

**RYOBI**

**ANNUAL REPORT**

For the year ended March 31, 2005

**2005**

The number '2005' is rendered in a large, bold, green sans-serif font. It is positioned in the lower half of the page. Three vertical green lines of varying heights extend upwards from the top of the digits. A solid green horizontal bar is located at the bottom of the page, partially overlapping the base of the number.

## PROFILE

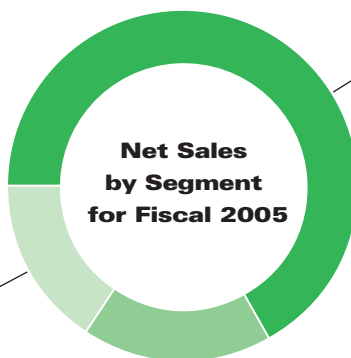
Since its establishment as a die casting manufacturer in December 1943, Ryobi Limited has accumulated innovative technologies by making components for automobiles, electronics, telecommunications and other industries. Ryobi has leveraged these technologies and drawn on its experience to diversify into the manufacture of printing equipment, power tools and builders' hardware. Ryobi is all around you, making an enjoyable, comfortable daily lifestyle possible.



**66.8%**

### DIE CASTINGS

Ryobi is a world-leading die casting manufacturer that supplies its products to various industries, including cylinder blocks and transmission cases to the automobile industry.



**Net Sales  
by Segment  
for Fiscal 2005**



**15.7%**

### POWER TOOLS AND BUILDERS' HARDWARE

Ryobi offers an extensive range of power tools and lawn and garden equipment for both professional and do-it-yourself needs, and builders' hardware such as door closers to enhance safety and comfort in homes and offices.

**17.5%**

### PRINTING EQUIPMENT

Ryobi offers high-precision, multi-functional offset printing presses, and develops total printing systems for all stages of printing from prepress, to press, and post-press.



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### Forward-Looking Statements

Items containing forward-looking statements such as performance forecasts, future trends, and strategies are based upon management's assumptions in light of the information available as of the end of the fiscal year under review and may contain various risks and uncertainties. The Ryobi Group cautions that its actual actions and performance may differ significantly from these forward-looking statements due to numerous factors outside of Group's control such as, but not limited to: including general economic conditions, the business environment, trends in market demand and foreign exchange rates.

# CONSOLIDATED FINANCIAL HIGHLIGHTS

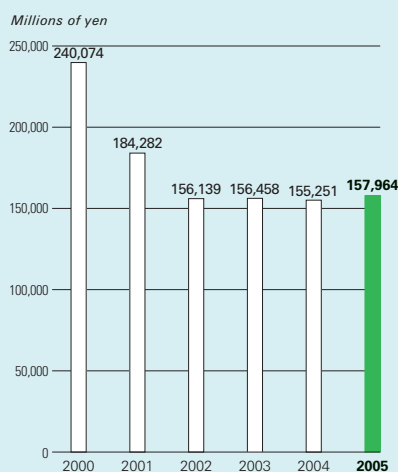
(For the years ended March 31, 2005, 2004 and 2003)

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2005
<b>For the fiscal period:</b>				
Net sales .....	<b>¥157,964</b>	¥155,251	¥156,458	<b>\$1,470,938</b>
Operating income.....	<b>10,834</b>	10,347	8,452	<b>100,885</b>
Net income .....	<b>6,581</b>	12,812	4,471	<b>61,281</b>
<b>As of fiscal year-end:</b>				
Total assets.....	<b>¥157,420</b>	¥160,574	¥165,487	<b>\$1,465,872</b>
Total shareholders' equity.....	<b>55,294</b>	50,040	38,366	<b>514,890</b>
<b>Per share data:</b>				
Net income .....	<b>¥ 39.33</b>	¥ 76.40	¥ 26.26	<b>\$ 0.366</b>
Cash dividends .....	<b>7.50</b>	7.50	—	<b>0.070</b>

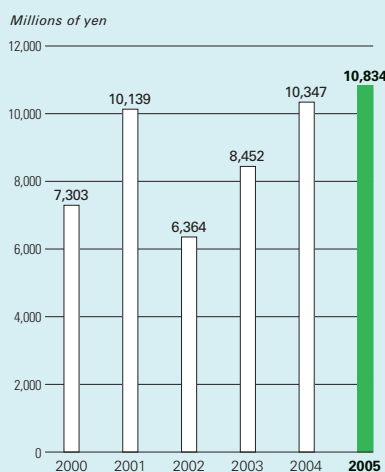
Notes: 1. Net income per share figures are based on the weighted-average number of shares outstanding each year.

2. Yen amounts have been translated into U.S. dollars, solely for the convenience of the reader at ¥107.39=US\$1, the exchange rate prevailing on March 31, 2005.

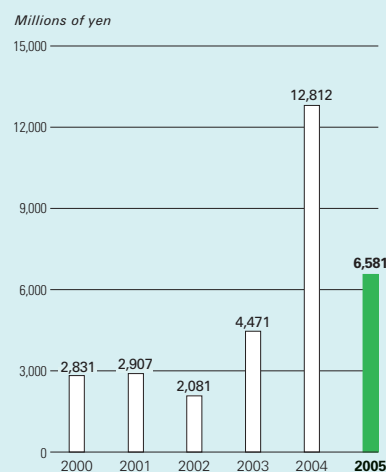
## NET SALES



## OPERATING INCOME



## NET INCOME



## A MESSAGE FROM THE MANAGEMENT



Hiroshi Urakami  
Chairman and CEO

Susumu Yoshikawa  
President and COO

# CREATE A SOUND AND DYNAMIC CORPORATION THROUGH TECHNOLOGY, TRUST AND CHALLENGE

Guided by its corporate philosophy, "Create a sound and dynamic corporation through technology, trust and challenge," the Ryobi Group aims to establish itself as an indispensable part of society by creating innovative, top-quality products and services that meet the needs of customers and society at-large. While developing its die casting business in tandem with its finished products, Ryobi continues to make every effort to ensure that its customers, shareholders, business partners and employees find their association with Ryobi to be a rewarding experience.

During fiscal 2005, ended March 31, 2005, the Japanese economy showed signs of a recovery on the back of increases in capital expenditures and solid exports to Europe, the

United States, and Asia. Despite these positive factors, however, uncertainties remained about economic prospects due to high raw material prices and the appreciation of the yen against the U.S. dollar.

Under these circumstances, the Ryobi Group implemented various measures including advancing aggressive marketing activities, developing new products responsive to customer needs, cutting costs and expenses, and increasing operational efficiency.

During fiscal 2005, the Company achieved growth in revenues and operating income, while net income decreased. Consolidated net sales increased 1.7% compared with the previous fiscal year to ¥158.0 billion. Domestic net sales rose 2.7% to ¥114.7 billion, while overseas net sales edged down 0.6% to ¥43.2 billion. Operating income rose 4.7% to ¥10.8 billion, while net income dropped 48.6% to ¥6.6 billion.

Decreased sales in the Die Castings Business were offset by sales growth in the Printing Equipment Business and the Power Tools and Builders' Hardware Business. As a result of the growth of net sales, cost-cutting efforts and other factors, Ryobi achieved record operating income for the third consecutive year. The primary reason for the decrease in net income was the lack of income from the sale of marketable securities as the Company recorded during the previous fiscal year.

In accordance with its corporate philosophy, Ryobi aims to continually create value and to realize a better society by carrying out its social responsibilities. These efforts form the foundation of our management. Social responsibility is comprised not only of offering useful products and services, but also includes an array of other activities such as proactive disclosure of information, compliance with statutory regulations, concern for the environment, and social contribution activities. In order to achieve growth and development while fulfilling our social responsibilities, Ryobi establishes and implements corporate governance tailored to its unique characteristics as a company, which is one of its most important management activities.

Ryobi will continue to expand and intensify its efforts to be a sound and dynamic corporation, and we ask for your continued understanding and support.

June 2005



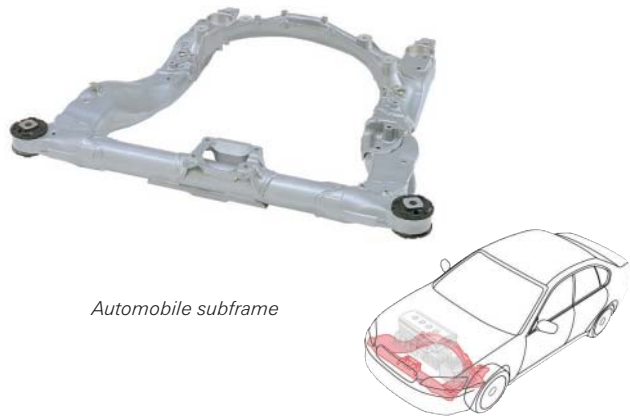
Hiroshi Urakami  
Chairman and CEO



Susumu Yoshikawa  
President and COO

## DIE CASTINGS

Our lightweight aluminum die cast products offer exceptional durability and have superior recycling properties. Ryobi's products are used in the manufacturing of a variety of automobile components that aim for high fuel-efficiency by being lighter in weight. For example, conventional automobile subframes made of steel have been changed to die cast products through Ryobi's state of the art technology, and made approximately 10 kg lighter.



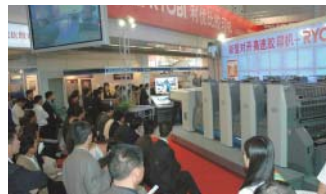
Automobile subframe

## PRINTING EQUIPMENT

The Company announced the development of the RYOBI 920 Series of the A1-size, high-speed, multicolor offset printing presses. These models are equipped with a combination of superior printing functions and high productivity, and have optimal specifications for widely used paper sizes mainly in China, but also in other Asian countries. The RYOBI 920 Series debuted to high acclaim at China's largest printing technology exhibition, CHINA PRINT 2005, held in May 2005.



High-speed multicolor offset printing press RYOBI 924



Ryobi's exhibit at CHINA PRINT 2005

## POWER TOOLS AND BUILDERS' HARDWARE

Maneuverable Ryobi blower vacuums accomplish both blower and vacuum functioning in one unit, and utilize easy fingertip lever switches for switching from one function to the other. The vacuum boasts superior suction strength and reduces the size of vacuumed leaves to one-tenth of their original size. The RESV-2000 released in 2004 has a nozzle that can be extended up to 10 cm, and is receiving high praise for its ability to be adjusted to the height of the user, offering more comfortable operability.

Door closers are the core product of our Builders' Hardware Business, with an abundant lineup ranging from closers for office buildings to homes. Included in this lineup is the compact D-1650, which meets the strictest standard in the United States for durability, and the D-3550 Series, also recognized for meeting the highest durability standards in the United States and Europe.



Blower vacuum RESV-2000



Door closer D-3550

Ryobi established subsidiary Ryobi Die Casting Dalian Co., Ltd. in April 2005 in China for the manufacturing and sales of die and die cast products. Production operations are scheduled to begin in November 2006. In recent years, global automobile manufacturers have continued to set up operations in China, and the demand for production of die cast products in China is increasing rapidly. With its operations expanding from Japan to the United States, Europe, and China, Ryobi is redoubling its efforts to meet demand for die cast products from its customers around the globe.

## CORPORATE SOCIAL RESPONSIBILITY

The Ryobi Group's corporate philosophy, "Create a sound and dynamic corporation through technology, trust and challenge," guides us not only in offering manufacturing and services, but also indicates our determination to grow and develop while fulfilling our social responsibilities.

### PROTECTION OF THE ENVIRONMENT AND SOCIAL CONTRIBUTION ACTIVITIES

#### **NPO: Ryobi Social Contribution Foundation**

Ryobi established the Ryobi Social Contribution Foundation in 2004, a nonprofit organization (NPO) dedicated to enhancing and expanding the scale and content of our environmental protection and social contribution activities. To commemorate the establishment of the foundation last year, it donated wheelchairs and folding beds to local social welfare facilities.

#### **ISO14001 Certification Received**

Within the Ryobi Group, 17 facilities in 13 companies have acquired ISO 14001 certification, the international standard for environment management systems, as of June 30, 2005. Each company and facility constructs an environmental management system, sets targets and objectives to reduce environmental impact, and works to conserve energy and resources, reduce waste, and promote recycling.

### CORPORATE GOVERNANCE

#### **Management Structure**

Ryobi has adopted the corporate auditor system. As of June 29, 2005, the Board of Directors consisted of nine members and the Corporate Auditors consisted of four members, two of whom were outside corporate auditors. In addition, the Company introduced a corporate officer system from June 2000, which currently consists of 14 corporate officers. All Directors concurrently hold positions as corporate officers.

The Board of Directors is primarily responsible for decision-making related to important matters and oversight of the execution of operations. The Corporate Operating Committee, composed primarily of corporate officers, reviews the progress of the execution of operations. Both the Board of Directors and the Corporate Operating Committee meet on a monthly basis. Moreover, the Company has established a Compensation Committee to make decisions regarding remuneration of Directors, as well as established a Personnel and Organization Committee to nominate Directors and corporate officers for optimizing the placement and nurturing of personnel, and the functionality of the organization.

#### **Compliance Structure**

The Ryobi Compliance Committee was established to assure that corporate activities are conducted equitably, ethically, and in compliance with statutory regulations, according to the Company's Code of Conduct and corresponding Standards of Conduct.

#### **Risk Management Structure**

In order to prevent the occurrence of risk and to ensure rapid response to the occurrence of risk, risk management regulations and a manual for management of individual risks has been drawn up. A permanent office for risk management has been established, and formulates countermeasures for instances when risk occurs to ensure timely and appropriate response.

## FINANCIAL SECTION

### FISCAL PERIOD COMPARATIVE SUMMARY

RYOBI LIMITED AND CONSOLIDATED SUBSIDIARIES

(For the years ended March 31)

	Millions of yen					
	2005	2004	2003	2002	2001	2000
For the fiscal period:						
Net sales .....	<b>¥157,964</b>	¥155,251	¥156,458	¥156,139	¥184,282	¥240,074
Cost of sales .....	<b>125,157</b>	123,749	126,536	126,113	144,567	190,214
Gross profit .....	<b>32,807</b>	31,502	29,922	30,026	39,715	49,860
Selling, general and administrative expenses.....	<b>21,973</b>	21,155	21,470	23,662	29,576	42,557
Operating income .....	<b>10,834</b>	10,347	8,452	6,364	10,139	7,303
Income taxes .....	<b>3,902</b>	3,608	1,504	2,188	(1,150)	(11,231)
Net income .....	<b>6,581</b>	12,812	4,471	2,081	2,907	2,831
As of fiscal year-end:						
Total assets.....	<b>¥157,420</b>	¥160,574	¥165,487	¥165,401	¥193,001	¥238,080
Total shareholders' equity .....	<b>55,294</b>	50,040	38,366	33,379	29,501	33,360
Interest-bearing debt .....	<b>44,502</b>	53,638	69,731	77,763	96,899	126,828
Yen						
Per share data:						
Net income .....	<b>¥ 39.33</b>	¥ 76.40	¥ 26.26	¥ 12.19	¥ 17.04	¥ 16.59
Shareholders' equity .....	<b>330.62</b>	299.05	227.84	195.55	172.81	195.51
Cash dividends .....	<b>7.50</b>	7.50	—	—	—	—
%						
Other data:						
Operating income margin .....	<b>6.9</b>	6.7	5.4	4.1	5.5	3.0
Net income margin .....	<b>4.2</b>	8.3	2.9	1.3	1.6	1.2
Return on assets (ROA) .....	<b>4.1</b>	7.9	2.7	1.2	1.3	1.2
Return on equity (ROE).....	<b>12.5</b>	29.0	12.5	6.6	9.2	8.6
Shareholders' equity ratio .....	<b>35.1</b>	31.2	23.2	20.2	15.3	14.0
Asset turnover ratio (times) .....	<b>0.99</b>	0.95	0.95	0.87	0.85	1.02
Millions of yen						
Capital expenditure .....	<b>¥ 7,595</b>	¥ 5,773	¥ 4,117	¥ 3,943	¥ 4,541	¥ 8,672
Depreciation and amortization .....	<b>5,439</b>	5,201	5,631	6,198	7,002	9,492
Free cash flow .....	<b>8,076</b>	15,773	12,027	12,584	28,032	15,225
Number of employees (Persons).....	<b>5,334</b>	5,364	5,669	6,090	6,480	8,354

Notes: 1. Net income per share figures are based on the weighted average number of shares outstanding each year.

2. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

#### (1) Summary of significant accounting policies

The consolidated financial statements of the Ryobi Group have been prepared in conformity with accounting principles generally accepted in Japan. The financial statements of overseas subsidiaries have been prepared in conformity with accounting principles generally accepted in each country.

#### (2) Analysis of operating results for the fiscal year ended March 31, 2005

##### Net sales

Ryobi's consolidated net sales increased year on year. Despite a drop in sales in the Die Castings Business, sales were up in both the Printing Equipment and Power Tools and Builders' Hardware Businesses.

Although sales of die castings to domestic automobile manufacturers increased year on year, this was offset by the decline in sales at Ryobi's U.S.-based subsidiaries due to the yen's appreciation against the U.S. dollar. In the Printing Equipment Business, domestic and export sales of medium-size offset printing presses (for B2, A2 and B3 paper sizes) were strong. Despite a decline in domestic sales of power tools, robust export of power tools and growth in domestic sales of builders' hardware contributed to an overall rise in Power Tools and Builders' Hardware Business sales.

For the fiscal year under review, consolidated net sales were adversely affected by approximately ¥1,400 million, compared with the previous fiscal year, due to movements in foreign currency exchange rates applied to consolidation. On a year-on-year basis, the yen appreciated against the U.S. dollar to the tune of 7.9%, while the yen depreciated 3.6% against the sterling pound. Accounting for these factors, Ryobi's consolidated net sales edged up 1.7% compared with the previous fiscal year to ¥157,964 million.

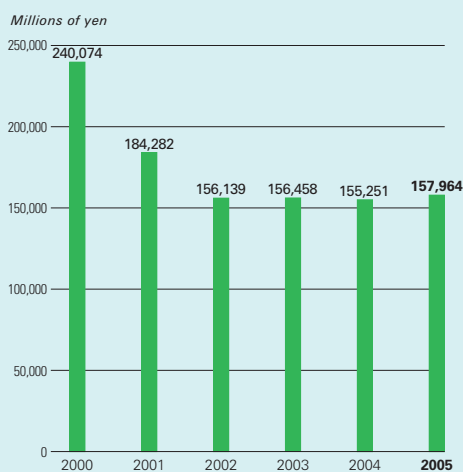
##### Operating income

Ryobi enjoyed an increase in earnings for the fiscal year ended March 31, 2005, underpinned by an increase in sales and efforts to reduce input costs.

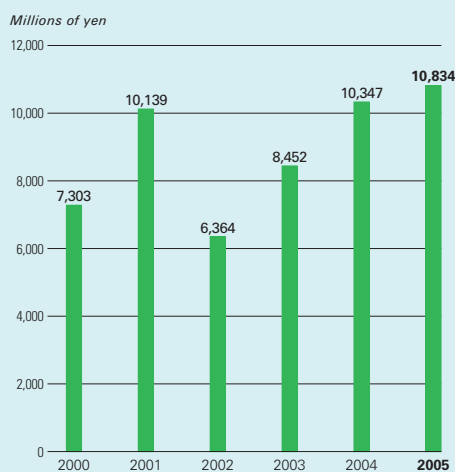
By business segment, earnings in the Printing Equipment and Power Tools and Builders' Hardware Businesses increased year on year. In the Die Castings Business, however, Ryobi was unable to fully pass on the increase in raw material costs to sales prices. This in turn contributed to a drop in die casting profits.

Despite this drop, operating income rose 4.7% year on year to ¥10,834 million, the third consecutive increase and a record result for Ryobi.

#### NET SALES



#### OPERATING INCOME



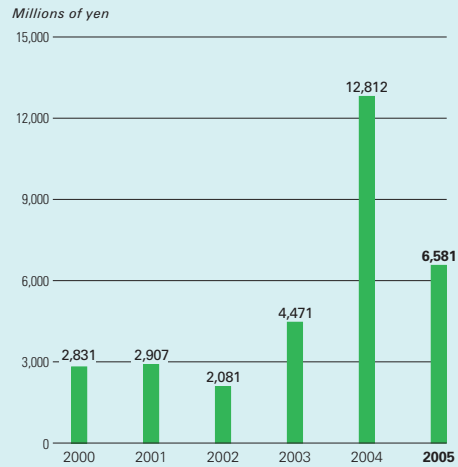
## Net income

In the fiscal year under review, interest expense fell ¥282 million year on year mainly attributable to the drop in interest-bearing debt (excluding discounted notes receivable) by ¥9,136 million.

Net income for the fiscal year was also impacted by the absence of gains in sales of available-for-sale securities. In the previous fiscal year, these gains totaled a substantial ¥8,236 million.

As a result of these factors, consolidated net income for the period amounted to ¥6,581 million, a decrease of 48.6% compared with the previous fiscal year.

## NET INCOME



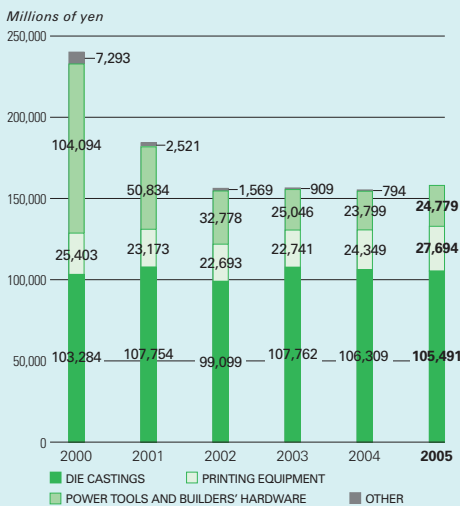
## Operating results by business segment

### Die Castings

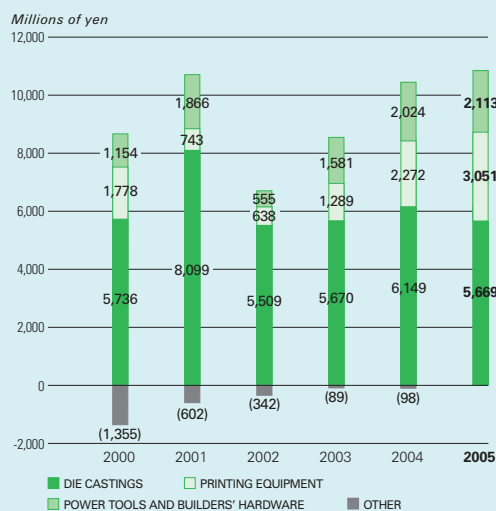
Sales in the Die Castings Business edged down 0.8% year on year to ¥105,491 million, while operating income was ¥5,669 million, a drop of 7.8%. The ratio of operating income to sales was 5.4%, as compared with 5.8% in the previous fiscal year.

In the fiscal year under review, overall sales declined. The steady sale of products to domestic automobile manufacturers was more than offset by a decrease in sales at Ryobi's U.S.-based subsidiaries, which was attributable to the appreciation of the yen against the U.S. dollar. Despite efforts to curtail costs and improve productivity, the division experienced a decline in earnings due to the increase in raw material costs.

## NET SALES BY BUSINESS SEGMENT



## OPERATING INCOME BY BUSINESS SEGMENT



### Printing Equipment

Sales in the Printing Equipment Business climbed 13.7% year on year to ¥27,694 million. Operating income surged 34.3% to ¥3,051 million for a ratio of operating income to sales of 11.0%, up from 9.3% in the previous fiscal year.

Robust sales were bolstered by a strong performance in domestic and export markets of medium-size offset printing presses (for B2, A2 and B3 paper sizes). The significant growth in earnings is in line with the increase in sales and the results of successful initiatives to reduce costs.

### Power Tools and Builders' Hardware

In the Power Tools and Builders' Hardware Business, sales rose 4.1% compared with the previous fiscal year to ¥24,779 million, while operating income increased 4.4% to ¥2,113 million. The ratio of operating income to sales for the segment was 8.5%, on par with the previous fiscal year.

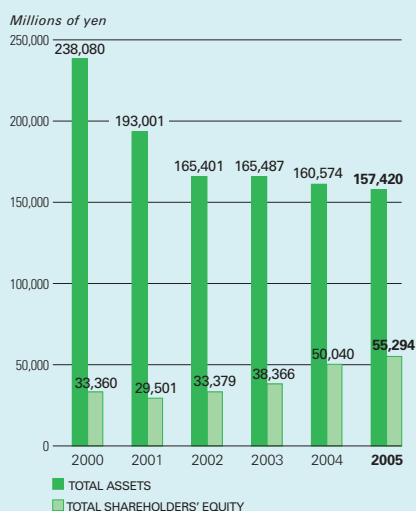
Despite a decline in domestic sales of power tools, results were buoyed by the export of power tools and sales in Japan of builders' hardware. As a result, the Power Tools and Builders' Hardware Business reported an overall increase in operating results. On the earnings front, profits increased year on year, reflecting the rise in segment sales and improved manufacturing efficiency.

## (3) Analysis of capital resources and liquidity

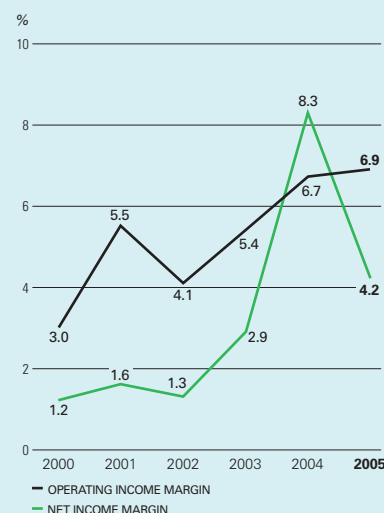
### Total assets, total liabilities and shareholders' equity

Total assets as of March 31, 2005 declined ¥3,154 million compared with the end of the previous fiscal year to ¥157,420 million. The major components were a reduction in cash and cash equivalents as well as deferred tax assets. Total liabilities fell ¥8,586 million to ¥101,202 million, primarily reflecting the reduction of interest-bearing debt. Excluding discounted notes receivable, interest-bearing debt as of the fiscal year-end was ¥44,502 million, down ¥9,136 million, or 17.0%. Total shareholders' equity amounted to ¥55,294 million as of March 31, 2005, an increase of ¥5,254 million. This increase essentially reflected the net income for the period. Accounting for all these factors, the shareholders' equity ratio was 35.1%.

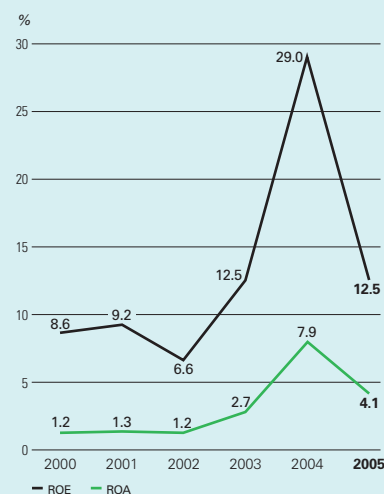
**TOTAL ASSETS & TOTAL SHAREHOLDERS' EQUITY**



**OPERATING INCOME MARGIN & NET INCOME MARGIN**



**ROE & ROA**



## Liquidity

The Ryobi Group's free cash flow (the sum total of net cash from operating activities and net cash from investing activities) declined ¥7,697 million, from ¥15,773 million in the previous fiscal year to ¥8,076 million. The principal components were proceeds from sale of investments in securities of ¥2 million, a substantial decline from ¥8,536 million in the previous fiscal year, and the increase in purchase of property, plant and equipment by ¥1,669 million, representing capital expenditure toward machinery and equipment.

The Ryobi Group has positioned adequate cash flows as critical to its financial strategy. In principle, the Ryobi Group utilizes cash generated from operating activities as the primary source for its capital expenditure while taking into consideration overall investment efficiency. In the event of a cash surplus, the Ryobi Group applies excess funds to the reduction of interest-bearing debt.

Major cash flow indicators and trends are summarized in the following table:

	2005	2004
Shareholders' equity ratio (%).....	35.1	31.2
Shareholders' equity ratio at fair market value (%).....	51.8	42.7
Interest-bearing debt – Repayment years.....	3.1	4.6
Interest coverage ratio (%).....	19.5	11.2

Notes: Shareholders' equity ratio: Shareholders' equity / total assets

Shareholders' equity ratio at fair market value: Shareholders' equity at fair market value / total assets

Interest-bearing debt – Repayment years: Interest-bearing debt / net cash from operating activities

Interest coverage ratio: Net cash from operating activities / interest payment

1. Each of the indicators identified in the preceding table is calculated based on figures from Ryobi's consolidated financial statements.

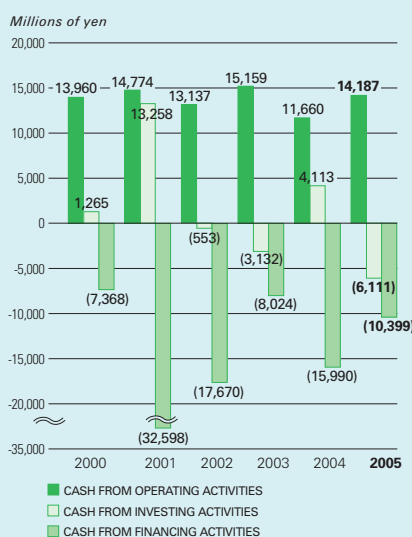
2. Fair market value is calculated using the closing market price of Ryobi's publicly listed shares as of the fiscal year-end multiplied by the number of common shares issued and outstanding (excluding treasury stock).

3. Interest-bearing debt includes all liabilities, which incur interest in connection with liabilities listed on Ryobi's consolidated balance sheet.

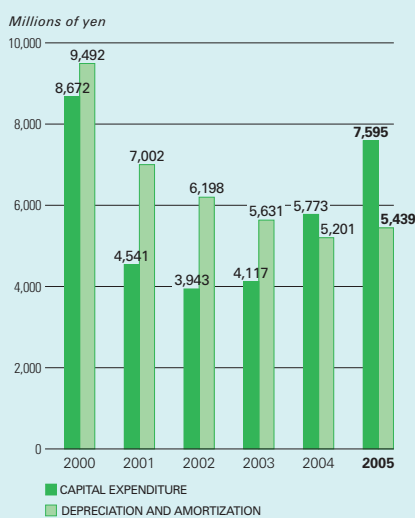
4. Net cash from operating activities is taken from Ryobi's consolidated statements of cash flows.

5. Interest payment is the amount of interest paid and is taken from Ryobi's consolidated statements of cash flows.

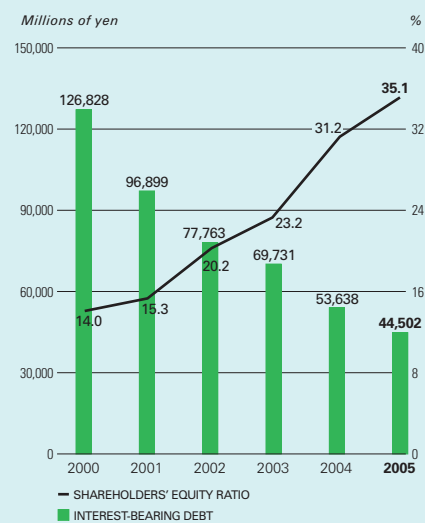
### CASH FLOW



### CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION



### SHAREHOLDERS' EQUITY RATIO & INTEREST-BEARING DEBT



#### **(4) Strategies and operating outlook by business segment**

##### **Business segment strategy**

###### **Die Castings**

Ryobi is planning increase sales in the Die Castings Business through the development of high-quality, high-value-added products, efforts to reinforce R&D capabilities and optimal application of its Japan, U.S. and Europe manufacturing structure. Ryobi will also increase efforts to promote a global die casting strategy. In April 2005, Ryobi established a subsidiary in China to further expand its business in the region. Moreover, Ryobi will endeavor to curtail costs by enhancing manufacturing and sales efficiency on both a global and Group-wide basis.

In the automobile-related sector, Ryobi will bolster its technical capabilities in response to demands for more lightweight chassis and aluminum die cast components for automobile frames. At the same time, Ryobi will strengthen its abilities to address calls for large orders and production with processing needs.

In addition, Ryobi will work to uncover new opportunities and cultivate demand in fields unrelated to the automobile sector including the electronics and communications industries, and fields with requirements for high recyclability.

###### **Printing Equipment**

In recent years, the Ryobi Group has focused efforts on its medium-size offset printing presses (for B2, A2 and B3 paper sizes). In the Printing Equipment Business, Ryobi will continue activities in this area and, at the same time, reinforce efforts toward new product development. Ryobi is dedicated to better addressing the needs of its customers and will work to enhance product precision and functionality with additional features such as multicolor presses.

Ryobi will also pursue additional cost reductions by shrinking production lead times, improving operations and enhancing efficiencies in both production and marketing.

In response to increased demand for medium-size offset printing presses, Ryobi will upgrade and expand its manufacturing capabilities.

###### **Power Tools and Builders' Hardware**

In the power tools business, which includes electric power tools, lawn and garden and other equipment, Ryobi will step up marketing efforts and improve its product development capabilities. Ryobi will concentrate on improving productivity at its China-based Dalian subsidiary, and reinforce overall manufacturing with the aim of increasing price competitiveness.

In the builders' hardware business, Ryobi will promote the development of high-value-added products and work to improve productivity at its subsidiary in Dalian, China and affiliated company in Taiwan. Through these measures, Ryobi anticipates a significant improvement in price competitiveness.

##### **Ryobi Group's Forecasts**

Ryobi expects growth in sales and profits for the fiscal year ending March 31, 2006 based on the following factors. Despite an expected sales decrease in the Die Castings Business at our U.S.-based subsidiaries, overall sales are forecast to rise, underpinned by growth in the Printing Equipment Business and in the Power Tools and Builders' Hardware Business. Profits are expected to edge upward, supported by the increase in sales.

	Millions of yen
Net Sales.....	¥160,000 (+1.3%)
Operating Income .....	11,200 (+3.4%)
Net Income.....	6,600 (+0.3%)

Note: Numbers in parentheses are comparison data from the prior fiscal year.

##### **Forward-Looking Statements**

Items containing forward-looking statements such as performance forecasts, future trends, and strategies are based upon management's assumptions in light of the information available as of the end of the fiscal year under review and may contain various risks and uncertainties. The Ryobi Group cautions that its actual actions and performance may differ significantly from these forward-looking statements due to numerous factors outside of Group's control such as, but not limited to: including general economic conditions, the business environment, trends in market demand and foreign exchange rates.

# CONSOLIDATED BALANCE SHEETS

RYOBI LIMITED AND CONSOLIDATED SUBSIDIARIES

(As of March 31, 2005 and 2004)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current assets</b>			
Cash and cash equivalents .....	¥ 15,303	¥ 17,595	\$ 142,499
Time deposits (Note 7) .....	2,736	2,738	25,477
Notes and accounts receivable (Note 7)			
Trade .....	38,270	37,713	356,365
Unconsolidated subsidiaries and affiliates .....	119	136	1,108
Other .....	1,535	1,213	14,294
Allowance for doubtful accounts .....	(101)	(133)	(941)
Inventories (Note 4) .....	27,528	27,267	256,337
Deferred tax assets (Note 10) .....	2,129	2,896	19,825
Prepaid expenses and other .....	228	263	2,123
Total current assets .....	<u>87,747</u>	<u>89,688</u>	<u>817,087</u>
<b>Property, plant and equipment (Notes 5, 6 and 7)</b>			
Land .....	19,557	19,407	182,112
Buildings and structures .....	38,381	38,239	357,398
Machinery and equipment .....	81,039	80,539	754,624
Construction in progress .....	962	775	8,958
Total .....	<u>139,939</u>	<u>138,960</u>	<u>1,303,092</u>
Accumulated depreciation .....	(85,102)	(85,254)	(792,458)
Net property, plant and equipment .....	<u>54,837</u>	<u>53,706</u>	<u>510,634</u>
<b>Investments and other assets</b>			
Investments in securities (Note 3) .....	9,428	9,615	87,792
Investments in and advances to unconsolidated subsidiaries and affiliates .....	340	320	3,166
Intangible fixed assets .....	1,638	1,607	15,253
Deferred tax assets (Note 10) .....	1,120	3,214	10,429
Other .....	2,494	2,756	23,224
Allowance for doubtful accounts .....	(184)	(332)	(1,713)
Total investments and other assets .....	<u>14,836</u>	<u>17,180</u>	<u>138,151</u>
Total .....	<u>¥157,420</u>	<u>¥160,574</u>	<u>\$1,465,872</u>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current liabilities</b>			
Short-term borrowings (Note 7) .....	¥ 19,806	¥ 22,222	\$ 184,431
Current portion of long-term debt (Note 7) .....	11,033	10,428	102,738
Notes and accounts payable			
Trade .....	30,236	29,565	281,553
Unconsolidated subsidiaries and affiliates .....	416	353	3,874
Other .....	5,494	4,539	51,159
Accrued expenses .....	4,372	4,800	40,711
Income taxes payable .....	490	498	4,563
Other current liabilities (Note 10) .....	4,533	5,604	42,210
Total current liabilities .....	<u>76,380</u>	<u>78,009</u>	<u>711,239</u>
<b>Long-term liabilities</b>			
Long-term debt (Note 7) .....	13,663	21,098	127,228
Accrued severance indemnities (Note 8) .....	6,879	6,921	64,056
Other long-term liabilities (Note 10) .....	4,280	3,760	39,855
Total long-term liabilities .....	<u>24,822</u>	<u>31,779</u>	<u>231,139</u>
<b>Minority interests</b> .....	924	746	8,604
<b>Commitments and contingent liabilities</b> (Notes 12, 13 and 14)			
<b>Shareholders' equity</b> (Notes 9 and 16)			
Common stock			
Authorized: 500,000,000 shares			
Issued: 171,230,715 shares .....	18,472	18,472	172,009
Capital surplus .....	23,588	23,524	219,648
Retained earnings .....	18,503	13,176	172,297
Land revaluation reserve (Note 6) .....	626	626	5,829
Unrealized gain on available-for-sale securities .....	3,029	3,125	28,206
Foreign currency translation adjustments .....	(8,094)	(8,205)	(75,370)
Treasury stock (3,986,172 shares in 2005; 3,898,652 shares in 2004) .....	(830)	(678)	(7,729)
Total shareholders' equity .....	<u>55,294</u>	<u>50,040</u>	<u>514,890</u>
Total .....	<u>¥157,420</u>	<u>¥160,574</u>	<u>\$1,465,872</u>

CONSOLIDATED STATEMENTS OF INCOME  
RYOBI LIMITED AND CONSOLIDATED SUBSIDIARIES

(For the years ended March 31, 2005 and 2004)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Net sales</b> .....	<b>¥157,964</b>	¥155,251	<b>\$1,470,938</b>
<b>Cost of sales</b> .....	<b>125,157</b>	123,749	<b>1,165,444</b>
Gross profit .....	<b>32,807</b>	31,502	<b>305,494</b>
<b>Selling, general and administrative expenses</b> .....	<b>21,973</b>	21,155	<b>204,609</b>
Operating income .....	<b>10,834</b>	10,347	<b>100,885</b>
<b>Other income</b>			
Interest and dividends .....	<b>139</b>	247	<b>1,294</b>
Gain on sales of investments in securities .....	<b>0</b>	8,236	<b>0</b>
Other .....	<b>1,669</b>	1,280	<b>15,542</b>
Total other income .....	<b>1,808</b>	9,763	<b>16,836</b>
<b>Other expenses</b>			
Interest .....	<b>720</b>	1,002	<b>6,705</b>
Loss on disposal of property, plant and equipment .....	<b>518</b>	624	<b>4,824</b>
Impairment loss on fixed assets (Note 5) .....	<b>—</b>	689	<b>—</b>
Other .....	<b>761</b>	1,266	<b>7,086</b>
Total other expenses .....	<b>1,999</b>	3,581	<b>18,615</b>
<b>Income before income taxes and minority interests</b> .....	<b>10,643</b>	16,529	<b>99,106</b>
<b>Income taxes</b> (Note 10)			
Current .....	<b>712</b>	917	<b>6,630</b>
Deferred .....	<b>3,190</b>	2,691	<b>29,705</b>
Total income taxes .....	<b>3,902</b>	3,608	<b>36,335</b>
<b>Minority interests</b> .....	<b>160</b>	109	<b>1,490</b>
<b>Net income</b> .....	<b>¥ 6,581</b>	¥ 12,812	<b>\$ 61,281</b>
<b>Per share of common stock</b> (Note 2(n))			
Net income .....	<b>¥ 39.33</b>	¥ 76.40	<b>\$ 0.366</b>
Cash dividends applicable to the year .....	<b>7.50</b>	7.50	<b>0.070</b>

See notes to consolidated financial statements.



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
RYOBI LIMITED AND CONSOLIDATED SUBSIDIARIES

(For the years ended March 31, 2005 and 2004)

	Issued number of shares of common stock (thousands)	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Land revaluation reserve	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2003</b> .....	171,231	¥ 18,472	¥ 23,517	¥ 365	¥ 626	¥ 3,666	¥ (7,843)	¥ (437)
Net income .....	—	—	—	12,812	—	—	—	—
Bonuses to directors and statutory auditors .....	—	—	—	(1)	—	—	—	—
Unrealized gain on available-for-sale securities decrease .....	—	—	—	—	—	(541)	—	—
Foreign currency translation adjustments .....	—	—	—	—	—	—	(362)	—
Disposal of treasury stock (18,410 shares) .....	—	—	7	—	—	—	—	3
Repurchase of treasury stock (1,072,644 shares) .....	—	—	—	—	—	—	—	(244)
<b>Balance at March 31, 2004</b> .....	171,231	18,472	23,524	13,176	626	3,125	(8,205)	(678)
Net income .....	—	—	—	6,581	—	—	—	—
Cash dividends, ¥7.50 per share ..	—	—	—	(1,254)	—	—	—	—
Unrealized gain on available-for-sale securities decrease .....	—	—	—	—	—	(96)	—	—
Foreign currency translation adjustments .....	—	—	—	—	—	—	111	—
Disposal of treasury stock (332,532 shares) .....	—	—	64	—	—	—	—	41
Repurchase of treasury stock (414,181 shares) .....	—	—	—	—	—	—	—	(184)
Other net increase in treasury stock (5,871 shares) .....	—	—	—	—	—	—	—	(9)
<b>Balance at March 31, 2005</b> .....	171,231	¥ 18,472	¥ 23,588	¥ 18,503	¥ 626	¥ 3,029	¥ (8,094)	¥ (830)

	Thousands of U.S. dollars (Note 1)						
<b>Balance at March 31, 2004</b> .....	\$ 172,009	\$ 219,052	\$ 122,693	\$ 5,829	\$ 29,100	\$ (76,404)	\$ (6,313)
Net income .....	—	—	61,281	—	—	—	—
Cash dividends, \$0.07 per share ..	—	—	(11,677)	—	—	—	—
Unrealized gain on available-for-sale securities decrease .....	—	—	—	—	(894)	—	—
Foreign currency translation adjustments .....	—	—	—	—	—	1,034	—
Disposal of treasury stock (332,532 shares) .....	—	596	—	—	—	—	382
Repurchase of treasury stock (414,181 shares) .....	—	—	—	—	—	—	(1,714)
Other net increase in treasury stock (5,871 shares) .....	—	—	—	—	—	—	(84)
<b>Balance at March 31, 2005</b> .....	\$ 172,009	\$ 219,648	\$ 172,297	\$ 5,829	\$ 28,206	\$ (75,370)	\$ (7,729)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
RYOBI LIMITED AND CONSOLIDATED SUBSIDIARIES

(For the years ended March 31, 2005 and 2004)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Operating activities</b>			
Income before income taxes and minority interests .....	¥ 10,643	¥ 16,529	\$ 99,106
Adjustments for :			
Income taxes - paid .....	(962)	(1,087)	(8,958)
Depreciation and amortization .....	5,444	5,231	50,694
Impairment loss on fixed assets .....	—	689	—
Loss on sales or disposals of property, plant and equipment ..	484	615	4,507
Gain on sales of investments in securities .....	0	(8,236)	0
Changes in assets and liabilities			
Increase in notes and accounts receivable .....	(888)	(3,787)	(8,269)
Decrease (increase) in inventories .....	(278)	1,690	(2,589)
Increase (decrease) in notes and accounts payable .....	885	(1,335)	8,241
Increase (decrease) in accrued expenses .....	(688)	440	(6,407)
Other, net .....	(453)	911	(4,218)
Net cash provided by operating activities .....	14,187	11,660	132,107
<b>Investing activities</b>			
Purchase of property, plant and equipment .....	(6,586)	(4,917)	(61,328)
Proceeds from sale of property, plant and equipment .....	526	388	4,898
Proceeds from sale of investments in securities .....	2	8,536	19
Other .....	(53)	106	(494)
Net cash provided by (used in) investing activities .....	(6,111)	4,113	(56,905)
<b>Financing activities</b>			
Proceeds from long-term debt .....	3,600	5,059	33,523
Repayments of long-term debt .....	(10,333)	(15,265)	(96,219)
Decrease in short-term borrowings, net .....	(2,311)	(5,287)	(21,520)
Acquisition of treasury stock .....	(184)	(243)	(1,713)
Cash dividends paid .....	(1,254)	—	(11,677)
Other .....	83	(254)	772
Net cash used in financing activities .....	(10,399)	(15,990)	(96,834)
<b>Foreign currency translation adjustments on cash and cash equivalents</b> .....			
	31	(33)	289
<b>Net decrease in cash and cash equivalents</b> .....	(2,292)	(250)	(21,343)
<b>Cash and cash equivalents at beginning of year</b> .....	17,595	17,845	163,842
<b>Cash and cash equivalents at end of year</b> .....	¥ 15,303	¥ 17,595	\$ 142,499
<b>Additional cash flow information</b>			
Interest paid .....	¥ 729	¥ 1,039	\$ 6,788

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RYOBI LIMITED AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2005 and 2004

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 consolidated financial statements to conform to the classifications used in 2005.

The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Ryobi Limited ("the Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107.39 to \$1, the approximate rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. Summary of Significant Accounting Policies

#### (a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries ("the Ryobi Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Ryobi Group has the ability to exercise significant influence are accounted for by the equity method.

##### (i) Consolidated subsidiaries

The major consolidated subsidiaries are listed below:

- Tokyo Light Alloy Co., Ltd. (Japan)
- Ryobi Holdings (USA), Inc.
- Ryobi Die Casting (USA), Inc.

##### (ii) Affiliates

The major affiliate accounted for by the equity method is Ryobi-Tech Corporation (Taiwan).

The number of consolidated subsidiaries and affiliates accounted for by the equity method as of March 31, 2005 and 2004 was as follows:

	2005	2004
Consolidated subsidiaries .....	14	15
Affiliates .....	3	3

The number of unconsolidated subsidiaries and affiliates not accounted for by the equity method as of March 31, 2005 and 2004 was as follows:

	2005	2004
Unconsolidated subsidiaries .....	3	3
Affiliates .....	0	0

The investments in such unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant inter-company transactions, account balances and unrealized profits among the companies have been eliminated.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 years.

#### (b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks and financial institutions which are unrestricted as to withdrawal or use, and which have original maturities of three months or less.

#### (c) Inventories

Inventories are valued at cost for the Company and domestic subsidiaries and the lower of cost or market for foreign subsidiaries. Cost is determined by methods according to the classification of inventories as follows:

##### (i) Finished products and work in process

The average method for the Company and domestic subsidiaries.

Foreign subsidiaries mainly adopt the first-in first-out method.

##### (ii) Raw materials, supplies and purchased goods

Die castings ..... Average method

Others ..... Last purchase invoice price method

Foreign subsidiaries mainly adopt the first-in first-out method.

#### (d) Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in income, ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and iii) avail-

able-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

***(e) Property, plant and equipment***

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is primarily computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is principally applied to the property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is from 3 to 50 years for buildings and structures, and from 2 to 20 years for machinery and equipment.

***(f) Long-lived assets***

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Ryobi Group adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2004. The Ryobi Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

***(g) Accrued severance indemnities and pension plan***

The Company and domestic consolidated subsidiaries have a contributory or a non-contributory funded pension plan and unfunded pension plans, which cover substantially all of their employees. Certain foreign consolidated subsidiaries have defined benefit pension plans.

Effective April 1, 2000, the Ryobi Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The amount of the transitional obligation

of ¥9,092 million (\$84,663 thousand), determined as of the beginning of this fiscal year, is amortized over ten years. Unrecognized prior service cost is amortized at the beginning of this fiscal year by using straight-line method over employees' remaining service period or shorter period (primarily 15 years). Unrecognized net actuarial loss is amortized from the next fiscal year by using the straight-line method over the employees' remaining service period or less (primarily 15 years).

***(h) Leases***

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

***(i) Income taxes***

The Ryobi Group adopted an accounting method for interperiod allocation of income taxes based on the asset and liability method.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

***(j) Appropriation of retained earnings***

Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholder's approval.

***(k) Translation of foreign currency accounts***

All current and non-current receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translations are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

***(l) Translation of foreign currency financial statements (accounts of foreign subsidiaries)***

The balance sheet accounts of the consolidated overseas subsidiaries are translated into yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of the consolidated overseas subsidiaries are translated into yen at the average exchange rate.

***(m) Derivative and hedging activities***

The Ryobi Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and

interest rate swaps are utilized by the Ryobi Group to reduce foreign currency exchange and interest rate risks. The Ryobi Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative translations are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until of maturity of the hedged transaction.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

#### (n) Per share information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively for stock splits.

Diluted net income per share is not calculated because no dilutive instruments were issued and outstanding for the years ended March 31, 2005 and 2004.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

### 3. Marketable Securities and Investments in Securities

Information regarding each category of the securities classified as trading, held-to-maturity and available-for-sale at March 31, 2005 and 2004 was as follows:

	Millions of yen			
	2005			
	Cost	Unrealized gain	Unrealized loss	Fair value
Available-for-sale:				
Corporate shares ..	¥3,007	¥5,096	¥(7)	¥8,096
Bonds .....	100	—	(1)	99
Others .....	10	—	(0)	10
Total .....	¥3,117	¥5,096	¥(8)	¥8,205

	Millions of yen			
	2004			
	Cost	Unrealized gain	Unrealized loss	Fair value
Available-for-sale:				
Corporate shares ..	¥3,119	¥5,323	¥(62)	¥8,380
Others .....	10	—	(0)	10
Total .....	¥3,129	¥5,323	¥(62)	¥8,390

	Thousands of U.S. dollars			
	2005			
	Cost	Unrealized gain	Unrealized loss	Fair value
Available-for-sale:				
Corporate shares ..	\$28,001	\$47,453	\$(65)	\$75,389
Bonds .....	931	—	(9)	922
Others .....	93	—	(0)	93
Total .....	\$29,025	\$47,453	\$(74)	\$76,404

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Available-for-sale:			
Corporate shares .....	¥1,223	¥1,224	\$11,388
Bonds .....	—	1	—
Total .....	¥1,223	¥1,225	\$11,388

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥2 million (\$19 thousand) and ¥8,536 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥0 million (\$0 thousand) and ¥0 million (\$0 thousand), respectively, for the year ended March 31, 2005 and ¥8,236 million and ¥0 million, respectively, for the year ended March 31, 2004.

The book value of bonds by contractual maturity for securities classified as available-for-sale at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due in one year or less .....	¥ —	¥ —	\$ —
Due after one year through five years .....	100	1	931
Total .....	¥ 100	¥ 1	\$ 931

### 4. Inventories

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products and purchased goods .....	¥12,283	¥12,711	\$114,378
Work in process .....	10,059	9,475	93,668
Raw materials and supplies .....	5,186	5,081	48,291
Total .....	¥27,528	¥27,267	\$256,337

## 5. Long-lived Assets

The Ryobi group reviewed its long-lived assets for impairment as of the year ended March 31, 2004 and, as a result, recognized an impairment loss of ¥689 million (\$6,416 thousand) as other expense on unoccupied land due to a decline of fair value. The carrying amount of the land was written down to the recoverable amount. The recoverable amount of the land was measured at net selling price determined based on the tax purpose valuation, and considering their materiality.

No impairment loss was recognized for the year end March 31, 2005.

## 6. Land Revaluation

Under the "Law of Land Revaluation" a subsidiary elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

The details of the one-time revaluation as of March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land before revaluation .....	¥ 275	\$ 2,561
Land after revaluation .....	1,981	18,447
Land revaluation reserve, net of income taxes of ¥675 million (\$6,286 thousand) and attribution of minority interest of ¥405 million (\$3,771 thousand) .....	¥ 626	\$ 5,829

As of March 31, 2005, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥562 million (\$5,233 thousand).

## 7. Short-term Borrowings and Long-term Debt

The annual weighted average interest rates applicable to short-term borrowings were 1.3% and 1.1%, at March 31, 2005 and 2004, respectively.

Commercial paper included short-term borrowings totaling ¥1,967 million (\$18,316 thousand) and ¥2,024 million, at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans principally from banks and insurance companies with interest rates ranging from 1.19% to 4.75%:			
Secured .....	¥ 1,553	¥ 1,583	\$ 14,462
Unsecured .....	23,143	29,833	215,504
Other .....	—	110	—
Total .....	24,696	31,526	229,966
Less: Current portion .....	(11,033)	(10,428)	(102,738)
Long-term debt less current portion ..	¥ 13,663	¥ 21,098	\$ 127,228

The aggregate annual maturities of long-term debt at March 31, 2005 were as follows:

Years Ending March 31	Millions of yen	Thousands of U.S. dollars
2006 .....	¥11,033	\$102,738
2007 .....	6,290	58,572
2008 .....	3,557	33,122
2009 .....	1,305	12,152
2010 .....	2,416	22,497
2011 and thereafter .....	95	885
Total .....	¥24,696	\$229,966

The assets of the Ryobi Group pledged as collateral for short-term borrowings and long-term debt with banks and other financial institutions at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net book value of property:			
Buildings and structures .....	¥ 3,738	¥ 3,662	\$ 34,808
Machinery and equipment .....	2,017	1,395	18,782
Land .....	2,867	2,858	26,697
Time deposit .....	108	108	1,005
Notes and accounts receivable .....	2,311	2,546	21,520
Total .....	¥11,041	¥10,569	\$ 102,812

## 8. Accrued Severance Indemnities and Pension Plan

The Company and its certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liabilities for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation .....	¥ 30,962	¥ 29,923	\$ 288,314
Fair value of plan assets .....	(18,177)	(17,197)	(169,262)
Unrecognized prior service cost .....	2,883	3,101	26,846
Unrecognized actuarial loss .....	(5,694)	(5,152)	(53,022)
Unrecognized transitional obligation ..	(3,103)	(3,754)	(28,895)
Prepaid pension cost .....	8	—	75
<b>Net liabilities .....</b>	<b>¥ 6,879</b>	<b>¥ 6,921</b>	<b>\$ 64,056</b>

The components of net periodic retirement benefit costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost .....	¥1,009	¥1,289	\$ 9,395
Interest cost .....	668	821	6,220
Expected return on plan assets .....	(562)	(492)	(5,233)
Amortization of prior service cost .....	(219)	(20)	(2,039)
Recognized actuarial loss .....	445	747	4,144
Amortization of transitional obligation ..	651	641	6,062
<b>Net periodic retirement benefit costs ...</b>	<b>¥1,992</b>	<b>¥2,986</b>	<b>\$18,549</b>

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate .....	2.5%	2.5%
Expected rate of return on plan assets .....	3.5%	3.5%
Amortization of prior service cost .....	Primarily 15 years	Primarily 15 years
Recognition period of actuarial gain / loss .....	Primarily 15 years	Primarily 15 years
Amortization of transitional obligation .....	10 years	10 years

## 9. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings and capital surplus available for dividends under the Code was ¥16,338 million (\$152,137 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

## 10. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of 39.5% and 40.9% for the years ended March 31, 2005 and 2004, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Accrued severance cost .....	¥ 2,464	¥ 2,350	\$ 22,944
Tax loss carryforwards .....	16,594	20,567	154,521
Other .....	2,918	2,828	27,172
Valuation allowance .....	(15,768)	(16,404)	(146,829)
Deferred tax assets .....	¥ 6,208	¥ 9,341	\$ 57,808
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities .....			
	¥ (2,012)	¥ (2,083)	\$ (18,735)
Other .....	(2,263)	(2,095)	(21,073)
Deferred tax liabilities .....	¥ (4,275)	¥ (4,178)	\$ (39,808)
Net deferred tax assets .....	¥ 1,933	¥ 5,163	\$ 18,000

The reconciliation between the normal effective statutory tax rate for the years ended March 31, 2005 and 2004 and the actual effective tax rates reflected in the accompanying consolidated statements of income was as follows:

	2005	2004
Normal effective statutory tax rate .....	39.5%	40.9%
Valuation allowance .....	(4.1)	(18.2)
Other, net .....	1.3	(0.9)
Actual effective tax rate .....	36.7%	21.8%

## 11. Research and Development Costs

Research and development costs were ¥1,554 million (\$14,471 thousand) and ¥1,505 million for the years ended March 31, 2005 and 2004, respectively.

## 12. Leases

Lease expenses on such finance lease contracts without ownership transfer amounted to ¥1,074 million (\$10,001 thousand) and ¥923 million, for the years ended March 31, 2005 and 2004, respectively.

	Millions of yen		
	2005		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment ..	¥5,111	¥2,058	¥3,053
Other assets .....	1,684	1,194	490
Total .....	¥6,795	¥3,252	¥3,543

	Millions of yen		
	2004		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment ..	¥4,876	¥1,731	¥3,145
Other assets .....	1,686	864	822
Total .....	¥6,562	¥2,595	¥3,967

	Thousands of U.S. dollars		
	2005		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment ..	\$47,593	\$19,164	\$28,429
Other assets .....	15,681	11,118	4,563
Total .....	\$63,274	\$30,282	\$32,992

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, computed by the straight-line method and the interest method were ¥1,074 million (\$10,001 thousand) and ¥923 million for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease payments of the Ryobi Group as of March 31, 2005 and 2004 under noncancelable finance leases that do not transfer ownership of leased assets to the lessee were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current .....	¥ 867	¥ 986	\$ 8,073
Non-current .....	2,676	2,981	24,919
Total .....	¥3,543	¥3,967	\$32,992

Future minimum lease payments of the Ryobi Group as of March 31, 2005 and 2004 under noncancelable operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current .....	¥ 525	¥ 553	\$4,889
Non-current .....	491	1,012	4,572
Total .....	¥1,016	¥1,565	\$9,461

## 13. Contingent Liabilities

The Ryobi group had the following contingent liabilities at March 31, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Trade notes discounted .....	¥ 668	¥ 577	\$ 6,220
Guarantees and similar items			
bank loans .....	189	209	1,760
leases .....	2,685	2,548	25,003
Total .....	¥3,542	¥3,334	\$32,983

## 14. Derivatives

The Ryobi Group enters into foreign exchange forward contracts and interest rate swaps to hedge risk and reduce exposure to fluctuations in market values of foreign exchange rates and interest rates associated with certain assets and liabilities.



All derivative transactions are related to qualified hedges of interest and foreign currency exposures incorporated with its business. Market risk of these derivatives is basically offset by opposite movements in the value of hedged assets. The Ryobi Group does not hold or issue derivatives for speculative or trading purposes.

Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. The Ryobi Group does not anticipate any losses arising from credit risk because the counterparties to these derivatives are limited to major international financial institutions.

The execution of derivatives is controlled by the Finance Department of the Company, and by the Finance Division of consolidated subsidiaries. Derivative transactions have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The Ryobi Group had the following derivatives contracts outstanding as of March 31, 2005 and 2004.

	Millions of yen		
	2005		
	Contract amount	Fair value	Unrealized gain (loss)
Interest swap:			
Fixed rate payment, floating rate receipt .....	¥ 100	¥ (2)	¥ (2)

	Millions of yen		
	2004		
	Contract amount	Fair value	Unrealized gain (loss)
Interest swap:			
Fixed rate payment, floating rate receipt .....	¥ 100	¥ (2)	¥ (2)

	Thousands of U.S. dollars		
	2005		
	Contract amount	Fair value	Unrealized gain (loss)
Interest swap:			
Fixed rate payment, floating rate receipt .....	\$ 931	\$ (19)	\$ (19)

Note: Derivatives which qualify for hedge accounting were excluded from the market value information in 2005 and 2004.

## 15. Segment Information

The segment information classified by industry and geographical market area is presented below with respect to the years ended March 31, 2005 and 2004.

### (a) Industry segment information

The Ryobi Group operates in four industry segments according to the product groups which are:

- Die castings ("Die castings")
- Printing equipment ("Printing equipment")
- Electric power tools, lawn and garden equipment and builders' hardware ("Power tools and builders' hardware")
- Other products such as office equipment manufacturing, etc. ("Other")

	Millions of yen				
	2005				
	Die castings	Printing equipment	Power tools and builders' hardware	Eliminations / corporate	Consolidated
Net sales:					
Unaffiliated customer .....	¥105,491	¥27,694	¥24,779	¥ —	¥157,964
Intersegment .....	225	—	2	(227)	—
Total .....	105,716	27,694	24,781	(227)	157,964
Operating costs and expenses .....	100,047	24,643	22,668	(228)	147,130
Operating income .....	¥ 5,669	¥ 3,051	¥ 2,113	¥ 1	¥ 10,834
Total assets .....	¥ 84,370	¥24,809	¥23,953	¥ 24,288	¥157,420
Depreciation and amortization .....	4,170	518	751	—	5,439
Capital expenditure .....	¥ 6,467	¥ 614	¥ 514	—	¥ 7,595

	Millions of yen					
	2004					
	Die castings	Printing equipment	Power tools and builders' hardware	Other	Eliminations / corporate	Consolidated
Net sales:						
Unaffiliated customer .....	¥106,309	¥24,349	¥23,799	¥794	¥ —	¥155,251
Intersegment .....	271	—	10	—	(281)	—
Total .....	106,580	24,349	23,809	794	(281)	155,251
Operating costs and expenses .....	100,431	22,077	21,785	892	(281)	144,904
Operating income (loss) .....	¥ 6,149	¥ 2,272	¥ 2,024	¥ (98)	¥ 0	¥ 10,347
Total assets .....	¥ 81,214	¥23,794	¥24,408	¥869	¥30,289	¥160,574
Depreciation and amortization .....	3,905	501	782	13	—	5,201
Impairment loss on fixed assets .....	—	—	—	—	689	689
Capital expenditure .....	¥ 5,017	¥ 499	¥ 226	¥ 31	—	¥ 5,773

	Thousands of U.S. dollars				
	2005				
	Die castings	Printing equipment	Power tools and builders' hardware	Eliminations / corporate	Consolidated
Net sales:					
Unaffiliated customer .....	\$982,317	\$257,883	\$230,738	\$ —	\$1,470,938
Intersegment .....	2,095	—	19	(2,114)	—
Total .....	984,412	257,883	230,757	(2,114)	1,470,938
Operating costs and expenses .....	931,623	229,472	211,081	(2,123)	1,370,053
Operating income .....	\$ 52,789	\$ 28,411	\$ 19,676	\$ 9	\$ 100,885
Total assets .....	\$785,641	\$231,018	\$223,047	\$226,166	\$1,465,872
Depreciation and amortization .....	38,830	4,824	6,993	—	50,647
Capital expenditure .....	\$ 60,220	\$ 5,718	\$ 4,786	\$ —	\$ 70,724

Note: The Other segment business was discontinued at March 31, 2004.

The amounts of corporate assets as of March 31, 2005 and 2004 included in the "Eliminations or corporate assets" were ¥24,317 million (\$226,438 thousand) and ¥30,324 million, respectively, which mainly consist of cash, securities and long-term investment assets (investments in securities).

### (b) Geographical segment information

	Millions of yen				
	2005				
	Japan	North America	Other	Eliminations / corporate	Consolidated
Net sales:					
Unaffiliated customer .....	¥133,909	¥17,384	¥ 6,671	¥ —	¥157,964
Intersegment .....	2,128	—	4,672	(6,800)	—
Total .....	136,037	17,384	11,343	(6,800)	157,964
Operating costs and expenses .....	127,410	16,460	10,109	(6,849)	147,130
Operating income .....	¥ 8,627	¥ 924	¥ 1,234	¥ 49	¥ 10,834
Total assets .....	¥109,803	¥12,285	¥12,662	¥ 22,670	¥157,420

	Millions of yen				
	2004				
	Japan	North America	Other	Eliminations / corporate	Consolidated
Net sales:					
Unaffiliated customer .....	¥127,415	¥20,940	¥ 6,896	¥ —	¥155,251
Intersegment .....	2,247	—	4,532	(6,779)	—
Total .....	129,662	20,940	11,428	(6,779)	155,251
Operating costs and expenses .....	121,984	19,691	10,027	(6,798)	144,904
Operating income .....	¥ 7,678	¥ 1,249	¥ 1,401	¥ 19	¥ 10,347
Total assets .....	¥105,654	¥13,838	¥12,225	¥ 28,857	¥160,574

	Thousands of U.S. dollars				
	2005				
	Japan	North America	Other	Eliminations / corporate	Consolidated
Net sales:					
Unaffiliated customer .....	\$1,246,941	\$161,877	\$ 62,120	\$ —	\$1,470,938
Intersegment .....	19,816	—	43,505	(63,321)	—
Total .....	1,266,757	161,877	105,625	(63,321)	1,470,938
Operating costs and expenses .....	1,186,423	153,273	94,134	(63,777)	1,370,053
Operating income .....	\$ 80,334	\$ 8,604	\$ 11,491	\$ 456	\$ 100,885
Total assets .....	\$1,022,469	\$114,396	\$117,907	\$211,100	\$1,465,872

The amounts of corporate assets as of March 31, 2005 and 2004 included in the "Eliminations or corporate assets" were ¥24,317 million (\$226,438 thousand) and ¥30,324 million, respectively, which mainly comprise cash, securities and long-term investment assets (investments in securities).

**(c) Export sales and sales by overseas subsidiaries**

Export sales of the companies (i.e., export amounts made by the Company and its domestic subsidiaries) plus the sales by overseas consolidated subsidiaries for the years ended March 31, 2005 and 2004 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Export sales and sales by overseas subsidiaries:			
North America .....	¥20,712	¥25,333	\$192,867
Europe .....	15,450	13,199	143,868
Other .....	7,083	4,975	65,956
Total .....	¥43,245	¥43,507	\$402,691
Percentage of such sales against consolidated net sales:			
North America .....	13.1%	16.3%	
Europe .....	9.8	8.5	
Other .....	4.5	3.2	
Total .....	27.4%	28.0%	

**16. Subsequent Event**

On June 29, 2005, the shareholders of the Company authorized the following appropriation of retained earnings for the year ended March 31, 2005.

	Millions of yen	Thousands of U.S. dollars
Cash dividends .....	¥1,254	\$11,677



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Ryobi Limited:

We have audited the accompanying consolidated balance sheets of Ryobi Limited and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ryobi Limited and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(f) to the consolidated financial statements, the Company and consolidated subsidiaries also adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2004.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 29, 2005

Member of  
Deloitte Touche Tohmatsu

# CORPORATE INFORMATION

## CORPORATE DATA

### Company Name

RYOBI LIMITED

### Established

December 16, 1943

### Major Products

Die cast products

Printing equipment

(offset printing presses, page layout software, etc.)

Power tools

(electric power tools, lawn and garden equipment, etc.)

Builders' hardware

(door closers, hinges, architectural hardware, etc.)

### Head Office

762, Mesaki-cho, Fuchu, Hiroshima 726-8628, Japan

Telephone: 81-847-41-1111

### Tokyo Branch

5-2-8, Toshima, Kita-ku, Tokyo 114-8518, Japan

Telephone: 81-3-3927-5541

### Toranomon Office

Toranomon Central Building

1-7-1, Nishi-Shinbashi, Minato-ku, Tokyo 105-0003, Japan

Telephone: 81-3-3927-5541

## MANAGEMENT MEMBERS

(As of June 29, 2005)

### BOARD OF DIRECTORS

#### Chairman and Representative Director

Hiroshi Urakami

#### President and Representative Director

Susumu Yoshikawa

#### Directors

Takao Tanaka

Takashi Yokoyama

Mikio Kamura

Shiro Muroya

Koji Ishii

Akira Urakami

Kenjiro Suzuki

### CORPORATE AUDITORS

#### Standing Corporate Auditor

Shozo Kobayashi

#### Corporate Auditors

Satoshi Ohoka

Hiroaki Takahashi

Kunihiro Toyota

### CORPORATE OFFICERS

#### Chief Executive Officer

Hiroshi Urakami

#### Chief Operating Officer

Susumu Yoshikawa

#### Executive Corporate Officers

Takao Tanaka

Takashi Yokoyama

Mikio Kamura

Shiro Muroya

#### Corporate Officers

Koji Ishii

Akira Urakami

Kenjiro Suzuki

Kuniyuki Ito

Naomichi Honkawa

Kazuaki Danjo

Shoji Osawa

Hideki Domoto

## MAJOR CONSOLIDATED SUBSIDIARIES

Ryobi Imagix Co. (Japan)	Printing equipment and related product sales
Ryobi Sales Co. (Japan)	Power tools and lawn and garden equipment sales
Ryobi Mirasaka Co. (Japan)	Die casting manufacturing
Ryobi Mitsugi Co. (Japan)	Die casting manufacturing
Tokyo Light Alloy Co., Ltd. (Japan)	Cast aluminum and die casting manufacturing and sales
Ikuno Co. (Japan)	Secondary aluminum alloy bullion manufacturing and sales
Ryobi Power Tool Co. (Japan)	Power tools and lawn and garden equipment manufacturing and sales
Ryobi Die Casting (USA), Inc. (U.S.A.)	Die casting manufacturing and sales
Ryobi Aluminium Casting (UK), Limited (U.K.)	Die casting manufacturing and sales
Ryobi Dalian Machinery Co., Ltd. (P.R.C.)	Power tools, lawn and garden equipment and builders' hardware manufacturing and sales
Ryobi Finance Corporation (U.S.A.)	Financial operations

## SHAREHOLDER INFORMATION

### Number of Shares Issued

(As of March 31, 2005)

171,230,715

### Listing

Common Stock—Tokyo

### Transfer Agent

The Mitsubishi Trust and Banking Corporation

4-5, Marunouchi 1-chome, Chiyoda-ku,

Tokyo 100-8212, Japan

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