 (2022: HK90.00 cents (approximately US11.58 cents)) payable to the Company's shareholders whose names appear on the register of members of the Company on May 20, 2024. Subject to the approval by the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about July 5, 2024. This payment, together with the interim dividend of HK95.00 cents (approximately US12.23 cents) per share (2022: HK95.00 cents (approximately US12.23 cents)) paid on September 15, 2023, makes a total payment of HK193.00 cents (approximately US24.84 cents) per share for 2023 (2022: HK185.00 cents (approximately US23.81 cents)).

Closure of Register of Members

The register of members of the Company will be closed for the following periods:

To ascertain members' eligibility to attend and vote at the 2024 Annual General Meeting, the register of members of the Company will be closed from May 8, 2024 to May 10, 2024, both days inclusive, during which period no transfers of shares will be effected. In order to qualify to attend and vote at the 2024 Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on May 7, 2024.

To ascertain members' entitlement to the final dividend, the register of members of the Company will be closed on May 20, 2024 when no transfers of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on May 17, 2024.