

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).