

# power equipment products

The Power Equipment Products division delivered another year of highly successful results through leading innovation, operational excellence and deepening customer alliances. This dynamic combination provided tremendous growth in all key markets and all product segments as well as market position gains in all brand categories. In power tools, the Ryobi and RIDGID® brands played key roles in growing the power tools and accessories businesses achieving double-digit sales growth. In outdoor power equipment, the Group made significant progress, also attaining double-digit sales growth, as it leveraged the power of the Ryobi and Homelite brands in North America and Europe. The Group also continued to strengthen relationships with key customers.

Turnover for the division grew 21.5% to HK\$11.52 billion, accounting for 70.7% of total Group turnover. Operating profits rose by 39.3% to HK\$910 million.



*With one of the largest product ranges in the industry, Ryobi is widely accepted by millions of DIY users globally as providing professional features at affordable prices.*

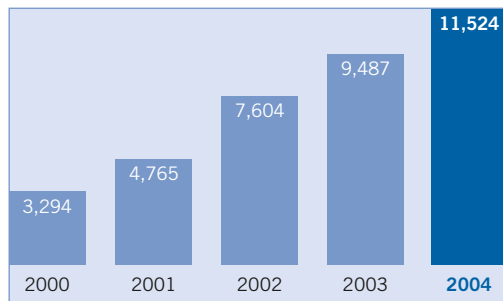
*(right) 9" Band Saw  
14.4V Cordless Drill/Driver*

*(left) The Ryobi Corner Cat™ Finish Sander is the first cordless sander with corded performance, registering 11,000 orbits per minute and equipped with GripZone™, an over-molded ergonomic handle.*



## Divisional turnover

HK\$ million



## Power Tools



Ryobi power tools are an integral part of our leading brand portfolio. Ryobi is a globally recognized brand and exhibited strong performance across targeted markets aided by our dedication to breakthrough product innovation and enhanced operational efficiency.

In North America, the Ryobi brand posted strong growth in the high-end do-it-yourself market through an innovative approach to marketing cordless tools – The Ryobi One+System™ and that increased penetration of the 18-volt battery platform. Available exclusively at The Home Depot, this initiative leverages the consistent Ryobi battery stem design to extend a comprehensive product line that works off the same power platform. The bottom line: One Power Source Endless Possibilities™.

Ryobi's European operations also focused on innovation, successfully launching an assortment of robust new power tools during the year, which expanded the range by 30%. This enabled Ryobi Europe to deliver strong double-digit growth in sales while enhancing the brand's market position. In addition, our strengthened sales and marketing organization implemented aggressive programs that won several new key accounts.

### Strategic Alliances

The Group enhanced its North America presence with the RIDGID® line of professional power tools, sold primarily at The Home Depot, making its first full-year contribution. RIDGID® clearly demonstrated its ability to compete aggressively with other professional and contractor brands through product innovation and successful new product introductions, aided by dynamic marketing, and point-of-sale exposure and



*(right) Ryobi's 18-volt One+System™ allows new tool users and the existing four million Ryobi tool users the freedom to create tool combinations. High-impact marketing programs achieved end-user awareness, acceptance and brand loyalty. This innovative and comprehensive line of products at affordable prices is revolutionizing purchasing habits.*

*(left) The Ryobi 14" Cutting Saw delivers a powerful cut and features 0 to 45-degree miter capacity, quick release vice and Soft Start for smoother starting.*





*(left) Featuring the high performance power of FastenEdge Technology™, RIDGID® introduced new best-in-class pneumatic fastening tools in a move that strengthened the brand's appeal to the professional contractors.*

*(right) The Sears® Craftsman® Professional 12" Dual Bevel Compound Miter Saw featuring "America's Best Dust Collection System™".*



intensive promotional activities. During the year, we announced a new industry-leading three-year service warranty on all TTI manufactured RIDGID® portable electric, cordless, bench top and stationary power tools. The warranty set us apart from competitors by offering service on normal wear items including cordless power tool batteries.

Our commitment to Sears® Holdings Corporation's Craftsman® line of power tools and accessories has ensured this brand continued to perform to expectations driven by innovative new products. Highlights in 2004 include the launch of the new Craftsman® and Craftsman® Professional Miter Saws featuring "America's Best Miter Saw Dust Collection System™". The new dust collection system solved a problem that professionals were fighting for decades. Another key achievement was the substantial growth from new 19.2-volt cordless tools and cordless tool combination kits.

## Outlook

The Group's strategies for growth are working and we are exceptionally well positioned to make further significant progress in 2005 in power tools.

We are looking forward to the fast and effective integration of the Milwaukee and AEG brands into our power tool operations. We have already identified major synergies in engineering, manufacturing and supply chain, and moved forward aggressively in these important areas. These powerful brands with their pioneering technology and distribution channel that reach professional contractors will accelerate the growth of our power tool business. The combined effect of these new acquisitions with our powerful new product development engine, which is dedicated to creating new-to-market products, will drive growth in the power tools business across all brands and all categories, including bench top and stationary, corded, cordless, hand tools and accessories.



*(above) The new AEG Demolition Hammer delivers the power needed to address tough industrial construction jobs with an innovative Anti-Vibration System and soft grips on all handles.*



*The Milwaukee V28™ lithium-ion battery is the most talked about innovation in the professional construction market today. Milwaukee delivers first-to-market technology providing twice the run-time of traditional 18-volt batteries at less weight. The new battery meets the need for high current draw, possesses fade-free power and creates the opportunity for many corded products to become cordless.*



The Ryobi 18-volt One+ System™ is expected to do well in 2005 following its successful launch in the fourth quarter of 2004 in North America. Our expanding portfolio of global brands in power tools will break new ground and grow our business into new markets. In addition, we are confident our alliances will continue to deliver healthy growth. Evidence of this continued growth is the January 2005 launch of a complete line of seven RIDGID® pneumatic fastening tools – a major new category for the Group that will target professional and high-end users. For the Craftsman® line, work on the innovative new portable and benchtop tools began in 2004 and these products will reach the market in 2005. Robust product innovation, strategic marketing campaigns and the continued strengthening of our customer relationships all bode well for a strong performance in 2005.

Europe is an attractive market that holds great potential for our brands. We expect to increase our presence by strengthening our product platform and leveraging our sales reach through AEG's existing market position and advantages. AEG delivers added depth in product development and technology specifically targeted at the European market. This expanded reach will help capture new market presence in those regions.



*(above) Ryobi Log Splitter, splits logs up to 20" long with 4 Ton of RAM Splitting force.*

*(left) The Homelite VacAttack™ is an all-in-one mulcher, blower and vacuum featuring ZipStart™ technology and a 25cc PowerStroke™ clean-air engine.*

## Outdoor Power Equipment

**RYOBI**

A proven leading brand in outdoor power equipment in North America, Ryobi was an important growth driver for our outdoor power equipment business in 2004. After adding the brand to this category and for this market in January 2004, we introduced a new gasoline-driven trimmer range that enhanced Ryobi's already strong position. The brand was introduced with high-impact advertising, dynamic packaging and an in-store field support team that ensured maximum impact at the point-of-sale. The highly featured Ryobi outdoor product line provided a clear trade-up proposition and a compelling value advantage over our competition.

In Europe, demand for Ryobi outdoor power equipment products remained strong, delivering significant gains over the previous year. Growth

was fueled by our gasoline-driven and electric outdoor power equipment ranges, aided by penetration into Eastern European markets.

**Homelite®**

Homelite enjoys positive consumer acceptance and loyalty as a trusted outdoor power equipment brand in North America and Europe. From chainsaws to outdoor power blowers, the full line of Homelite products satisfies the needs of the end user. This brand strength continued to generate strong demand and, aided by good weather during the key seasons of spring and summer, we saw Homelite achieve considerable revenue growth.

We launched a new line of Expand-It™, the easy-to-use attachments engineered to fit gasoline-driven split boom trimmers. These 'universal fit' attachments can be used with most major gasoline-driven brands with split booms to convert any single-use trimmer into a multi-purpose outdoor tool.



*(left) Powerful Ryobi 17" curved-shaft 30cc gas-powered string trimmer.*

*(below) The Ryobi premium pressure washer sprays water at 3000psi with a flow rate of 2.7 gallons per minute. It also features the exclusive Twist & Store™ handle for easy transportation and convenient storage.*



In the face of tougher emission standards set by US authorities that took effect during 2004, we were successful in ensuring our gasoline-driven engines for Homelite and Ryobi products complied fully while also enhancing product performance and improving product quality.

### **Outlook**

Our outdoor power equipment business is driven by high-profile brands that are preferred by end users. We have established comprehensive product platforms and will continue to add depth and breadth to the entire outdoor equipment product line which already offers one of the widest product range in the market. Going forward, there are significant new products already in development that will enhance our outdoor product line in 2005 and beyond, representing tremendous growth potential. A new gasoline-driven pressure washer with truly unique features and user benefits will be launched in the first

quarter of 2005. This product innovation was driven by extensive market research that identified ease of use, low maintenance and high quality as primary consumer needs.

Although US emission regulations will reach their most stringent level in 2005, our engineering teams have designs in place to meet the new US standards. Since these standards mirror European emission regulations that will commence in 2007, we are also confident we will achieve full compliance in Europe going forward.

In Europe, the growth outlook is positive with new Ryobi and Homelite product launches in 2005 to include an expanded gasoline and electric outdoor product line. Investment in our sales force is also expected to strengthen our performance.

# floor care appliances

The Floor Care Appliances division recorded an outstanding performance by delivering superior consumer value and maintaining a critical focus on containing costs. Innovation is playing a key role in the success of our proprietary brands, with Dirt Devil making market gains in our important territories of North America and Europe, and Vax significantly improving its position in the UK. With manufacturing now centered in Asia, significant supply chain efficiency gains and cost containment programs are positively impacting margins. Our strategic alliance business also exceeded plan.

Turnover for the division grew 28.1% to HK\$4.08 billion, accounting for 25.0% of total Group turnover. Operating profits rose by 53.2% to HK\$201 million.

*The Dirt Devil Vision® is an electronically self-propelled bagless upright vacuum cleaner. It actually helps you push and pull the vacuum, making cleaning easy. The patented bagless filtration technology makes emptying the dust and dirt chamber hassle free without the use of messy bags.*

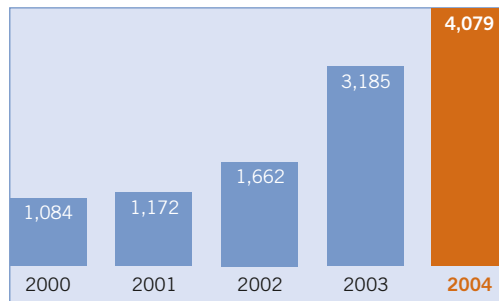


*(right) The Dirt Devil Dynamite™ is a lightweight mini-vac that delivers the power of a full-sized vacuum. It has a telescopic handle for easy storage.*



## Divisional turnover

HK\$ million



The Dirt Devil brand is a household name in North America. Strong consumer support and additional product innovation led to gains in the number of product listings carried at its major retail customers in North America. Dirt Devil attacked increased raw material costs and aggressive price competition by delivering innovative new products and expanding key distribution channel placements, which led to record levels of shipped units. The integration of Dirt Devil North America operations within the Group streamlined the new product development process and all manufacturing is now

located in Asia. The Group has also enhanced inventory management to boost customer service and achieved distribution cost savings through more automated product handling.

The European operation continued to deliver spectacular growth fueled by product innovations and aggressive marketing. The brand continued its positive progress, especially in Germany, where it closed the year by rising to the number one position in the market. Additionally, Dirt Devil has been broadening its reach and is experiencing the same level of success in continental Europe. The success is a result of high-impact advertising, expanded sales coverage, and innovative products like the Centrixx bagless canister, which is the top-selling vacuum in the German market.



*(below) Dirt Devil Centrixx bagless canister vacuum features leading cyclonic technology for stronger suction power.*







*(above) The Dirt Devil Scorpion™ puts the power of an upright in the palm of the user's hand. It features a powerful 5-amp motor that handles the toughest cleaning projects quickly and easily.*

*(left) The Dirt Devil FloorKeeper™ – a hard-floor cleaner – is an innovative product that allows homeowners to vacuum, wash and then squeegee the floor dry.*



Vax continued the excellent performance seen in the first half, with an extended product range, deeper customer relationships and increased advertising to promote brand awareness. Despite a slow market, the UK operation delivered exceptional revenue growth and contributions. In particular, Vax tapped synergies with Dirt Devil by jointly developing products under the Vax brand. As a result, the Vax product range in the UK expanded significantly with new products accounting for more than 60% of turnover during the year. Cost containment programs and investment in value engineering of existing products all positively impacted performance. Through supply chain and productivity gains, we achieved better inventory control, more timely delivery and enhanced service to retailers. By year end, with the benefit of highly successful sales and

marketing campaigns, Vax had gained additional market position in the UK, continuing its consistent improvement over recent years.

In Australia, despite intense competition in the floor care sector, Vax achieved its profit targets with an expanded product range beyond the core carpet deep-cleaning segment. It received national supplier status from its main customer and opened a distribution center in New Zealand. With close links to retailers, Vax continued to make well-informed decisions on marketing, product selection and price-points, while a continuing focus on advertising is maintaining a high level of brand awareness.

### Strategic Alliances

We continued to strengthen our original equipment manufacturing (OEM) business, which grew rapidly as we provided customers with well-received products and entered into new contracts with major brand-name companies. These new



The unique Vax MultiPack gained wide acceptance in the market as it offers high consumer value. It features the Vax Rapide XL Carpet Washer and the Vitality Plus cylinder vacuum cleaner.

(far left) Vax Turbo Force™ cyclonic vacuum cleaner with HEPA filtration.



OEM opportunities will have the potential for becoming long-term partnerships. We are committed to our extensive product engineering and world-class manufacturing capabilities to deliver high quality products at the best cost to our customers.

### Outlook

Our Floor Care Appliances division exemplifies the combined strength of our core synergies. By enhancing our cost competitiveness and investing in breakthrough innovation, we are well positioned to maintain our trend of strong organic growth.

Dirt Devil will remain focused on introducing exciting innovations to the market and enhancing profitability. In North America, recent efficiency gains and cost reductions achieved in 2004 are providing a firm foundation for increased competitiveness. This division will continue to make improved contributions to earnings with important new product launches, expansion into

new retail channels and increased penetration in existing markets. Dirt Devil in Europe is launching an exciting new Centrixx product range, which introduces an innovative bagless cyclonic technology. Additionally, the brand continues to see geographic expansion opportunities across Europe.

Our Vax operation in the UK will maintain its fast growth on the back of innovative new product development and expanded marketing. Further investment in supply chain, inventory management and after-sales support should help drive additional improvements in service and increase efficiency. Vax, already a significant brand in the UK market, is working hard to improve its position further with high-profile advertising. In Australia, Vax is confident it can achieve continued growth through an expanded product range. In particular, it will focus on new products targeted at the premium consumer segment.

# laser & electronic products

The Laser and Electronic Products division showcased the strength that innovation and manufacturing efficiency can deliver to the marketplace. The division once again had an excellent year, maintaining its record of steadily increasing contributions to the Group. This was accomplished through aggressive cost containment, increased manufacturing capacity, and the expansion of product offerings in all categories, including laser layout devices, digital measuring tapes, stud sensors, metal detectors, solar lighting and infant-care products, all contributing to the growth in sales. The award-winning launch of the innovative Ryobi AIRgrip™ laser level was just one example of our continuing ability to bring groundbreaking products to the market.

Turnover increased 37.2% to HK\$701 million, accounting for 4.3% of total Group turnover. Operating profits rose by 44.5% to HK\$146 million.

**RYOBI**

**AIRgrip™**  
LaserLevel



**BEST PRODUCTS 2004**  
BusinessWeek

#### *Revolutionary vacuum technology*

*The Ryobi AIRgrip™ is the first truly hassle-free laser-level tool. Using revolutionary vacuum technology, it is easy to affix to walls and surfaces without marring. The laser head rotates 360° for straight lines in any direction with the ability to wrap around corners too. This product is perfect for installing chair rails and great for wall alignment jobs.*

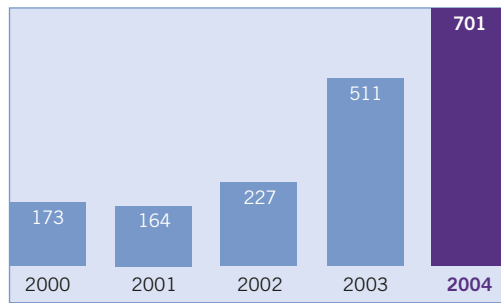
#### *Market reaction*

*The Ryobi AIRgrip™ has received several top awards in North America. Retailers have also singled out the AIRgrip™ for numerous awards and end users have been purchasing the product at a record pace.*



## Divisional turnover

HK\$ million



## Innovation leadership produces positive market impact

Our Laser and Electronic Products division has created excitement in the hand tool industry by launching the exceptionally innovative Ryobi AIRgrip™ laser level. This product dramatically surpassed all sales goals. Incorporating revolutionary vacuum technology that allows the level to affix itself to walls without marring surfaces, the Ryobi AIRgrip™ significantly enhanced exposure of the Ryobi brand thanks to a long-running TV advertising campaign by The Home Depot that focused on demonstrating the product to millions of viewers.

The division also brought a new product category to market in electronic infant-care. Sales of initial products commenced in the first quarter of 2004 and new models were added throughout the year, leading to very encouraging sales.

There was a strong drive to contain costs during the year, with significant investment in factory automation for enhanced productivity and further vertical integration. This has allowed the business to respond to the large increase in demand and to achieve faster speed-to-market for all our original design manufacturing (ODM) partners. The division converted new product opportunities into sales that exceeded projections. Further investment in TV advertising with our major ODM partners helped to maximize product awareness and sales during the latter part of the year.

## Outlook

This division has the brands, alliances, technologies and the marketing acumen to maintain growth momentum into the future. In addition, our operational investments will continue to pay strong dividends in productivity and speed-to-market as we expand our product platforms and strengthen ties with our customers.

The laser and digital measuring tool category is expected to deliver excellent future growth as we build on the success of the Ryobi AIRgrip™. We will develop a full product range within this system with particular focus on converged tools.

In addition, we will continue to expand into other infant-care product categories and are confident the infant-care products will become another key growth engine for the division.

*(right) RYOBI offers a complete line of stud sensors and ultrasonic measuring devices. These products locate wood, metal and wiring in walls, measure distance and volume accurately, and add up contiguous lengths.*

