Financial Review

In the fiscal year ended March 31, 2004, the Tsubakimoto Chain Group recorded increased sales and profits, with support from a market environment in which basic conditions improved. With higher operating income, a decline in interest payments due to a reduction in interest-bearing debt, and the recording of extraordinary profit accompanying the transition from a tax qualified pension system to a defined contribution pension system, the Company posted its highest profits in more than 10 years.

Income and Expenses

In the year under review, increased sales of power transmission products offset a decrease in sales of materials handling systems, and consolidated net sales rose 2.1%, to ¥119.1 billion.

Due to the transfer to Sumitomo Electric Industries, Ltd., of sintered automotive parts operations and to price declines in materials handling systems operations stemming from intense competition, the cost of sales ratio edged up 0.5 percentage points, to 73.4%. Gross profit rose 0.2%, to ¥31.7 billion.

Selling, general and administrative (SG&A) expenses decreased 2.2%, to ¥23.7 billion, due to lower fixed expenses, such as personnel costs. As a result, the ratio of SG&A expenses to net sales declined 0.9 percentage points, to 19.9%.

Operating income was up 8.2%, to ¥8.0 billion, while the operating profit margin rose from 6.3% to 6.7%.

Net other expenses declined from ¥2.4 billion to ¥1.7 billion, due primarily to lower interest payments following the reduction in interest-bearing debt.

Net extraordinary profit was ¥0.3 billion, compared with net extraordinary loss of ¥2.2 billion in the previous year. A loss on disposal of inventories was recorded, but there was no large extraordinary loss like the loss on devaluation of investment securities that was booked in the previous year. In addition, extraordinary profit was recorded from the transition from a tax qualified pension plan to a defined contribution pension plan. These were the principal reasons for the improvement in net extraordinary items.

As a result of the above factors, income before income taxes and minority interests rose 133.5%, to ¥6.5 billion, and net income increased 121.1%, to ¥3.4 billion. Net income as a percentage of net sales was up 1.5 percentage points, to 2.8%.

Net income per share grew from ¥7.92 to ¥17.40, and return on equity (ROE) rose from 2.5% to 5.3%. Cash dividends per share were unchanged at ¥6.00.

Liquidity and Capital Resources

Net cash provided by operating activities was down 33.5%, to ¥8.0 billion, due primarily to an increase in trade notes and accounts receivable. Depreciation was ¥6.1 billion.

Net cash provided by investing activities was ¥9.1 billion, compared with net cash used in investing activities of ¥3.0 billion in the previous year. This improvement was the result of cash generated by the disposal of the site of the former headquarters roller chain plant and proceeds from sales of investments in securities.

Net cash used in financing activities for the year under review was ¥15.5 billion, compared with ¥14.2 billion in the previous year. This increase was principally attributable to the aggressive repayment of long-term loans from financial institutions. Consequently, cash and cash equivalents at fiscal year-end were up 10.2%, to ¥13.7 billion.

Total assets at year-end were down 4.3%, to ¥175.4 billion.

Receivables declined due to the receipt of the remaining balance from the sale of the former site of the headquarters roller chain factory, and short-term investments decreased due to the sale of securities. As a result, current assets declined 16.0%, to ¥69.7 billion.

Property, plant and equipment, net of accumulated depreciation, declined due to depreciation on the Kyotanabe Plant in its second year of operations, and investments and other assets increased due to a gain on valuation of investment in securities stemming from the favorable stock market conditions. As a result, fixed assets increased 5.5%, to ¥105.7 billion.

Due to the aggressive repayment of long-term loans from financial institutions, interest-bearing debt declined substantially, and total current liabilities decreased 7.0%, to ¥48.4 billion. Noncurrent liabilities were down 16.1%, to ¥56.8 billion, due to the transfer to current liabilities of the current maturities of bonds and long-term loans. As a result, working capital was ¥21.3 billion, compared with ¥31.0 billion a year earlier. The current ratio was 1.44, compared with 1.60 at the end of the previous year. The year-end balance of interest-bearing debt was ¥50.3 billion, a decline of ¥14.6 billion from the previous year-end.

Total shareholders' equity climbed 10.9%, to ¥66.9 billion, due primarily to an increase in net unrealized holding gains on securities resulting from favorable stock market conditions. As a result, the equity ratio rose to 38.1%, from 32.9%, and the debt-to-equity ratio improved significantly, from 1.08 to 0.75.