

# Power Equipment



# Review of Operations Highlights



- Added the V18™ lithium ion cordless tools to the successful V28™ range
- Expanded Sawzall® range of reciprocating saws
- Growth in Europe



- Double digit growth outside of North America
- Introduced 9 new products under the One+™ System



**AEG**

ELECTRIC TOOLS

- Turnover and operational gains
- Geographic expansion



**Homelite®**

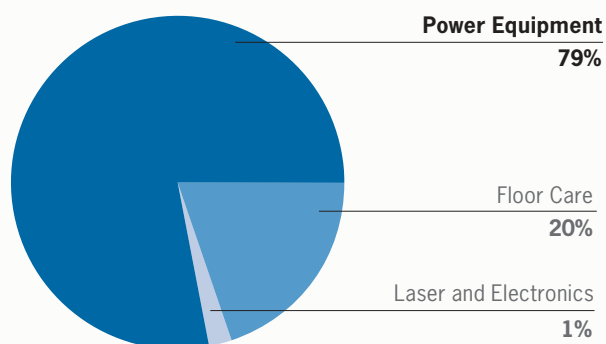
- Launched MightyLite™
- Operational improvements

## Review of Operations

# Power Equipment

- Record profit coming from new products and operational efficiencies
- Professional power tool brands deliver growth
- New lithium ion technology expands our professional cordless segment
- Milwaukee® transfer increases momentum
- Turnover of HK\$17.12 billion, accounting for 79% of total turnover

Divisional Turnover



The Power Equipment business, which includes power tools, power tool accessories, and outdoor power equipment, produced record profit from operations, with growth from our professional brands, Milwaukee® and AEG® as well as strong sales from RIDGID® professional power tools manufactured by TTI. Profit from operations was HK\$1,462 million, a significant increase of 18.16% over 2005. Turnover reached HK\$17.12 billion, accounting for 79% of total Group turnover. Full year turnover was marginally down 0.35% from last year due to a sluggish North American market in the second half of the year. We improved profit margins to 8.54% from 7.20% last year in a difficult economic environment of rising raw material costs. Innovative new products, quality improvement initiatives, global procurement activities, product transfer programs, and CIP have positively impacted our operational performance.





## Review of Operations Power Equipment

### Review • Power Tools and Accessories

For the year 2006, Milwaukee® expanded by continuing to lead the industry in the development of a broader line of lithium ion battery-based power tools aimed at professionals. The new V18™ line of products gained acceptance in the marketplace and combined with the V28™ lithium ion range, added incrementally to the cordless product category. Milwaukee® also strengthened its Sawzall® market position with new product introductions and marketing support, including specialized industry outreach programs, and supported by a full Sawzall® blades range. In addition, Milwaukee® grew in Europe as it continued to build recognition and expand distribution geographically.

AEG® improved in 2006 producing an increase in top line turnover and achieving profit targets. These were accomplished through the introduction of new products, addition of new distribution in existing markets, geographic expansion into Eastern Europe, Middle East, and South Africa, and benefits from TTI integration synergies. Synergies have been demonstrated with the shift to global product development that brought fifteen new products under the AEG® brand to market in 2006 with a plan to increase the number of new products in 2007.

The Ryobi® brand faced a challenging year in North America, but produced near double digit growth in turnover outside of North America with the first full year of the One+™ System distribution. The One+™ System under the Ryobi® brand offers 43 products including 9 new products such as the One+™ Angle Grinder and the One+™ Radio using the 18-volt battery & charger platform. The One+™ program has established a strong merchandising presence with growing end user demand that will drive future growth in our key retail partners across the globe.

In North America, the RIDGID® power tool products manufactured by TTI had another record year of increased turnover. Market acceptance of the complete Max Select® line of products, the first dual voltage – 18v and 24v tools, and the new Xli™ 24v Combo Kit featuring the lithium ion battery technology were product innovations that continue to make RIDGID® an important and fast growing power tool brand for professionals.

We continued our commitment in providing best-in-class new products, innovations, and other contributions to Sears Holdings Corporation's Craftsman® line of power tools and accessories. Highlights in 2006 included the launch of the new Craftsman® Digital Depth Router and Drill Press that provides accurate digital depth precision. A unique dual-laser circular saw with an innovative adjustable front laser that projects a line as a virtual edge guide and a 14.4v Cordless Drill/Driver with Auto-Lock chuck with "Auto Mode" were also introduced.

Several new, real innovative power tool accessories were introduced into the market during the year. Milwaukee® offered the Ice Edge™, a new generation of reciprocating saw blades specifically designed to handle even the toughest metal cutting applications that professionals demand. AEG® introduced the DrillConnect™ rotary hammer drill bit connector system that allows a quick and strong bit extension. In addition, Milwaukee® launched its Secure Grip™ hammer drill ideally for cordless hammer drills featuring shank flats and centering tip in protective packaging. We have also made an impact in Europe with the extremely tough AEG® dynAC TCT Universal Holesaw.





## Review of Operations Power Equipment

A high profile marketing program was conceptualized in 2006 that will have a lasting impact on our power tool business. Jobsite Solutions is designed to be a professional power tool end user focused conversion program for Milwaukee® products through initiatives that create and promote brand loyalty. Jobsite Solutions reaches beyond product solutions and into services, delivery, education, repair, warranty, and other value added services that solve more professional user problems. Additionally, it will be an important training program for the development of future management talent at Milwaukee® and across TTI.

2006 was an important year for the development of our best cost programs in Power Tools. Under the Milwaukee® and AEG® integration, the global R&D and new product development resources were streamlined to eliminate overlapping. Product development resources are now managed according to product segments, technologies, and brands in order to build expertise. The result was an efficient global product development team. Output of innovative new products will increase in 2007 as the spending on R&D and new product development is being increased.

Best cost improvements were realized with the Group's global sourcing and CIP. These high level initiatives leveraged the scale of TTI bringing savings and efficiencies in a period of rising material costs and are being expanded further in 2007. The Milwaukee® transfer program gained momentum throughout the year and we are now manufacturing Milwaukee® cordless tools in a dedicated, professional quality, China production facility. These tools are being shipped to our professional users worldwide.



## Outlook • Power Tools and Accessories

We expect our North American business to rebound after a slowdown in the second half of last year. Business is on a positive trend for the beginning of 2007 and we have increased the consumer power tool promotion plans and marketing support over prior year levels. Innovative lithium ion cordless products will be launched throughout the year, further enhancing TTI's leading position in the cordless category. Our European and rest of world businesses are continuing to track healthy growth. New products are the primary drivers, but new distribution in core territories and new geographies are also adding incremental turnover. The Ryobi® branded One+™ System and Milwaukee® V18™ programs are notable product ranges that are feeding the expansion.

We believe that the shift to global product development platforms, the transfer programs of Milwaukee®, and the TTI best cost initiatives have better positioned our Power Tool business to make important investments in the marketing of our powerful brands. The strength of the Milwaukee®, AEG®, and Ryobi® brands will be supported and driven with marketing programs such as Milwaukee®'s Lighting Max Repair for professional users aimed at providing a simple program for product servicing. Another important program is our North American store service team, which is now linked to our Leadership Development Program (LDP) of high potential future leaders. The LDP will consolidate the market training and our retail partners will benefit from the energy and innovation the team brings into their stores every day.

Through the implementation of our strategies of powerful brands, innovative products, exceptional people, and best cost, the Power Tool business has delivered profit improvement and is poised to continue its quest to reach the global number one position.







## Review of Operations Power Equipment

### Review • Outdoor Power Equipment

Outdoor Power Equipment turnover expanded in 2006. Turnover outside North America continued to make double digit gains primarily from the Homelite® and Ryobi® brands. The operational focus to improve our cost position delivered positive gains in the second half, marked by new product launch efficiency and productivity in our Asia supply chain. Manufacturing gains through rigorous application of management techniques, procurement programs, and savings from CIP were key factors to improving our cost position. The business benefited from investments to expand new product development engineering resources and product range rationalization.

Expanding the Ryobi® branded range of products with new trimmers, edgers, high-pressure washers, and chain saws created incremental turnover in key markets while building brand recognition and loyalty with a more complete line of products. Homelite® started production of its innovative MightyLite™ line of gas trimmers, edgers, and blowers, positioned as the affordable, lightest weight outdoor products in the industry. The two brands, Homelite® and Ryobi®, with better-best positioning of innovative, user friendly tools for DIY and light-duty commercial applications, match our strategic focus of segmenting the market by attributes and price point allowing end users clear choices on product selection.

## Outlook • Outdoor Power Equipment

We expect the market gains made in 2006 to continue into 2007. The gas-driven blower category, which experienced double digit growth in 2006, will help drive turnover going forward with several new introductions planned. Homelite®'s new MightyLite™ range will be globally distributed for the full year. In North America, expectations are to grow both in existing channels and potential new channels, driven by innovative new products already in the development pipeline and improved marketing. Outside of North America, our products and brands remain on track for turnover growth. The business has geographic expansion opportunities mirroring those of our Power Tool businesses in Eastern Europe, Middle East, South Africa, and Latin America.

We will continue to gain operational efficiencies in 2007 under our best cost strategy as we experience a complete year of production from our Asia supply chain and additional cost containment from our CIP. Importantly, the combination of multiple new product introductions, aggressive marketing and promotions, and operational effectiveness provides the platform for continued business performance improvement.





# Floor Care

# Review of Operations Highlights



- Most recognized floor care brand in North America
- Premium, comprehensive floor care product range
- Innovative FloorMate™, WindTunnel™, and SteamVac™ All Terrain products



- No.1 selling vacuum brand in the US
- Successful launch of innovative KONE™ and Reaction™ products surpassed expectations



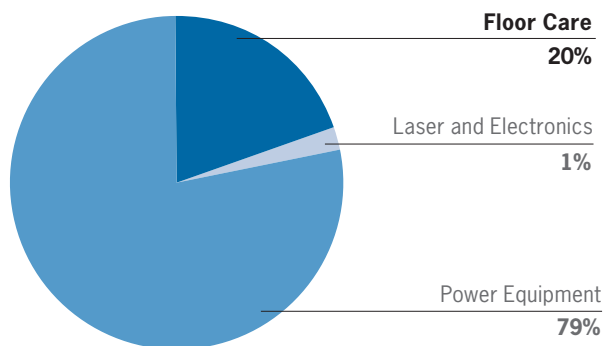
- No. 2 brand in the UK
- Double digit turnover growth

## Review of Operations

# Floor Care

- Hoover® integration is priority
- Innovative products lead to growth in the 2nd Half
- Global brand and product development programs
- Turnover of HK\$4.43 billion, accounting for 20% of total turnover

Divisional Turnover



In 2006 our Floor Care business established the platforms for future growth, including the acquisition of the Hoover® floor care business. The powerful brand portfolio now includes Hoover®, Dirt Devil®, and Vax®. In addition to the brands, the business is competitively positioned with an increased new product development capability, best cost supply chain scale, and full product category coverage. Distribution reach outside of North America will continue to expand geographically with our brands.

The Floor Care business completed the transition to focus on our own brands and as a result reported second half growth in North America and Europe. Turnover for the full year was HK\$4.43 billion, down 2.16% from last year, and accounting for 20% of the Group's total turnover. On the cost side, challenging raw material pricing was partially offset by our global sourcing programs and CIP savings. We promoted our innovative products with increased advertising support in key markets. Profit from operations was down to HK\$157 million, a margin of 3.54% of turnover.

### **Review • Floor Care**

The Floor Care business is aimed at driving our powerful brands, delivering product innovations and best cost, and building an exceptional management team. In 2006 we focused on several critical objectives. Product innovation initiatives targeted unique products to provide improved end user acceptance, retail demand, and financial premiums. This strategy produced solid results in North America with the Dirt Devil® Reaction™, Broom Vac®, and KONE™ lines of products. Under our best cost strategy, global





## Review of Operations

### Floor Care

sourcing initiatives and CIP created savings throughout our supply chain, despite the ongoing global cost pressures. Manufacturing in China followed our strategy to focus on core brand businesses and product platforms. The effort has streamlined operations and we are moving aggressively to further embrace lean manufacturing. Building powerful brands is a fundamental TTI strategy and the increased marketing on the core brands of Dirt Devil® and Vax® boosted product exposure in 2006. The addition of Hoover® to the portfolio only adds to our brand power and gives a compelling end user brand segmentation strategy. We started the process of building a high performance management team of exceptional people in all regions of the world. In North America and Asia, the team is in place that is driving the integration of Hoover®. In Canada and the Middle East, we have established new regional business leaders as we are planning to do across other geographic regions.

In the United States, Dirt Devil® sold more vacuums than any other brand in 2006. The strength of the Dirt Devil® brand created the opportunity to migrate to higher price point products setting the stage for top and bottom line growth with additional introductions. Hoover® is a premium, best-in-class, vacuum and extraction brand. It will gain from the TTI best cost supply chain, the newly established TTI floor care global R&D center, and the combined marketing and distribution scale of TTI. Speed to integrate Hoover® with TTI is a priority. Sales, marketing, engineering, and back office synergies from a combined business are underway. We announced the closure of Hoover®'s North Canton manufacturing plant and operational integrations have begun. We are excited that the combined Floor Care business will hold the leadership position in North America and we are ready to bring this business to new levels.

Outside North America, the business reported double digit turnover growth primarily driven by the strength of our Vax® business. Vax® strengthened its position as the number two vacuum brand in the UK delivering double digit top line growth in a very competitive market. Vax® launched over 50 new products and made geographic expansion efforts. The



addition of Hoover® will provide new and incremental product opportunities for the Vax® business. Dirt Devil® in Europe faced a difficult year with a slower acceptance of new products than expected. A completely refreshed range is already launched with positive end user acceptance being seen. Overall, new products and an expanding geographic reach will continue to drive the business outside of North America forward.

### Outlook • Floor Care

2006 set the stage for growth in the Floor Care business. We now possess the most recognized brands in virtually all floor care categories. Dirt Devil® is positioned to continue its introduction of unique products through its ease of use strategy and advantages in manufacturing scale and supply chain efficiencies. There are multiple new product introductions planned for 2007 including the KURV™ and the KRUZ™, both hand-held vacuums and a new “i”™ upright vacuum. Our contract business remained in transition in 2006 as we increased our commitment to our own leading brands. This is still on track to rebound in 2007 as we begin delivering the new line of Sears® Kenmore® brand of vacuums in the first half.

We have a robust and aggressive plan for the Hoover® line of vacuums which includes exciting new products and equally important, a smooth integration of all operations into the Group’s worldwide economies of scale. We expect Hoover® to gain market position in its core competency of high end vacuums and extraction while delivering significant savings in operational efficiencies.

Vax® is also positioned for continued growth. The new products introduced in 2006 will add full year benefits and many new products are ready to be released during 2007. Dirt Devil® and Hoover® will also see growth internationally from their already strong positions in many global markets. The Hoover® brand recognition creates a strong opportunity to enter the Latin American market.





A close-up photograph of a blue and black laser level. A bright yellow laser line is emitted from the device, extending diagonally across the frame. The background is a gradient of red and orange, suggesting a sunset or a similar warm light source. The laser level is positioned in the lower right corner, with its lens and body visible.

# Laser and Electronics



# Review of Operations Highlights

**RYOBI**

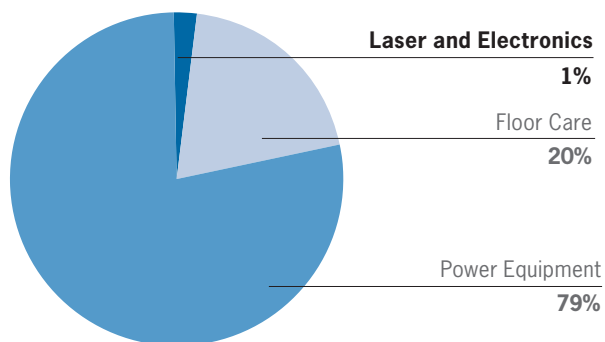
- Released AIRgrip™ Self Leveling Cross Line Laser Leveler
- Aggressive launches of Manual and Self Leveling Laser Levels, Stud Sensors, Metal and AC Wall Scanners
- Launched new innovations with long range Sonic Tape Measure with Built-in Project Calculator and Voice Recorder

## Review of Operations

# Laser and Electronics

- Profit contribution
- Business performance as expected
- Turnover of HK\$279 million accounting for 1% of total turnover

Divisional Turnover



The Laser and Electronics business result for 2006 was according to expectations, with a top line decline from the prior year due to the continuing correction in the laser-based products market. Turnover in Europe was stable and infant care products delivered growth. Expenses were controlled through CIP while addressing the overhead expenses structure. Consequently, turnover was HK\$279 million, accounting for 1% of total Group turnover, and profit from operations was HK\$37 million.

### **Review • Laser and Electronics**

We held the leading position in our key categories and markets. Following the TTI strategy of focused product innovation, several new product introductions in electronic hand tools, solar powered lights, and infant care products were launched successfully. New AIRgrip™ base products under the Ryobi® brand were developed for later shipment as the market returns to normal stocking and selling cycles with laser products.

### **Outlook • Laser and Electronics**

There are signs that the laser market is beginning a slow recovery in 2007. The business has opportunities to grow in other electronic hand tools and detectors, solar lighting, and infant care products. New product development planning has expanded into new markets of electronic tools including digital thermometers and moisture meters, solar powered chargers, and a new range of electronic wall scanners, to name a few.

