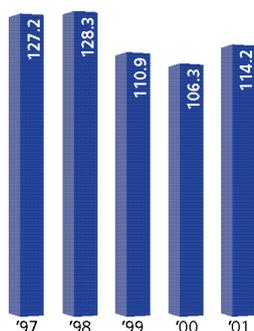
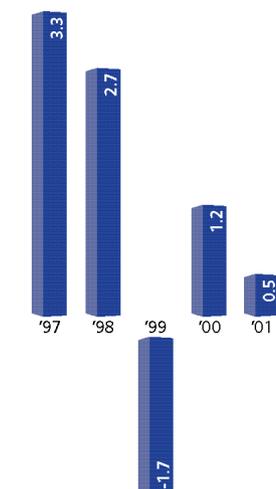


MANAGEMENT'S DISCUSSION AND ANALYSIS

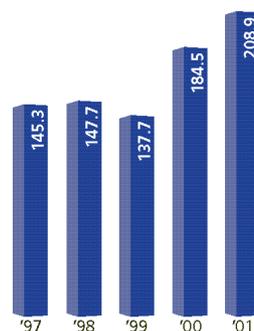
Net Sales
(Billion ¥)



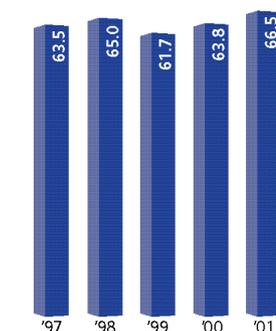
Net Income (Loss)
(Billion ¥)



Total Assets
(Billion ¥)



Shareholders' Equity
(Billion ¥)



Summary of Business Segment Information

	Millions of Yen			
	2001	2000	1999	% change
Net Sales to Customers:				
Power Transmission Products:				
Domestic Sales	¥ 59,755 (68.4)	¥ 53,557 (66.3)	¥ 50,429 (63.9)	+11.6
Overseas Sales	27,633 (31.6)	27,163 (33.7)	28,446 (36.1)	+1.7
Total	87,388 (100.0)	80,720 (100.0)	78,875 (100.0)	+8.3
Materials Handling Systems:				
Domestic Sales	21,729 (82.5)	19,395 (77.5)	20,502 (65.3)	+12.0
Overseas Sales	4,600 (17.5)	5,623 (22.5)	10,901 (34.7)	-18.2
Total	26,329 (100.0)	25,018 (100.0)	31,403 (100.0)	+5.2
Others	489	543	641	-9.9
TOTAL	¥114,206	¥106,281	¥110,919	+7.5
Operating Income (Loss):				
Power Transmission Products	¥ 8,711	¥ 6,161	¥ 5,353	+41.4
Materials Handling Systems	750	(823)	(292)	—
Others	230	257	217	-10.5
Corporate and eliminations	(2,729)	(2,890)	(2,920)	—
TOTAL	¥ 6,962	¥ 2,705	¥ 2,358	+157.4

REVIEW OF OPERATIONS

Power Transmission Products

In the year ended March 31, 2001, sales of power transmission products rose 8.3%, to ¥87.4 billion, accounting for 76.5% of consolidated net sales. Products recording strong sales included chains for general industrial use and automotive parts. Operating income was up 41.4%, to ¥8.7 billion.

Conditions in the domestic market were favorable, but overseas the economic slowdown in the key North American market resulted in a slight decline in the Company's sales from the previous year's level.

CHAINS

With the number one share of the global market for industrial-use chains, the Company supplies markets around the world with chains manufactured in Japan, the United States, and Taiwan. A broad variety of the Company's products are highly evaluated in the marketplace for meeting customer needs. These include highly functional, durable, environmentally friendly drive chains; conveyor chains used in a wide range of production lines; and highly sanitary plastic chains.

Our sales of chains in Japan during the year under review were generally favorable. Customer specific marketing activities resulted in higher sales of RS chains, and plastic chains recorded increased orders from makers of beverage cans and other customers in the food processing industry. We also recorded higher sales of Cableveyors to ATM and semiconductor manufacturing related companies.

Overseas, the key North American market was adversely influenced by the economic slowdown in the United States, but operating conditions were strong in Europe, Canada, and China. In June 2001, we entered a strategic international tie-up in the field of drive chains with Rexnold Corporation, of the United States. In the future, Rexnold and Tsubakimoto Chain will strive to make effective use of each other's management resources, to build an international system for the division of business operations, and to establish a competitive advantage from a global perspective.

AUTOMOTIVE PARTS

Tsubakimoto Chain supplies automakers around the world with timing chains and other camshaft drive systems manufactured at plants in Saitama Prefecture in Japan and at U.S. Tsubaki, Inc. In Japan, where we have a 90% share of the domestic market for timing chain drive systems, our customers include Toyota, Nissan and other major automakers. Overseas, our customers include General Motors, Ford, and Jaguar. We are making steady progress in our response to the world engine initiative undertaken by automakers.

In the year under review, we registered favorable growth in performance. Automakers continued to expand their use of chains in timing drive systems, and domestic automobile production recovered. Overseas, in the key U.S. market, the Big Three automakers cut production, but Tsubakimoto Chain signed a contract with Ford as a supplier for its new engine, and the Company also recorded increased sales to the U.S. operations of Japanese automakers. As a result, we anticipate improved performance in the United States in the year ahead. In response to the globalization of the automotive industry, we are strengthening our relationship with U.S. Tsubaki and are considering materials procurement in Europe and materials procurement and production in South Korea and elsewhere in Asia.

We recorded increased sales of timing belts for general industrial use. Our Ultra PX Belts are well regarded for use in the electromechanical operation of injection molding machines. The functionality of the newly launched small Ultra PX Belt has been highly evaluated, and we are working to expand sales of these products for use in machine tools, semiconductor equipment, robots, and automatic doors.

POWER TRANSMISSION UNITS AND COMPONENTS

Tsubakimoto Chain's lineup of highly regarded power transmission units and components includes reducers, such as gear motors and gear boxes, motion control units, such as Power Cylinders and Power Locks, and couplings. We were a pioneer in the market for motion control units, and our Power Cylinders now have a 60% share of the domestic market. The applications of these products include LCD

production equipment and in large-scale public facilities, where they are used to open and close dome roofs and to move spectator seating.

In the year under review, we registered favorable sales of Power Cylinders and hypoid motors for use in IT, conveyance, and environmental equipment. In April 2002, this business unit will merge with Tsubakimoto Emerson Co., a joint venture between Tsubakimoto Chain and Emerson Electric, of the United States. The new company will be a comprehensive manufacturer of products related to power transmission.

Materials Handling Systems

Sales of materials handling systems increased 5.2% during the year under review, to ¥26.3 billion, accounting for 23.1% of consolidated net sales. Operating income was ¥750 million, compared with an operating loss of ¥823 million in the previous year.

The improved performance was attributable to favorable sales in domestic and overseas markets and to success with organizational restructuring measures that targeted improved profitability.

Tsubakimoto Chain supplies superior systems that showcase the Company's wealth of experience in materials handling. These systems include the AGV and ADS automatic roll paper feeding systems for newspaper printing plants, automotive body paint shop conveyor systems, and linear motor actuated tilt sorting systems. Demand for materials handling systems is heavily affected by trends in private-sector capital investment, but the Company was the first in the industry to finish consolidating its production bases and reducing its workforce, resulting in lower fixed expenses. We also strengthened our maintenance operations and recorded increased sales in that field.

As a result of these efforts, our materials handling systems operations returned to profitability in the second half of the fiscal year under review. In the future, we will work to further improve our performance by focusing on core operations, such as systems for newspaper printing plants, sorting systems, systems optimized for specific applications, packaged equipment products, and automotive engine assembly line systems. An overview by industry follows:

Newspaper Industry:

In the two years prior to the year under review, new plant construction was sluggish, but it recovered in the year under review, and orders increased by a large margin. In particular, orders for automatic roll paper feeding systems, centered on the AGV system, were favorable, and we increased our market share to more than 90%.

Automotive Industry:

Conditions in the domestic automotive industry remain difficult due to reduced new plant investment attributable to surplus production capacity. Tsubakimoto Chain made its New Traverser system, an automotive body paint shop conveyor system, the focus of intensive marketing efforts and succeeded in obtaining orders overseas. We are strengthening our market competitiveness with the establishment of a system that integrates every stage, from order to delivery.

Distribution Industry:

The tilt-style Linisort, which is earning a strong reputation in the industry as a highly functional, low-priced sorting system, is recording steady sales growth. In addition, the Navisort has enjoyed favorable demand from shipping companies.

Equipment Industry:

Demand is expanding for packaged equipment products, where we sell combinations of materials handling systems optimized for specific applications, such as testing equipment in production processes. In the future, we will target not only the manufacturing industry but also the IT industry, where demand has begun to increase.

Information and Communications Industry:

Until the previous fiscal year, demand from LCD and semiconductor manufacturing related companies was favorable, but in the year under review demand turned sluggish in the second half due to the slump in personal computer demand in the United States. The transition of the semiconductor industry to 300mm wafers has been significantly delayed, and in the near future conditions in this industry are expected to remain difficult.

Maintenance Operations:

Sales of long-term maintenance contracts, centered on the newspaper industry, continued to increase in the year under review, and overall conditions were favorable. We worked to differentiate our services by improving maintenance quality. In addition, we took steps to expand our maintenance service organization by utilizing franchise contracts in outlying regions.

FINANCIAL REVIEW

INCOME AND EXPENSES

In the fiscal year ended March 31, 2001, improved sales of both power transmission products and materials handling systems led to an increase of 7.5% in consolidated net sales, to ¥114.2 billion.

The cost of sales rose 5.4%, to ¥82.7 billion, as a result of higher sales. The cost of sales ratio improved to 72.4%, from 73.8% in the previous year. Selling, general and administrative (SG&A) expenses declined 2.1%, to ¥24.6 billion, due to the effects of workforce reductions. The ratio of SG&A expenses to net sales improved to 21.5%, from 23.6% in the previous year.

As a result, operating income was up 157.4%, to ¥7.0 billion, and the operating profit margin rose to 6.1%, compared with 2.5% a year earlier.

In other income and expenses, total other expenses rose to ¥1.8 billion, from ¥0.8 billion in the previous year. This increase was attributable to higher interest expense and to other net expense of ¥0.4 billion, compared with other net income of ¥0.7 billion in the previous year.

In extraordinary profit and loss, a gain of ¥3.6 billion from sales of property, plant and equipment was recorded. However, as a result of a special loss caused by a change in accounting standards for retirement benefits of ¥6.6 billion and restructuring expenses of ¥1.4 billion, extraordinary loss totaled ¥4.9 billion.

As a result, income before income taxes and minority interests was ¥226 million, compared with ¥2.7 billion in the previous year, and net income declined 61.8%, to ¥465 million. Net income per share was down 61.9%, to ¥2.42.

Return on equity (ROE) was 0.7%, compared with 1.9% in the previous year, reflecting the decline in net income. Cash dividends per share were unchanged at ¥6.00.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities increased 82.6%, to ¥6.0 billion. The principal reason was the 157.4% increase in operating income, to ¥7.0 billion.

Net cash used in investing activities decreased 62.3%, to ¥10.8 billion. This was a result of a significant decline in capital investment, principally for the construction of the Company's new plant, from ¥32.5 billion in the previous year to ¥10.1 billion in the year under review.

Net cash provided by financing activities declined 92.5%, to ¥2.0 billion, due to the large amount of funds that had been raised in the previous year.

At the end of the year under review, cash and cash equivalents were down 9.9%, to ¥24.9 billion. Current assets at year-end rose 13.0%, to ¥94.0 billion, primarily due to increases in trade notes and accounts receivable and in short-term investments, which offset the decline in cash and cash equivalents. Current liabilities were up 30.5%, to ¥65.4 billion, mainly due to increases in trade notes and accounts payable and in short-term bank loans and current portion of long-term debt. As a result, working capital declined 13.5%, to ¥28.6 billion, and the current ratio at year-end was 1.44, compared with 1.66 at the end of the previous year. Property, plant and equipment, net of accumulated depreciation, increased 7.6% from the previous year-end, to ¥82.2 billion.

Shareholders' equity rose 4.3%, to ¥66.5 billion, as a result of net unrealized holding gains on securities of ¥4.0 billion, which offset a decline in retained earnings. Total assets at fiscal year-end were up 13.2%, to ¥208.9 billion. The equity ratio at year-end was 31.8%, down from 34.6% at the end of the previous year. The Company's debt-to-equity ratio was 1.18, compared with 1.16 at the previous year-end.

ELEVEN-YEAR FINANCIAL SUMMARY

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

	2001	2000	1999	1998
Net sales	¥114,206	¥106,281	¥110,919	¥128,298
Operating income	6,962	2,705	2,358	6,435
Income (loss) before income taxes and minority interests	226	2,725	(1,018)	5,508
Net income (loss)	465	1,218	(1,715)	2,709
Net income (loss) per share* (yen and dollars)	2.42	6.36	(8.92)	14.08
Interest expense:				
Net	1,666	1,577	1,163	1,172
Gross: Interest received	284	162	263	323
Interest paid	1,950	1,739	1,426	1,495
Capital expenditures	10,251	32,487	5,157	15,050
Depreciation	4,321	4,444	4,620	4,790
Current assets	93,984	83,143	72,541	81,622
Current liabilities	65,374	50,080	47,256	62,224
Net property, plant and equipment	82,179	76,352	48,249	48,837
Noncurrent liabilities	74,066	67,474	27,397	18,710
Total assets	208,877	184,468	137,691	147,668
Common stock	17,077	17,077	17,077	17,077
Retained earnings	33,480	34,020	31,943	35,260
Shareholders' equity.....	66,463	63,750	61,673	64,989
Equity ratio(%)	31.8	34.6	44.8	44.0
Return on equity (%)	0.7	1.9	—	4.2
Debt-to-equity ratio (times).....	1.18	1.16	0.73	0.64
Net cash provided by operating activities	5,968	3,268	6,951	2,740
Net cash used in investing activities	10,834	28,755	4,527	4,475
Net cash provided by (used in) financing activities	2,026	27,166	2,427	1,021
Cash and cash equivalents at the end of the year	24,853	27,586	24,879	20,029
Number of shares outstanding at year-end (thousands)	191,406	191,406	191,406	192,406
Number of employees	5,237	5,440	5,368	5,720

* The effective par value per share is ¥50.

Millions of Yen Except Per Share Data

Thousands of
U.S. Dollars

1997	1996	1995	1994	1993	1992	1991	2001
¥127,231	¥110,424	¥101,670	¥109,014	¥120,867	¥140,316	¥127,851	\$928,504
6,374	4,329	234	636	5,317	10,575	11,397	56,602
5,931	3,649	179	1,750	5,131	10,291	11,139	1,837
3,280	1,796	(634)	1,148	2,539	5,216	5,393	3,780
17.04	9.33	(3.29)	5.96	13.20	27.14	28.15	0.020
1,073	1,063	951	1,041	1,248	1,160	1,115	13,545
385	492	835	982	1,247	1,655	1,299	2,309
1,458	1,555	1,786	2,023	2,495	2,815	2,414	15,854
5,680	4,759	4,290	4,221	8,489	8,586	11,060	83,341
4,783	4,837	5,165	5,432	5,216	4,908	4,095	35,130
80,929	77,995	63,452	63,319	75,028	73,549	89,110	764,098
58,349	62,312	45,902	45,625	56,937	54,978	71,273	531,496
38,331	36,904	37,709	39,221	40,629	37,490	33,985	668,122
21,847	16,849	19,966	19,818	20,320	18,261	11,196	602,163
145,268	141,863	127,893	129,020	141,759	137,355	142,883	1,698,187
17,075	17,068	17,066	17,066	17,058	17,057	16,809	138,837
33,791	31,682	31,060	32,675	33,398	33,049	29,987	272,195
63,516	61,392	60,768	62,382	63,091	62,739	59,180	540,349
43.7	43.3	47.5	48.4	44.5	45.7	41.4	
5.2	2.9	—	1.8	4.0	8.3	9.1	
0.62	0.60	0.57	0.55	0.61	0.50	0.41	
4,028	5,456	6,099	9,791	7,381	7,050	16,720	48,520
4,663	4,245	3,975	4,926	9,021	15,612	18,156	88,081
955	1,246	(1,196)	(5,859)	5,496	5,178	7,822	16,472
21,999	21,679	19,222	18,294	19,288	15,432	18,816	202,057
192,399	192,377	192,374	192,372	192,354	192,349	191,639	
5,789	5,844	5,829	5,652	5,649	5,591	5,401	

CONSOLIDATED BALANCE SHEETS

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 2001 and 2000

Assets	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Current assets:			
Cash and cash equivalents.....	¥ 24,853	¥ 27,586	\$ 202,057
Short-term investments	8,192	5,061	66,602
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	52	14	423
Other	35,386	27,367	287,691
Inventories	22,613	20,700	183,846
Deferred tax assets	1,768	1,043	14,374
Other receivables:			
Unconsolidated subsidiaries and affiliates	22	28	179
Other current assets	1,333	1,619	10,837
Allowance for doubtful receivables	(235)	(275)	(1,911)
Total current assets	<u>93,984</u>	<u>83,143</u>	<u>764,098</u>
Property, plant and equipment (Note 7):			
Land	41,351	41,916	336,187
Buildings and structures	33,366	32,906	271,268
Machinery and equipment	70,845	67,416	575,976
Construction in progress	9,653	3,910	78,480
Accumulated depreciation	(73,036)	(69,796)	(593,789)
Net property, plant and equipment	<u>82,179</u>	<u>76,352</u>	<u>668,122</u>
Investments and long-term loans receivable:			
Investment securities:			
Unconsolidated subsidiaries and affiliates	255	285	2,073
Other	17,369	7,932	141,211
Long-term loans receivable	29	34	236
Deferred tax assets	1,057	96	8,593
Other noncurrent items (Note 7)	14,557	14,959	118,350
Allowance for doubtful receivables	(553)	(588)	(4,496)
Total investments and long-term loans receivable	<u>32,714</u>	<u>22,718</u>	<u>265,967</u>
Currency translation adjustments	—	2,255	—
Total assets	<u>¥208,877</u>	<u>¥184,468</u>	<u>\$1,698,187</u>

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

Liabilities and Shareholders' Equity	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Current liabilities:			
Short-term bank loans and current portion of long-term debt.....	¥ 29,571	¥ 23,279	\$ 240,415
Trade notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	807	802	6,561
Other	23,379	16,733	190,073
Income taxes payable	1,768	376	14,374
Accrued expenses	3,427	2,887	27,862
Deferred tax liabilities	161	104	1,309
Other	6,261	5,899	50,902
Total current liabilities	<u>65,374</u>	<u>50,080</u>	<u>531,496</u>
Noncurrent liabilities:			
Bonds	13,840	13,692	112,521
Long-term loans, less current maturities	35,254	37,166	286,618
Retirement benefits (Note 12)	17,742	12,065	144,244
Deferred tax liabilities	3,068	999	24,943
Other	4,162	3,552	33,837
Total noncurrent liabilities	<u>74,066</u>	<u>67,474</u>	<u>602,163</u>
Minority interests	2,974	3,164	24,179
Shareholders' equity:			
Common stock	17,077	17,077	138,837
Capital surplus	12,653	12,653	102,870
Retained earnings	33,480	34,020	272,195
Net unrealized holding gains on securities	4,031	—	32,772
Currency translation adjustments	(777)	—	(6,317)
	<u>66,464</u>	<u>63,750</u>	<u>540,357</u>
Treasury stock	(1)	(0)	(8)
Total shareholders' equity	<u>66,463</u>	<u>63,750</u>	<u>540,349</u>
Total liabilities and shareholders' equity	<u>¥208,877</u>	<u>¥184,468</u>	<u>\$1,698,187</u>

CONSOLIDATED STATEMENTS OF INCOME

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Net sales	¥114,206	¥106,281	¥110,919	\$ 928,504
Cost of sales.....	82,683	78,481	83,714	672,219
Gross profit.....	31,523	27,800	27,205	256,285
Selling, general and administrative expenses.....	24,561	25,095	24,847	199,683
Operating income	6,962	2,705	2,358	56,602
Other income (expenses):				
Interest and dividend income.....	477	393	670	3,878
Interest expense.....	(1,950)	(1,739)	(1,426)	(15,854)
Equity in loss of affiliated company.....	—	—	(231)	—
Foreign exchange gains (losses)	49	(227)	(114)	398
Other, net.....	(423)	743	(405)	(3,439)
Ordinary income	5,115	1,875	852	41,585
Extraordinary profit (loss):				
Difference caused by changing standards for retirement benefits, and other, net	(4,889)	850	(1,870)	(39,748)
Income (loss) before income taxes and minority interests	226	2,725	(1,018)	1,837
Income taxes:				
Current	2,311	925	696	18,789
Deferred	(2,587)	550	—	(21,033)
Minority interests.....	(37)	(32)	(1)	(301)
Net income (loss)	¥ 465	¥ 1,218	¥ (1,715)	\$ 3,780

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, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Retained earnings at the beginning of the year	¥ 34,020	¥ 31,943	¥ 35,260	\$ 276,585
Increase in retained earnings, resulting from consolidation of additional subsidiaries	—	1,180	—	—
Increase in retained earnings, resulting from merger of an unconsolidated subsidiary.....	164	—	—	1,334
Prior years' tax effect	—	840	—	—
Appropriations:				
Cash dividends	(1,148)	(1,148)	(1,154)	(9,333)
Bonuses to directors and statutory auditors.....	(21)	(13)	(89)	(171)
Retirement of treasury shares	—	—	(249)	—
Decrease in retained earnings, resulting from application of the equity method	—	—	(110)	—
Net income (loss) for the year.....	465	1,218	(1,715)	3,780
Retained earnings at the end of the year	¥ 33,480	¥ 34,020	¥ 31,943	\$ 272,195

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, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Cash flows from operating activities:				
Net income (loss) before income taxes and minority interests	¥ 226	¥ 2,725	¥ (1,018)	\$ 1,837
Adjustments for:				
Depreciation	4,321	4,444	4,620	35,130
Loss (gain) on sales of property, plant and equipment ...	(3,380)	(8,837)	121	(27,480)
Loss on valuation of deposits for golf club membership ...	450	—	—	3,659
Provision for (reversal of) allowance for doubtful receivables	(91)	59	(131)	(740)
Provision for (reversal of) retirement benefits	6,007	5,859	(104)	48,837
Other	(242)	(237)	36	(1,967)
(Increase) decrease in trade notes and accounts receivable	(7,212)	(99)	8,762	(58,634)
(Increase) decrease in inventories	(847)	946	4,989	(6,886)
Increase (decrease) in trade notes and accounts payable ...	4,891	(2,410)	(3,620)	39,764
Other	4,502	3,008	(5,522)	36,602
Sub total	8,625	5,458	10,169	70,122
Interest and dividend income received	474	396	638	3,854
Interest expenses paid	(2,033)	(1,719)	(1,449)	(16,529)
Income taxes paid	(1,098)	(867)	(2,407)	(8,927)
Net cash provided by operating activities	5,968	3,268	6,951	48,520
Cash flows from investing activities:				
Increase of time deposits (due after 3 months)	(10)	(666)	—	(81)
Decrease of time deposits (due after 3 months)	8	—	—	65
Payments for purchase of investments in securities	(7,258)	(4,213)	(1,577)	(59,008)
Proceeds from sales of investments in securities	1,832	2,287	2,052	14,894
Payments for purchase of investments in subsidiaries	(15)	(222)	—	(122)
Increase of long-term loans receivable	(19)	(25)	—	(154)
Decrease of long-term loans receivable	31	39	18	252
Payments for purchase of property, plant and equipment	(10,072)	(32,487)	(5,157)	(81,886)
Proceeds from sales of property, plant and equipment ...	4,669	6,532	137	37,959
Net cash used in investing activities	(10,834)	(28,755)	(4,527)	(88,081)
Cash flows from financing activities:				
Increase (decrease) in short-term bank loans, net	1,667	517	(2,458)	13,553
Proceeds from long-term loans	2,615	21,413	6,906	21,260
Repayment of long-term loans	(725)	(864)	(807)	(5,894)
Proceeds from issue of bonds	—	8,000	4,000	—
Payments on redemption of bonds	(300)	(700)	(4,000)	(2,439)
Cash dividends	(1,149)	(1,149)	(1,154)	(9,341)
Cash dividends for minority shareholders	(82)	(51)	(60)	(667)
Net cash provided by financing activities	2,026	27,166	2,427	16,472
Effect of exchange rate changes on cash and cash equivalents				
Net increase (decrease) in cash and cash equivalents	(2,776)	1,627	4,850	(22,569)
Cash and cash equivalents at the beginning of the year	27,586	24,879	20,029	224,276
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	—	1,080	—	—
Increase in cash and cash equivalents due to merger of an unconsolidated subsidiary	43	—	—	350
Cash and cash equivalents at the end of the year	¥ 24,853	¥ 27,586	¥ 24,879	\$ 202,057

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.

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 (the "Companies").

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 Corporation
Tsubakimoto Machinery Co.
Tsubakimoto Emerson Co.
Tsubakimoto Sprocket Mfg., Ltd.
Tsubaki Conveyor of America, Inc. (U.S.A.)
Taiwan Tsubakimoto Co. (Taiwan)
Harry James Company Ltd. (Taiwan)
Ballantine, Inc. (U.S.A.)
Tsubaki Arcs Co.
Tsubakimoto Europe B.V. (Netherlands)
P. Koning B.V. (Netherlands)
Tsubakimoto U.K. Ltd. (U.K.)
Tsubakimoto Singapore Pte. Ltd. (Singapore)
Tsubaki Australia Pty. Limited (Australia)
Tsubakimoto Nishinohon Co., Ltd.
Tsubakimoto Mayfran Inc.
Korea Conveyor Ind. Co., Ltd. (Korea)
Tsubaki Emerson Gear (Tianjin) Co., Ltd. (China)

(c) Unconsolidated subsidiaries and affiliates

Investments in 6 insignificant subsidiaries and 4 affiliated companies 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 ¥123= \$1, the approximate exchange rate prevailing on March 31, 2001.

(e) Consolidated statement of cash flows

In 2000, the Companies adopted the Accounting Standards for Consolidated Statements of Cash Flows which was issued by the Business Accounting Deliberation Council.

Restated statement of cash flows for the year ended March 31, 1999 has been provided for comparative purposes.

For the purposes of cash flows statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts, and all highly liquid investments with maturities of three months or less.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Short-term investments and investments in securities

Through March 31, 2000, marketable and investment securities quoted were valued at the lower of moving-average cost or market. Other securities were stated at cost.

Effective April 1, 2000, the Companies adopted the Accounting Standards for Financial Instruments which was issued by the Business Accounting Deliberation Council. In accordance with the new standards, securities are classified into three categories: held-to-maturity debt securities, equity investments in unconsolidated subsidiaries and affiliates and other securities.

Those classified as other would be reported at fair value with unrealized gains, net of related taxes reported in equity. Under the Japanese Commercial Code, unrealized holding gains on securities, net of related taxes, are not available for distribution as dividends and bonuses to directors and statutory auditors. Other investments are carried at cost. The cost is determined by the moving-average method.

(Held-to-maturity debt securities and other securities)

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates the classification as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity debt securities are stated at amortized cost adjusted for the amortization of premiums and the accretion of discounts to maturity.

Marketable equity securities and debt securities not classified as held-to-maturity are classified as other securities. Other securities are carried at fair value with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. The amortized cost of debt securities in this category is adjusted for the amortization of premiums and the accretion of discounts to maturity. Realized gains and losses and declines in value judged to be other than temporary on other securities are charged to income.

(b) 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 8 subsidiaries, which are valued at the lower of cost or market.

(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.

The principal estimated useful lives are as follows:

Buildings and structures	5 to 50 years
Machinery and equipment	2 to 10 years

(d) Computer software

Expenditure relating to computer software developed for internal use is charged to income when incurred, except if it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life.

(e) Bonuses for employees

Accrued bonuses for employees are calculated based on an estimation of future bonus payments.

(f) Retirement benefits

Effective April 1, 2000, the Companies adopted the Accounting Standards for Retirement Benefit which was issued by the Business Accounting Deliberation Council. In accordance with the new standards, accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the annual period.

Also, the Company and consolidated domestic subsidiaries record the unfunded retirement benefits for directors and statutory auditors on the accrual basis, which is included in other noncurrent liabilities.

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

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.

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

(h) 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.

(i) Income taxes

Effective April 1, 1999, the Companies adopted the Financial Accounting Standard on Accounting for Income Taxes which was issued by the Business Accounting Deliberation Council.

This standard requires that income taxes be accounted for under the asset and liability method. The effect of the initial application of this policy for the year ended March 31, 2000,

was to decrease net income by ¥550 million. The cumulative effect up to the beginning of the current year of ¥840 million has been reported as a prior year's tax effect from initial application of accounting for income taxes in the consolidated statement of retained earnings. As a result of the above, total assets and total liabilities increased by ¥1,139 million and ¥1,103 million, respectively, and retained earnings increased by ¥36 million.

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, amortized for less than 20 years. 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

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing on the respective balance sheet dates. Revenue and expenses are translated at the average rates of exchange for the respective years. Translation adjustments of foreign currency financial statements in 2000 are not included in the determination of net income and are reflected in investments and long-term loans receivable in the consolidated balance sheets. In 2001, the Companies adopted the revised Accounting Standards for Foreign Currency Transactions which was issued by the Business Accounting Deliberation Council. Under the new method, every monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange prevailing on the balance sheet date and translation adjustments of foreign currency financial statements in 2001 are reflected in shareholders' equity and minority interests in the consolidated balance sheets.

6. APPROPRIATIONS OF RETAINED EARNINGS

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

7. PLEDGED ASSETS

At March 31, 2001 and 2000, the following assets were pledged as collateral for bank loans and long-term debt.

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Property, plant and equipment.....	¥50,155	¥49,625	\$407,764
Other noncurrent items.....	63	63	512
	¥50,218	¥49,688	\$408,276

8. CONTINGENT LIABILITIES

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥8,114 million (\$65,967 thousand) and ¥9,087 million at March 31, 2001 and 2000, respectively.

9. PER SHARE AMOUNTS

	Yen		U.S. Dollars
	2001	2000	2001
Shareholders' equity per share...	¥347.23	¥333.06	\$2.823
Net income per share.....	2.42	6.36	0.020

10. SHAREHOLDERS' EQUITY

The Code requires the Company to transfer an amount equal to at least 10% of appropriations paid in cash to the legal reserve until such reserve equals 25% of stated capital. This reserve amounted to ¥3,319 million (\$26,984 thousand) and ¥3,203 million at March 31, 2001 and 2000, respectively. This reserve, included in retained earnings, is not available for distribution as dividends and bonuses to directors and statutory auditors but may be used to reduce a deficit or be transferred to stated capital.

11. RESEARCH AND DEVELOPMENT

Research and development expenditure charged to income was ¥1,315 million (\$10,691 thousand) and ¥1,444 million for the years ended March 31, 2001 and 2000, respectively.

12. RETIREMENT BENEFITS

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2001.

	Thousands of	
	Millions of Yen	U.S. Dollars
Benefit obligation at end of year.....	¥26,066	\$211,918
Fair value of plan assets at end of year.....	7,752	63,024
Funded status:		
Benefit obligation in excess of plan assets....	18,314	148,894
Unrecognized net transition obligation at date of adoption	—	—
Unrecognized prior service cost	—	—
Unrecognized actuarial loss	572	4,650
Accrued pension liability recognized in the consolidated balance sheets	17,742	144,244

Note: Domestic subsidiaries have adopted allowed alternative treatment of the accounting standards for retirement benefits for small business entities.

Severance and pension costs of the Companies included the following components for the year ended March 31, 2001.

	Thousands of	
	Millions of Yen	U.S. Dollars
Service cost.....	¥1,580	\$12,846
Interest cost.....	783	6,366
Expected return on plan assets	(250)	(2,033)
Amortization:		
Transition obligation at date of adoption.....	6,655	54,106
Prior service cost.....	—	—
Actuarial losses.....	—	—
Net periodic benefit cost.....	¥8,768	\$71,285

Assumptions used in the accounting for the defined benefit plans for the year ended March 31, 2001, are as follows:

Method of attributing benefits to periods of service	straight-line basis
Discount rate	3.5%
Long-term rate of return on fund assets	3.5%
Amortization period for transition obligation at date of adoption	1 year
Amortization period for actuarial losses	10 years

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 42.0% for the years ended March 31, 2001 and 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2001, differs from the Company's statutory tax rate for the following reasons:

	2001	2000
Statutory tax rate	42.0 %	42.0 %
Lower tax rates of overseas subsidiaries	(33.3)	(1.6)
Expenses not deductible for income tax purposes.....	27.5	2.2
Surplus not additional for income tax purposes.....	(103.9)	(2.3)
Cash dividends from overseas subsidiaries.....	63.9	6.6
Per capita levy	23.1	2.0
Penalty tax for income taxes.....	—	1.7
Other.....	(140.8)	3.5
Effective tax rate	(121.5)%	54.1%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2001 and 2000, are presented below:

	Thousands of		
	Millions of Yen	2000	U.S. Dollars
Deferred tax assets:			
Provision for retirement benefits.....	¥ 6,003	¥ 3,064	\$ 48,805
Accrued bonuses.....	615	341	5,000
Allowance for doubtful accounts	176	139	1,431
Tax loss carryforwards.....	386	583	3,138
Accrued expenses	179	—	1,455
Impairment loss on deposits for golf club membership.....	181	—	1,472
Other	1,277	929	10,382
Total gross deferred tax assets.....	8,817	5,056	71,683
Less valuation allowance.....	(298)	(267)	(2,423)
Net deferred tax assets.....	8,519	4,789	69,260
Deferred tax liabilities:			
Reserve for deduction entry of property replaced by purchase.....	(4,565)	(3,470)	(37,114)
Profit from valuation for the consolidation of capital account.....	(372)	(392)	(3,024)
Other	(3,986)	(891)	(32,407)
Total gross deferred tax liabilities....	(8,923)	(4,753)	(72,545)
Net deferred tax assets	¥ (404)	¥ 36	\$ (3,285)

14. SEGMENT INFORMATION

Information by business segment and geographical segment for the years ended March 31, 2001, 2000 and 1999, is as follows:

<i>(a) Business segment</i>	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Net sales:				
Power transmission products:				
Customers	¥ 87,388	¥ 80,720	¥ 78,875	\$ 710,471
Intersegment	1,298	1,077	2,160	10,553
Total.....	88,686	81,797	81,035	721,024
Materials handling systems:				
Customers	26,329	25,018	31,403	214,057
Intersegment.....	184	214	124	1,496
Total.....	26,513	25,232	31,527	215,553
Others:				
Customers	489	543	641	3,976
Intersegment	1,147	1,183	1,094	9,325
Total.....	1,636	1,726	1,094	13,301
Eliminations	(2,629)	(2,474)	(3,378)	(21,374)
Consolidated total	¥114,206	¥106,281	¥110,919	\$ 928,504
Operating income(loss):				
Power transmission products	¥ 8,711	¥ 6,161	¥ 5,353	\$ 70,821
Materials handling systems	750	(823)	(292)	6,098
Others	230	257	217	1,870
Corporate and eliminations	(2,729)	(2,890)	(2,920)	(22,187)
Consolidated total.....	¥ 6,962	¥ 2,705	¥ 2,358	\$ 56,602
Total assets:				
Power transmission products.....	¥129,295	¥116,039	¥ 83,914	\$1,051,179
Materials handling systems	21,189	23,082	19,841	172,268
Others	2,733	2,382	2,322	22,220
Corporate and eliminations.....	55,660	42,965	31,614	452,520
Consolidated total.....	¥208,877	¥184,468	¥ 137,691	\$1,698,187
Depreciation:				
Power transmission products.....	¥ 3,719	¥ 3,729	¥ 3,863	\$ 30,236
Materials handling systems	407	553	583	3,309
Others	17	17	19	138
Corporate and eliminations.....	178	145	155	1,447
Consolidated total.....	¥ 4,321	¥ 4,444	¥ 4,620	\$ 35,130
Capital expenditures:				
Power transmission products.....	¥ 8,573	¥ 28,940	¥ 4,457	\$ 69,699
Materials handling systems	295	125	476	2,398
Others	6	5	9	49
Corporate and eliminations.....	1,377	3,147	215	11,195
Consolidated total.....	¥ 10,251	¥ 32,487	¥ 5,157	\$ 83,341

<i>(b) Geographical segment</i>	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Net sales:				
Japan:				
Customers	¥ 86,394	¥ 78,338	¥ 77,164	\$ 702,390
Intersegment	7,047	7,374	7,295	57,293
Total	93,441	85,712	84,459	759,683
North America:				
Customers	20,497	20,978	28,240	166,642
Intersegment	246	89	96	2,000
Total	20,743	21,067	28,336	168,642
Europe:				
Customers	2,807	2,781	3,146	22,821
Intersegment	3	6	15	25
Total	2,810	2,787	3,161	22,846
Asia and Oceania:				
Customers	4,508	4,183	2,370	36,650
Intersegment	658	523	426	5,350
Total	5,166	4,706	2,796	42,000
Eliminations	(7,954)	(7,991)	(7,833)	(64,667)
Consolidated total	¥114,206	¥106,281	¥110,919	\$ 928,504
Operating income:				
Japan	¥ 8,239	¥ 3,702	¥ 2,553	\$ 66,984
North America	981	1,481	1,861	7,976
Europe	57	218	287	463
Asia and Oceania	398	138	211	3,236
Corporate and eliminations	(2,713)	(2,834)	(2,554)	(22,057)
Consolidated total	¥ 6,962	¥ 2,705	¥ 2,358	\$ 56,602
Total assets:				
Japan	¥127,131	¥117,216	¥ 84,311	\$1,033,585
North America	20,042	17,015	19,199	162,943
Europe	2,835	2,705	2,371	23,049
Asia and Oceania	5,851	5,350	2,261	47,569
Corporate and eliminations	53,018	42,182	29,549	431,041
Consolidated total	¥208,877	¥184,468	¥137,691	\$1,698,187

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, 2001 and 2000, and the related consolidated statements of income, retained earnings and cash flows for each of the three years ended March 31, 2001, 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, expressed in yen, present fairly, in all material respects, the financial position of the Companies as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years ended March 31, 2001 in accordance with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Notes 2 and 5 to the consolidated financial statements, the Companies have adopted new accounting standards for retirement benefits, financial instruments and translating foreign currencies in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The accompanying consolidated financial statements as of March 31, 2001 and for the year ended March 31, 2001 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(d) to the consolidated financial statements.

Century Ota Showa & Co.
Century Ota Showa & Co.

Osaka, Japan
June 28, 2001

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