Financial Review

INCOME AND EXPENSES

In the fiscal year ended March 31, 2002, we faced challenging conditions in the markets for our power transmissions products; however, increased sales of materials handling systems led to consolidated net sales remaining at approximately the same level as in the previous fiscal year, at ¥113.7 billion, a 0.4% decrease.

Due to this slight decrease in sales, the cost of sales declined 0.3%, to ¥82.4 billion, and the cost of sales ratio remained the same, at 72.4%. Selling, general and administrative (SG&A) expenses rose 3.0%, to ¥25.3 billion, and the ratio of SG&A expenses to net sales increased to 22.2%, from 21.5% in the previous year.

As a result, operating income was down 13.3%, to ¥6.0 billion, and the operating profit margin decreased to 5.3%, compared with 6.1% a year earlier.

In other income and expenses, both interest and dividend income and interest expense declined. Other expenses rose to ¥2.0 billion, from ¥1.8 billion in the previous year.

In extraordinary profit and loss, ¥1.9 billion was accounted for as loss on valuation of investment securities. However, net extraordinary loss in the year under review decreased significantly, to ¥1.4 billion, due to the recording of a special loss of ¥6.7 billion in the previous year because of a change in accounting standards for retirement benefits.

Against this backdrop, income before income taxes and minority interests rose substantially, to ¥2.7 billion, compared with ¥0.2 billion in the previous year, and net income rose 158.5%, to ¥1.2 billion. Net income per share was up 159.1%, to ¥6.27. Return on equity (ROE) rose to 1.9%, from 0.7% in the previous year. Cash dividends per share were unchanged at ¥6.00.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was up 29.2%, to ¥7.7 billion. This increase was mainly attributable to the rise in income before income taxes and minority interests and a decrease in trade notes and accounts receivable. Adjustments for depreciation rose 29.9%, to ¥5.6 billion.

Net cash used in investing activities decreased 1.1%, to ¥10.7 billion. Although capital investment, principally for the construction of the Company's new plant in Japan, rose to ¥12.8 billion, from ¥10.1 billion in the previous year, and proceeds from sales of property, plant and equipment were down, proceeds from sales of investments in securities recorded a substantial rise.

Net cash used in financing activities for the year under review was ¥4.2 billion, compared with ¥2.0 billion in net cash provided by financing activities in the previous year. This reversal was principally due to higher payments on redemption of bonds.

As a result of the above activities, at the end of the year under review, cash and cash equivalents were down 28.9%, to ¥17.7 billion.

Although other current assets increased, this was offset by decreases in cash and cash equivalents and short-term investments, which resulted in a 3.4% decline in total current assets, to ¥90.8 billion. Meanwhile, total current liabilities were down 11.1%, to ¥58.1 billion, mainly due to decreases in short-term bank loans and current portion of long-term debt and in trade notes and accounts payable. Consequently, working capital rose 14.0%, to ¥32.6 billion, and the current ratio at year-end improved to 1.56, compared with 1.44 at the end of the previous year. Property, plant and equipment, net of accumulated depreciation, rose 3.9% from the previous year-end, to ¥85.4 billion.

Total shareholders' equity declined 5.7%, to ¥62.7 billion, primarily as a result of a decrease in net unrealized holding gains on securities, from ¥4.0 billion to ¥2.3 billion, and ¥3.0 billion recorded as a land revaluation deficit. Total assets at fiscal year-end were down 3.5%, to ¥201.6 billion. The equity ratio was 31.1%, approximately the same as at the previous year-end. The Company's debt-to-equity ratio rose to 1.22, compared with 1.18 at the previous year-end.