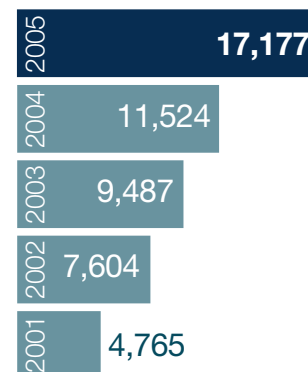


# POWER EQUIPMENT PRODUCTS

**DIVISIONAL TURNOVER**  
HK\$ million



- Turnover increased **49.1%** to **HK\$17.18 billion**
- Accounting for **76.9%** of total Group turnover
- Operating profits grew **35.9%** to **HK\$1,237 million**

The Power Equipment Products business delivered record turnover in 2005, driven by the double digit growth of our primary brands in the core business and the Milwaukee® and AEG® acquisition, but offset by lower OEM and private label contributions. We continued to demonstrate our leadership in product innovation — Milwaukee®'s V28™ lithium ion power tools, RIDGID®'s best-in-class professional pneumatic fastening tools, Ryobi® branded gasoline high-pressure washer are just a few examples. We have established a superb power tool brand portfolio, targeting a broad and diverse customer base ranging from professional and industrial users to the most novice DIY'ers. Acquisition integration initiatives, including production relocation to the Group's best cost manufacturing base, assimilation of the new product development process, and leveraging other scale opportunities such as procurement, will bring efficiency and cost benefits over the next few years.

Turnover increased by 49.1% to HK\$17.18 billion, accounting for 76.9% of total Group turnover. Operating profits grew 35.9% to HK\$1,237 million.

The Milwaukee® V28™ Sawzall™, with its improved internal reciprocating mechanism and lithium ion battery, provides professional users with the most powerful and longest lasting cutting performance on the market.



The One +™ 18V Right Angle Close Quarters® Drill makes jobs in tight spaces easy with its right angle design and extensive Gripzone™ overmold for improved control.



The AEG® 14.4V STX nickel metal hydride Drill Driver features high-torque for drilling in steel, soft wood and masonry, a versatile tool for every jobsite.



**Milwaukee**

**AEG**  
ELECTRIC TOOLS

**RYOBI**

## Review

### Power Tools

In North America, Milwaukee® is a leading brand of choice among industrial and professional contractors. The innovative V28™ lithium ion battery power tools were a clear success in 2005. Demand for these products increased throughout the year, though higher turnover was constrained in 2005 by capacity limitations of the battery supplier. The Group has already expanded the battery supply capacity to meet the growing demand and expanding product platform anticipated in 2006.



The 18V One +™ Torque IV™ Drill provides a "Quick Mode Selector" allowing users to quickly switch between driving and drilling modes for faster dual-performance.

## Review of Operations

### POWER EQUIPMENT PRODUCTS

*The RIDGID® 7 1/4" Worm Drive Saw has a 15AMP wormdrive motor for higher torque and power. Its Magnesium Guards and construction provide less weight and greater durability.*



*The Craftsman® Professional 10" Portable Table Saw features a superior action easy folding stand allowing storage in the work shop and effortless mobility from one jobsite to another.*



The Group added breadth to the RIDGID® professional power tool line moving beyond electric portable and bench / stationary tools, with a new line of best-in-class professional pneumatic fastening tools. This introduction has further strengthened the RIDGID® brand among professional users and as a success story in the North American professional power tool market.

Ryobi® is a preferred power tool brand by DIY'ers around the world. In North America, the unique system of interchangeable tools and batteries, the One+™ System, has proved to be a huge success. New products were added to the line and system tool combo kits were marketed successfully in 2005. In addition, a new website is launched to build greater awareness by consumers and the mainstream consumer media.

In Europe, the Milwaukee® and AEG® brands have expanded the Group's distribution into the industrial and professional contractor channels. Additionally, the acquisition has added marketing scale and geographic reach to our already growing Ryobi® business. Milwaukee® in Europe is benefiting from the launch of the revolutionary V28™ lithium ion power tools in the fourth quarter of 2005. The AEG® brand, well respected throughout Europe, has initiated developing its new professional tool range with improved performance and competitive prices. Our brands will continue to capitalize on the integrated R&D resources and defined centers of product competencies and we have put in place a global product platform management process that will leverage the R&D investments for the Group.



The Ryobi® branded One+™ System was launched into select DIY retailer partners in Europe during late 2005 and demonstrated signs of success. Across the DIY channels in Europe, the Ryobi® brand has benefited from the consumer demand for innovative and better performing, value oriented tools. The European expansion of Ryobi®, Milwaukee® and AEG® brands will gain further benefits from the larger scale and reach of the combined businesses.

## Outlook

The integration of the acquisition is progressing well, focusing on production transfer, product development, supply chain management and operational efficiency. The synergies and cost improvement benefits expected from the integration will have a positive impact on margins in the second half of 2006 and over the coming years.

Our culture of innovation is showcased in our power tools business and will continue to drive future growth. The acquisition has enhanced R&D capabilities of the Group. Demonstrating our R&D abilities, TTI is the technology leader in the professional lithium ion cordless category. Our V™ technology represents the superior solution for power tools. We are strengthening the platform by adding new products to the V28™ platform and introducing the V18™ platform, which has pioneered a high performance lithium ion solution that is compatible with the existing Milwaukee 18V cordless line.

End users respect the Milwaukee® product range for its heavy-duty durability and high performance on the work site. We have identified opportunities for Milwaukee® beyond the current product range that are not being satisfied in the market today. These new potential products are complementary to the Milwaukee® broad distribution network. The first range expansion of Milwaukee® into a new category is a complete line of professional pneumatic fastening tools and accessories. This program is being introduced in the first half of 2006 and demonstrates opportunities of future brand growth.

Milwaukee®, AEG® and Ryobi® are truly globally recognized brands that command a strong presence in our most important geographic markets. With these brands, we are well positioned from industrial to consumer DIY markets. In addition, we continue to expand the opportunities with our strategic OEM and private label alliances. TTI is a proven, reliable partner to important brands at retail and in professional tools. We maintain these relationships through our competitiveness built around product innovation, operational efficiencies and our scale. A deep focus on understanding our end users and customer partners will continue to provide growth opportunities.

*The new Milwaukee® range of professional pneumatic fastening tools feature Tool-Free Depth of Drive adjustment for accurate control to protect work surfaces from overdriving. The tool line features Magnesium housings providing light weight performance and rubber over mold grips for better handling.*





### Outdoor Power Equipment

In North America, existing and new outdoor power equipment introductions under Ryobi® and Homelite® continued to resonate with consumers. We gained market position in the key gasoline powered categories of trimmers, blowers and chain saws while capturing new market share with our successful entries into log splitters, cultivators and pressure washers under Ryobi®. The new Ryobi® branded gasoline pressure washer, introduced in the first half 2005, is innovative and practical, with a user-friendly design. It was the cornerstone to the Group's expansion into this incremental growth category.

The outdoor business delivered positive growth across Europe despite a slow start to the season, as poor weather conditions impacted end user demand in our major markets. The outdoor power equipment program under Ryobi® is an important element to our DIY channel strategy as it complements the power tool program and provides additional scale with our key retail partners. Product development is benefiting from our global product platform initiatives.



*The Ryobi® branded 40cc gasoline 18"/ 46cm chain saw features high-performance power and ergonomic light weight design for gardening professionals or enthusiasts.*

The Ryobi® branded 7 hp high-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.



The 30cc Homelite® Yard Broom II™ gasoline blower provides powerful hand held performance and low noise emissions. It also features ZIP Start™ Technology, easy to pull Quicker to Start™.



## Outlook

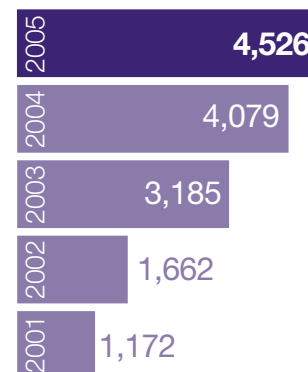
The outdoor power equipment business is strategically positioned to further develop the program of better outdoor products under Ryobi® and leverage the strength of the brand in the DIY channel. As with the new products like pressure washers, the brand will be tested and used on a broader range of outdoor products that will deliver incremental business. Homelite® currently offers a limited product range and we plan to expand its powerful brand recognition into new product categories in as early as the second half of 2006.

Operationally, the Group has improved the manufacturing cost base with gasoline product production located in China. Ongoing cost improvement initiatives are in place to offset material cost pressures. The strength of our two brands allows the Group to utilize outsourcing arrangements for lowering costs and entering new product categories. With these actions and the planned introduction of innovative new products, the business is on track to improve profitability.



# FLOOR CARE APPLIANCES

## DIVISIONAL TURNOVER HK\$ million



- Turnover increased **11.0%** to **HK\$4.53 billion**
- Accounting for **20.2%** of total Group turnover
- New products accounted for **30%** of the turnover

The Floor Care Appliances business continued to perform well despite lower OEM sales, material cost pressures and price competition. The results showed solid organic performance in our own branded business despite price sensitivity in the North American retail markets. Our brands created retail level excitement and consumer demand with new products and aggressive promotions. Strategically, new products accounted for 30% of the turnover for the business in 2005 and we moved aggressively to capitalize on opportunities at higher retail price points in the North American upright category with the introduction of the Vax® brand.

Turnover increased 11.0% to HK\$4.53 billion, accounting for 20.2% of the Group's total turnover. Operating profits were down 0.7% to HK\$200 million, negatively affected by material cost pressures and weak OEM demand in the second half. Significant cost containment initiatives such as broadening the sourcing parameters, driving product redesigns and consolidating manufacturing in line with the OEM decline have helped to balance the cost pressures on the business.

The Dirt Devil® Reaction™, features new D2 Dual-Cyclonic Technology™ providing superior suction power that lasts! This patented technology divides the air into two smaller cyclones with air moving at higher velocities than in a single cup. The result is better dirt separation.



The Dirt Devil® Reaction™ Easy-To-Empty Filterless Dirt Cup means no messy interaction with the filter or a bag.



The Dirt Devil® VISION delivers superior HEPA filtration, removing 100% of pollen and ragweed allergens, to every location in the home including upholstery, drapes and all flooring surfaces with an easy bottom release dirt cup and bagless design.



## Review

Our own branded business continues to increase market position and deliver value to customers in both North America and Europe. The positive results were driven by a continuing flow of new products, which allowed the Dirt Devil® and Vax® brands to expand product listings in key retailers and powerful marketing programs that generated end user demand and enhanced brand awareness. Across the brands, the business has taken steps to further link global sourcing and supply chain initiatives, and deepen product platform and marketing program planning. These have already begun to improve efficiencies and lower costs in both operations and product development.

The Dirt Devil® Broom Vac® is a cordless broom that sweeps and vacuums in one easy step. With 60% more power than the original Broom Vac®, the new, improved Broom Vac® is convenient for quick pick ups, and powerful enough for everyday cleaning.





## FLOOR CARE APPLIANCES

In North America, Dirt Devil® is a leading brand and grew in its primary product categories during 2005, despite intense industry-wide competitive price pressures. The business is focused on the high volume retail channel, which dominates the floor care market, and has developed a streamlined overhead structure that drives product development, marketing, supply chain and account management, with operational and engineering support centered in Asia. Significant gains through lean operational initiatives drove a 22% finished good inventory reduction in 2005 and reduced logistic costs. Several important new product launches during the year buoyed turnover. The Dynamite®, which is half the weight of a full size upright vacuum, was developed to match consumer lifestyles based on market research. The launch surpassed expectations and has created a product platform for future growth. The revitalization of the cordless Broom Vac® and the popular VISION bagless upright vacuum contributed strong performances capturing market position and excellent retail placement. Dirt Devil® also exhibited its global brand reach by remaining a leading brand in highly competitive Germany and initiating expansion progress across Europe.

In the second half of 2005, we launched a new generation of Vax® vacuum cleaners in the US market with a retail partner. This unique and premium “cutting-edge” product line features a philosophy called “Next Clean”, which combines effectiveness with user-focused engineering, to deliver superior cleaning with less strain and less bending by the user. Sell through at retail and at wholesale were in line with our plans. The Vax® brand in the premium segment complements the mid-range segment of Dirt Devil®, thus creating a better-best brand portfolio.

In the UK and Australia, Vax® is a leading brand and preferred partner to the high volume retailers for floor care products. In the UK, Vax® has moved up to the number two position, despite a contracting and competitive market. The dynamic performance in this market was driven by new product introductions, a dedication to cost control and our focus on strong partner relationships. Vax® continued to maximize the synergies with Floor Care Appliances for innovative product development and supply chain leverage.

The OEM side of this business is going through a shift in customer base, which is a result of our strategy to increase our own branded business. In the second half of 2005, we experienced an accelerated reduction in our OEM turnover. This transition will continue through 2006 and is expected to rebound in 2007 with significant new projects that have been initiated with complementary customers.



*The VAX® X3 and X5 offer a wide range of cutting edge product features, and have 12AMP dual-motor system, optimized for superior cleaning performance, the dual-system allows you to control the brush roll for cleaning hard floor surfaces.*

*The robust VAX® V100 1100W Dry Vac is highly maneuverable, durable and suitable for large scale floor care jobs with its long life heavy duty motor and 10 liter capacity.*



*The VAX® X3 and X5 feature a hidden stretch hose that extends from a front mount, so you can switch from vacuuming floors to cleaning above your head without bending.*



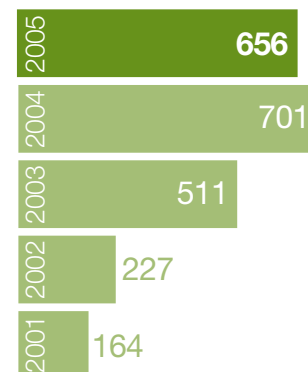
## Outlook

Business has come through a challenging year in 2005 with improved efficiency, better product platform planning, and powerful consumer brands in large markets. We are positioned to continue to drive brand growth with new innovative products and by expanding within the existing customer base in North America, plus geographic expansion in Europe. Several major new product platforms have been launched in the first half of 2006, including the Dirt Devil® Reaction™ in North America, which delivers “no loss of suction” with the D2 Dual-Cyclonic Technology™ filtration system.

Operationally, we will manage through the existing material cost pressures with new products and leveraging our scale efficiencies. We continue to be globally competitive, revising our production model to focus on the value added product categories and new product expansion opportunities and to initiate outsourcing on commodity categories. All our geographic markets in the Floor Care Appliances business will benefit from continued efforts on cost reductions and production synergies from our manufacturing facilities based in Asia. Our ability to maximize product innovations across all brands will continue to deliver consumer value in each market.

# LASER & ELECTRONIC PRODUCTS

## DIVISIONAL TURNOVER HK\$ million



- Turnover decreased by **6.5%** to **HK\$656 million**
- Accounting for **2.9%** of total Group turnover
- Operating profit margin improved to **21.2%**

The Laser and Electronic Products business remained focused on creating growth opportunities with new product development efforts. We have launched several innovative laser leveling tools and expanded the ODM electronic infant care product platform. Our investments in manufacturing automation and plastic molding capacity improved our cost position, helping to offset rising raw material prices.

Turnover decreased by 6.5% to HK\$656 million, accounting for 2.9% of total Group revenue. Operating profits decreased 4.6% to HK\$139 million and operating profit margin grew from 20.8% in 2004 to 21.2% in 2005.



*We offer a comprehensive range of measuring and sensor hand held tools under Ryobi®, utilizing the latest ultrasonic and laser technologies.*

The MultiTASKit™ under Ryobi® provides multiple DIY jobsite and hobbyist solutions. Utilizing the award winning AIRgrip™ revolutionary vacuum technology, making home repairs and projects a one-person job.

Innovative 2-channel rechargeable baby monitors provide clear range of 400 ft for added mobility and with 7 soundlights allow parents to see baby's activity.



## Review

Turnover declined for the full year despite a strong first half. We experienced a difficult second half due to competition in both the laser measurement and solar light markets. Even with the negative turnover impact, our margin improved compared to the same period last year, thanks to our continuous focus to improve operational efficiency and to introduce new products with higher margins.

For the laser leveling platform, we continued to build on the revolutionary AIRgrip™ technology and introduced the MultiTASKit™ under Ryobi® in September. The MultiTASKit™ includes the MultiTASKit™ body, which houses the AIRgrip™ vacuum technology, and four attachments that are designed to make home repairs and projects a one-person job. The high profile introduction and aggressive promotion of our laser products helped establish the Ryobi® brand as a leader in laser measurement tools.

## Outlook

The Laser and Electronic Products business had exhibited strong growth over the past few years due to industry leading innovation with products that captured the imagination of end users. Going forward, we expect growth to slow from a high base. With a focus on developing tools for the Group's power tool brands and expanding the ODM business, we will maintain R&D efforts to deliver unique, solution-driven products and continue to invest in enhancing our manufacturing expertise. The expansion and added capabilities of our manufacturing investments will deliver increased opportunities for new product development and ODM partnerships.