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 Nishinihon Co., Ltd.
- Tsubakimoto Mayfran Inc.
- Korea Conveyor Ind. Co., Ltd. (Republic of Korea)
- Tsubaki Emerson Gear (Tianjin) Co., Ltd. (China)

(c) Unconsolidated subsidiaries and affiliates

Investments in 7 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 ¥133= $1, the approximate exchange rate prevailing on March 31, 2002.

(e) Cash and cash equivalents

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	3 to 50 years
Machinery and equipment	2 to 13 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 Benefits 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

This standard requires that income taxes be accounted for under the asset and liability method.

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, all 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, 2002 and 2001, the following assets were pledged as collateral for bank loans and long-term debt:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Property, plant and equipment	**¥45,397**	¥50,155	**$341,331**
Other noncurrent items	**63**	63	**474**
	¥45,460	¥50,218	**$341,805**

8. CONTINGENT LIABILITIES

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥7,866 million ($59,143 thousand) and ¥8,114 million at March 31, 2002 and 2001, respectively.

9. REVALUATION OF LAND

At March 31, 2002, the land owned by the Company was revaluated under the Land Reappraisal Law, and unrealized losses resulting from the revaluation were debited directly from shareholders' equity as a revaluation surplus amounting to ¥3,015 million after offsetting the related deferred tax assets amounting to ¥2,183 million as stipulated by the law. The revaluation surplus will be credited to gain or loss to be incurred when the related land is sold.

The book value of this land before and after the revaluation at March 31, 2002, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2002	**2002**
Book value:		
Before revaluation	**¥41,420**	**$ 311,429**
After revaluation	**36,222**	**272,346**
Net unrealized loss	**¥ 5,198**	**$ 39,083**

10. PER SHARE AMOUNTS

	Yen		U.S. Dollars
	2002	2001	**2002**
Shareholders' equity per share	**¥327.47**	¥347.23	**$2.462**
Net income per share	**6.27**	2.42	**0.047**

11. SHAREHOLDERS' EQUITY

The Code requires the Company to transfer an amount equal to at least 10% of appropriations paid in cash to legal reserve. Under the revised Code, effective on October 1, 2001, the Company may not appropriate retained earnings to the legal reserve when the total balance of the legal reserve and additional paid-in capital equals to 25% of common stock. Amounts of the legal reserve and additional paid-in capital in excess of 25% of common stock, subject to shareholders' approval, may be used for dividend distributions.

12. RESEARCH AND DEVELOPMENT

Research and development expenditure charged to income was ¥1,273 million ($9,571 thousand) and ¥1,315 million for the years ended March 31, 2002 and 2001, respectively.

13. RETIREMENT BENEFITS

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2002 and 2001, respectively:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Benefit obligation at end of year	**¥28,219**	¥26,066	**$212,173**
Fair value of plan assets at end of year	**7,393**	7,752	**55,587**
Funded status:			
Benefit obligation in excess of plan assets	**20,826**	18,314	**156,586**
Unrecognized net transition obligation at date of adoption	—	—	—
Unrecognized prior service cost	—	—	—
Unrecognized actuarial loss	**3,291**	572	**24,744**
Accrued pension liability recognized in the consolidated balance sheets	**17,535**	17,742	**131,842**

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 years ended March 31, 2002 and 2001, respectively:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Service cost	**¥1,417**	¥1,580	**$10,654**
Interest cost	**726**	783	**5,459**
Expected return on plan assets	**(211)**	(250)	**(1,587)**
Amortization:			
Transition obligation at date of adoption	—	6,655	—
Prior service cost	—	—	—
Actuarial losses	**57**	—	**429**
Net periodic benefit cost	**¥1,989**	¥8,768	**$14,955**

Assumptions used in the accounting for the defined benefit plan for the year ended March 31, 2002, are as follows:

Method of attributing benefits to periods of service	straight-line basis
Discount rate	2.5%
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

14. 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, 2002 and 2001. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2002, differs from the Company's statutory tax rate for the following reasons:

	2002	2001
Statutory tax rate	**42.0%**	42.0 %
Lower tax rates of overseas subsidiaries	**(2.8)**	(33.3)
Expenses not deductible for income tax purposes	**2.7**	27.5
Surplus not additional for income tax purposes	**(1.4)**	(103.9)
Cash dividends from overseas subsidiaries	**4.8**	63.9
Per capita levy	**2.0**	23.1
Other	**1.2**	(140.8)
Effective tax rate	**48.5%**	(121.5)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2002 and 2001, are presented below:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Deferred tax assets:			
Provision for retirement benefits	**¥ 5,952**	¥ 6,003	**$ 44,752**
Accrued bonuses	**367**	615	**2,760**
Allowance for doubtful accounts	**247**	176	**1,857**
Tax loss carryforwards	**561**	386	**4,218**
Loss on valuation of investment securities	**526**	—	**3,955**
Accrued expenses	—	179	—
Impairment loss on deposits for golf club membership	**203**	181	**1,526**
Other	**1,195**	1,277	**8,985**
Total gross deferred tax assets	**9,051**	8,817	**68,053**
Less valuation allowance	**(166)**	(298)	**(1,248)**
Net deferred tax assets	**8,885**	8,519	**66,805**
Deferred tax liabilities:			
Reserve for deduction entry of property replaced by purchase	**(5,410)**	(4,565)	**(40,677)**
Profit from valuation for the consolidation of capital account	**(372)**	(372)	**(2,797)**
Other	**(3,111)**	(3,986)	**(23,391)**
Total gross deferred tax liabilities	**(8,893)**	(8,923)	**(66,865)**
Net deferred tax assets	**¥ (8)**	¥ (404)	**$ (60)**

15. SEGMENT INFORMATION

Information by business segment and geographical segment for the years ended March 31, 2002, 2001 and 2000, is as follows:

(a) Business segment	Millions of Yen 2002	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2002
Net sales:				
Power transmission products:				
Customers	**¥ 83,760**	¥ 87,388	¥ 80,720	**$ 629,774**
Intersegment	**1,484**	1,298	1,077	**11,158**
Total	**85,244**	88,686	81,797	**640,932**
Materials handling systems:				
Customers	**29,547**	26,329	25,018	**222,158**
Intersegment	**201**	184	214	**1,511**
Total	**29,748**	26,513	25,232	**223,669**
Others:				
Customers	**434**	489	543	**3,263**
Intersegment	**1,227**	1,147	1,183	**9,226**
Total	**1,661**	1,636	1,726	**12,489**
Eliminations	**(2,912)**	(2,629)	(2,474)	**(21,895)**
Consolidated total	**¥113,741**	¥114,206	¥106,281	**$ 855,195**
Operating income (loss):				
Power transmission products	**¥ 6,563**	¥ 8,711	¥ 6,161	**$ 49,346**
Materials handling systems	**2,278**	750	(823)	**17,128**
Others	**163**	230	257	**1,226**
Corporate and eliminations	**(2,966)**	(2,729)	(2,890)	**(22,301)**
Consolidated total	**¥ 6,038**	¥ 6,962	¥ 2,705	**$ 45,399**
Total assets:				
Power transmission products	**¥127,378**	¥129,295	¥116,039	**$ 957,729**
Materials handling systems	**26,183**	21,189	23,082	**196,865**
Others	**2,748**	2,733	2,382	**20,662**
Corporate and eliminations	**45,246**	55,660	42,965	**340,195**
Consolidated total	**¥201,555**	¥208,877	¥184,468	**$1,515,451**
Depreciation:				
Power transmission products	**¥ 4,824**	¥ 3,719	¥ 3,729	**$ 36,271**
Materials handling systems	**432**	407	553	**3,248**
Others	**12**	17	17	**90**
Corporate and eliminations	**343**	178	145	**2,579**
Consolidated total	**¥ 5,611**	¥ 4,321	¥ 4,444	**$ 42,188**
Capital expenditures:				
Power transmission products	**¥ 13,573**	¥ 8,573	¥ 28,940	**$ 102,052**
Materials handling systems	**290**	295	125	**2,180**
Others	**7**	6	5	**53**
Corporate and eliminations	**2,324**	1,377	3,417	**17,474**
Consolidated total	**¥ 16,194**	¥ 10,251	¥ 32,487	**$ 121,759**

(b) Geographical segment	Millions of Yen 2002	2001	2000	Thousands of U.S. Dollars 2002
Net sales:				
Japan:				
Customers	**¥ 83,267**	¥ 86,394	¥ 78,338	**$ 626,068**
Intersegment	**9,223**	7,047	7,374	**69,346**
Total	**92,490**	93,441	85,712	**695,414**
North America:				
Customers	**22,617**	20,497	20,978	**170,052**
Intersegment	**271**	246	89	**2,038**
Total	**22,888**	20,743	21,067	**172,090**
Europe:				
Customers	**3,178**	2,807	2,781	**23,895**
Intersegment	**6**	3	6	**45**
Total	**3,184**	2,810	2,787	**23,940**
Asia and Oceania:				
Customers	**4,679**	4,508	4,183	**35,180**
Intersegment	**657**	658	523	**4,940**
Total	**5,336**	5,166	4,706	**40,120**
Eliminations	**(10,157)**	(7,954)	(7,991)	**(76,369)**
Consolidated total	**¥113,741**	¥114,206	¥106,281	**$ 855,195**
Operating income:				
Japan	**¥ 7,903**	¥ 8,239	¥ 3,702	**$ 59,421**
North America	**813**	981	1,481	**6,113**
Europe	**189**	57	218	**1,421**
Asia and Oceania	**374**	398	138	**2,812**
Corporate and eliminations	**(3,241)**	(2,713)	(2,834)	**(24,368)**
Consolidated total	**¥ 6,038**	¥ 6,962	¥ 2,705	**$ 45,399**
Total assets:				
Japan	**¥125,790**	¥127,131	¥117,216	**$ 945,790**
North America	**24,572**	20,042	17,015	**184,752**
Europe	**3,341**	2,835	2,705	**25,120**
Asia and Oceania	**6,406**	5,851	5,350	**48,165**
Corporate and eliminations	**41,446**	53,018	42,182	**311,624**
Consolidated total	**¥201,555**	¥208,877	¥184,468	**$1,515,451**