



Annual Report
For the Year Ended March 31, 1999

1999

TSLIBAKI

Profile

Tsubakimoto Chain Co., founded in 1917, is one of Japan's leading makers of power transmission products. The Company's chain products, which are used in a wide range of industries in markets around the world, showcase Tsubakimoto Chain's original technical capabilities. In recent years, the Company has complemented its strengths in roller chains and conveyor chains with advanced automotive products, such as timing drive systems for automobile engines. Tsubakimoto Chain's automotive products are highly regarded by customers and continue to record steady sales growth, especially in the United States.

Tsubakimoto Chain is also a leader in materials handling systems, including factory automation systems and physical distribution systems. These systems are contributing to the rationalization of operations in a wide range of fields, such as automatic conveyance systems in factories and sorting systems in distribution centers.

Tsubakimoto Chain's products are supplied to customers in more than 70 countries from 10 production subsidiaries and affiliates in Japan and 9 plants overseas. Guided by its mission to "provide the best value to customers around the world," the Company is working to increase customer satisfaction by bolstering its development of high-value-added products.

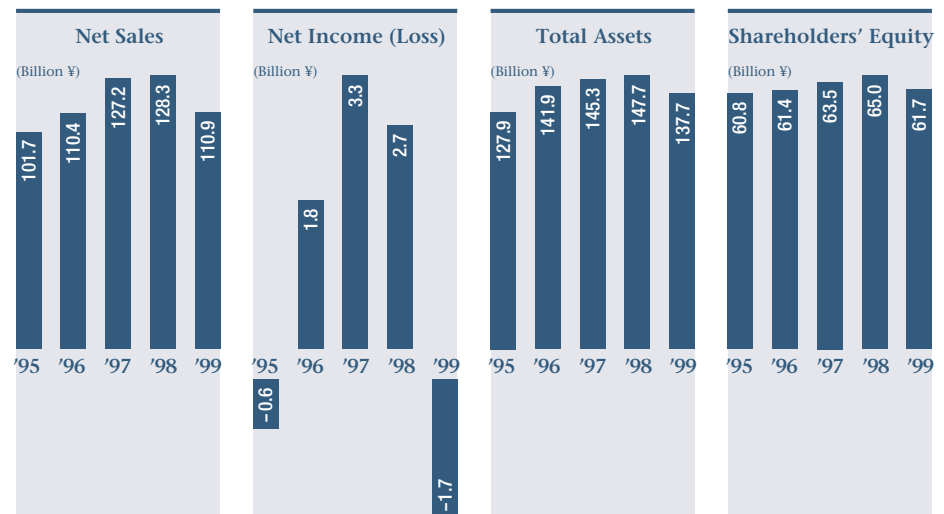
Financial Highlights

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Net sales	¥110,919	¥128,298	\$924,325
Operating income	2,358	6,435	19,650
Net income (loss)	(1,715)	2,709	(14,291)
Per share* (yen and dollars):			
Net income (loss)	¥(8.92)	¥14.08	\$(0.074)
Cash dividends	6.00	6.00	0.050
Total assets	¥137,691	¥147,668	\$1,147,425
Shareholders' equity	61,673	64,989	513,941

Note: The U.S. dollar amounts in this annual report have been calculated from yen amounts, for convenience only, at the exchange rate of ¥120 to \$1, the approximate exchange rate at March 31, 1999.

* The effective par value per share is ¥50.



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Meeting Challenges



A handwritten signature in black ink, appearing to read 'Takashi Fukunaga'.

Takashi Fukunaga
President and Representative Director

Our performance in the year ended March 31, 1999, was not satisfactory. Although we took aggressive steps to respond to the difficult operating environment, we were unable to offset the effects of slumping market conditions. From the previous year, with the slogan “meeting the challenge of change,” we instituted measures to rationalize our management practices and strengthen our market competitiveness. Those measures have begun to show steady results. Tsubakimoto Chain remains a global leader in chains and other power transmission products, and we are confident that we can achieve new growth in the years ahead by further strengthening the Company. In April 1999, we formulated a new management plan and, at the same time, announced a mission statement designed to focus the efforts of all employees on achieving the plan’s goals. In a few words, our objective is to “provide the best value to customers around the world and establish a position as a leading company in global markets.” In the years ahead, Tsubakimoto Chain will continue working to meet the challenge of change and the expectations of its shareholders, customers, and employees.

Our Mission

We will provide the best value to customers around the world by capitalizing on our technical strengths in the fields of power transmission and materials handling.

Our Vision

We aim to be a leading company in the global markets for our products.

June 1999

An Interview with the President



During the past year, Tsubakimoto Chain was unable to avoid a downturn in its performance. The Company did, however, work toward improving its performance by aggressively strengthening its operations and laying the foundation for long-term growth. In this interview, President Takashi Fukunaga discusses the Company's plans and management vision.

“ *We will focus management resources on markets and products where we can effectively compete and take steps to thoroughly rationalize operations, including restructuring measures.* **”**

Performance

Tsubakimoto Chain faces a difficult operating environment. For example, the long-term slump in the Japanese economy has led to major cuts in capital investment. How do you evaluate Tsubakimoto Chain's performance in this environment in the past year?

As far as the numbers go, it was not satisfactory. Our performance has always been significantly affected by trends in private-sector capital investment. In the year ended March 31, 1999, capital investment in Japan fell about 15%, and this decline had a major influence on our results. Even though we cannot

completely avoid the influence of capital investment trends, we are making great strides in minimizing their effects. We are taking steps to ensure that our operations will be profitable even when capital investment is contracting.

How were the Company's results in power transmission products and materials handling systems?

Sales and orders declined in both divisions. In our key customer industries, such as automobiles, electrical equipment, machine tools, and general industrial equipment, production declined and capital investment was down considerably. We were severely affected by those trends. However, in power transmission products, timing chains and other automobile engine products posted higher sales, as did our Lini Sort systems in materials handling systems. We expect these product lines to record further growth in the future.

Restructuring Measures

You mentioned taking measures to ensure that the Company was profitable even in a slumping environment. Specifically, what types of measures are you implementing?

First, focusing management resources on markets and products where we can compete. Second, thoroughly rationalizing management, including restructuring. In order to ensure profitability in an environment where large-scale growth in sales cannot be expected, we are eliminating unprofitable products and lines of business and concentrating our resources on markets where we can compete and on products with high growth potential. And at the same time, we are strengthening the Company by reducing costs through the rationalization of production, including the consolidation of production bases, as well as through workforce reductions.

What are your plans for restructuring?

One example is labor expenses, which we plan to reduce from the current level, about 30% of sales, to 20% by 2004. We have begun to implement 50% workforce reductions in staff departments, and we will be making significant reductions in materials handling systems operations. During the year under review, we initiated a voluntary early retirement system in materials handling systems, and by the end of the fiscal year the workforce had been reduced to about 70% of its peak level. In addition, we consolidated our production bases by



The Company's automobile engine timing chains have earned a strong reputation as a leading brand, and their use by automakers in Japan and overseas continues to increase.

Our linear sorting system, Lini Sort, recorded strong sales to household goods makers and to the distribution industry during the year under review.



merging two production subsidiaries in April 1999. Beginning in the current fiscal year, we plan a full-fledged restructuring of the entire company. In materials handling systems, for example, we will consolidate all production operations into one location by shifting work from the Hyogo Plant to the Saitama Plant. And in power transmission products, we will implement significant changes in power transmission units and components.



construction is an indispensable part of our efforts to become the leading chain maker in the world.

New Factory Construction

Please outline your plans for plant construction and funding.

Currently, domestic production of roller chains and conveyor chains is conducted at our Osaka Plant. However, the potential of that plant is limited by its size and age, so we have decided to transfer those operations to a new facility in Kyotanabe City in neighboring Kyoto Prefecture. We plan to make the new plant, which should be fully operational in April 2002, into one of the world's leading chain centers. It will serve as a technical center that oversees the development of new products and production technologies from a global viewpoint. The total investment will reach about ¥60 billion, with about 70% funded from internal sources, such as gain on the disposal of the Osaka Plant, and the remaining 30% from debt.

“*New plant construction is an indispensable part of our efforts to become the leading chain maker in the world.***”**

To meet its objective of being the No. 1 chain maker in the world, Tsubakimoto Chain decided to build a new chain plant in Kyotanabe City, Kyoto Prefecture. The new plant will be completed in 2002.



This is a relatively large investment. Why did you decide to take this step?

New plant construction is an indispensable part of our efforts to become the leading chain maker in the world. By installing new production management systems at the new plant, we will achieve not just increased production capacity but also dramatically enhanced productivity. The construction of this new plant requires a significant investment for Tsubakimoto Chain, but it is an investment that is necessary for us to achieve growth over the long term. Clearly, the merits of the new plant exceed its costs.

Future Strategies and Outlook

What strategic issues are you facing as you work to improve the Company's performance?

Workforce reductions in staff departments are a Companywide goal. Our initial target was 50% reductions by 2005, but we have recently moved that target up to 2004. Increasing sales, which declined by a large margin in the year under review, remains a top priority. By the year ending March 2001, we plan to raise sales

above the level of the year ended March 1998. We have also clarified the strategies for each division. First, we have begun highly focused marketing activities in power transmission products, centered on roller chains, engineered plastic chains, and conveyor chains. These activities target customers in key industries, such as heavy machinery, machine tools, and food processing machinery. In materials handling systems, we will focus our marketing efforts on the distribution, newspaper, paper manufacturing, and automotive industries and aggressively introduce high-value-added products. In addition, we will reinforce our relationships with customers by expanding our maintenance services network.

What are your expectations for future growth in power transmission products?

First, we will spark a recovery in sales by strengthening our marketing activities. By focusing our marketing on key industries, we have succeeded in acquiring new orders from environment-related and machine tool companies. Second, we will stimulate new demand by bolstering the development of new products. Among those products launched during the year under review were a highly corrosion resistant drive chain with non-chrome surface processing that meets needs related to the



Tsubakimoto Chain's operational strategy calls for increasing sales by bolstering marketing activities targeted at key industries.

In materials handling systems operations, we launched a maintenance service during the year under review. We have high expectations for this new field of business, which is an example of how we are working to offer services linked even more closely to the needs of our customers.



environment and a low-noise roller chain. Both of these products were well received. In order to bolster our ability to sell power transmission products, we have decided to merge with six of our eight directly operated domestic sales subsidiaries as of October 1, 1999. In the future, we will work for a steady recovery in performance, without regard to private-sector capital investment trends, by strengthening our marketing activities and further bolstering our product development.

recent years, higher-output, higher-RPM engines have become increasingly common, and the transition from timing belts to steel chains has accelerated. Our products are the focus of growing attention. In Japan, despite the fact that automobile production has declined, our results were about level with the previous year. And overseas, we are conducting local production at a subsidiary in the United States, and that company's sales were up 10% during the year under review.

Do you anticipate growth in automotive products?

The outlook is good for our business in automotive products. We provide timing drive systems for automobile engines to automakers in Japan and overseas, and we have an especially high share of the market for timing chains. In

“In automotive products, where demand remains strong, the launch of the new Super Silent Chain will further expand the use of our products.”



At U.S. Tsubaki's automotive products plant in Chicopee, the volume of timing chains made for leading U.S. auto companies is increasing steadily.



Do you expect that growth to continue?

Yes, we do. In the year under review, we introduced the Super Silent Chain, and we are marketing it aggressively. In the United States, our products have strong reputations. We have, for example, been named a Supplier of the Year by General Motors Corporation for five years in a row. In addition, we recently signed a contract to become a supplier for Jaguar Cars Ltd., of the United Kingdom, and we anticipate strong growth in the European market. We are also evaluating the possibility of local production in Europe in the years ahead.

What is the outlook for materials handling systems, the other pillar of Tsubakimoto Chain's operations?

At this point, we do not forecast a rapid recovery in sales. Our first priority is to improve profitability by reducing fixed expenses. We are aiming to minimize the impact of economic fluctuations on profitability. By the end of the current fiscal year, our plant consolidation and other restructuring measures will have given us a more compact organization, and we will be better able to focus our resources on markets and products where we

can truly display our strengths. In the future, by enhancing the quality rather than the scale of our operations, we will improve our performance in materials handling systems.

Mission Statement

How will the Company utilize its recently announced mission statement?

Given the drastic changes in our operating environment, we decided to complement our corporate philosophy by clarifying our mission in a way that is easier for all employees to understand and share. The basic concepts are "providing the best value to customers around the world," and "aiming to become a leading company in global markets." We will use the original technical capabilities that we have cultivated over many years of successful operations to provide the best value to our customers. That will be the driving force behind Tsubakimoto Chain's future growth.



In the field of timing chains, the Company has bolstered its strong position with the introduction of the Super Silent Chain, and this new product is expected to generate further growth in demand for the Company's timing drive systems in the years ahead.

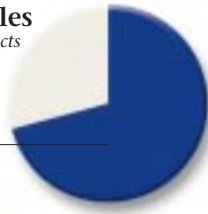
In spring 1999, we formulated a mission statement to clarify our management objectives and introduced it at a management policy meeting attended by all executives.



During the year ended March 31, 1999, sales of power transmission products decreased 11.4%, to ¥78.9 billion (US\$657.3 million), accounting for 71.1% of consolidated net sales. Overseas sales declined 1.2%, to ¥28.4 billion (US\$237.1 million), representing 36.1% of sales of power transmission products.

Although the Japanese economy continued to slump, domestic sales of automotive products were strong. Overall, however, domestic sales declined. Overseas, sales were strong in the key North American market and in Europe, but sales in Asia were adversely affected by the region's economic conditions.

Share of Net Sales
Power Transmission Products
71.1%



Sales Breakdown

	Millions of Yen		% Change 1999/1998
	1999	1998	
Domestic Sales	¥50,429 (63.9)	¥60,250 (67.7)	-16.3
Overseas Sales	28,446 (36.1)	28,804 (32.3)	- 1.2
Total	¥78,875 (100.0)	¥89,054 (100.0)	-11.4

Power Transmission Products

◆Chains

As one of the world's leading chain makers, Tsubakimoto Chain provides customers in a wide range of industries with advanced, high-performance products. Our quality and technical development capabilities are highly regarded by our customers.

In Japan, sales of chains were sluggish during the year under review, as the economy continued to slump, capital investment declined, and our customers reduced production. However, we introduced advanced networking software to augment our information-sharing capabilities and focused our marketing resources on key industries. As a

result, we secured new orders in the environment-related and machine tool industries. In addition, in the cement and other heavy industries, we reinforced our relationships with customers by expanding our chain inspection services. We generated new demand during the year with the introduction of environmentally friendly products, such as a highly corrosion resistant drive chain with non-chrome surface processing and a low-noise roller chain that reduces operating noise by 6 to 8 decibels. By strengthening the development and marketing of new products, we continue to make steady progress in raising the percentage of sales accounted for by new products.

Highly anticorrosive chains



Overseas, conditions were comparatively favorable in our mainstay North American market, in Europe, and in Australia. In particular, we recorded robust sales of strong chains to the Australian mining industry. In Asia, however, markets were extremely sluggish. Currently, in the United States we are developing an OEM strategy for the construction machinery, agricultural machinery, and forklift industries. In Europe, we are prepared to begin sales of an improved version of our BS chains, our best-selling product in Europe, and we expect to increase our share there.

To raise our productivity, we are building a state-of-the-art plant in Kyotanabe City, Kyoto Prefecture. We will give it the ability to function as a technical center providing support to the entire company



Low-noise roller chains

in technology and product development. During the year under review, prior to purchasing the land, we completed the basic building design and began the detailed design.

◆ Power Transmission Units and Components

In addition to chains, Tsubakimoto Chain provides a wide range of other power transmission products. These products include reducers, such as gear motors and gear boxes, and motion control units, such as Power Cylinders, couplings, and Cam Clutches.

In a difficult environment, favorable performances were recorded by such products as Power Locks and



Hypoid Motor Minis

Lini Power Jacks

Hypoid Motors. During the year, we increased the number of sales engineers working with these products and actively promoted sales of combinations of chains, belts, and other power transmission related products. We expanded our lineup of compact speed reducers with hypoid gears through the addition of a series of small-sized units ranging from 40W to 90W. Also, we completed our lineup of jacks with a model change and the addition of new models. We also

strengthened our attention to customer needs by distributing a complimentary CD-ROM catalog for our power transmission products and offering one-day delivery of semi-order-made gear motors.

Overseas, sales of couplings in North America were strong. In Europe, we improved our Cam Clutch inventory system, while in Australia we recorded increased sales of Power Cylinders and Cam Clutches.

In the health care market, we also expanded our product lineup. We complemented our units that convert hand-operated adjustable beds to electric operation with the launch of chairs that provide assistance in standing up and with floor-mounted lifts. The year under review was the third since we entered this field, and we have already sold more than 10,000 bed conversion units. Our name recognition in the health care market is steadily increasing, and sales during the year under review more than doubled from the previous year.

◆ Automotive Parts

Tsubakimoto Chain is one of the leading manufacturers of timing drive systems for automobile engines, and the Company provides products to leading automakers in Japan and overseas. For timing chains, we have a market share in Japan of more than 90% as well as the leading share of the U.S. market. In recent years, new automobile engine models have featured higher-output, higher-RPM operation, and as a result the use of steel chains, in which we have particular strengths,

is increasing.

In this market environment, we posted strong results despite the decline in domestic automobile production. Our Super Silent Chains, launched during the year under review, are used as power transmission components in timing drive systems and engines. Super Silent Chains feature low noise and compact size as well as excellent abrasion resistance, a weak point of previous silent chains, that was obtained through special surface processing. We have very high expectations for this product line.

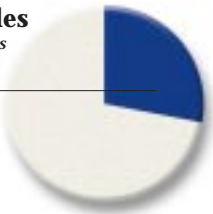
Overseas, sales in North America remain strong. U.S. Tsubaki, Inc., a local production company, was named a Supplier of the Year by General Motors Corporation for the fifth year in a row. Our reliability, production capacity, technical capabilities, and quality assurance system are highly evaluated in this market.

Also during the past year, we signed a contract with Jaguar Cars Ltd., of the United Kingdom, to supply entire timing drive systems. This new business relationship is a clear indication of the progress of our operations in Europe. From 2001, our timing drive systems will be installed on new Jaguar engines. Initially, these products will be supplied from our Saitama Plant through Tsubakimoto Europe B.V., but we are considering starting local production in Europe in the years ahead.



Super Silent Chain

Share of Net Sales
Materials Handling Systems
28.3%



Sales of materials handling systems declined 18.8% during the year under review, to ¥31.4 billion (US\$261.7 million), due primarily to the influence of adverse economic conditions in Japan and the rest of Asia. Materials handling systems accounted for 28.3% of consolidated net sales. Overseas sales increased 17.0%, to ¥10.9 billion (US\$90.8 million), representing 34.7% of our sales of materials handling systems.

Domestically, sales declined significantly due to weak private-sector capital investment and to the postponement of projects. Our overseas business was marked by strong sales in North America but weak sales in Asia, which is generally an important market for our materials handling systems operations.

Sales Breakdown

	Millions of Yen		% Change 1999/1998
	1999	1998	
Domestic Sales	¥20,502 (65.3)	¥29,349 (75.9)	-30.1
Overseas Sales	10,901 (34.7)	9,321 (24.1)	17.0
Total	¥31,403 (100.0)	¥38,670 (100.0)	-18.8

Materials Handling Systems

Weak private-sector capital investment has resulted in poor results for this division. To raise efficiency and improve its performance in this field, Tsubakimoto Chain merged with two production subsidiaries on April 1, 1999, and in the current fiscal year the Company will consolidate materials handling systems production operations into the Saitama Plant. At the same time, we initiated a voluntary early retirement program aimed principally at this division and related subsidiaries. We expect these measures to begin to show results in the current year and to result in annual savings of ¥2.0 billion in labor and other fixed costs.

◆ Factory Automation Systems

Tsubakimoto Chain provides advanced factory automation systems to a wide range of industries, such as automobiles, electrical and electronic equipment, paper manufacturing, newspaper, and steel, and the technical strength of the Company's products is highly regarded.

During the year under review in the domestic market, we strengthened marketing to the automotive industry, a major customer. As a result, sales of the Traverser System series of body paint shop conveyor systems increased. We also stepped up marketing to the paper manufacturing and newspaper industries. Sales of AGV and ADS automatic roll paper feeding systems declined, but



New Traverser System

Auto Dolly Super



orders increased. Sales of systems to the steel and mechatronics industries were down significantly due to reduced capital investment in those

industries. Our plans call for continued reinforcement of marketing efforts directed at the automobile, newspaper, and paper manufacturing industries.

Overseas, our sales in North America increased due to the delivery of body paint shop conveyor systems to Japanese automakers. The performance of these systems has been highly evaluated by our customers, and we have received several inquiries from other companies as well, so the prospects are favorable. In Asia, sales to the steel industry increased, but sales to the electronics industry declined considerably due to the postponement or cancellation of capital investment plans. Operations in South Korea, which has been a large market for the Company, and in other Asian countries have been significantly affected by the currency crisis and other economic problems.

◆ Physical Distribution Systems

Tsubakimoto Chain offers a complete range of physical distribution systems to distribution centers in a wide range of industries, including publishing, shipping, apparel, sundries, and retail. Our advanced sorting systems, which use linear motor drives and computer control, are making a significant contribution to rationalization in the distribution industry.

Our mainstay products in this field include the Multi-Sorter, a printed materials sorting system for the publishing industry; the Lini Sort, a high-speed, multi-directional



Lini Sort V



Mail Sort

sorting system for the retail industry and shipping centers; and the Fashion Sort, which enables clothing to be distributed on hangers for the apparel industry. Each of these systems showcases our original technology and know-how and has been highly evaluated in its target industry. During the year under review, sales declined due to sluggish private-sector capital investment. However, in linear sorting systems—such as the Lini Sort S, for small objects, and the Lini Sort V, which features low price and compact size—our efforts to bolster marketing have taken effect, with sales to household goods makers and to the distribution industry doubling in the year under review.

We worked to increase the market penetration of our storage and conveyance equipment. For example, the Pak-U-Veyor, a revolving carousel-type storage and conveyor system; Power Column automatic

vertical shelves; and the Autran Vanguard, a ceiling-mounted automatic conveyance system, were the subject of sales campaigns.

◆ Maintenance

As materials handling systems become more advanced and use more computer control, a higher level of maintenance is required. In the year under review, Tsubakimoto Chain took the lead in the industry with the establishment of a maintenance services business.

We offer a wide range of services in accordance with customer needs, such as low-cost, on-call services; full maintenance services based on long-term contracts; and remote maintenance services where diagnosis and repairs are conducted through direct connections with the customer's control computers. In the future, we will extend the service to include materials handling systems from other companies and general machinery that incorporates our power transmission products.



Maintenance service

Board of Directors (As of June 29, 1999)



Takashi Fukunaga
President



Kunio Hirayama
Executive Managing Director



Toru Miyamoto
Managing Director



Tadashi Arimitsu
Managing Director



Kimio Takakura
Managing Director

Takashi Fukunaga
President

Kunio Hirayama
Executive Managing Director
(Power Transmission Operations)

Toru Miyamoto
Managing Director
(Operational Affairs)

Tadashi Arimitsu
Managing Director
(Power Transmission Production Operations)

Kimio Takakura
Managing Director
(North American Operations)

Hideo Miyazaki
Director
(Power Transmission Sales & Marketing Operations and Osaka Office)

Eiji Fujita
Director
(General Affairs and Asset Management)

Nobuhide Noguchi
Director
(Strategic Business and New Business Development)

Eishi Haga
Director
(Materials Handling Production Division, Saitama Plant, and Hyogo Plant)

Kenji Ohara
Director
(North American Operations)

Norikazu Ohno
Director
(Business Administration and Finance)

Kohei Hashimoto
Director
(Materials Handling Operations, Tokyo Office, and Nagoya Office)

Makoto Kanehira
Director
(Research & Development and Kyoto Plant)

Tadachi Yokoyama
Corporate Auditor

Tomoo Ito
Corporate Auditor

Masaru Tokuda
Corporate Auditor

Results of Operations

In the fiscal year ended March 31, 1999, consolidated net sales declined 13.5%, to ¥110.9 billion (US\$924.3 million), due to sluggish demand caused by weak private-sector capital investment. The cost of sales declined 11.0%, to ¥83.7 billion (US\$697.6 million). As a result of intensified competition and a rise in the fixed expenses ratio, the cost of sales ratio increased to 75.5%, from 73.3% in the previous year. Selling, general and administrative expenses were down 10.7%, to ¥24.8 billion (US\$207.1 million), reflecting reductions in labor costs and other expenses. Operating income declined 63.4%, to ¥2.4 billion (US\$19.7 million), due to the large decrease in net sales, and the operating profit margin was 2.1%.

Net interest expense, which accounts for the majority of other expenses, decreased 11.9%, to ¥756 million (US\$6.3 million). Due to special retirement allowances associated with our voluntary early retirement program, we recorded a special loss of ¥1.6 billion (US\$13.3 million), and loss before income taxes and minority interests was ¥1.0 billion (US\$8.5 million). Net loss was ¥1.7 billion (US\$14.3 million). Net loss per share was ¥8.92 (US\$0.074), compared with net income per share of ¥14.08 in the previous year.

Return on equity (ROE) was -2.7%, compared with 4.2% in the previous year. To maintain stable dividend payments, cash dividends per share were left unchanged at ¥6.00 (US\$0.05).

Liquidity and Capital Resources

Net cash provided by operating activities increased 36.0%, to ¥7.9 billion (US\$66.2 million). Depreciation and amortization was about level with the previous year, at ¥4.6 billion (US\$38.5 million).

Net cash used in investing activities decreased 21.0%, to ¥5.2 billion (US\$43.3 million). In the previous fiscal year, we acquired land for the new headquarters plant, but in the year under review there were no major investment projects. As a result, capital investment was down 65.7%, to ¥5.2 billion (US\$43.0 million).

Net cash provided by financing activities was up

123.4%, to ¥2.1 billion (US\$17.4 million). In September 1998, we issued ¥4.0 billion (US\$33.3 million) in straight bonds to maintain sufficient liquidity.

Consequently, at the end of the fiscal year under review, cash and cash equivalents were up 21.8%, to ¥27.0 billion (US\$225.3 million).

Current assets at year-end were down 11.1%, to ¥72.5 billion (US\$604.5 million), and current liabilities were down 24.1%, to ¥47.3 billion (US\$393.8 million). Working capital was up 30.3%, to ¥25.3 billion (US\$210.7 million), and the current ratio was 1.54, compared with 1.31 at the end of the previous year. Property, plant and equipment, net of accumulated depreciation, was about level with the previous year-end, at ¥48.2 billion (US\$402.1 million).

Shareholders' equity declined 5.1%, to ¥61.7 billion (US\$513.9 million), due to the net loss, and the ratio of shareholders' equity to total assets at fiscal year-end was about the same as at the end of the previous year, at 44.8%. Tsubakimoto Chain's debt-to-equity ratio at fiscal year-end was 0.73, compared with 0.64 at the previous year-end, due to an increase in long-term debt. Total assets were down 6.8%, to ¥137.7 billion (US\$1,147.4 million).

Year 2000

Tsubakimoto Chain recognizes the Year 2000 (Y2K) issue as an important management problem and is moving ahead with a comprehensive response. In key information systems, such as production, marketing, and accounting, the implementation of remediation measures was completed by March 1999. In production, distribution, and other equipment that contains microchips, we have determined that remediation measures are not needed. In regard to our products, we have determined which products require remediation measures and are cooperating with customers in the implementation of those measures. Although we are thoroughly taking appropriate measures in areas requiring remediation, we will also complete a contingency plan by September 1999.

Eleven-Year Financial Summary

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

	1999	1998	1997	1996
Net sales	¥110,919	¥128,298	¥127,231	¥110,424
Income (loss) before income taxes and minority interests	(1,018)	5,508	5,931	3,649
Net income (loss)	(1,715)	2,709	3,280	1,796
Net income (loss) per share* (yen and dollars)	(8.92)	14.08	17.04	9.33
Interest expense:				
Net	1,163	1,172	1,073	1,063
Gross: Interest received	263	323	385	492
Interest paid	1,426	1,495	1,458	1,555
Capital expenditures	5,157	15,050	5,680	4,759
Current assets	72,541	81,622	80,929	77,995
Current liabilities	47,256	62,224	58,349	62,312
Net property, plant and equipment	48,249	48,837	38,331	36,904
Noncurrent liabilities	27,397	18,710	21,847	16,849
Total assets	137,691	147,668	145,268	141,863
Common stock	17,077	17,077	17,075	17,068
Retained earnings	31,943	35,260	33,791	31,682
Shareholders' equity	61,673	64,989	63,516	61,392
Number of shares outstanding at year-end (thousands).....	191,406	192,406	192,399	192,377
Number of employees.....	5,368	5,720	5,789	5,844

* The effective par value per share is ¥50.

Millions of Yen Except Per Share Data

Thousands of
U.S. Dollars

1995	1994	1993	1992	1991	1990	1989	1999
¥101,670	¥109,014	¥120,867	¥140,316	¥127,851	¥120,741	¥110,085	\$924,325
179	1,750	5,131	10,291	11,139	10,027	8,627	(8,483)
(634)	1,148	2,539	5,216	5,393	5,060	4,070	(14,291)
(3.29)	5.96	13.20	27.14	28.15	27.00	24.36	(0.074)
951	1,041	1,248	1,160	1,115	749	720	9,692
835	982	1,247	1,655	1,299	861	772	2,191
1,786	2,023	2,495	2,815	2,414	1,610	1,492	11,883
4,290	4,221	8,489	8,586	11,060	6,996	5,529	42,975
63,452	63,319	75,028	73,549	89,110	76,553	71,921	604,508
45,902	45,625	56,937	54,978	71,273	50,165	44,962	393,801
37,709	39,221	40,629	37,490	33,985	27,130	23,875	402,075
19,966	19,818	20,320	18,261	11,196	10,381	15,698	228,308
127,893	129,020	141,759	137,355	142,883	117,038	106,228	1,147,425
17,066	17,066	17,058	17,057	16,809	16,629	13,522	142,308
31,060	32,675	33,398	33,049	29,987	26,465	22,282	266,191
60,768	62,382	63,091	62,739	59,180	55,298	44,732	513,941
192,374	192,372	192,354	192,349	191,639	191,045	180,861	
5,829	5,652	5,649	5,591	5,401	5,393	4,699	

Consolidated Balance Sheets

Tsubakimoto Chain Co. and Consolidated Subsidiaries
March 31, 1999 and 1998

Assets	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Current assets (Note 8):			
Cash and cash equivalents:			
Cash and time deposits	¥ 10,626	¥ 11,111	\$ 88,550
Marketable securities	16,407	11,086	136,725
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliate	1,950	2,568	16,250
Other	20,238	28,457	168,650
Inventories	21,991	26,980	183,258
Other receivables:			
Unconsolidated subsidiaries and affiliates	39	39	325
Other current assets	1,573	1,781	13,108
Allowance for doubtful receivables	(283)	(400)	(2,358)
Total current assets	<u>72,541</u>	<u>81,622</u>	<u>604,508</u>
Property, plant and equipment (Note 8):			
Land	6,155	6,204	51,292
Buildings and structures	31,615	31,493	263,458
Machinery and equipment	65,629	64,039	546,908
Construction in progress	12,098	11,492	100,817
Accumulated depreciation	(67,248)	(64,391)	(560,400)
Net property, plant and equipment	<u>48,249</u>	<u>48,837</u>	<u>402,075</u>
Investments and long-term loans receivable:			
Investment securities:			
Unconsolidated subsidiaries and affiliates	590	544	4,917
Other	8,353	8,874	69,608
Long-term loans receivable	35	53	292
Other noncurrent items	7,678	8,214	63,983
Allowance for doubtful receivables	(462)	(476)	(3,850)
Total investments and long-term loans receivable	<u>16,194</u>	<u>17,209</u>	<u>134,950</u>
Currency translation adjustments	707	-	5,892
Total assets	<u>¥137,691</u>	<u>¥147,668</u>	<u>\$1,147,425</u>

The accompanying notes are an integral part of these financial statements.

Liabilities and Shareholders' Equity	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Current liabilities:			
Short-term bank loans and current portion of long-term debt	¥ 23,400	¥ 28,723	\$ 195,000
Trade notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	705	744	5,875
Other	15,122	18,712	126,017
Income taxes payable	305	1,334	2,542
Accrued expenses	4,163	4,543	34,692
Other	3,561	8,168	29,675
Total current liabilities	<u>47,256</u>	<u>62,224</u>	<u>393,801</u>
Noncurrent liabilities:			
Bonds	6,308	3,081	52,567
Long-term loans, less current maturities	15,370	9,806	128,083
Retirement benefits	5,719	5,823	47,658
Total noncurrent liabilities	<u>27,397</u>	<u>18,710</u>	<u>228,308</u>
Currency translation adjustments	–	314	–
Minority interests	1,365	1,431	11,375
Shareholders' equity:			
Common stock	17,077	17,077	142,308
Capital surplus	12,653	12,653	105,442
Retained earnings	31,943	35,260	266,191
	61,673	64,990	513,941
Treasury stock	(0)	(1)	(0)
Total shareholders' equity	<u>61,673</u>	<u>64,989</u>	<u>513,941</u>
Total liabilities and shareholders' equity	<u>¥137,691</u>	<u>¥147,668</u>	<u>\$1,147,425</u>

Consolidated Statements of Income

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars
	1999	1998	1997	1999
Net sales	¥110,919	¥128,298	¥127,231	\$924,325
Cost of sales	<u>83,714</u>	<u>94,025</u>	<u>94,367</u>	<u>697,617</u>
Gross profit	27,205	34,273	32,864	226,708
Selling, general and administrative expenses	<u>24,847</u>	<u>27,838</u>	<u>26,490</u>	<u>207,058</u>
Operating income	2,358	6,435	6,374	19,650
Other income (expenses):				
Interest and dividend income	670	637	659	5,583
Interest expense	(1,426)	(1,495)	(1,458)	(11,883)
Equity in loss of affiliated company	(231)	-	-	(1,925)
Foreign exchange gains (losses)	(114)	(21)	124	(950)
Other, net	<u>(405)</u>	<u>(45)</u>	<u>(32)</u>	<u>(3,375)</u>
Ordinary income	852	5,511	5,667	7,100
Extraordinary profit (loss):				
Special loss on retirement allowances, and other, net	<u>(1,870)</u>	<u>(3)</u>	<u>264</u>	<u>(15,583)</u>
Income (loss) before income taxes and minority interests	(1,018)	5,508	5,931	(8,483)
Income taxes	696	2,671	2,535	5,800
Minority interests	<u>(1)</u>	<u>(128)</u>	<u>(116)</u>	<u>(8)</u>
Net income (loss)	<u>¥ (1,715)</u>	<u>¥ 2,709</u>	<u>¥ 3,280</u>	<u>\$ (14,291)</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Retained Earnings

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars
	1999	1998	1997	1999
Retained earnings at the beginning of the year	¥35,260	¥33,791	¥31,681	\$293,833
Appropriations:				
Cash dividends	(1,154)	(1,154)	(1,154)	(9,617)
Bonuses to directors and statutory auditors	(89)	(86)	(16)	(742)
Retirement of shares	(249)	-	-	(2,075)
Decrease in retained earnings, resulting from				
application of the equity method	(110)	-	-	(917)
Net income (loss) for the year	<u>(1,715)</u>	<u>2,709</u>	<u>3,280</u>	<u>(14,291)</u>
Unappropriated retained earnings				
at the end of the year	<u>¥31,943</u>	<u>¥35,260</u>	<u>¥33,791</u>	<u>\$266,191</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars
	1999	1998	1997	1999
Cash flows from operating activities:				
Net income (loss)	¥ (1,715)	¥ 2,709	¥ 3,280	\$ (14,291)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	4,620	4,790	4,783	38,500
Provision for (reversal of) retirement benefits	(104)	(71)	303	(867)
Minority interests in income	1	128	116	8
(Increase) decrease in trade notes and accounts receivable	8,762	(336)	1,443	73,017
(Increase) decrease in inventories	4,989	181	(4,145)	41,575
(Increase) decrease in other receivables	194	(352)	57	1,617
Decrease in trade notes and accounts payable	(3,620)	(819)	(4,033)	(30,167)
Increase (decrease) in accrued expenses	(380)	251	535	(3,167)
Increase (decrease) in income taxes payable	(1,029)	(427)	1,040	(8,575)
Increase (decrease) in other current liabilities	(4,607)	(551)	751	(38,392)
Other	834	337	(102)	6,950
Net cash provided by operating activities	<u>7,945</u>	<u>5,840</u>	<u>4,028</u>	<u>66,208</u>
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(5,157)	(15,050)	(5,680)	(42,975)
Proceeds from sale of property, plant and equipment	137	112	407	1,142
(Increase) decrease in investment securities and loans to unconsolidated subsidiaries and affiliates	(407)	16	(261)	(3,392)
(Increase) decrease in other investment securities and loans receivable	7	10,459	(349)	58
Other	227	(2,112)	1,220	1,892
Net cash used in investing activities	<u>(5,193)</u>	<u>(6,575)</u>	<u>(4,663)</u>	<u>(43,275)</u>
Cash flows from financing activities:				
Proceeds from issue of bonds	4,000	–	–	33,334
Increase (decrease) in short-term bank loans	(2,458)	1,683	(454)	(20,483)
Proceeds from long-term loans	6,906	1,540	6,338	57,550
Reduction of long-term loans	(4,807)	(988)	(3,698)	(40,058)
Cash dividends	(1,154)	(1,154)	(1,154)	(9,617)
Bonuses to directors and statutory auditors	(89)	(86)	(16)	(742)
Other	(314)	(62)	(61)	(2,617)
Net cash provided by financing activities	<u>2,084</u>	<u>933</u>	<u>955</u>	<u>17,367</u>
Net increase in cash and cash equivalents	4,836	198	320	40,300
Cash and cash equivalents at the beginning of the year	22,197	21,999	21,679	184,975
Cash and cash equivalents at the end of the year	<u>¥27,033</u>	<u>¥22,197</u>	<u>¥21,999</u>	<u>\$225,275</u>
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥1,449	¥1,498	¥1,464	\$12,075
Income taxes	2,407	3,090	1,504	20,058

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Tsubakimoto Chain Co. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

(a) Accounting principles of consolidation

The Company has prepared its consolidated financial statements in accordance with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain modifications in format have been made to facilitate understanding by readers outside Japan.

The presentation of a statement of cash flows is not required for domestic purposes. It is, however, presented herein for readers' convenience.

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

(b) Consolidated subsidiaries

The consolidated financial statements include the accounts of the parent company and its significant domestic and foreign subsidiaries.

Consolidated subsidiaries are:

U.S. Tsubaki, Inc. (U.S.A.)
Hokkaido Tsubakimoto Chain Co., Ltd.
Tsubakimoto Custom Chain Co.
Tsubaki of Canada Limited (Canada)
Tsubakimoto Bulk Systems Corp.
Tsubaki Osaka Service Co.
Tsubakimoto Emerson Co.
Tsubakimoto Sprocket Mfg., Ltd.
Tsubaki Conveyor of America, Inc. (U.S.A.)

Tsubaki Chugoku Sales, Co.
Taiwan Tsubakimoto Co. (Taiwan)
Harry James Company Ltd. (Taiwan)
Ballantine, Inc. (U.S.A.)
Tsubakimoto Koki Industry Co., Ltd.
Tsubaki Arcs Co.
Tsubakimoto Europe B.V. (Netherlands)
P. Koning B.V. (Netherlands)
Tsubakimoto U.K. Ltd. (U.K.)
Tsubakimoto Tech Inc.
Tsubakimoto Higashinohon Co.
Tsubakimoto Singapore Pte. Limited (Singapore)
Tsubaki Australia Pty. Limited (Australia)

The investment in an affiliated company in which the Company's ownership is 20% to 50% (Hangzhou Tsubaki Dunpai Chain Co., Ltd.) is stated at its underlying equity value.

(c) Unconsolidated subsidiaries and affiliates

Investments in 5 insignificant subsidiaries and 10 affiliated companies (20% to 50% owned) are stated at cost because the Company's equity in the income or losses of these companies is not significant.

(d) Translation into U.S. dollars

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥120= \$1, the approximate exchange rate prevailing on March 31, 1999.

2. Significant Accounting Policies

(a) Inventories

Inventories are valued substantially at cost, which is determined by the first-in, first-out (FIFO) method, by the accumulated-cost method or by the moving-average cost method, except for the inventories of six subsidiaries, which are valued at the lower of cost or market.

(b) Marketable and investment securities

Marketable and investment securities quoted are valued at the lower of moving-average cost or market. Other securities are stated at cost.

(c) Property, plant and equipment

Property, plant and equipment are carried at cost. In specific cases, these are carried at cost less a reserve permitted under Japanese tax laws in respect of certain gains deferred on the sale of fixed assets. Depreciation of property, plant and equipment is computed mainly by the declining-balance method.

Effective April 1, 1998, the computation method of depreciation with respect to buildings was changed to the straight-line method from the declining-balance method for the Parent Company. The effect of the change was to decrease depreciation by ¥200 million (U.S.\$1,666 thousand) and increase loss before income taxes by ¥56 million (U.S.\$467 thousand).

(d) Bonuses for employees

Prior to April 1, 1998, accrued bonuses for employees were calculated as prescribed by Japanese tax laws. Effective April 1, 1998, the Company changed its accounting policy for accrued bonuses to provision based on an estimation of future bonus payments. The effect of the change was to decrease accrued expenses by ¥567 million (U.S.\$4,725 thousand) and decrease loss before income taxes by ¥385 million (U.S.\$3,208 thousand).

(e) Retirement benefits

The Company and its consolidated domestic subsidiaries have unfunded employees' retirement benefit plans. The annual accruals under such plans are equal to 40% of the amount which would be required if all employees voluntarily retired on the balance sheet date.

In addition, the Company and certain consolidated subsidiaries have funded pension plans. The annual contributions to such funds are charged to income and include normal costs and amortization of past service costs.

Also, the Company records the unfunded retirement benefits for directors and statutory auditors on the accrual basis.

(f) Translation of balances denominated in foreign currencies in domestic financial statements

Current receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing on

the balance sheet date except for amounts fixed by forward exchange contracts.

Noncurrent receivables and payables denominated in foreign currencies are translated at historical rates or at the forward contract rate, except when significant unrealized exchange losses are incurred.

All gains and losses resulting from the translation of foreign currency balances are included in net income for the year.

(g) Accounting for leases

Finance leases, except for those in which ownership is deemed to be

transferred to the lessee, are accounted for by the same method as operating leases.

(h) Shareholders' Equity

During the fiscal year to March 31, 1999, the Parent Company repurchased and retired 1,000 thousand shares worth ¥249 million (U.S.\$2,075 thousand) in accordance with a resolution of the Board of Directors on December 25, 1998, under the revised Commercial Code.

3. Difference between Cost and Net Equity of Consolidated Subsidiaries

The difference between the cost of an investment in a subsidiary and the underlying book value of the acquired interest is, if

material, allocated to a specific asset. However, minor differences are charged or credited to income for the year of acquisition.

4. Intercompany Transactions

All material intercompany balances and transactions, including unrealized profit in inventories and property, plant and equipment, have been eliminated on consolidation.

5. Translation of Foreign Currency Financial Statements

The financial statements of consolidated foreign subsidiaries are translated into yen in accordance with the Financial Accounting Standard for Foreign Currency Transactions in Japan.

This standard requires that assets and liabilities are translated

into yen at year-end rates and income and expense accounts are translated at average rates. Foreign currency translation adjustments are reflected in the balance sheets as suspense accounts (currency translation adjustments).

6. Appropriations of Retained Earnings

Appropriations of retained earnings are recorded at the date they are approved at the annual shareholders' meeting.

7. Tax Effect of Timing Differences

The consolidated financial statements do not reflect the tax effect of timing differences between income as reported for tax and financial statement purposes.

8. Pledged Assets

At March 31, 1999 and 1998, the following assets were pledged as collateral for bank loans and long-term debt.

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Current assets	¥ 531	¥ 484	\$ 4,425
Property, plant and equipment	22,329	21,556	186,075
	<u>¥22,860</u>	<u>¥22,040</u>	<u>\$190,500</u>

9. Contingent Liabilities

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥12,606 million (U.S.\$105,050 thousand) and ¥11,907 million at March 31, 1999 and 1998, respectively.

10. Per Share Amounts

	Yen		U.S. Dollars
	1999	1998	1999
Shareholders' equity per share	¥322.20	¥337.77	\$2.685
Net income (loss) per share	(8.92)	14.08	(0.074)

11. Segment Information

Information by business segment and geographical segment for the years ended March 31, 1999 and 1998 is as follows:

(a) Business segment

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Net sales:			
Power transmission products:			
Customers	¥ 78,875	¥ 89,054	\$ 657,292
Intersegment	2,160	2,314	18,000
Total	¥ 81,035	¥ 91,368	\$ 675,292
Materials handling systems:			
Customers	¥ 31,403	¥ 38,670	\$ 261,692
Intersegment	124	274	1,033
Total	¥ 31,527	¥ 38,944	\$ 262,725
Others:			
Customers	¥ 641	¥ 574	\$ 5,342
Intersegment	1,094	1,136	9,116
Total	¥ 1,735	¥ 1,710	\$ 14,458
Eliminations	(3,378)	(3,724)	(28,150)
Consolidated total	¥110,919	¥128,298	\$ 924,325
Operating income:			
Power transmission products	¥ 5,353	¥ 8,532	\$ 44,608
Materials handling systems	(292)	1,068	(2,433)
Others	217	216	1,808
Corporate and eliminations	(2,920)	(3,381)	(24,333)
Consolidated total	¥ 2,358	¥ 6,435	\$ 19,650
Total assets:			
Power transmission products	¥ 83,914	¥ 89,408	\$ 699,283
Materials handling systems	19,841	28,979	165,342
Others	2,322	2,242	19,350
Corporate and eliminations	31,614	27,039	263,450
Consolidated total	¥137,691	¥147,668	\$1,147,425
Depreciation:			
Power transmission products	¥ 3,863	¥ 3,891	\$ 32,192
Materials handling systems	583	659	4,858
Others	19	19	158
Corporate and eliminations	155	160	1,292
Consolidated total	¥ 4,620	¥ 4,729	\$ 38,500
Capital expenditures:			
Power transmission products	¥ 4,457	¥ 14,354	\$ 37,141
Materials handling systems	476	488	3,967
Others	9	7	75
Corporate and eliminations	215	201	1,792
Consolidated total	¥ 5,157	¥ 15,050	\$ 42,975

(b) Geographical segment

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Net sales:			
Japan:			
Customers	¥177,164	¥ 97,193	\$1,643,033
Intersegment	7,295	7,904	60,792
Total	¥ 84,459	¥105,097	\$1,703,825
North America:			
Customers	¥ 28,240	¥ 24,878	\$ 235,333
Intersegment	96	131	800
Total	¥ 28,336	¥ 25,009	\$ 236,133
Europe:			
Customers	¥ 3,146	¥ 3,067	\$ 26,217
Intersegment	15	11	125
Total	¥ 3,161	¥ 3,078	\$0,026,342
Asia and Oceania:			
Customers	¥ 2,370	¥ 3,160	\$ 19,750
Intersegment	426	615	3,550
Total	¥ 2,796	¥ 3,775	\$ 23,300
Eliminations	(7,833)	(8,661)	(65,275)
Consolidated total	¥110,919	¥128,298	\$ 924,325
Operating income:			
Japan	¥ 2,553	¥ 8,197	\$ 21,275
North America	1,861	954	15,508
Europe	287	186	2,392
Asia and Oceania	211	414	1,758
Corporate and eliminations	(2,554)	(3,316)	(21,283)
Consolidated total	¥ 2,358	¥ 6,435	\$ 19,650
Total assets:			
Japan	¥ 84,311	¥ 93,586	\$ 702,591
North America	19,199	24,273	159,992
Europe	2,371	2,757	19,758
Asia and Oceania	2,261	2,689	18,842
Corporate and eliminations	29,549	24,363	246,242
Consolidated total	¥137,691	¥147,668	\$1,147,425

Independent Auditors' Report

**The Board of Directors
Tsubakimoto Chain Co.**

We have audited the accompanying consolidated balance sheets of Tsubakimoto Chain Co. and its consolidated subsidiaries (the "Companies") as of March 31, 1999 and 1998, and the related consolidated statements of income, retained earnings and cash flows for each of the three years ended March 31, 1999, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with **generally accepted auditing standards, procedures and practices in Japan** and, accordingly, our audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Companies as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years ended March 31, 1999 in accordance with **accounting principles generally accepted in Japan** applied on a consistent basis, except for the changes, with which we concur, in the methods of estimation for accrued bonuses to employees and depreciation of buildings, which were made in the year ended March 31, 1999, as described in Note 2 to the consolidated financial statements.

The accompanying consolidated financial statements as of March 31, 1999 and for the year ended March 31, 1999 have been translated into United States dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 29, 1999

Century Audit Corporation

Century Audit Corporation

See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of the Companies under Japanese accounting principles and practices.

Principal Tsubakimoto Chain Group Companies (As of April 1, 1999)

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees <small>(As of March 31, 1999)</small>	Establishment	Principal Business
JAPAN					
TSUBAKIMOTO EMERSON CO.*	¥390.0 million	60.0%	313	October 1984	Manufacture of power transmission products
TSUBAKIMOTO SPROCKET MFG., LTD.*	¥96.0 million	98.8%	95	October 1968	Manufacture of sprockets
TSUBAKIMOTO CUSTOM CHAIN CO.*	¥125.0 million	98.6%	198	October 1951	Manufacture of power transmission chains
SHOWA CHAIN INDUSTRIAL CO.	¥30.0 million	97.0%	34	October 1950	Manufacture of conveyor chains
SHINKO MACHINERY CO.	¥50.0 million	50.0%	35	March 1971	Manufacture of conveyor chains
TSUBAKIMOTO IRON CASTING CO., LTD.	¥20.0 million	100.0%	45	October 1968	Casting
KYOWA CAM CO.	¥30.0 million	100.0%	9	August 1991	Manufacture of power transmission products
HOKKAIDO TSUBAKIMOTO CHAIN CO., LTD.*	¥30.0 million	100.0%	18	October 1961	Sales of Tsubakimoto Chain products
TSUBAKIMOTO HIGASHINIHON CO.*	¥25.0 million	70.0%	26	April 1994	Sales of Tsubakimoto Chain products
TSUBAKI OSAKA SERVICE CO.*	¥40.0 million	100.0%	39	April 1971	Sales of Tsubakimoto Chain products
TSUBAKI CHUGOKU SALES, CO.*	¥40.0 million	73.5%	48	November 1970	Sales of Tsubakimoto Chain products
TSUBAKI IZUMI SALES CO., LTD.	¥45.0 million	50.0%	51	April 1973	Sales of Tsubakimoto Chain products
TSUBAKI MECS CO., LTD.	¥50.0 million	50.0%	28	January 1981	Sales of Tsubakimoto Chain products
TSUBAKI SHIKOKU SALES CO., LTD.	¥15.0 million	50.0%	7	April 1978	Sales of Tsubakimoto Chain products
TSUBAKIMOTO NISHINIHON CO., LTD.	¥90.0 million	50.0%	58	October 1993	Sales of Tsubakimoto Chain products
ONISHI MFG. CO., LTD.	¥46.0 million	45.7%	41	September 1959	Manufacture of conveying equipment
TSUBAKIMOTO BULK SYSTEMS CORP.*	¥150.0 million	100.0%	200	April 1981	Manufacture of bulk materials handling systems
TSUBAKIMOTO MAYFRAN INC.	¥90.0 million	50.0%	110	November 1973	Manufacture of chip conveyors
TSUBAKI ARCS CO.*	¥461.0 million	100.0%	81	October 1970	Real estate leasing and maintenance and insurance agency services
TSUBAKIMOTO STAFF SERVICE CO-OP.	¥22.5 million	66.7%	42	January 1982	Employee welfare services

Note: As of April 1, 1999, Tsubakimoto Tech Inc. and Tsubakimoto Koki Industry Co., Ltd., were merged with Tsubakimoto Chain Co.

NORTH AMERICA					
U.S. TSUBAKI, INC.* 301 E. Marquart Drive, Wheeling, IL 60090-6431, U.S.A. Telephone: (847) 459-9500 Facsimile: (847) 459-9515	US\$33,500,000	100.0%	1,015	February 1971	Manufacture and sales of power transmission products
Roller Chain Division, Holyoke Plant 821 Main Street, Holyoke, MA 01040-5312, U.S.A. Telephone: (413) 536-1576 Facsimile: (413) 534-8239	—	—	223	—	Manufacture of roller chains
Automotive Division, Chicopee Plant 106 Lonczak Drive, Chicopee, MA 01022-1305, U.S.A. Telephone: (413) 593-1100 Facsimile: (413) 593-9999	—	—	177	—	Manufacture of automotive parts
Engineering Chain Division, Sandusky Plant 1010 Edgewater Drive, Sandusky, OH 44870-1601, U.S.A. Telephone: (419) 626-4560 Facsimile: (419) 626-5194	—	—	192	—	Manufacture of engineering chains
Sprocket Division, Bennington Plant 119 Bowen Road, Bennington, VT 05201-2017, U.S.A. Telephone: (802) 447-7561 Facsimile: (802) 447-7966	—	—	150	—	Manufacture of sprockets and power locks
BALLANTINE, INC.* 840 Mckinley Street, Anoka, MN 55303-1162, U.S.A. Telephone: (612) 571-7474 Facsimile: (612) 571-0255	US\$50,000	U.S.T. 100.0%	38	March 1988	Sales of trencher parts

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees (As of March 31, 1999)	Establishment	Principal Business
TSUBAKI CONVEYOR OF AMERICA, INC.* 138 Davis Street, P.O.Box 710, Portland, TN 37148-0710, U.S.A. Telephone: (615)325-9221 Facsimile: (615)325-2442	US\$900,000	100.0%	90	July 1983	Manufacture and sales of materials handling systems
TSUBAKI OF CANADA LIMITED* 1630 Drew Road, Mississauga, Ontario, L5S 1J6 Canada Telephone: (905)676-0400 Facsimile: (905)676-0904	C\$3,000,000	100.0%	73	July 1973	Manufacture and sales of power transmission products
EUROPE					
TSUBAKIMOTO EUROPE B.V.* Belder 1,4704 RK, Roosendaal, The Netherlands Telephone:165-594800 Facsimile:165-549450	NLG6,000,000	100.0%	28	April 1972	Sales of power transmission products
P. KONING B.V.* Waalhaven Z/Z 42, 3088 HJ Rotterdam, The Netherlands Telephone: (10)4941818 Facsimile: (10)4294906	NLG51,200	T.E.U. 100.0%	33	June 1918	Sales of power transmission products
TSUBAKIMOTO U.K. LTD.* Moorbridge Road, Bingham Industrial Estate, Bingham, Nottingham NG138GG, United Kingdom Telephone: (1949)838554 Facsimile: (1949)839135	£150,000	T.E.U. 100.0%	25	March 1985	Sales of power transmission products
T.E.U.K. LIMITED 55 Kedleston Court, Norbury Close, Allestree, Derby, DE22 2QF, United Kingdom Telephone: (1332)551277 Facsimile: (1332)551277	£30,000	100.0%	2	March 1990	Sales and maintenance of materials handling systems
ASIA					
TSUBAKIMOTO SINGAPORE PTE. LIMITED* 25 Gul Lane, Jurong, Singapore 629419 Telephone: 8610422(6 lines) Facsimile: 8617035	SG\$3,000,000	100.0%	26	January 1981	Manufacture and sales of power transmission products
TAIWAN TSUBAKIMOTO CO.* No.7 Feng Sun Keng, Kuei Shan-Hsiang, Taoyuan-Hsien, Taiwan, R.O.C. Telephone: (3)3293827-9 Facsimile: (3)3293065	NT\$70,000,000	96.1%	94	January 1970	Manufacture and sales of power transmission products
TSUBAKI AUSTRALIA PTY. LIMITED* UnitE, 95-101 Silverwater Road, Silverwater, N.S.W.2128, Australia Telephone: (2)9648-5269 Facsimile: (2)9648-3115	AU\$300,000	100.0%	25	May 1987	Sales of power transmission products
HANGZHOU TSUBAKI DUNPAI CHAIN CO., LTD.** 309, Hu Shu Nan Road, Hangzhou Zhejiang, P.R.of China Telephone: (571)808-2887 Facsimile: (571)880-2302	RMB178,180,000	50.0%	1,945	June 1997	Manufacture and sales of power transmission products
KOREA CONVEYOR IND. CO., LTD. 72-1,Onsoo-doing, Kuro-ku, Seoul, Republic of Korea Telephone: (2)613-0151 Facsimile: (2)684-9166	KRW1,200,000,000	49.0%	270	January 1970	Manufacture and sales of materials handling systems and conveyor chains

* Consolidated subsidiary

** Affiliated company accounted for by the equity method

TSUBAKIMOTO CHAIN CO.

HEAD OFFICE

17-96, Tsurumi 4-chome,
Tsurumi-ku, Osaka 538-8686, Japan
(P.O. Box 11, Joto Osaka)
Telephone: (06) 6911-1221
Facsimile: (06) 6913-5315
Telex: 64938 OSKTBKJ

DATE OF FOUNDING

December 1917

DATE OF INCORPORATION

January 1941

SHAREHOLDERS EQUITY

¥61,673 million

COMMON STOCK

Authorized: 299,000 thousand shares
Issued: 191,406 thousand shares

STOCK LISTINGS

Tokyo, Osaka, Nagoya, and Kyoto

TRANSFER AGENT

The Chuo Trust and Banking
Company, Limited
6-26, Kitahama 2-chome,
Chuo-ku, Osaka 541-0041, Japan

NUMBER OF EMPLOYEES

2,905 (Parent company only)

OFFICES AND PLANTS

Tokyo Office

Medical Friend Building,
2-4, Kudan-Kita 3-chome,
Chiyoda-ku, Tokyo 102-8186
Telephone: (03) 3221-5612
Facsimile: (03) 3221-5639

Nagoya Office

Daisho Building,
26-25, Meieki 4-chome,
Nakamura-ku, Nagoya 450-0002
Telephone: (052) 571-8181
Facsimile: (052) 571-0915

Osaka Office

Fukokuseimei Building,
2-4, Komatsubara-cho,
Kita-ku, Osaka 530-0018
Telephone: (06) 6313-3190
Facsimile: (06) 6315-6657

Osaka Plant

17-96, Tsurumi 4-chome,
Tsurumi-ku, Osaka 538-8686
Telephone: (06) 6911-1221
Facsimile: (06) 6913-5315
Telex: 64938 OSKTBKJ
Major products: Power transmission chains
and conveyor chains
Number of employees: 929

Saitama Plant

20, Shinko, Hanno,
Saitama 357-8510
Telephone: (0429) 73-1131
Facsimile: (0429) 73-4252
Major products: Automotive parts and materials
handling systems
Number of employees: 927

Kyoto Plant

1-1, Kotari-Kuresumi,
Nagaokakyo, Kyoto 617-0833
Telephone: (075) 954-1111
Facsimile: (075) 956-8456
Major products: Power transmission units
and components
Number of employees: 462

Hyogo Plant

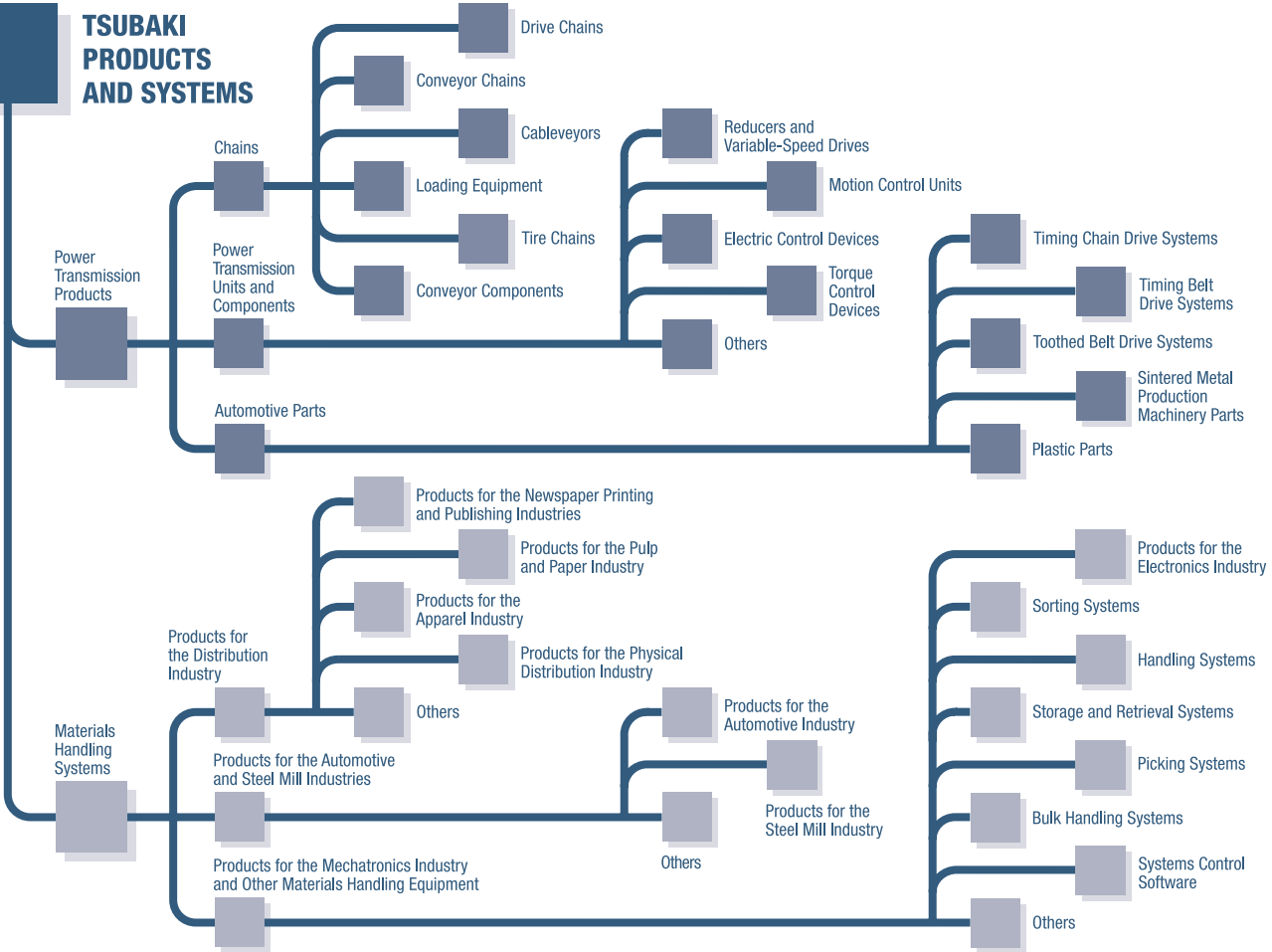
1140, Asazuma-cho,
Kasai, Hyogo 679-0181
Telephone: (0790) 47-1518
Facsimile: (0790) 47-1513
Major products: Materials handling equipment
Number of employees: 176

SALES OFFICES

Sendai, Omiya, Yokohama, Shizuoka,
Toyota, Komaki, Okazaki, Hokuriku
(Kanazawa), Keiji (Kusatsu), Hyogo
(Akashi), Hiroshima, Kyushu (Fukuoka),
and 16 other regional sales offices



TSUBAKI PRODUCTS AND SYSTEMS





TSUBAKIMOTO CHAIN CO.

17-96, Tsurumi 4-chome,
Tsurumi-ku, Osaka 538-8686, Japan