CHAIRMAN'S STATEMENT

"Our success is the focused combination of market driven innovation and the relentless pursuit of operational excellence, delivering value added solutions to the needs of our customers and end users."

Horst Julius Pudwill
Chairman and Chief Executive Officer

- **Record turnover and profit performance**
- **Primary brands achieved double digit growth in aggregate**
- **Milwaukee® and AEG® achieved double digit growth**
- **Innovative new products generated incremental business**

DIVIDEND PER SHARE (TOTAL)

HK cents

2005 was another record year for the Group in both turnover and profits. Our strategies of leading brands, powerful customer partnerships, innovation, and global operational efficiencies provided the platform for our core business growth. The Milwaukee® and AEG® acquisition delivered double digit organic turnover expansion and profit contribution to the Group. This solid foundation and our scale enabled us to respond to market fluctuations and competitive challenges in an effective and flexible manner, keeping our long-term goals on track.

Group turnover was HK$22.36 billion, an increase of 37.1% over fiscal year 2004. Importantly, our primary brands delivered double digit growth in aggregate and gross profit margins improved to 31.0% from 30.3% in 2004, despite rising material costs. Net profit was up by 10.0% to HK$1,019 million, though acquisition related restructuring and interest expenses had negative effects on margins. Basic earnings per share increased 6.1% to HK73.53 cents.

During the year, we initiated the integration of Milwaukee® and AEG® professional power tools into TTI, strengthening our power tool portfolio in terms of brands, products and customers. The ongoing integration process will generate future marketing synergies and cost savings as the acquisition benefits from the Group's lower operational costs and scale advantages. Our commitment to operational excellence delivered financial leverage through process advances and cost reduction initiatives. Working capital utilization improved over 2004 as supply chain efficiencies reduced the average inventory to sales by 4 days and tight management controls lowered average receivables to sales by 7 days.

We are pleased to announce the Board is recommending a final dividend of HK12.60 cents per share. Together with the interim dividend of HK6.00 cents per share, this will give a full year dividend of HK18.60 cents per share, against HK17.00 cents per share in 2004, an increase of 9.4%.

Business Strength

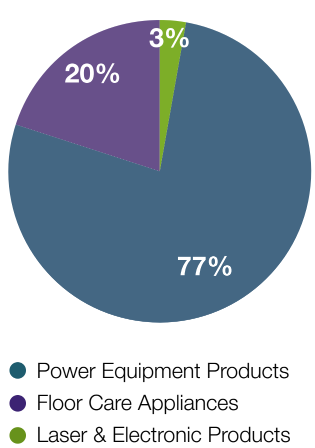
Our largest business, Power Equipment Products, expanded 49.1% over prior year and our major brands improved their positions in key markets. We had strong underlying end user demand for our products during the year. Innovative products were the drivers in power tools, including the Milwaukee® V28™ lithium ion power tools, RIDGID®'s new line of pneumatic tools, and the expansion of the One+™ line under the Ryobi® brand. The outdoor power equipment business also delivered growth with successful product introductions within existing categories and by entering new market categories, including the gasoline high-pressure washer and cultivator and the electric log splitter.

Our leading brands in Power Equipment Products, which include Milwaukee®, AEG®, Ryobi® and Homelite®, are recognized and trusted brands across a broad customer base, from professional contractors to DIY (Do-It-Yourself) consumers. Milwaukee® and AEG® will allow geographic expansion beyond our core. We continued to enhance the value of our brands with a focus on expanded markets, innovative marketing, product development, and efficient supply chain management. The addition of AEG® to our existing business has significantly strengthened our distribution and marketing reach across Europe.

The Floor Care Appliances business delivered solid brand performance in the competitive environment of North America. Total business had an increase of 11.0%, though heavily affected by lower OEM demand in the second half as a result of our strategic shift to our own Dirt Devil® and Vax® brands. Executing our strategy in challenging economies, new products delivered over 30% of 2005 turnover and our brands are leaders in the large geographic markets of Germany and the UK. The North American business expanded in 2005 with Dirt Devil® increasing its market position as a leading brand with consumers and high volume retailers. Our business is competitively positioned to face rising input costs and market price competition with streamlined North American operations, innovative new products and marketing support, and an aggressive best cost focused supply chain. We expect the OEM business to undergo a transition in 2006 and to rebound in 2007 as we launch new programs with complementary customers.

The Laser and Electronic Products business achieved profit margin improvement through cost reduction efforts despite a 6.5% drop in turnover. After several years of high growth, the business was impacted by competition in both laser measurement and solar light markets. Expansion efforts with existing ODM customers, growth in Europe, and additional distribution through our own brands will drive the business forward. The business maintains competitive advantages in intellectual property, product development capabilities and manufacturing efficiency.

TURNOVER BY PRINCIPAL ACTIVITY



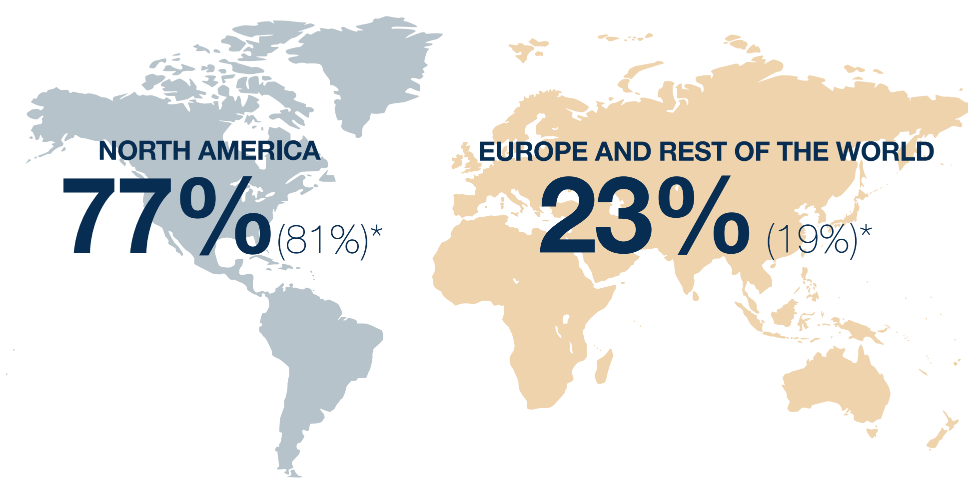
Sustainable Growth Drivers

Operating philosophy and company culture are essential to quality leadership. They represent the day-to-day reality of an organization's ability to deliver on its goals. Our success is tied to delivering a clear direction throughout the organization. We focus on innovation, scale efficiencies, strong partnerships and timely execution. Consequently, in 2005 we were successful in expanding our markets, product lines, competencies and management talent, which strengthened our competitive advantages. This robust operational process focused our performance in 2005 and established the platform for future expansion in turnover and profitability.

Culture of Innovation

Innovation is a priority for every brand and for every market. It creates brand loyalty, increases margin performance against cost pressure and price competition, and strengthens relationships with our channel partners. Each of our business units is organized to deliver powerful, innovative product introductions to capture market share and enhance the status of our brands. TTI continues to strengthen new product development with improvements in process, resource commitment and organizational dynamics that bring innovation and consumer insight together. Globally, investment in R&D increased 45.2% to 2.2% of turnover in 2005 from 2.1% last year. During the year, the Group integrated product concept centers, focused engineering resources and initiated global product platform, planning to yield better returns on investment and greater R&D efficiency going forward.

TURNOVER BY GEOGRAPHICAL MARKET LOCATION



** for year ended 31st December, 2004*

Leading Brands

Leading brands drive sustainable growth by building customer loyalty. Strategic campaigns in public relations, advertising, promotions, and trade show participation delivered high impact images and messages to targeted audiences, resulting in record numbers of feature articles and awards in 2005. Aggressive marketing activities enhanced brand awareness, but more importantly, delivered increased consumer traffic to our retail partners. The Group invested in marketing, with advertising up 27% over 2004, to strengthen the leading brands in our portfolio. In addition, we demonstrated our competency in adding brands with the smooth integration of acquisitions while maximizing market penetration of our existing brands through synergies in research, innovation, sales and marketing.

Operational Leadership

Our scale, geographic expansion, and operational efficiencies are creating competitive advantages that allow the Group to strengthen partnerships with the largest retailers and provide the resources for expansion. Scale provides us organizational agility and competitive flexibility to meet market challenges and changing retail trends while delivering products at the best cost. It is also the catalyst for cost savings at every level of the organization as we continue to improve supply chain, manufacturing, quality assurance systems and better leverage our best cost supplier base. Our floor care business in Europe, for example, has benefited from the Group's manufacturing and product development capabilities to become industry leaders.

Focused Execution

The Group is dedicated to achieving our goals through relentless execution and ensuring our new product development efforts, supply chain performance and sales and marketing functions are among the best in the industry. To allow better work management and decision-making, we will continue to invest in our information systems. Strengthening our relationships with major channel partners in our targeted markets also remains a key focus. We work closely with our channel partners to deliver innovative products to each segment of the market and to improve supply chain management. Supply chain management efficiency is an important measure of supplier performance as our retail partners continue to drive working capital management. Our passion for continuous operational improvement, speed-to-market gains and innovative, higher margin products creates the opportunity for growth with the important channels in each market while also helping to negate market influences and keep our targets for growth in reach.

Future Focus and Value Creation

We believe our consistent performance is a result of a disciplined approach to deliver the core strategies: leading brands, customer partnerships, innovation, and operational leadership. We had a very good year in 2005 and have positive growth prospects built on the new products introduced in the second half of 2005 and the array of innovative products to be introduced in 2006. We will also see the positive impact of the acquisition and the scale benefits on our operations.

Our brands have demonstrated the attributes necessary to capture market share with our capability to match the needs of major channels for high volume, quality products and effective logistics. The expanded distribution, product technologies, and powerful brands of the acquisition have significantly broadened our platform of growth opportunities. The ongoing streamlining of operations and relocation of production to the Group's best cost manufacturing base coupled with the aggressive use of outsourcing will deliver further cost savings going forward. We are well positioned to handle market expansions in targeted distribution channels across our businesses.

In 2006, our focus will remain on the investments – in our people, our facilities, our R&D, our brands and our future – because these will strengthen the foundation for sustainable long-term financial performance. We have clear, effective strategies, robust processes and a driven team. We believe that our focus on aligning our four strategies will continue to deliver excellent value to our shareholders, our partners, our employees and our customers.

Finally, I would like to thank our employees around the world for their dedicated efforts throughout the year. Their hard work and intelligence provides the fuel for our improved performance. I am grateful to my fellow directors who are tireless in their contributions to our vision and governance. On behalf of the entire organization, I express my appreciation to our shareholders, customers and partners for making 2005 another record year for the Group.

Horst Julius Pudwill
Chairman and Chief Executive Officer
Techtronic Industries Co. Ltd.