



TECHTRONIC INDUSTRIES COMPANY LIMITED

創科實業有限公司

(Incorporated in Hong Kong with limited liability)

POSSIBLE VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF ASSETS RELATING TO RYOBI LIMITED'S NORTH AMERICAN POWER TOOLS BUSINESS

The Company has entered into a conditional sale and purchase agreement on 31st May 2000 with the Sellers and Ryobi whereby, the Company has agreed to acquire a material part of the operating assets of, and assume certain liabilities associated with, the PT Business and all of the issued and outstanding capital stock of RC and RTC from the Sellers.

Ryobi is a public company listed on the Tokyo Stock Exchange and is a global die caster and producer of finished goods such as printing equipment, sports and leisure products and power equipment.

The "Ryobi" brand is one of the leading brands of portable and bench top power tools in North America. The Acquisition will enhance the Group's existing turnover and establish a platform with significant growth opportunities. The increase in business size and addition of a power consumer brand will provide a number of strategic benefits. In the first place, there will be an improvement of the new product flow to the Group's customers with an increase in research and development investments. Secondly, there will be an expansion of the Group's technology beyond rechargeable tools into corded and bench top power tools. Thirdly, there will be an improvement of the Group's overall cost position of the combined business through supply chain savings and the integrated manufacturing and marketing operations.

The consideration for the Acquisition, which will be based on the most recent internal balance sheets of RMP, RAC, RC and RTC and delivered to the Company not less than 10 days before the Closing Date and subject to adjustment as mentioned under the heading "Adjustment of Consideration" below, will be an amount in cash equal to (i) the total net book value of the tangible assets of RMP and RAC to be acquired by the Company as of the Closing Date, plus the total net book value of RC and RTC as of the Closing Date, less (ii) US\$6,700,000 (being about HK\$52,914,000) and provided that the consideration for the Acquisition will not in any event exceed US\$123,300,000 (being about HK\$960,532,000). **In light of the above price fixing mechanism, the consideration for the Acquisition is not determinable today.** However, based on the unaudited management accounts of RMP, RAC, RC and RTC as of 25th May 2000 provided by Ryobi to the Company and save for any material changes to the conditions of the assets to be acquired by the Company and the financial positions of RC and RTC since 25th May 2000 up to the Closing Date, the Directors preliminarily estimate that the consideration for the Acquisition (calculated on the above basis) will be around US\$95,000,000 (being about HK\$740,069,000).

Based on the Directors' preliminary estimation of the consideration for the Acquisition, the Acquisition constitutes a possible very substantial acquisition for the Company under the Listing Rules. As Ryobi is a substantial shareholder of the Company holding about 13.46% of its existing issued share capital and the Sellers are all wholly owned subsidiaries of Ryobi, Ryobi and the Sellers are, by definition of the Listing Rules, connected persons of the Company. Accordingly, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and will require approval by the Independent Shareholders at the EGM.

A circular containing, among other things, further details of the Acquisition, the recommendation of the independent board committee, the advice of the independent financial adviser and the notice convening the EGM will be despatched to shareholders of the Company as soon as practicable.

Trading in the Shares was suspended with effect from 2:30 p.m. on 31st May 2000 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 10:00 a.m. on 2nd June 2000.

THE AGREEMENT

Date of the Agreement

31st May 2000

Parties

Sellers : RNA, RMP and RAC.
Sellers' Guarantor : Ryobi.
Buyer : The Company.

Assets to be purchased and liabilities to be assumed

The Company will purchase the following assets:

- a material part of the operating assets owned, employed or held by either RMP or RAC or, if used primarily in the operation of the PT Business, by RNA (the unaudited figures of the tangible assets as at 25th May 2000 being about US\$95,000,000 or being about HK\$740,069,000), details of which are mentioned under the heading "Information on Acquired Assets and RC and RTC" below; and
- all of the issued and outstanding capital stock of RC and RTC.

The Company will not assume any liabilities of the PT Business (including liabilities arising under US environmental laws and regulations), except the followings:

- liabilities and obligations of RMP and RAC under the contracts being transferred to the Company on the Closing Date to the extent they remain unsatisfied and are required to be performed on or after the Closing Date;
- subject to the Company being fully indemnified by RNA from time to time after Closing, liabilities and obligations, of RMP and RNA under the settlement agreement entered into by RNA and RMP on 22nd January 1993 in connection with the action entitled Warner, et al., v. Ryobi Motor Products Corp. and Ryobi North America, Inc. and the settlement agreement entered into by RNA and RMP in connection with the action entitled Bryant v. Ryobi Motor Products Corp. and Ryobi North America Inc. relating to retiree medical coverage; and
- subject to the Company being fully reimbursed by RNA from time to time after Closing, liabilities and obligations for product returns and product warranty obligations arising from power tool products manufactured, distributed and/or sold by RMP and RAC before the Closing Date except liabilities for epidemic failures and claims for personal injury and property damage.

The quantum of the above liabilities and obligations have not been disclosed in the Agreement nor the audited accounts of RMP or RAC and (other than item (a) above) the Company will be fully indemnified or reimbursed by RNA against such liabilities and obligations from time to time after Closing.

The Company will assume all liabilities and obligations of RC and RTC with effect from the Closing Date, except that RNA and Ryobi will ensure that all liabilities or obligations of either RC or RTC for any loans, lines of credit, letters of credit or credit facilities shall be paid or discharged by RC or RTC on or before the Closing Date.

In addition, the Company will cause the employment of all of the employees of RC and RTC to continue without interruption and will offer to employ all of the employees of RMP and RAC who, on the day prior to the Closing Date, are actively employed in the PT Business.

The Agreement provides for the entry into by the Company of certain Related Agreements on the Closing Date, to support the assets to be acquired by the Company. These agreements comprise a patent cross license agreement, a trademark license agreement, a power tool supply agreement, the RCI transition agreement, a field services network agreement, a reimbursement agreement, an escrow trust agreement, a piedmont die casting division lease, an indemnity escrow agreement, a non-competition agreement, a web link agreement, a trademark assignment agreement and a patent assignment agreement. No additional consideration will be payable by the Company under or in respect of any of the Related Agreements (other than the power tool supply agreement whereby, Ryobi will continue to supply certain of its power tool products to the Company for a period of 3 years after Closing), which principally facilitate the implementation of the assets to be acquired by the Company pursuant to the Agreement. Further details of the Related Agreements will be set out in the circular to be despatched to shareholders as mentioned under the heading "General" below.

Consideration

The consideration for the Acquisition, which will be based on the most recent internal unaudited balance sheets of RMP, RAC, RC and RTC and delivered to the Company not less than 10 days prior to the Closing Date and subject to adjustment as mentioned under the heading "Adjustment of Consideration" below, will be an amount in cash equal to (i) the total net book value of the tangible assets of RMP and RAC to be acquired by the Company as of the Closing Date, plus the total net book value of RC and RTC as of the Closing Date, less (ii) US\$6,700,000 (being about HK\$52,194,000) and provided that the consideration for the Acquisition will not in any event exceed US\$123,300,000 (being about HK\$960,532,000). **In light of the above price fixing mechanism, the consideration for the Acquisition is not determinable today.** However, based on the unaudited management accounts of RMP, RAC, RC and RTC as of 25th May 2000 provided by Ryobi to the Company and save for any material changes to the conditions of the assets to be acquired by the Company and the financial positions of RC and RTC since 25th May 2000 up to the Closing Date, the Directors preliminarily estimate that the consideration for the Acquisition (calculated on the above basis) will be around US\$95,000,000 (being about HK\$740,069,000).

The consideration for the Acquisition will be payable by the Company in cash from bank borrowings and from the Company's internal resources on the Closing Date.

Adjustment of Consideration

The consideration for the Acquisition will be subject to adjustment as follows:

- within 60 days after the Closing Date, the Company shall prepare or shall cause to be prepared, a balance sheet for each of RMP, RAC, RC and RTC as of the Closing Date (together, the "Closing Date Balance Sheets"). RNA shall have the right within 45 days after the delivery of the Closing Date Balance Sheets to present in writing to the Company, any objections it may have to any of the matters set forth therein, which objections shall be set forth in reasonable detail. If no objections are raised within such 45-day period, the Closing Date Balance Sheets shall be deemed accepted and approved by RNA and RNA shall pay to the Company the amount of any deficiency or the Company shall pay to RNA any additional amount due, including interest thereon at the US\$ prime rate (each, the "Adjustment"), if any, within 30 days following the expiration of such 45-day period; and
- if RNA shall raise any objection within the 45-day period, the Company and RNA shall attempt to resolve the matter or matters in dispute and, if resolved, the Adjustment, if any, shall be paid within 30 days following the resolution of the matter or matters in dispute. If such dispute cannot be resolved within 60 days after the delivery of the notice of objection, then the specific matters in dispute shall be submitted to Arthur Andersen LLP, or, if such firm declines to act in such capacity, such other firm of independent public accountants mutually acceptable to the Company and RNA (the "Accounting Referee"), which firm shall make a final and binding determination as to such matter or matters. Such Accounting Referee shall send its written determination to the Company and RNA, and the Adjustment, if any, shall be paid within 30 business days following the receipt of such determination.

Conditions

Closing is conditional on the fulfillment or waiver by the Company or the Sellers (as the case may be) of, among others, the following conditions precedent:

- Conditions precedent to the Company's obligations
 - the representations and warranties of the Sellers contained in the Agreement remaining true and correct as of the Closing Date (except to the extent that such representations and warranties are made as of a specified date, in which case such representations and warranties shall be true as of the specified date);
 - each of the Sellers shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants and conditions required by the Agreement to be performed or complied with by it prior to or at the Closing Date;
 - no statute, rule or regulation or order of any court or administrative agency shall be in effect which prohibits the Company from consummating the transactions contemplated by the Agreement;
 - at the Closing Date, the Sellers shall deliver or cause to be delivered to the Company, among other things, the Related Agreements;
 - during the period from 31st December 1999 to the Closing Date, there shall not have been any material adverse change in the Assets, the business operations or financial condition of the PT Business, except as disclosed to the Company as of the date of the Agreement;
 - the Sellers shall procure on or before Closing an environmental insurance policy in the agreed terms issued to the Sellers and the Company by an insurer reasonably acceptable to the Sellers and the Company;

- all consents and approvals required by the Stock Exchange in connection with the transactions contemplated by the Agreement shall have been obtained; and

- the approval by Independent Shareholders of the transactions contemplated by the Agreement.

- Conditions precedent to the Sellers' obligations:

- the representations and warranties of the Company contained in the Agreement remaining true and correct as of the Closing Date (except to the extent that such representations and warranties are made as of a specified date, in which case such representations and warranties shall be true as of the specified date);
- no statute, rule or regulation or order of any court or administrative agency shall be in effect which prohibits the Sellers from consummating the transactions contemplated by the Agreement;
- all consents, approvals, authorizations, exemptions and waivers from third parties that shall be required in order to enable the Sellers to consummate the transactions contemplated by the Agreement shall have been obtained (except where the failure to obtain any such consents, approvals, authorizations, exemptions and waivers would not have a material adverse effect on the PT Business); and
- on or prior to the Closing Date, the Sellers and their affiliated companies shall either be (i) released from any liabilities in respect of the letters of credit, guarantees, surety and performance bonds and other obligations of the PT Business and all indebtedness owing to any of RC and RTC or (ii) to the extent the Sellers and the Company are unable to obtain such releases, the Company will assume liability for and in respect to and fully collateralize, in a manner and with collateral reasonably satisfactory to the Sellers, each of such letters of credit and guarantees.

Expected date of Closing

On the later of (a) 30th June 2000 or (b) on the fifth business day following the date on which the waiting period (as it may have been extended) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder has expired or been otherwise terminated or (c) such other date and time as the parties shall mutually agree in writing and in no event later than 31st July 2000.

INFORMATION ON ACQUIRED ASSETS AND RC AND RTC

The operating assets of the PT Business to be acquired by the Company pursuant to the Agreement comprise, mainly, land and buildings (unaudited as at 25th May 2000 being about US\$22,000,000 or being about HK\$171,384,000), accounts receivables (unaudited as at 25th May 2000 being about US\$374,000 or being about HK\$2,914,000), machinery, equipment, furniture and fixtures, computer and office equipment, tools and vehicles (unaudited as at 25th May 2000 being about US\$23,000,000 or being about HK\$179,175,000), inventory (unaudited as at 25th May 2000 being about US\$49,600,000 or being about HK\$386,400,000), contracts (no valuation) and certain patents, technology, trademarks, service marks and other intellectual property rights of the Sellers (no valuation).

RC is a limited company incorporated in Canada and wholly owned by RNA and carries on the same activities as the Sellers. The audited net loss before taxation of RC for the year ended 31st December 1998 was about C\$368,417 (being about HK\$1,900,000) and the audited net profit before taxation of RC for the year ended 31st December 1999 was about C\$987,569 (being about HK\$5,095,000). The audited net profit after taxation of RC for the two years ended 31st December 1998 and 31st December 1999 were about C\$14,883 (being about HK\$76,800) and about C\$553,269 (being about HK\$2,854,000) respectively. The audited net tangible assets of RC as at 31st December 1999 were about C\$2,900,000 (being about HK\$14,960,000).

RTC is a limited company incorporated in the Republic of China (Taiwan) and wholly owned by RNA and Ryobi and carries on the same activities as the Sellers. The audited net profit before taxation of RTC for the two years ended 31st December 1998 and 31st December 1999 were about NT\$2,795,000 (being about HK\$715,000) and about NT\$5,190,000 (being about HK\$1,327,000) respectively. The audited net profit after taxation of RTC for the two years ended 31st December 1998 and 31st December 1999 were about NT\$2,100,000 (being about HK\$537,000) and about NT\$3,700,000 (being about HK\$946,000) respectively. The audited net tangible assets of RTC as at 31st December 1999 were about NT\$15,600,000 (being about HK\$3,990,000).

REASONS FOR THE ACQUISITION

The Group is principally engaged in the manufacturing and trading of electrical and electronic products mainly in North America and Europe.

Ryobi is a public company listed on the Tokyo Stock Exchange and is a global die caster and producer of finished goods such as printing equipment, sports and leisure products and power equipment.

The "Ryobi" brand is a leading brand of portable and bench top power tools in North America. The Acquisition will enhance the Group's turnover and establish a platform with significant growth opportunities. The increase in business size and addition of a power consumer brand provides a number of strategic benefits. In the first place, there will be an improvement of the new product flow to the Group's customers with an increase in research and development investments. Secondly, there will be an expansion of the Group's technology beyond rechargeable tools into corded and bench top power tools. Thirdly, there will be an improvement of the Group's overall cost position of the combined business through supply chain savings and the integrated manufacturing and marketing operations.

The Directors (including the independent non-executive Directors) consider that the terms of the Agreement, which have been concluded after arm's length negotiation between the parties, are fair and reasonable so far as the Company and its shareholders are concerned. The Directors further consider that the Acquisition is a logical development of and in line with the Group's existing power tool business. Thus, the Directors believe that the Acquisition is in the interests of the Company and its shareholders as a whole.

GENERAL

Based on the Directors' preliminary estimation of the consideration for the Acquisition, the Acquisition constitutes a possible very substantial acquisition for the Company under the Listing Rules. As Ryobi is a substantial shareholder of the Company holding about 13.46% of its existing issued share capital and the Sellers are all wholly owned subsidiaries of Ryobi, Ryobi and the Sellers are, by definition of the Listing Rules, connected persons of the Company. Accordingly, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and will require approval by the Independent Shareholders at the EGM.

An independent board committee comprising Mr. Vincent T.K. Cheung and Mr. Joel Arthur Schleicher has been appointed to advise the Independent Shareholders regarding the Acquisition.

N M Rothschild & Sons (Hong Kong) Limited has been appointed to advise the independent board committee in respect of the Acquisition.

A circular containing, among other things, further details of the Acquisition, the recommendation of the independent board committee, the advice of the independent financial adviser and the notice convening the EGM will be despatched to shareholders of the Company as soon as practicable.

Further announcements will be made by the Company upon the determination of the consideration for the Acquisition and the related adjustments thereto (if any).

The Stock Exchange has stated that it will aggregate separate acquisitions between the Group and the Ryobi Group in any period of twelve months and such acquisitions will fall to be classified under, and will be subject to the applicable requirements of, the relevant provisions of Chapter 14 of the Listing Rules.

SUSPENSION AND RESUMPTION

Trading in the Shares was suspended from 2:30 p.m. on 31st May 2000 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares from 10:00 a.m. on 2nd June 2000.

TERMS USED IN THIS ANNOUNCEMENT

"Acquisition"	the acquisition of a material part of the operating assets of, and assumption of certain liabilities associated with, the PT Business and all the issued and outstanding capital stock of RC and RTC by the Company pursuant to the Agreement
"Agreement"	the sale and purchase agreement dated 31st May 2000 made among the Sellers, Ryobi and the Company
"Closing"	closing of the Agreement
"Closing Date"	the date of Closing, which shall not be later than 31st July 2000
"Company"	Techtronic Industries Company Limited, a public company limited by shares incorporated in Hong Kong, the shares of which are listed on the Stock Exchange
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to approve the Acquisition
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Independent Shareholders"	shareholders of the Company other than Ryobi and its associates (as defined under the Listing Rules)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"North America"	US and Canada
"PT Business"	the business carried on by the Sellers of the design, manufacture, importation and sale in North America of portable and pneumatic power tools, bench top, corded and cordless power tools and hand tools and accessories

"RC"	Ryobi Canada Inc., a wholly owned subsidiary of Ryobi
"RCA"	Ryobi America Corporation, a wholly owned subsidiary of Ryobi
"RMP"	Ryobi Motor Products Corp., a wholly owned subsidiary of Ryobi
"RNA"	Ryobi North America, Inc., a wholly owned subsidiary of Ryobi
"RTC"	Ryobi Taiwan Corp., a wholly owned subsidiary of Ryobi
"Related Agreements"	collectively, a patent cross license agreement, a trademark license agreement, a power tool supply agreement, the RCI transition agreement, a field services network agreement, a reimbursement agreement, an escrow trust agreement, a piedmont die casting division lease, an indemnity escrow agreement, a non-competition agreement, a web link agreement, a trademark assignment agreement and a patent assignment agreement

"Ryobi"	Ryobi Limited, Japan, a public company incorporated in Japan, the shares of which are listed on the Tokyo Stock Exchange
"Ryobi Group"	Ryobi and its subsidiaries
"Sellers"	RNA, RMP and RAC
"Shares"	shares of HK\$0.20 each in the capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	United States of America
"C\$"	the lawful currency of Canada
"HK\$"	the lawful currency of Hong Kong
"NT\$"	the lawful currency of Republic of China (Taiwan)
"US\$"	the lawful currency of US

Hong Kong, 1st June 2000

Unless otherwise specified, where financial information in this announcement has been converted into Hong Kong dollars, it has been converted at the exchange rates set out below, being the exchange rates prevailing on 31st May 2000. Such conversions have been made solely for the convenience of readers and should not be construed as a representation that such amounts have been, could have been or could be converted into Hong Kong dollars at such rates or any other rates or at all.

CS1 : HK\$5.1589
US\$1 : HK\$7.7902
NT\$1 : HK\$0.2558

By Order of the Board of
Techtronic Industries Company Limited
Chi Chung Chan
Company Secretary