Financial Position

Total assets at year-end were up ¥3.8 billion, to ¥179.3 billion.

Trade notes and accounts receivable increased due to higher sales, and as a result total current assets rose ¥2.4 billion, to ¥72.1 billion.

Mainly due to the gain on valuation of investment in securities, investments and other assets increased ¥2.4 billion, to ¥31.7 billion.

Total current liabilities rose ¥5.4 billion, to ¥53.8 billion, due to higher trade notes and accounts payable and to higher short-term bank loans. The current ratio was 1.34, compared with 1.44 at the previous year-end. We continued to repay interest-bearing debt, which was down ¥6.9 billion at year-end, to ¥43.4 billion.

Total debt decreased ¥1.5 billion from the previous year-end, to ¥103.7 billion.

Total shareholders' equity climbed ¥4.8 billion, to ¥71.6 billion, due primarily to an increase in net unrealized holding gains on securities resulting from favorable stock market conditions and to an increase in net income in the year under review. As a result, the equity ratio rose to 40.0%, from 38.1%.

Dividend Policy

Tsubakimoto Chain considers the provision of a return to shareholders to be one of its most important management issues. The Company's policy has been to provide stable dividend payments. However, from the year under review, in addition to the stable dividends, the Company will use a dividend policy that also gives consideration to consolidated performance. In accordance with that policy, the Company raised the year-end dividend by ¥1.00 per share, to ¥4.00, which, combined with the interim dividend, resulted in an annual dividend of ¥7.00 per share.

Operating Risks

As of June 30, 2005, the matters that could affect the judgment of investors include those outlined below.

(1) The Tsubakimoto Chain Group, which is conducting aggressive global development, works to reduce the influence of foreign exchange rate fluctuations to a minimal level by using foreign exchange forward agreements distributed among the time an order is received, the time the sale is recorded, and the time payment is received in the foreign currency. However, short-term, dramatic fluctuations in exchange rates could affect management performance.

(2) In chains for general industrial applications, accompanying the marketing in Japan of chains made in China, the Group may face price competition in the market for low-value-added products. Also, in materials handling systems, where competition for orders is intense, it may not be possible for the Company to avoid low-profitability orders, which could affect management performance.

(3) The Tsubakimoto Chain Group supplies parts for engines, such as timing chains and tensioners, to automakers in Japan and overseas. In the unlikely event of a natural disaster or man-made disaster at the Saitama Plant, the Company's main production base in Japan, it is possible that the Group would be unable to provide a stable supply of products to automakers. In response to this type of risk, the Group has developed countermeasures, such as supplying products from an overseas production base in place of output from the Saitama Plant.

(4) Accompanying the global economic recovery, the price of steel has increased markedly, and the Group has been unable to avoid rising prices for the raw materials for its products and demand-supply pressure. In response to these cost increases, the Group is working to reduce the cost of sales by enhancing productivity and to revise selling prices. However, in the event that the price of steel continues to rise for a long period, the Group may be unable to offset the increased costs, and management performance could be affected.

(5) To expand sales in the Chinese market, which continues to grow, the Tsubakimoto Chain Group is accelerating operational expansion in China. However, due to political and economic factors in China, there is the possibility of temporary disorder or stagnation in the economy. In that event, certain operational problems may arise, such as delays in the production of the Group's products and difficulties in procuring parts or operating plants, and management performance could be affected.