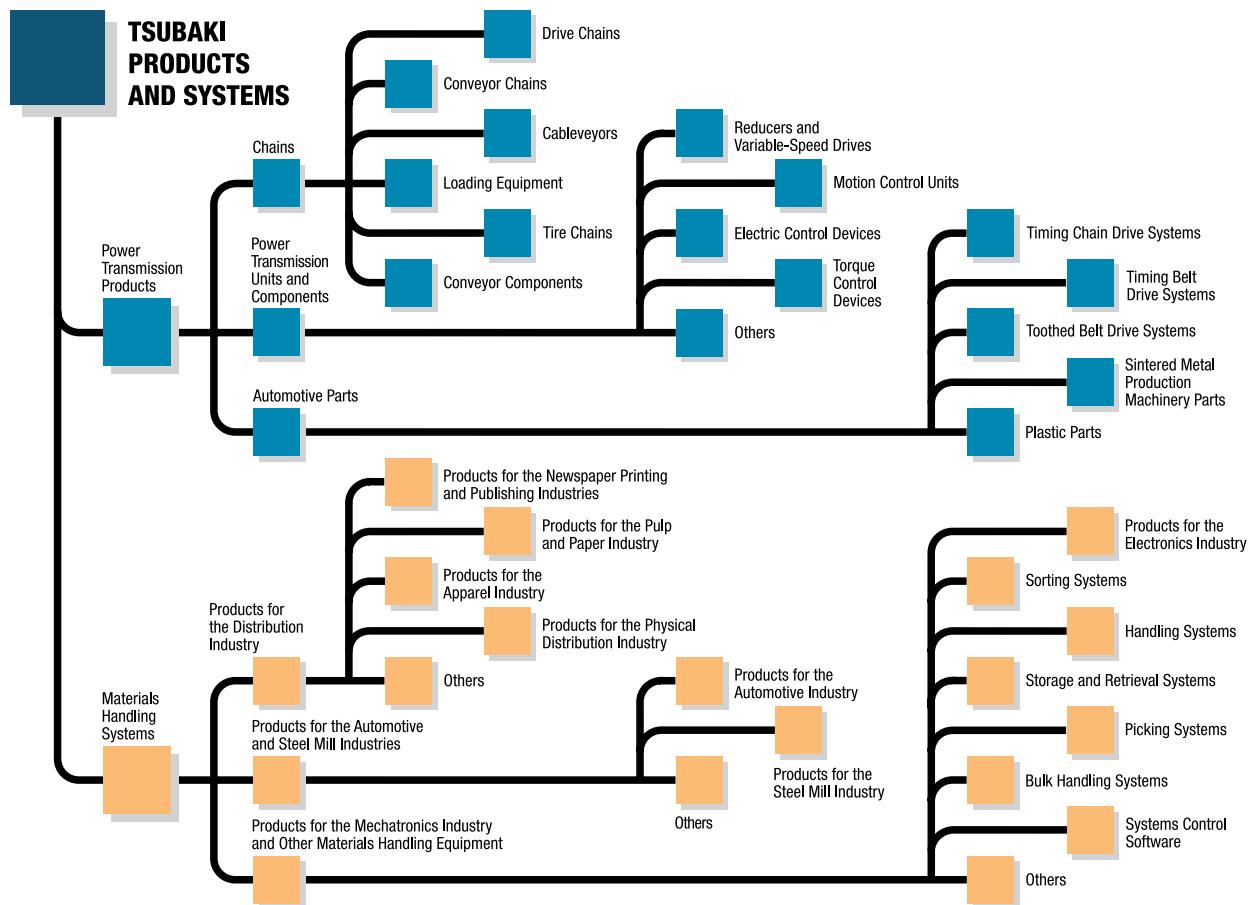
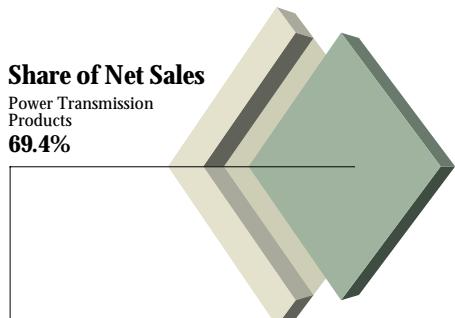
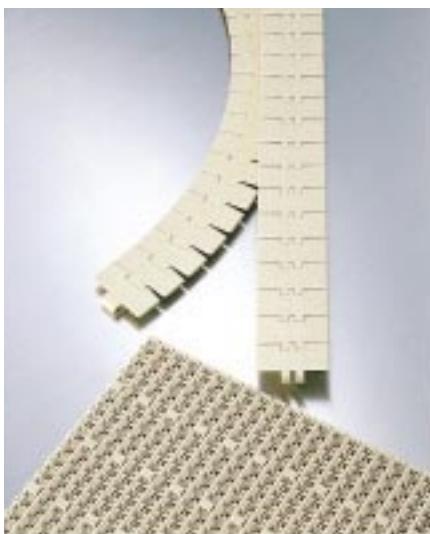


REVIEW OF 1998





P o w e r T r a n s m i s s i o n P r o d u c t s



Antibacterial chains

■ Chains

As one of the world's leading chain makers, Tsubakimoto Chain supplies a wide range of industries with advanced, high-performance products.

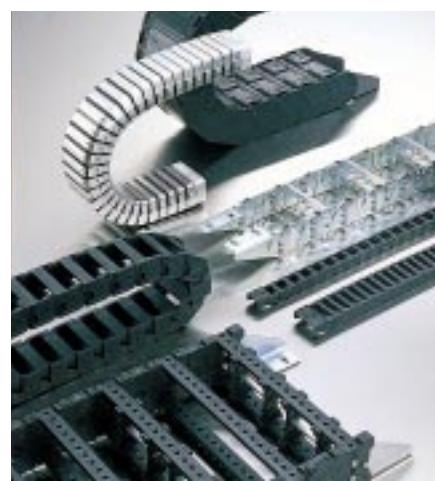
We continue working to expand the scope of the chain market by using new technologies and materials in product development.

In Japan, sales of products for use in food processing and conveyance were weak during the year under review; however, those for machine tools and other general machinery were comparatively favorable. Especially strong sales were recorded by Automatic Tool Changer (ATC) chains for machining centers and other machine tools and by plastic Cableveyor chains.

Domestic private-sector capital investment was strong in the first half of the year under review, but in the second half the operating environment became more difficult as business conditions worsened and com-

panies in all industries reduced capital investment. In this environment, we worked to bolster our marketing capabilities by linking our domestic sales organization even more closely with customers and regions and by promoting integrated engineering sales. We also worked to create new demand during the year with the introduction of a new engineered

Cableveyors



During the year ended March 31, 1998, sales of power transmission products increased 1.9%, to ¥89.1 billion (US\$674.6 million), accounting for 69.4% of Tsubakimoto Chain's net sales. Overseas sales rose 7.6%, to ¥28.8 billion (US\$218.2 million), representing 32.3% of sales of power transmission products, compared with 30.6% in the previous year.

Products for the machine tool and automobile industries registered increased sales in Japan. Overseas, demand remained strong in the key North American market, but conditions in Southeast Asia were adversely affected by the currency crisis in that region.

	Sales Breakdown		(Millions of yen, %)	
	1998	1997	% Change	
Domestic Sales	¥60,249 (67.7)	¥60,587 (69.4)	–0.6%	
Overseas Sales	28,804 (32.3)	26,773 (30.6)	+7.6%	
Total	¥89,053 (100.0)	¥87,360 (100.0)	+1.9%	

plastic chain. This product, which is targeted at the food processing industry, features antibacterial and antimold functions.

Overseas, sales of roller chains in the mainstay North American market continued to increase, but sales in Southeast Asia declined due to the adverse effects of the currency crisis.

■ Power Transmission Units and Components

Tsubakimoto Chain is a market leader in a wide range of power transmission units and components. Our major products include Power Cylinders and other motion control units, Cam Clutches, and couplings. During the year under review, sales of couplings for machine tools were favorable and demand for integrated mechatronics products, which



Cam Clutches

incorporate Power Cylinders and servo motors, was robust. In addition, Power Locks, for which we have the top market share, continued to enjoy growing demand.

In 1996, we began full-fledged marketing activities in health care, a new field of business for Tsubakimoto Chain. One focus of our activities is the use of original



Power Locks

technology and specialized know-how to develop and market nursing assistance products that will help meet the needs of Japan's rapidly aging society. We have developed units that convert hand-operated adjustable beds to electric operation and, for people in wheelchairs, kitchen equipment that allows easy, electrically powered adjustment of the height of sinks. We are currently conducting marketing activities targeting health care facilities and individuals.

■ Automotive Parts

Tsubakimoto Chain has built a solid position as one of the leading manufacturers of timing drive systems, which include automotive timing chains and timing belts. Each year, we continue to bolster that strong market presence. The reliability and quality of our products, especially timing roller chains, have been highly evaluated by domestic and overseas automakers, and we have a 90% share of the Japanese market and the top

share of the market in the United States.

In Japan, our sales of timing drive systems increased during the year as automakers began to replace belts with chains, one of our traditional strengths. We anticipate further sales gains in the years ahead. In the past, belt-driven camshafts were more common because the belts offered light weight and low cost. However, new engine models feature high output and high-RPM operation, and as a result the use of chains, which offer superior durability and reliability, is increasing.

Overseas, demand for timing chains and timing drive systems is expected to remain strong in the key North American market. Accordingly, we are conducting aggressive capital investment to expand our local production capacity. In the previous fiscal year, we opened a new plant in Chicopee, Massachusetts, that is dedicated to the production of automotive parts. Full-scale operations at the plant began during the year under review. We will continue to expand our global operations in the years ahead, and plans call for the opening of marketing and production bases in Europe and Asia.

Timing drive parts





M a t e r i a l s H a n d l i n g S y s t e m s

■ Factory Automation Systems

Tsubakimoto Chain is contributing to the rationalization of production activities by providing the automobile, paper manufacturing, newspaper, steel, mechatronics and other industries with advanced factory automation systems. With leading-edge mechatronics technology and engineering services tailored to the

Handling system for cathode ray tubes



specific needs of each industry, our factory automation systems are highly regarded in the markets we serve.

In the domestic market during the year under review, we continued to record steady deliveries of factory automation systems for the automobile industry, a major customer, as well as for the electrical and electronic equipment, paper manufacturing, and newspaper industries. Demand remained firm for several products, including the Traverser System series of body paint shop conveyor systems for the automobile industry; a CRT handling system for the electrical and electronic equipment industries; and our AGV and ADS automatic roll paper feeding systems for the newspaper industry.



Hard disk conveyance system

During the previous year, we launched conveyor systems for hard disk production lines in the electronics industry, and during the year under review we sold a number of these systems to customers. We expect growing demand for this product, which is used to link separate production processes and is composed principally of dollies that run on tracks.

Sales of materials handling systems declined 1.6% during the year under review, to ¥38.7 billion (US\$293.0 million), accounting for 30.1% of the Company's net sales. Overseas sales declined 3.1%, to ¥9.3 billion (US\$70.6 million), representing 24.1% of our sales of materials handling systems.

Domestically, sales of physical distribution systems increased, but those of factory automation systems declined. Our overseas business was significantly affected by the Southeast Asian currency crisis.

	Sales Breakdown			(Millions of yen, %)
	1998	1997	% Change	
Domestic Sales	¥29,349 (75.9)	¥29,680 (75.5)	-1.1%	
Overseas Sales	9,321 (24.1)	9,617 (24.5)	-3.1%	
	¥38,670 (100.0)	¥39,297 (100.0)	-1.6%	

In overseas business, sales during the year under review were less than the previous year, due to the adverse impact of the currency crisis in Southeast Asia. Although we fared comparatively well in Taiwan, in our major markets of South Korea and Malaysia sales fell sharply. Our key products in the Asian market are CRT handling systems for the mechatronics industry, body paint shop conveyor systems for the automobile industry, and coil handling systems for the steel industry. In North America and Great Britain meanwhile, sales increased from the previous year. A key product in these markets is our body paint shop conveyor systems for Japanese automakers.

■ Physical Distribution Systems

Tsubakimoto Chain offers a wide variety of physical distribution systems, which help customers to rationalize the sorting of goods in the publishing, apparel, and retail industries. Our systems are developed to meet the specific needs of different industries, and they offer advanced functionality in the accurate and rapid sorting of products of any form. The systems also facilitate

Multi-Sorter



Lini Sort

higher speed and reduced costs in distribution operations. During the year under review, sales of physical distribution systems increased from the previous year.

Our flagship products in this field include Multi-Sorter, a printed materials sorting system for the publishing industry; Lini Sort, a high-speed, multi-directional sorting system for the retail industry and distribution centers; and 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, our results were supported by the sale to a book retailer of the largest Multi-Sorter we have ever built.

Products launched during the year under review included Lini Sort V, which offers significant improvements in cost and size, and Lini Sort S, which is designed for use with small objects weighing less than five

kilograms. Each system is tailored to small lot sorting needs and is contributing to the expansion of our customer base.

■ Other Materials Handling Equipment

Three of our key products in this business group are Pak-U-Veyor, Power Column, and Autran Vanguard. During the year under review, we introduced a new version of our Power Column vertical shelves that offers a reduction in access time of more than 30%, and Power Column orders increased by a large margin. Autran Vanguard, which is suitable for use in small and medium-sized distribution facilities as well as in offices, continues to strengthen its market presence, and during the year under review it en-

Autran Vanguard



joyed solid demand in new markets, such as the food processing industry. In addition, our New WIPS, a high-speed, high-precision automatic stocking system for use in clean rooms, was the focus of aggressive marketing activities, and it is recording steady results in LCD production lines of the electronics industry.

Results of Operations

In the fiscal year ended March 31, 1998, consolidated net sales rose 0.8%, to ¥128.3 billion (US\$972.0 million). Despite higher net sales, the cost of sales declined 0.4%, to ¥94.0 billion (US\$712.3 million), due to the Company's rationalization of production operations. The gross profit margin improved to 26.7%, from 25.8% in the previous year. Selling, general and administrative expenses increased 5.1%, to ¥27.8 billion (US\$210.9 million), primarily as a result of intensified sales promotion activities. Operating income rose 1.0%, to ¥6.4 billion (US\$48.8 million), and the operating profit margin was unchanged, at 5.0%.

Net interest expense, which accounts for the majority of other expenses, increased 7.4%, to ¥858 million (US\$6.5 million). Income before income taxes and minority interests decreased 7.1%, to ¥5.5 billion (US\$41.7 million). Income taxes increased 5.4%, to ¥2.7 billion (US\$20.2 million), and net income was down 17.4%, to ¥2.7 billion (US\$20.5 million). Net income per share was ¥14.08 (US\$0.107), a decline of 17.4%.

Return on equity (ROE) was 4.2%, compared with 5.3% in the previous year. Cash dividends per share were unchanged at ¥6.00 (US\$0.045), for a dividend payout ratio of 42.6%, compared with 35.2% in the previous year.

Liquidity and Capital Resources

Net cash provided by operating activities increased 45.0%, to ¥5.8 billion (US\$44.2 million). Inventories decreased ¥181 million (US\$1.4 million), compared with an increase of ¥4,145 million in the previous year, and trade notes and accounts payable decreased ¥819 million (US\$6.2 million), compared with a decrease of ¥4,033 million in the previous term. Depreciation and amortization was about level, at ¥4.8 billion (US\$36.3 million).

Net cash used in investing activities was up 41.0%, to ¥6.6 billion (US\$49.8 million). Capital investment increased 2.6 times, to ¥15.1 billion (US\$114.0 million), due primarily to part payment for the acquisition of land for the construction of the new main factory. Other investment securities and loans receivable decreased ¥10.5 billion (US\$79.2 million).

Net cash provided by financing activities was ¥933 million (US\$7.1 million), compared with ¥955 million in the previous year. Proceeds from short-term and long-term debt totaled ¥1.7 billion (US\$12.8 million) and ¥1.5 billion (US\$11.7 million), respectively.

As a result, at the end of the fiscal year, cash and cash equivalents were about the same level as in the previous year, at ¥22.2 billion (US\$168.2 million). Current assets at year-end rose 0.9%, to ¥81.6 billion (US\$618.3 million), and current liabilities were up 6.6%, to ¥62.2 billion (US\$471.4 million). The current ratio was 1.31, compared with 1.39 at the end of the previous year. Property, plant and equipment, net of accumulated depreciation, was up 27.4% from the previous year-end, to ¥48.8 billion (US\$370.0 million).

Shareholders' equity increased 2.3%, to ¥65.0 billion (US\$492.3 million), and the ratio of shareholders' equity to total assets at fiscal year-end was about the same as at the previous year-end, at 44.0%. Tsubakimoto Chain's debt-to-equity ratio at fiscal year-end was 0.64, compared with 0.62 at the previous year-end, due to higher debt. Total assets rose 1.7%, to ¥147.7 billion (US\$1,118.7 million).

SIX-YEAR FINANCIAL SUMMARY

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen						Thousands of U.S. Dollars
	1998	1997	1996	1995	1994	1993	1998
Net sales	¥128,298	¥127,231	¥110,424	¥101,670	¥109,014	¥120,867	\$ 971,955
Income before income taxes							
and minority interests.....	5,508	5,931	3,649	179	1,750	5,131	41,728
Net income (loss)	2,709	3,280	1,796	(634)	1,148	2,539	20,523
Net income (loss)							
per share* (yen and dollars)	14.08	17.04	9.33	(3.29)	5.96	13.20	0.107
Interest expense:							
Net	1,172	1,073	1,063	951	1,041	1,248	8,879
Gross: Interest received	323	385	492	835	982	1,247	2,447
Interest paid	1,495	1,458	1,555	1,786	2,023	2,495	11,326
Capital expenditures	15,050	5,680	4,759	4,290	4,221	8,489	114,015
Current assets	81,622	80,929	77,995	63,452	63,319	75,028	618,349
Current liabilities	62,224	58,349	62,312	45,902	45,625	56,937	471,394
Net property, plant and equipment	48,837	38,331	36,904	37,709	39,221	40,629	369,977
Noncurrent liabilities	18,710	21,847	16,849	19,966	19,818	20,320	141,743
Total assets	147,668	145,268	141,863	127,893	129,020	141,759	1,118,697
Common stock	17,077	17,075	17,068	17,066	17,066	17,058	129,371
Retained earnings	35,260	33,791	31,682	31,060	32,675	33,398	267,121
Shareholders' equity	64,989	63,516	61,392	60,768	62,382	63,091	492,340
Number of shares outstanding at year-end							
(thousands)	192,406	192,399	192,377	192,374	192,372	192,354	
Number of employees	5,720	5,789	5,844	5,829	5,652	5,649	

* The effective par value per share is ¥50.

C O N S O L I D A T E D B A L A N C E S H E E T S

*Tsubakimoto Chain Co. and Consolidated Subsidiaries
March 31, 1998 and 1997*

Assets	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Current assets (Note 8):			
Cash and cash equivalents:			
Cash and time deposits	¥ 11,111	¥ 14,282	\$ 84,174
Marketable securities	11,086	7,717	83,985
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	2,568	3,487	19,455
Other	28,457	27,178	215,584
Inventories.....	26,980	27,161	204,394
Other receivables:			
Unconsolidated subsidiaries and affiliates	39	62	295
Other current assets.....	1,781	1,421	13,492
Allowance for doubtful receivables.....	(400)	(379)	(3,030)
Total current assets	<u>81,622</u>	<u>80,929</u>	<u>618,349</u>
Property, plant and equipment (Note 8):			
Land	6,204	6,128	47,000
Buildings and structures	31,493	30,579	238,583
Machinery and equipment	64,039	61,537	485,144
Construction in progress	11,492	1,279	87,061
Accumulated depreciation	(64,391)	(61,192)	(487,811)
Net property, plant and equipment	<u>48,837</u>	<u>38,331</u>	<u>369,977</u>
Investments and long-term loans receivable:			
Investment securities:			
Unconsolidated subsidiaries and affiliates	544	539	4,121
Other	8,874	9,318	67,227
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliates	-	10	-
Other	53	10,067	402
Other noncurrent items.....	8,214	6,376	62,227
Allowance for doubtful receivables.....	(476)	(302)	(3,606)
Total investments and long-term loans receivable	<u>17,209</u>	<u>26,008</u>	<u>130,371</u>
Total assets	¥147,668	¥145,268	\$1,118,697

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

Liabilities and Shareholders' Equity	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Current liabilities:			
Short-term bank loans and current portion of long-term debt	¥ 28,723	¥ 23,307	\$ 217,598
Trade notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	744	937	5,636
Other	18,712	19,333	141,758
Income taxes payable	1,334	1,761	10,106
Accrued expenses	4,543	4,292	34,417
Other	8,168	8,719	61,879
Total current liabilities	<u>62,224</u>	<u>58,349</u>	<u>471,394</u>
Noncurrent liabilities:			
Bonds	3,081	6,962	23,341
Long-term loans, less current maturities	9,806	8,991	74,288
Retirement benefits	5,823	5,894	44,114
Total noncurrent liabilities	<u>18,710</u>	<u>21,847</u>	<u>141,743</u>
Currency translation adjustments	314	191	2,379
Minority interests	1,431	1,365	10,841
Shareholders' equity:			
Common stock	17,077	17,075	129,371
Capital surplus	12,653	12,651	95,856
Legal reserve	3,208	3,080	24,303
Unappropriated retained earnings	32,052	30,711	242,818
64,990	63,517	492,348	
Treasury stock	(1)	(1)	(8)
Total shareholders' equity	<u>64,989</u>	<u>63,516</u>	<u>492,340</u>
Total liabilities and shareholders' equity	<u>¥147,668</u>	<u>¥145,268</u>	<u>\$1,118,697</u>

C O N S O L I D A T E D S T A T E M E N T S O F I N C O M E

*Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years ended March 31, 1998, 1997 and 1996*

	Millions of Yen			Thousands of U.S. Dollars
	1998	1997	1996	1998
Net sales	¥128,298	¥127,231	¥110,424	\$971,955
Cost of sales	94,025	94,367	81,670	712,311
Gross profit.....	34,273	32,864	28,754	259,644
Selling, general and administrative expenses	27,838	26,490	24,425	210,894
Operating income	6,435	6,374	4,329	48,750
Other income (expenses):				
Interest and dividend income	637	659	779	4,826
Interest expense	(1,495)	(1,458)	(1,555)	(11,326)
Foreign exchange gains (losses)	(21)	124	1	(159)
Other, net	(45)	(32)	30	(340)
Ordinary income	5,511	5,667	3,584	41,751
Extraordinary profit (loss):				
Profit (loss) on disposal of fixed assets, and other, net	(3)	264	65	(23)
Income before income taxes and minority interests	5,508	5,931	3,649	41,728
Income taxes	2,671	2,535	1,724	20,235
Minority interests	(128)	(116)	(131)	(970)
Amortization of consolidation difference	-	-	2	-
Net income	¥ 2,709	¥ 3,280	¥ 1,796	\$ 20,523

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

C O N S O L I D A T E D S T A T E M E N T S O F R E T A I N E D E A R N I N G S

*Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years ended March 31, 1998, 1997 and 1996*

	Millions of Yen			Thousands of U.S. Dollars
	1998	1997	1996	1998
Unappropriated retained earnings at the beginning of the year	¥ 30,711	¥ 28,718	¥ 28,219	\$ 232,659
Appropriations:				
Transfer to legal reserve	(128)	(117)	(123)	(970)
Cash dividends	(1,154)	(1,154)	(1,154)	(8,742)
Bonuses to directors and statutory auditors	(86)	(16)	(20)	(652)
Net income for the year	2,709	3,280	1,796	20,523
Unappropriated retained earnings at the end of the year	¥ 32,052	¥ 30,711	¥ 28,718	\$ 242,818

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

C O N S O L I D A T E D S T A T E M E N T S O F C A S H F L O W S

*Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years ended March 31, 1998, 1997 and 1996*

	Millions of Yen			Thousands of U.S. Dollars
	1998	1997	1996	1998
Cash flows from operating activities:				
Net income	¥ 2,709	¥ 3,280	¥ 1,796	\$ 20,523
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	4,790	4,783	4,837	36,288
Provision for (reversal of) retirement benefits	(71)	303	154	(538)
Minority interests in income	128	116	131	970
(Increase) decrease in trade notes and accounts receivable	(336)	1,443	(8,909)	(2,545)
(Increase) decrease in inventories	181	(4,145)	(3,488)	1,371
(Increase) decrease in other receivables	(352)	57	147	(2,667)
Increase (decrease) in trade notes and accounts payable	(819)	(4,033)	6,179	(6,205)
Increase in accrued expenses	251	535	43	1,902
Increase (decrease) in income taxes payable	(427)	1,040	176	(3,235)
Increase (decrease) in other current liabilities	(551)	751	4,274	(4,174)
Other	337	(102)	116	2,553
Net cash provided by operating activities	5,840	4,028	5,456	44,243
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(15,050)	(5,680)	(4,759)	(114,015)
Proceeds from sale of property, plant and equipment	112	407	789	848
(Increase) decrease in investment securities and loans receivable				
to unconsolidated subsidiaries and affiliates	16	(261)	45	121
(Increase) decrease in other investment securities and loans receivable	10,459	(349)	(70)	79,235
Other	(2,112)	1,220	(250)	(16,000)
Net cash used in investing activities	(6,575)	(4,663)	(4,245)	(49,811)
Cash flows from financing activities:				
Increase (decrease) in short-term bank loans	1,683	(454)	2,373	12,750
Proceeds from long-term debt	1,540	6,338	1,252	11,667
Reduction of long-term debt	(988)	(3,698)	(1,155)	(7,485)
Cash dividends	(1,154)	(1,154)	(1,154)	(8,742)
Bonuses to directors and statutory auditors	(86)	(16)	(20)	(652)
Other	(62)	(61)	(50)	(470)
Net cash provided by financing activities	933	955	1,246	7,068
Net increase in cash and cash equivalents	198	320	2,457	1,500
Cash and cash equivalents at the beginning of the year	21,999	21,679	19,222	166,659
Cash and cash equivalents at the end of the year	¥22,197	¥21,999	¥21,679	\$168,159
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥ 1,498	¥ 1,464	¥ 1,489	\$ 11,348
Income taxes	3,090	1,504	1,548	23,409

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

(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.)

Technische Handelsonderneming Bergsma B.V. (Netherlands)

Tsubakimoto Tech Inc.

Tsubakimoto Higashinihon Co.

Tsubakimoto Singapore Pte. Ltd. (Singapore)

Tsubaki Australia Pty. Limited (Australia)

(c) Unconsolidated subsidiaries and affiliates

Investments in 5 insignificant subsidiaries and 11 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 ¥132=\$1, the approximate exchange rate prevailing on March 31, 1998.

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.

(d) Bonuses for employees

Accrued bonuses for employees are calculated on the basis prescribed by Japanese tax laws.

(e) Retirement benefits

The Company and its consolidated domestic subsidiaries have unfunded employees' retirement benefit plans. The annual accruals under such plans are provided mainly at the maximum amounts deductible for income tax purposes for each fiscal period.

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.

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	<p>The financial statements of consolidated foreign subsidiaries are translated into yen in accordance with the Financial Accounting Standard for Foreign Currency Transactions in Japan.</p> <p>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).</p>																				
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, 1998 and 1997, the following assets were pledged as collateral for bank loans and long-term debt.																				
	<table border="1"> <thead> <tr> <th style="text-align: left;"></th> <th style="text-align: right;">Millions of Yen</th> <th colspan="2" style="text-align: right;">Thousands of U.S. Dollars</th> </tr> <tr> <th style="text-align: left;"></th> <th style="text-align: right;">1998</th> <th style="text-align: right;">1997</th> <th style="text-align: right;">1998</th> </tr> </thead> <tbody> <tr> <td>Current assets</td> <td style="text-align: right;">¥ 484</td> <td style="text-align: right;">¥ 1,094</td> <td style="text-align: right;">\$ 3,667</td> </tr> <tr> <td>Property, plant and equipment</td> <td style="text-align: right;"><u>21,556</u></td> <td style="text-align: right;">24,174</td> <td style="text-align: right;"><u>163,303</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>¥22,040</u></td> <td style="text-align: right;"><u>¥25,268</u></td> <td style="text-align: right;"><u>\$166,970</u></td> </tr> </tbody> </table>		Millions of Yen	Thousands of U.S. Dollars			1998	1997	1998	Current assets	¥ 484	¥ 1,094	\$ 3,667	Property, plant and equipment	<u>21,556</u>	24,174	<u>163,303</u>		<u>¥22,040</u>	<u>¥25,268</u>	<u>\$166,970</u>
	Millions of Yen	Thousands of U.S. Dollars																			
	1998	1997	1998																		
Current assets	¥ 484	¥ 1,094	\$ 3,667																		
Property, plant and equipment	<u>21,556</u>	24,174	<u>163,303</u>																		
	<u>¥22,040</u>	<u>¥25,268</u>	<u>\$166,970</u>																		
9. Contingent Liabilities	Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥11,907 million (\$90,205 thousand) and ¥12,578 million at March 31, 1998 and 1997, respectively.																				
10. Per Share Amounts	<table border="1"> <thead> <tr> <th style="text-align: left;"></th> <th colspan="2" style="text-align: right;">Yen</th> <th style="text-align: right;">U.S. Dollars</th> </tr> <tr> <th style="text-align: left;"></th> <th style="text-align: right;">1998</th> <th style="text-align: right;">1997</th> <th style="text-align: right;">1998</th> </tr> </thead> <tbody> <tr> <td>At March 31</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Shareholders' equity per share</td> <td style="text-align: right;">¥337.77</td> <td style="text-align: right;">¥330.12</td> <td style="text-align: right;">\$2.559</td> </tr> <tr> <td>Net income per share</td> <td style="text-align: right;"><u>14.08</u></td> <td style="text-align: right;">17.04</td> <td style="text-align: right;"><u>0.107</u></td> </tr> </tbody> </table>		Yen		U.S. Dollars		1998	1997	1998	At March 31				Shareholders' equity per share	¥337.77	¥330.12	\$2.559	Net income per share	<u>14.08</u>	17.04	<u>0.107</u>
	Yen		U.S. Dollars																		
	1998	1997	1998																		
At March 31																					
Shareholders' equity per share	¥337.77	¥330.12	\$2.559																		
Net income per share	<u>14.08</u>	17.04	<u>0.107</u>																		

R E P O R T O F C E R T I F I E D P U B L I C A C C O U N T A N T S

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

We have examined the consolidated balance sheets of Tsubakimoto Chain Co. and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended March 31, 1998. Our examinations were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Tsubakimoto Chain Co. and consolidated subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

Osaka, Japan
June 26, 1998

Century Audit Corporation

Century Audit Corporation
Certified Public Accountants