Company Registration No. 1341840

Deloitte & Touche

VAX LIMITED

Report and Financial Statements

31 December 1999

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

Deloitte & Touche

REPORT AND FINANCIAL STATEMENTS 1999

CONTENTS

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

ACTIVITIES

The principal activities of the company are the assembly, procurement and distribution of an integrated range of floorcare products.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The major development during the year was the change in ownership on 30 September 1999, whereupon Vax Limited was acquired by TechTronic Industries Limited ("TTi"). TTi is quoted on the Hong Kong Stock Exchange. Its turnover in 1999 was approximately £229m of which 58% is in the sale of Power Tools and 33% in Floorcare Products. Its main markets are the United States, Europe and Australia. Being part of TTi significantly improves the company's access to low cost manufacturing, product development, engineering, technical and financial resources.

During the year United Kingdom and Export Sales were down 11% and 42% respectively. The strength of Sterling had a negative impact on exports. The company's UK sales performance is expected to improve in the medium term through the introduction of new products. There are programmes in place to effect this in the latter part of 2000 and during 2001. Export Sales performance will also benefit from a broader product range.

The company continues to review its operating cost base and has achieved significant reductions in cost during the year. Operational distribution and administrative costs have been flexed in line with sales and plans have been made to source production from the Far East and Ireland.

The future prospects for the company are extremely positive with the increased level of new product development and the opportunity to leverage the lower cost base. The company will continue investing in new products and capitalising on the high consumer recognition level of the Vax brand name.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend (1998 - £Nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:-

P G Austen	
L I Jebson	
H J Pudwill	(appointed 30 September 1999)
C C Chan	(appointed 30 September 1999)
D Butts	(appointed 30 September 1999)
K Marriott	(appointed 16 November 1999)

None of the directors held any interest in the share capital of the company or any other group company.

DONATIONS

Charitable donations made during the year amounted to £nil (1998 - £1,923).

YEAR 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

DIRECTORS' REPORT

AUDITORS

Deloitte & Touche were appointed the company's auditors during the year. Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

Tel: National 0121 200 2211
International + 44 121 200 2211
Fax (Gp. 3): 0121 695 5311
www.deloitte.co.uk

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AUDITORS' REPORT TO THE MEMBERS OF

VAX LIMITED

We have audited the financial statements on pages 4 to 16 which have been prepared under the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

10 July 2000

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1999

	Note		1999		1998 Restated (see note 23)
		£000	£000	£000	£000
TURNOVER	2		10,774		13,745
Cost of sales			(8,054)		(11,368)
Gross profit			2,720		2,377
Distribution costs			(2,164)		(2,728)
Administrative expenses		(2,474)		(3,371)	
Exceptional items	5	(41)		(163)	
Total administrative expenses			(2,515)		(3,534)
			(4,679)		(6,262)
OPERATING LOSS BEING LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION	4		(1,959)		(3,885)
Interest receivable and similar income	6		315		327
Interest payable and similar charges	7		(97)		(1,321)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(1,741)		(4,879)
Tax on loss on ordinary activities	8		-		(20)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	19		(1,741)		(4,899)

All activities derive from continuing operations.

There is no material difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis. Accordingly, a note of the historical cost profits and losses for the period is not given.

BALANCE SHEET
31 December 1999

	Note	1999	1999	1998 Restated (see note 23)	1998 Restated (see note 23)
		£000	£000	£000	£000
FIXED ASSETS					
Intangible assets	9		187		204
Tangible assets	10		595		894
Investments	11		190		6,244
			972		7,342
CURRENT ASSETS					
Stocks	12	1,384		1,207	
Debtors	13	3,384		2,930	
Cash at bank and in hand		239		1	
		5,007		4,138	
CREDITORS: amounts falling due within one year	14	(6,289)		(8,381)	
NET CURRENT LIABILITIES			(1,282)		(4,243)
PROVISIONS FOR LIABILITIES AND CHARGES	16		(1,136)		-
TOTAL ASSETS LESS CURRENT LIABILITIES			(1,446)		3,099
CREDITORS: amounts falling due after more than one year					
Amounts due to ultimate parent undertaking	15		16,156		11,296
Parent undertaking	15		-		7,664
			16,156		18,960
CAPITAL AND DEFICIENCY					
Called up share capital	17		33		33
Profit and loss account	18		(17,635)		(15,894)
EQUITY SHAREHOLDERS' DEFICIT	19		(17,602)		(15,861)
			(1,446)		3,099

These financial statements were approved by the Board of Directors on 7.7.00

Signed on behalf of the Board of Directors

Director

Deloitte & Touche

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 1999

	1999 £000	1998 Restated (see note 23)
Total recognised gains and losses related to the year	(1,741)	(4,899)
Prior period adjustment (as explained in note 23)	1,580	
Total gains and losses recognised since the last annual report	(161)	

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

The 1998 figures for distribution and administration costs have been restated as the Directors believe they now more accurately reflect the performance of the business.

Tangible fixed assets

Depreciation is provided to write off the cost less estimated residual value of fixed assets by equal instalments over their estimated useful lives as follows:-

Intangible assets – development costs	shorter of product life and 3 years
Fixtures, fittings, plant and equipment	3 – 10 years
Office and computer equipment	3 – 5 years
Tooling	over product life up to 5 years

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and appropriate overhead expenditure.

Deferred taxation

The credit for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Leases

Assets acquired under hire purchase contracts and finance leases are capitalised as tangible fixed assets in the balance sheet. The corresponding liability is recorded as a finance lease creditor and finance charges are allocated to accounting periods over the period of the agreement so as to produce a constant rate of charge.

Annual payments under operating leases are charged to revenue in the year in which they are incurred on a straight line basis.

Research and development costs

Research and development costs in respect of clearly defined projects are included in intangible fixed assets and are amortised over the earlier of their expected life or three years.

The cost of other research and development is charged to the profit and loss account as incurred.

Turnover

Turnover represents sales less returns and allowances and excludes value added tax.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange at the balance sheet date.

Exchange differences arising on trading transactions are included in the profit and loss account.

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

1. **ACCOUNTING POLICIES (continued)**

Pension costs

The company is a member of the group's contribution pension scheme, the Group Personal Pension Plan, which is available to all full time UK employees. The assets of the scheme are held separately from those of the group in an independently administered fund. The amounts of contributions payable to the pension scheme are charged to the profit and loss account in respect of the accounting period to which they relate.

Cashflow statement

A consolidated cashflow statement prepared in accordance with Financial Reporting Standard 1 is included in the financial statements of the parent company.

2. **TURNOVER**

Turnover is analysed by destination as follows:-

	1999 £	1998 £
External		
United Kingdom	8,253	9,266
Other European Countries	2,162	3,697
America	84	-
Asia	44	227
Africa	2	180
	10,545	13,370
Inter group	199	375
	10,744	13,745

3. **INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	1999 £000	1998 £000
Directors' emoluments		
Emoluments	248	262
Pension contributions	10	4
	258	266
Remuneration of the highest paid director	144	192
	No	**No**
Average number of persons employed		
Production and research	50	80
Sales and distribution	26	55
Management and administration	17	26
	93	161

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	1999 £000	1998 £000
Staff costs during the year (including directors)		
Wages and salaries	1,854	2,007
Social security costs	94	194
Pension costs	61	40
	2,009	2,241

4. OPERATING LOSS

Operating loss is after charging:	1999 £000	1998 £000
Depreciation and amortisation	588	1,079
Auditors' remuneration and expenses	21	29
Rentals under operating leases		
Motor vehicles	108	115
Property	498	498
Management charge	267	720

5. EXCEPTIONAL ITEMS

The operating result is stated after charging the exceptional items below, which all relate to continuing activities:

	1999 £000	1998 £000
Increase in provision against amounts due from group undertakings	-	(163)
Reorganisation and rationalisation provision release	120	(1,580)
Restatement of provision to comply with FRS 12	(1,580)	1,580
Income from waver of intercompany balances	1,419	-
	(41)	(163)
Charged to:		
Administrative expenses	(41)	(163)

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	1999 £000	1998 £000
Rent received	144	88
Bank interest received	3	11
Licence income from group companies	168	204
Loan interest received	-	24
	315	327

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £000	1998 £000
Loans (see note 15)	-	1,200
Discounting interest	-	98
Bank interest	97	23
	97	1,321

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	1999 £000	1998 £000
Taxation charged based on the loss for the year:		
Overseas taxation	-	20

9. INTANGIBLE FIXED ASSETS

	Licence £000	Development costs £000	Total £000
Cost			
At 1 January 1999	500	1,195	1,695
Additions	-	171	171
At 31 December 1999	500	1,366	1,866
Accumulated depreciation			
At 1 January 1999	500	991	1,491
Charge for the year	-	188	188
At 31 December 1999	500	1,179	1,679
Net book value			
At 31 December 1999	-	187	187
At 31 December 1998	-	204	204

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

10. TANGIBLE FIXED ASSETS

	Tooling £000	Fixtures, fittings, plant and equipment £000	Total £000
Cost			
At 1 January 1999	8,858	2,604	11,462
Additions	88	13	101
At 31 December 1999	8,946	2,617	11,563
Accumulated depreciation			
At 1 January 1999	8,445	2,123	10,568
Charge for the year	131	269	400
At 31 December 1999	8,576	2,392	10,968
Net book value			
At 31 December 1999	370	225	595
At 31 December 1998	413	481	894

The net book value of fixed assets includes the following amounts relating to assets which are held under finance leases:-

	Fixtures and fittings 1999 £000	Fixtures and fittings 1998 £000
Net book value at end of year	12	60
Depreciation charged in year	48	37

There are no non depreciable assets.

11. INVESTMENTS HELD AS FIXED ASSETS

	1999 £000	1998 £000
Loans to group undertakings at cost	-	5,991
Joint venture at cost	253	253
Provision against joint venture	(63)	-
	190	6,244

Other investments

During 1998 the company acquired a 50% interest in India Floor Care & Appliances Limited, a company registered in India. This investment comprises 50% of the issued equity share capital which is the only class of shares in issue.

India Floor Care & Appliances Limited has not commenced trading. The results of India Floor Care & Appliances Limited have not been consolidated under FRS 9 as it would not be material to the company.

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

12. STOCKS

	1999 £000	1998 £000
Raw materials and consumables	985	1,044
Finished goods and goods for resale	399	163
	1,384	1,207

13. DEBTORS

	1999 £000	1998 £000
Trade debtors	2,862	2,504
Prepayments and accrued income	308	232
Amounts due from group undertakings	112	43
Amounts due from joint venture	102	151
	3,384	2,930

At 31 December 1999 trade debtors included £nil (1998: £2,445,000) in respect of discounted debts.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		1999		1998 (Restated)
	£000	£000	£000	£000
Bank overdrafts (secured)		2,238		224
Obligations under finance leases		12		60
Trade creditors		2,592		2,375
Cash advances		-		2,140
Amounts owed to group undertakings		2		436
Other creditors		80		1,526
Accruals and deferred income		1,365		1,620
		6,289		8,381
Other creditors comprise:				
Invoice discounting balance		-		953
Employee tax and social security		31		76
Other		49		497
		80		1,526

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £000	1998 £000
Secured Loan Notes 2000	4,600	4,600
Secured Loan Notes 2000 (Number 2)	4,956	4,956
Repayment premium accrual	1,740	1,740
Cash advances	3,970	-
	890	-
Amount due to ultimate parent undertaking	16,156	11,296
Amount due to parent undertaking	-	7,664
	16,156	18,960

The cash advances were provided by the ultimate parent undertaking and are unsecured not repayable before 31 December 2000 and interest free.

The Secured Loan Notes 2000 are repayable at par not before 31 December 2000 and are interest free.

The Secured Loan Notes 2000 (Number 2) are repayable in full with a redemption premium of 100% not before 31 December 2000. The premium is being accrued over the period to repayment so as to charge the profit and loss account at a constant rate. The parent company has waived their right to the redemption premium for the year and until notified to Vax Limited in writing.

The Loan Note facilities were made available by instruments dated 8 September 1995, 13 November 1996 and 27 October 1997 for the purpose of providing additional working capital.

The Loan Notes are secured on the company's and group's assets, but rank in priority after the holders of the Convertible Secured Loan Notes 2000 in the parent company.

The amount due to the parent undertaking is interest free.

16. PROVISIONS FOR LIABILITIES AND CHARGES

Reorganisation provision	1999 £000	1998 (Restated) £000
Adjusted balance at 1 January 1999	-	-
Created in year	-	1,580
FRS 12 adjustment	1,580	(1,580)
Utilised in year	(324)	-
Redeemed in year	(120)	-
At 31 December 1999	1,136	-

The provision for reorganisation costs stands at £1,136,000 at the year end. This represents expected further directly attributable costs of the reorganisation and rationalisation of Vax Limited. It is expected that these costs will be incurred during 2000.

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

16. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Deferred taxation

The amounts provided in the accounts and the amounts not provided are as follows:

	1999		1998	
	Provided £000	**Not provided £000**	**Provided £000**	**Not provided £000**
Deferred tax liabilities/(assets) arising on:				
Accelerated capital allowances	-	(290)	-	(433)
Other timing differences	-	(521)	-	(488)
	-	(811)	-	(921)

There are total losses for taxation purposes available for carry forward of approximately £22 million (1998 - £21 million) subject to agreement with the Inland Revenue.

17. CALLED UP SHARE CAPITAL

	1999 £000	1998 £000
Authorised		
'A' ordinary shares of £1 each	30	30
'B' ordinary shares of £1 each	10	10
	40	40
Allotted and called up		
'A' ordinary shares of £1 each (£1 paid)	30	30
'B' ordinary shares of £1 each (25p paid)	3	3
	33	33

18. STATEMENT OF MOVEMENTS ON RESERVES

	£000
Balance at 1 January 1999	
As previously reported	(17,474)
Prior period adjustment	1,580
As restated	(15,894)
Loss retained for the year	(1,741)
Balance at 31 December 1999	(17,635)

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIENCY

	1999 £000	1998 Restated (see note 23) £000
Loss for the financial year	(1,741)	(4,899)
Opening shareholders' deficit (originally £17,441,000 before crediting prior period adjustment of £1,580,000)	(15,861)	(10,962)
Closing shareholders' deficit	(17,602)	(15,861)

20. FINANCIAL COMMITMENTS

	1999 £000	1998 £000
Capital commitments		
Contracted for but not provided	-	237

Operating lease commitments

At 31 December 1999, the company was committed to making the following payments during the next year in respect of operating leases:

	1999 Land and buildings £000	1999 Other £000	1998 Land and buildings £000	1998 Other £000
Leases which expire:				
Within one year	-	29	-	49
Within 2 to 5 years	-	27	-	133
After 5 years	498	-	498	-
	498	56	498	182

Pension commitments

The company operates a defined contribution pension scheme for its full time UK employees. Contributions payable are charged to the profit and loss account in respect of the accounting period to which they relate.

Outstanding contributions at 31 December 1999 amounted to £3,994 (1999 - £6,173).

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

21. RELATED PARTY TRANSACTIONS

Rent of £498,000 (1998 - £498,000) was paid to the Quillgold Pension and Assurance Scheme for which A J Brazier is a trustee and also a director of Vax International Limited, one parent company to 30 September 1999.

Goods and services amounting to £3,000 (1998 - £496,000) were invoiced to India Floor Care and Appliances Limited during the year. Amounts due from this company were £102,000 (1998 - £151,000) at the end of the financial year.

The company is taking advantage of the exemption to disclose related party transactions with other group companies as more than 90% of voting rights are controlled by TTI.

The company is no longer contracted to pay for sponsorship of the Manchester Sale Rugby Football Club Limited of which P G Austen is also a director (1998 - £60,000).

The company receives personnel advisory services from Phoenix Timber Group plc of which P G Austen is a director. This is at a cost of £12,000 per annum.

22. ULTIMATE PARENT COMPANY

The parent undertaking is Techtronic Industries Co. Limited ("TTI"), a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange. The consolidated financial statements of TTI can be obtained from:

Units B-F 24 / F, CDW Building
388 Castle Peak Road
Tsuen Wan
New Territories
Hong Kong

23. PRIOR PERIOD ADJUSTMENT

The prior period adjustment represents the effect of a change in the accounting policy for provision following the issue in April 1999 of FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" by the Accounting Standards Board.

Vax Limited had a policy of providing for reorganisations at the time of a Board decision. At 31 December 1998, a reorganisation involving expenditure of £1,580,000 had been approved by the Board, but did not qualify as a provision until 1999. The effect of the change in accounting policy is that the loss in 1998 has been reduced by £1,580,000 and the loss in 1999 has increased by £1,580,000.

Note that the reorganisation provision was included within creditors falling due within one year in the 1998 accounts. As a result of FRS 12, the directors have reclassified the balance within provisions in the balance sheet for both 1998 and 1999.