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Eleven-Year Financial Summary

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Years ended March 31

	2007	2006	2005	2004
Net sales	¥155,747	¥147,761	¥129,563	¥119,141
Operating income	16,008	13,830	10,448	7,951
Income (loss) before income taxes and minority interests	17,635	12,609	8,598	6,537
Net income (loss)	8,541	6,607	4,449	3,385
Net income (loss) per share (yen and dollars)	¥ 45.55	¥ 34.78	¥ 22.77	¥ 17.40
Diluted net income (loss) (yen and dollars)	-	-	-	-
Interest expense:				
Net	¥ 951	¥ 909	¥ 1,161	¥ 1,363
Gross: Interest received	73	85	34	68
Interest paid	1,024	994	1,195	1,431
Capital expenditures	10,894	7,489	3,698	3,506
Depreciation and amortization	5,948	5,509	5,504	6,083
Total current assets	92,961	78,856	72,125	69,735
Total current liabilities	58,106	56,337	53,801	48,395
Property, plant and equipment, net	81,796	76,263	75,394	76,307
Total long-term liabilities	68,465	60,918	49,850	56,758
Total assets	212,740	198,458	179,263	175,432
Paid-in capital	17,077	17,077	17,077	17,077
Retained earnings	51,279	44,509	39,344	36,199
Total shareholders' equity	81,034	77,098	71,634	66,873
Equity ratio (%)	38.1	38.8	40.0	38.1
ROE (%)	10.8	8.9	6.4	5.3
D/E ratio	0.52	0.51	0.61	0.75
Net cash provided by operating activities	¥ 10,107	¥ 10,681	¥ 9,673	¥ 7,995
Net cash provided by (used in) investing activities	(5,879)	(5,595)	(2,465)	9,068
Net cash provided by (used in) financing activities	(647)	(5,596)	(9,412)	(15,538)
Cash and cash equivalents at end of the year	14,618	10,984	11,562	13,681
Number of shares outstanding at end of the year* (thousands)	187,492	187,541	187,613	188,544
Number of employees	5,114	4,675	4,765	4,709

* Excluding treasury stock

Millions of Yen unless Noted Otherwise							Thousands of U.S. Dollars (Note 1)
2003	2002	2001	2000	1999	1998	1997	2007
¥116,670	¥113,741	¥114,206	¥106,281	¥110,919	¥128,298	¥127,231	\$1,318,884
7,351	6,038	6,962	2,705	2,358	6,435	6,374	135,558
2,800	2,661	226	2,725	(1,018)	5,508	5,931	149,335
1,531	1,202	465	1,218	(1,715)	2,709	3,280	72,326
¥ 7.92	¥ 6.27	¥ 2.42	¥ 6.36	¥ (8.92)	¥ 14.08	¥ 17.04	\$ 0.386
-	-	-	-	-	-	-	-
¥ 1,636	¥ 1,585	¥ 1,666	¥ 1,577	¥ 1,163	¥ 1,172	¥ 1,073	\$ 8,053
103	223	284	162	263	323	385	618
1,739	1,808	1,950	1,739	1,426	1,495	1,458	8,671
2,942	16,194	10,251	32,487	5,157	15,050	5,680	92,252
6,736	5,611	4,321	4,444	4,620	4,790	4,783	50,368
83,074	90,750	93,984	83,143	72,541	81,622	80,929	787,205
52,062	58,125	65,374	50,080	47,256	62,224	58,349	492,048
80,416	85,381	82,179	76,352	48,249	48,837	38,331	692,658
67,638	77,676	74,066	67,474	27,397	18,710	21,847	579,770
183,260	201,555	208,877	184,468	137,691	147,668	145,268	1,801,507
17,077	17,077	17,077	17,077	17,077	17,077	17,075	144,610
33,975	33,500	33,480	34,020	31,943	35,260	33,791	434,236
60,307	62,674	66,463	63,750	61,673	64,989	63,516	686,205
32.9	31.1	31.8	34.6	44.8	44.0	43.7	
2.5	1.9	0.7	1.9	-	4.2	5.2	
1.08	1.22	1.18	1.16	0.73	0.64	0.62	
¥ 12,020	¥ 7,709	¥ 5,968	¥ 3,268	¥ 6,951	¥ 2,740	¥ 4,028	\$ 85,587
(3,014)	(10,718)	(10,834)	(28,755)	(4,527)	(4,475)	(4,663)	(49,784)
(14,216)	(4,243)	2,026	27,166	2,427	1,021	955	(5,479)
12,417	17,679	24,853	27,586	24,879	20,029	21,999	123,787
188,723	191,386	191,406	191,406	191,406	192,406	192,399	
4,871	4,916	5,237	5,440	5,368	5,720	5,789	

Report and Analysis of Financial Condition and Results of Operations for Fiscal 2007 (Consolidated)

■ Operating Environment

Despite Variations in Pace, Economic Expansion Continues in Japan and Overseas

Japan's GDP marked its fifth continuous year of positive growth. Private-sector capital investment, which has a significant influence on the Tsubaki Group's business operations, showed a robust 7% increase from the previous year. In addition, automobile exports grew, supported by a lower yen exchange rate compared with the previous year, and Japanese automakers' increased overseas market share. As the domestic automotive industry accounts for a high proportion of the Tsubaki Group's customer sales, such industry trends propelled the Group forward.

The pace of economic expansion slowed somewhat in the United States, particularly in the second half of the fiscal year. However, the U.S. economy remained firm overall, buoyed by strong consumer spending. The European economy expanded, centered on Germany, and Asia maintained high economic growth, driven by China.

■ Analysis of Results

I. Summary – Highest-Ever Earnings for Second Consecutive Year

Despite some regional variations in pace, the global economy maintained its expansionary trend. In this environment, the Tsubaki Group recorded its highest-ever earnings for the second consecutive year. Consolidated net sales rose 5.4%, operating income grew 15.7%, and net income was up 29.3% from the previous fiscal year.

II. Net Sales – Further Globalization and Ratio of Overseas Sales Continues to Increase

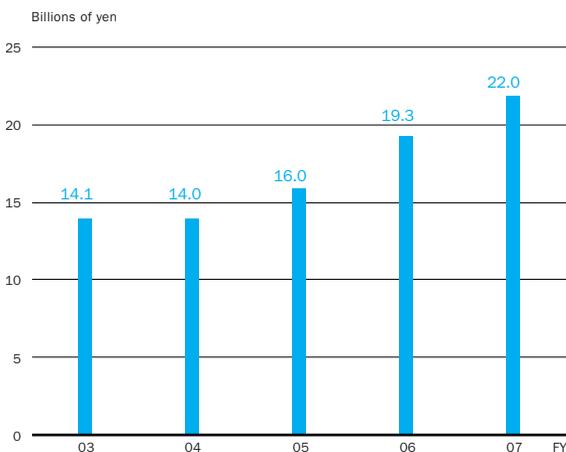
Consolidated net sales increased ¥8.0 billion, or 5.4%, from the previous fiscal year, to ¥155.7 billion. Domestic sales rose steadily, at 3.4%, but this was outpaced by an 8.9% increase in overseas sales. The development of markets in Europe and Asia/Oceania has been a major management issue for the Tsubaki Group, and there was significant growth in these regions. Sales were up 24.2% in Europe and 15.7% in Asia/Oceania. This expansion can be seen as a major achievement for the *Global Best strategy*. The ratio of overseas sales to total sales was 37.4%, an increase of 1.2 points from the previous fiscal year and a 7.4-point increase from the level in fiscal 2002.

The consolidated net sales result was marginally off, at less than 0.8%, the target set for fiscal 2007, mainly due to the postponement of delivery dates to the current fiscal year for certain orders in the Materials Handling Systems Segment.

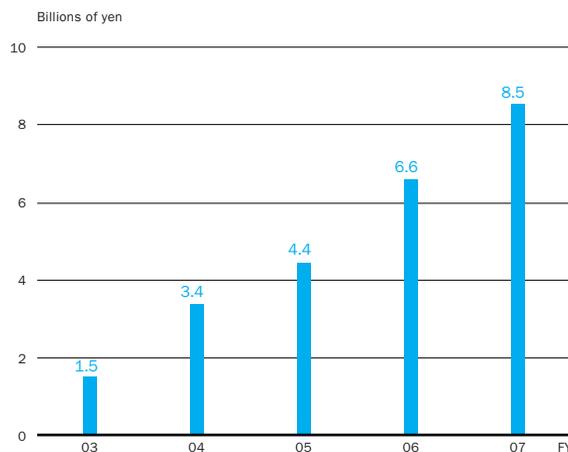
III. Operating Income – Double-Digit Growth as Strategy Realized

Operating income increased ¥2.2 billion, or 15.7%, from the previous fiscal year, to ¥16.0 billion. The rate of growth in operating income therefore exceeded that of net sales. During the fiscal year, there were two main factors that adversely affected operating income. A rise in raw materials costs had a negative impact of approximately ¥1.9 billion. In Materials Handling Systems Operations in North America, a major hurricane caused an unexpected increase in installation costs, which had a negative impact of about ¥0.7 billion. However, these negative factors were fully offset by factors that contributed to a ¥4.8 billion increase in operating income. The lower yen exchange rate pushed income up, but

EBITDA



Net Income



the influence of this was comparatively weak. The major factors were a transfer of rising costs to product prices, mainly in Chain Operations, where we have a high industry share; increased global market share, especially in Chain and Automotive Parts operations; and cost reductions achieved through productivity enhancements. These results derived from the Group's ongoing strategy to improve product competitiveness, strengthen marketing, and rationalize production.

Analysis of Income Trends in Fiscal 2007

Increase in operating income from fiscal 2006 to fiscal 2007: approx. ¥2.2 billion

Increase Factors

¥3.2 billion	From volume increases, rationalization, and lower yen exchange rate (most of increase due to volume increases and rationalization)
¥1.6 billion	From price increases

Decrease Factors

- ¥1.9 billion	From rise in raw materials costs
- ¥0.7 billion	From temporary installation costs in Materials Handling Systems Segment (North America)

IV. Net Income – Steady Improvement in Balance of Interest Income and Interest Expense

The balance of interest income and interest expense (interest and dividends received minus interest paid) yielded a net expense for the year of ¥0.6 billion, down ¥88 million from the previous year, or a 61% improvement over the past five years.

In fiscal 2007, the Company recorded an extraordinary gain of ¥3.4 billion on sales of investments in securities, which accompanied the response to a tender offer bid for Tsubaki Nakashima, in which we held stock. As a result of the above, net income for the fiscal year under review increased ¥1.9 billion, or a sharp 29.3%, from the previous year, to ¥8.5 billion.

■ Analysis of Results by Business Segment

I. Power Transmission Products Segment – Increased Sales and Enhanced Profitability

Net sales amounted to ¥124.6 billion, an increase of ¥10.9 billion, or 9.6%, from the previous fiscal year. Chain, Automotive Parts, and Power Transmission Units and Components operations all recorded sales increases.

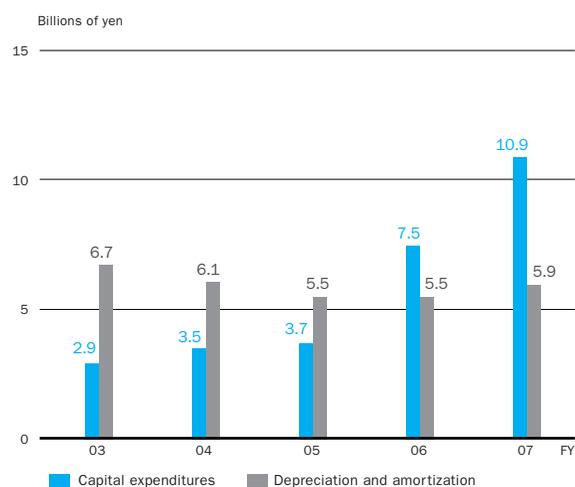
Sales growth in Chain Operations was driven by sales to the steel and machine tool industries. The new G7 RS Roller Chain was introduced successfully. Automotive Parts Operations also displayed high growth as market share expanded in North America and Japan. In Power Transmission Units and Components Operations, sales of reducers remained at about the same level, but sales of motion control units and clutches stayed firm.

The operating income margin for the segment increased from 13.1% in fiscal 2006 to 13.9%. This improvement was due to the mentioned increases in sales volume as well as to cost reductions and a contribution from the lower yen exchange rate.

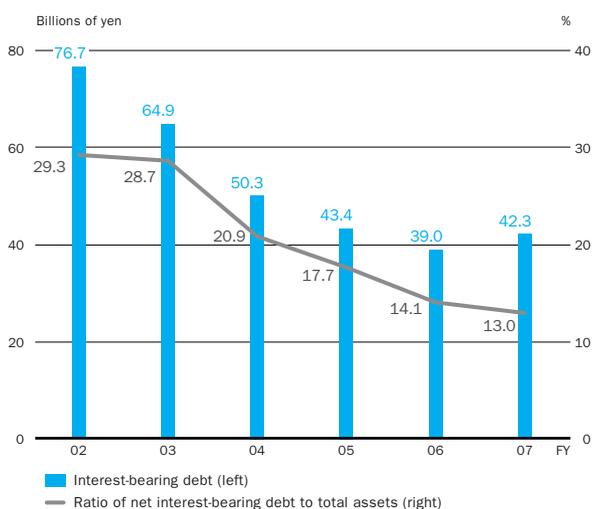
II. Materials Handling Systems Segment – Declines in Sales and Income Due to Postponed Delivery

Net sales were ¥32.3 billion, a decrease of ¥3.2 billion, or 8.9%, from the previous fiscal year. Sales to the IT industry of hard disk conveyance systems expanded greatly. On the other hand, as previously explained, certain order delivery dates were postponed to the current fiscal year, and as a consequence sales of automotive body paint shop conveyor systems to the automotive industry declined. On the expenses front, as also previously explained, the effect of a major hurricane in the United States caused an increase in installation costs. Combined with the decline in sales, higher operating expenses led to a 10.3% decrease in operating income from the previous fiscal year. However, the operating income margin was 5.8%, only a slight 0.1-point decline from the previous year.

Capital Expenditures and Depreciation and Amortization



Interest-Bearing Debt



■ Analysis of Financial Condition

I. Assets

Total assets at the end of fiscal 2007 were ¥212.7 billion, an increase of ¥14.3 billion from the previous year-end. This rise was mainly due to a ¥14.1 billion increase in current assets. The major contributing factors to higher current assets were an increase in trade notes and accounts receivable of ¥9.0 billion and an increase in cash and deposits of ¥3.7 billion. Both of these factors are attributable to the increase in sales and orders received. Property, plant and equipment, net, rose ¥5.5 billion, mainly in response to increased production in Automotive Parts Operations. However, investment in securities declined ¥6.0 billion, principally due to the previously mentioned sale of Tsubaki Nakashima stock.

II. Liabilities and Net Assets

Current liabilities rose, primarily due to a ¥5.0 billion increase in trade notes and accounts payable. However, this increase can be characterized as complementary to the rise in trade notes and accounts receivable and concomitant with the expansion in business capacity.

Interest-bearing debt almost halved between fiscal 2002 and fiscal 2006, but in fiscal 2007 there was an increase of ¥3.3 billion. This rise in debt was a consequence of higher capital investment, primarily in Chain and Automotive Parts operations, accompanying the Group's shift to aggressive business. Further, the ratio of net interest-bearing debt to total assets fell from 14.1% in fiscal 2006 to 13.0%.

As a result of these factors, net assets at the end of fiscal 2007 stood at ¥86.2 billion, an increase of ¥9.1 billion from the previous year-end.

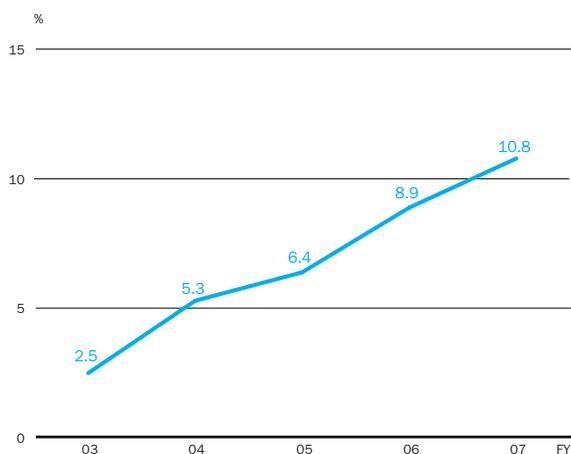
■ Analysis of Cash Flows

Net cash from operating activities was ¥10.1 billion, compared with ¥10.7 billion in the previous fiscal year. Income before income taxes and minority interests was ¥17.6 billion. Depreciation amounted to ¥5.9 billion, and there was an increase of ¥2.8 billion in trade notes and accounts payable due to the expansion in business capacity. These were the main factors positively affecting growth. The main factors negatively affecting growth included an increase in trade notes and accounts receivable of ¥7.2 billion.

Net cash used in investing activities totaled ¥5.9 billion, compared with ¥5.6 billion in the previous year. The major source of cash outflow was purchases of plant, property and equipment of ¥10.3 billion. These payments were related to the boosting of production capacity, mainly in Automotive Parts Operations, and represent a significant increase from ¥6.8 billion in the previous year. Proceeds from sales of investments in securities were also comparatively large, at ¥3.9 billion. Therefore, net cash used in investing activities was about the same level as in fiscal 2006.

Net cash used in financing activities totaled ¥0.6 billion, compared with ¥5.6 billion in the previous year. This significant decrease in fiscal 2007 reflects the Group's shift to an aggressive strategy and the associated increased demand for working capital.

ROE



Risk Factors and Countermeasures

Note: The risks outlined below are representative and are not an exhaustive account.
The countermeasures described will not necessarily lead to a reduction of the risk.

1. Risks Related to Raw Materials Price Hikes

Marked increases in crude oil prices have accompanied worldwide economic recovery. As a result, hikes in the prices of raw materials for the Group's products have become unavoidable. From May 2005, the Group revised product prices. Further, the Group worked to reduce costs by enhancing productivity. However, if the Group is unable to offset increases in costs due to prolonged price hikes, its business performance could be affected.

2. Risks Related to Disasters

The Group supplies such engine parts as timing chains and tensioners to automakers in Japan and overseas. In the unlikely event of a natural disaster or a man-made disaster at the Saitama Plant, the Company's main production base in Japan, the Group may be unable to provide a stable supply of products to automakers. In response to this type of risk, the Group has developed countermeasures, such as supplying products from overseas production bases to replace output from the Saitama Plant.

3. Risks Related to Overseas Operational Activities

The Group is increasing parts procurement and product sales in the Chinese market, which continues to see economic growth. However, due to political and economic factors in China, there is the possibility of temporary disorder or stagnation in the economy. In that event, certain operational problems may arise, such as delays in the production of the Group's products and difficulties in procuring parts or operating plants, which could affect business performance.

4. Risks Related to Price Competition

In Materials Handling Systems Operations, which face intense competition for orders, the Company may not be able to avoid low-profit orders, which could affect business performance.

5. Risks Related to Currency Exchange Rates

The Group, which is conducting aggressive global development, works to minimize the influence of foreign exchange rate fluctuations by hedging foreign exchange forward contracts across the time of settlements of payments for exports, the time orders are received, the time the sales are recorded, and the time payments are received. However, short-term, dramatic fluctuations in exchange rates could affect business performance.

6. Risks Related to Changes in Interest Rates

The Group secures loans from financial institutions, mainly for the purpose of working capital or investment capital. The Group regards the strengthening of its financial position, through the reduction of interest-bearing debt and other means, as a central management issue. However, it may become necessary to procure funds to invest in production facilities, and in this case higher interest payable resulting from increases in interest rates could affect business performance.

Consolidated Balance Sheets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2007 and 2006

Assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Current assets:			
Cash and cash equivalents (Notes 2(b) and 6)	¥ 14,618	¥ 10,984	\$ 123,787
Time deposits	526	500	4,454
Trade notes and accounts receivable	48,943	39,975	414,455
Inventories (Note 5)	24,631	23,875	208,578
Deferred tax assets (Note 7)	3,466	2,436	29,351
Other current assets	1,072	1,358	9,078
Allowance for doubtful accounts	(295)	(272)	(2,498)
Total current assets	92,961	78,856	787,205
Property, plant and equipment, at cost (Note 6):			
Land (Note 14)	36,535	35,306	309,383
Buildings and structures (Note 14)	43,557	41,967	368,846
Machinery, equipment and vehicles	68,098	62,606	576,662
Tools, furniture and fixtures	16,073	15,465	136,108
Construction in progress	4,876	3,156	41,290
Less accumulated depreciation	(87,343)	(82,237)	(739,631)
Property, plant and equipment, net	81,796	76,263	692,658
Investments and other assets:			
Investment in securities (Notes 4 and 6)	28,851	34,881	244,314
Investments in unconsolidated subsidiaries and affiliates	1,656	1,501	14,023
Long-term loans receivable	121	38	1,025
Deferred tax assets (Note 7)	1,631	1,815	13,811
Other assets (Note 6)	5,869	5,279	49,699
Allowance for doubtful accounts	(145)	(175)	(1,228)
Total investments and other assets	37,983	43,339	321,644
Total assets	¥212,740	¥198,458	\$1,801,507

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term loans (Note 6)	¥ 8,077	¥ 7,413	\$ 68,397
Current portion of long-term debt (Note 6)	2,411	7,955	20,417
Trade notes and accounts payable	30,457	25,444	257,913
Accrued income taxes	4,319	3,461	36,574
Accrued expenses	4,546	4,179	38,496
Other current liabilities (Note 6)	8,296	7,885	70,251
Total current liabilities	58,106	56,337	492,048
Long-term liabilities:			
Long-term debt (Note 6)	31,825	23,598	269,498
Accrued retirement benefits to employees (Note 8)	10,215	9,916	86,502
Accrued retirement benefits to directors and corporate auditors	466	364	3,946
Deferred tax liabilities (Note 7)	14,203	14,148	120,273
Deferred tax liabilities on land revaluation (Note 10)	6,773	6,773	57,354
Other long-term liabilities (Note 6)	4,983	6,119	42,197
Total long-term liabilities	68,465	60,918	579,770
Contingent liabilities (Note 9)			
Net assets (Note 3):			
Shareholders' equity (Note 11):			
Common stock:			
Authorized – 299,000,000 shares in 2007 and 2006			
Issued – 191,406,969 shares in 2007 and 2006	17,077	17,077	144,610
Capital surplus	12,656	12,654	107,172
Retained earnings (Notes 12 and 20)	51,279	44,509	434,236
Treasury stock at cost (Note 12):			
3,914,760 shares in 2007 and 3,865,828 shares in 2006	(1,451)	(1,415)	(12,287)
Total shareholders' equity	79,561	72,825	673,731
Valuation and translation adjustments:			
Net unrealized holding gain on securities	13,473	16,749	114,091
Unrealized loss on derivative instruments	(99)	—	(838)
Net unrealized loss on land revaluation (Note 10)	(12,047)	(12,047)	(102,015)
Translation adjustments	146	(429)	1,236
Total valuation and translation adjustments	1,473	4,273	12,474
Minority interests	5,135	4,105	43,484
Total net assets	86,169	81,203	729,689
Total liabilities and net assets	¥212,740	¥198,458	\$1,801,507

Consolidated Statements of Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Net sales (Note 19)	¥155,747	¥147,761	\$1,318,884
Cost of sales (Notes 13 and 19)	112,159	108,500	949,776
Gross profit	43,588	39,261	369,108
Selling, general and administrative expenses (Notes 13 and 19)	27,580	25,431	233,550
Operating income (Note 19)	16,008	13,830	135,558
Other income (expenses):			
Interest and dividend income	470	353	3,980
Interest expense	(1,024)	(994)	(8,671)
Equity in (loss) earnings of affiliates	(4)	7	(34)
Foreign exchange loss	(551)	(244)	(4,666)
Gain on sales of investments in securities	3,414	15	28,910
Gain (loss) on amendment to retirement benefit plans (Note 8)	124	(273)	1,050
Loss on impairment of fixed assets (Note 14)	(307)	(32)	(2,600)
Other, net	(495)	(38)	(4,192)
Income before income taxes and minority interests	17,635	12,609	149,335
Income taxes (Note 7):			
Current	7,094	5,402	60,073
Deferred	1,496	(111)	12,668
Income before minority interests	9,045	7,318	76,594
Minority interests	(504)	(711)	(4,268)
Net income	¥ 8,541	¥ 6,607	\$ 72,326

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of Yen										
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized loss on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2005	191,406,969	¥17,077	¥12,653	¥39,344	¥(1,365)	¥ 8,591	¥ —	¥ (3,091)	¥(1,575)	¥3,978	¥75,612
Cash dividends paid	—	—	—	(1,313)	—	—	—	—	—	—	(1,313)
Bonuses to directors and corporate auditors	—	—	—	(170)	—	—	—	—	—	—	(170)
Net income	—	—	—	6,607	—	—	—	—	—	—	6,607
Gain on sales of treasury stock	—	—	1	—	—	—	—	—	—	—	1
Net unrealized loss on land revaluation reserve	—	—	—	41	—	—	—	(8,956)	—	—	—
Purchases of treasury stock	—	—	—	—	(51)	—	—	—	—	—	(51)
Sales of treasury stock	—	—	—	—	1	—	—	—	—	—	1
Other changes	—	—	—	—	—	8,158	—	—	1,146	127	516
Balance at March 31, 2006	191,406,969	17,077	12,654	44,509	(1,415)	16,749	—	(12,047)	(429)	4,105	81,203
Cash dividends paid	—	—	—	(1,688)	—	—	—	—	—	—	(1,688)
Bonuses to directors and corporate auditors	—	—	—	(83)	—	—	—	—	—	—	(83)
Net income	—	—	—	8,541	—	—	—	—	—	—	8,541
Gain on sales of treasury stock	—	—	2	—	—	—	—	—	—	—	2
Purchases of treasury stock	—	—	—	—	(39)	—	—	—	—	—	(39)
Sales of treasury stock	—	—	—	—	3	—	—	—	—	—	3
Other changes	—	—	—	—	—	(3,276)	(99)	—	575	1,030	(1,770)
Balance at March 31, 2007	191,406,969	¥17,077	¥12,656	¥51,279	¥(1,451)	¥13,473	¥(99)	¥(12,047)	¥ 146	¥5,135	¥86,169

	Thousands of U.S. Dollars										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized loss on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Minority interests	Total net assets	
Balance at March 31, 2006	\$144,610	\$107,155	\$376,907	\$(11,982)	\$141,833	\$ —	\$(102,015)	\$(3,633)	\$34,762	\$687,637	
Cash dividends paid	—	—	(14,294)	—	—	—	—	—	—	(14,294)	
Bonuses to directors and corporate auditors	—	—	(703)	—	—	—	—	—	—	(703)	
Net income	—	—	72,326	—	—	—	—	—	—	72,326	
Gain on sales of treasury stock	—	17	—	—	—	—	—	—	—	17	
Purchases of treasury stock	—	—	—	(330)	—	—	—	—	—	(330)	
Sales of treasury stock	—	—	—	25	—	—	—	—	—	25	
Other changes	—	—	—	—	(27,742)	(838)	—	4,869	8,722	(14,989)	
Balance at March 31, 2007	\$144,610	\$107,172	\$434,236	\$(12,287)	\$114,091	\$(838)	\$(102,015)	\$1,236	\$43,484	\$729,689	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥17,635	¥12,609	\$149,335
Adjustments for:			
Depreciation	5,948	5,509	50,368
Loss on impairment of fixed assets	307	32	2,600
Loss (gain) on sales of property, plant and equipment	154	(305)	1,304
Gain on sales of investments in securities	(3,414)	(15)	(28,910)
Allowance for doubtful accounts, net	(31)	(43)	(263)
Increase (decrease) in accrued retirement benefits	93	(763)	788
(Decrease) increase in obligation on transfer to defined contribution pension plans	(894)	488	(7,570)
Increase in trade notes and accounts receivable	(7,228)	(4,194)	(61,208)
Decrease (increase) in inventories	231	(3,147)	1,956
Increase in trade notes and accounts payable	2,755	4,441	23,330
Other	1,393	973	11,796
Subtotal	16,949	15,585	143,526
Interest and dividends received	477	359	4,039
Interest paid	(1,007)	(990)	(8,527)
Income taxes paid	(6,312)	(4,273)	(53,451)
Net cash provided by operating activities	10,107	10,681	85,587
Cash flows from investing activities:			
Decrease in time deposits, net	546	4	4,624
Increase in investments in securities	(12)	(20)	(102)
Proceeds from sales of investments in securities	3,861	142	32,695
Increase in investments in affiliates	—	(155)	—
Acquisition of subsidiaries' stock resulting in change in scope of consolidation (Note 15)	(516)	—	(4,369)
Increase in long-term loans receivable	(76)	(66)	(644)
Collection of long-term loans receivable	115	68	974
Purchases of property, plant and equipment	(10,269)	(6,786)	(86,959)
Proceeds from sales of property, plant and equipment	472	1,218	3,997
Net cash used in investing activities	(5,879)	(5,595)	(49,784)
Cash flows from financing activities:			
Decrease in short-term loans, net	(40)	(1,694)	(399)
Proceeds from long-term loans	10,233	1,000	86,654
Repayment of long-term loans	(7,556)	(8,183)	(63,985)
Issuance of bonds	—	6,955	—
Redemption of bonds	(960)	(1,700)	(8,129)
Payments on installment payables	(393)	(451)	(3,328)
Cash dividends paid	(1,688)	(1,313)	(14,294)
Cash dividends paid to minority interests	(209)	(160)	(1,770)
Purchases of treasury stock	(39)	(51)	(330)
Proceeds from sales of treasury stock	5	1	42
Net cash used in financing activities	(647)	(5,596)	(5,479)
Effect of exchange rate changes on cash and cash equivalents	53	205	449
Net increase (decrease) in cash and cash equivalents	3,634	(305)	30,773
Cash and cash equivalents at beginning of the year	10,984	11,562	93,014
Decrease in cash and cash equivalents resulting from initial inclusion in or exclusion from consolidation	—	(273)	—
Cash and cash equivalents at end of the year	¥14,618	¥10,984	\$123,787

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2007

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and the consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥118.09 = U.S.\$1.00, the exchange rate prevailing on March 31, 2007. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2006 to the 2007 presentation. These reclassifications had no effect on consolidated net income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All material intercompany balances and transactions have been eliminated in consolidation.

The assets and liabilities of the consolidated subsidiaries are revalued at fair value by the full value method as of their respective dates of acquisition. The difference, not significant in amount, between the cost of investments in such subsidiaries and the equity in their net assets at their respective dates of acquisition is amortized over a period of five years on a straight-line basis.

The balance sheet dates of certain consolidated subsidiaries are December 31 and January 31. Any significant differences in their intercompany accounts and transactions arising from intercompany transactions during the periods from January 1 through March 31 and February 1 through March 31 have been adjusted, if necessary.

The number of consolidated subsidiaries and affiliated companies for the years ended March 31, 2007 and 2006 is summarized below:

	2007	2006
Consolidated subsidiaries	23	22
Affiliated companies	2	2

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

Cash and cash equivalents at March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Cash on hand and in banks	¥13,568	¥ 9,867	\$114,895
Less: Time deposits with over three months maturity	(526)	(500)	(4,454)
Securities regarded as cash equivalents	1,576	1,617	13,346
Cash and cash equivalents	¥14,618	¥10,984	\$123,787

(c) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(d) Marketable securities and investment in securities

Marketable securities and investment in securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(e) Derivatives

Derivatives are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are

accounted for as if the interest rates applied to the interest-rate swaps had originally applied to the underlying debt. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding contract rates.

(f) Inventories

Inventories except for those of certain overseas subsidiaries are principally stated at cost determined by the first-in, first-out method, the individual identification method or the moving average cost method. Those of certain overseas subsidiaries are stated at the lower of cost or market.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is calculated by the declining-balance method over the useful lives of the respective assets. Depreciation of buildings, except for structures attached to the buildings, is calculated by the straight-line method.

The principal estimated useful lives are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 13 years

(h) Leases

Finance leases other than those which transfer ownership of the leased property to the lessees are accounted for as operating leases.

(i) Income taxes

Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

(j) Accrued retirement benefits to employees

Accrued retirement benefits for employees are provided at the retirement benefit obligation less the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a certain period (10 years) which is shorter than the average estimated remaining years of service of the eligible employees.

(k) Accrued retirement benefits to directors and corporate auditors

Directors and corporate auditors of the Company and its domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. The provision for retirement benefits for directors and corporate auditors has been made at an estimated amount based on the internal regulations.

(l) Revenue recognition

The Company and its consolidated subsidiaries recognize revenue and the related costs of long-term construction contracts by applying the completed-contract method, except for those of certain overseas subsidiaries in the Materials Handling Systems business to which the percentage-of-completion method is applied.

(m) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of income or to cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives (5 years).

(n) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

The assets, liabilities and minority interests of overseas subsidiaries and affiliates are translated into yen at the exchange rates in effect at the balance sheet date, and the components of net assets excluding minority interests are translated at their respective historical rates. Revenue and expenses are translated at the average rates of exchange for the respective years. Differences arising from translation are reflected in net assets (presented as "Translation adjustments" and "Minority interests") in the accompanying consolidated balance sheets.

(o) Appropriation of retained earnings

Under the new Corporation Law of Japan (the "Law"), the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such appropriations. (Refer to Note 20.)

3. CHANGES IN METHOD OF ACCOUNTING

Presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 issued on December 9, 2005).

4. SECURITIES

(a) Marketable securities classified as held-to-maturity debt securities at March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Securities whose estimated fair value exceeds their carrying value:									
Corporate bonds	¥ —	¥ —	¥ —	¥100	¥100	¥ 0	\$ —	\$ —	\$ —
Securities whose estimated fair value does not exceed their carrying value:									
Corporate bonds	—	—	—	—	—	—	—	—	—
Total	¥ —	¥ —	¥ —	¥100	¥100	¥ 0	\$ —	\$ —	\$ —

(b) Marketable securities classified as other securities at March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:									
Equity securities	¥5,848	¥28,384	¥22,536	¥6,002	¥34,263	¥28,261	\$49,522	\$240,359	\$190,837
Other	49	58	9	59	69	10	415	491	76
Subtotal	5,897	28,442	22,545	6,061	34,332	28,271	49,937	240,850	190,913
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities	36	33	(3)	—	—	—	305	280	(25)
Other	—	—	—	90	80	(10)	—	—	—
Subtotal	36	33	(3)	90	80	(10)	305	280	(25)
Total	¥5,933	¥28,475	¥22,542	¥6,151	¥34,412	¥28,261	\$50,242	\$241,130	\$190,888

(c) Sales of other securities for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
	Sales	¥3,754	¥75
Gross realized gain	3,414	15	28,910
Gross realized loss	(43)	—	(364)

The carrying value of securities without determinable market value at March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
	Other securities:		
Money Management fund unlisted debt securities	¥376	¥369	\$3,184

5. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
	Finished goods	¥11,376	¥ 9,515
Raw materials	3,175	2,903	26,886
Work in process	9,359	10,623	79,253
Supplies	721	834	6,106
	¥24,631	¥23,875	\$208,578

6. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at March 31, 2007 and 2006 consisted principally of loans from banks and insurance companies at weighted average interest rates of 2.0% and 1.3% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loans, principally from banks and insurance companies, due through 2014 at an average annual interest rate of 2.7%:			
Secured	¥ 9,198	¥13,079	\$ 77,890
Unsecured	17,788	10,474	150,631
0.38% unsecured bonds due 2006	—	100	—
2.30% secured bonds due 2007	—	800	—
0.44% unsecured bonds due 2007	100	100	847
0.41% unsecured bonds due 2008	30	—	254
0.88% unsecured bonds due 2009	50	—	423
0.56% unsecured bonds due 2010	70	—	593
0.83% unsecured bonds due 2010	7,000	7,000	59,277
	34,236	31,553	289,915
Less current portion	2,411	7,955	20,417
Total	¥31,825	¥23,598	\$269,498

Other interest-bearing liabilities included in other current and long-term liabilities represented installment payables at an average annual interest rate of 3.2% at March 31, 2007 and 2006.

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 2,411	\$ 20,417
2009	3,187	26,988
2010	1,562	89,440
2011	9,063	76,747
2012	6,307	53,408
2013 and thereafter	2,706	22,915
Total	¥34,236	\$289,915

The aggregate annual maturities of other interest-bearing liabilities included in other current and long-term liabilities subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 349	\$ 2,955
2009	337	2,854
2010	319	2,701
2011	329	2,786
2012	170	1,440
Total	¥1,504	\$12,736

Assets pledged as collateral for short-term bank loans of ¥530 million (\$4,488 thousand), the current portion of long-term debt of ¥2,248 million (\$19,036 thousand), and long-term debt of ¥7,040 million (\$59,616 thousand) at March 31, 2007 were composed of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Land	¥30,868	\$261,398
Buildings and structures	14,446	122,330
Machinery, equipment and vehicles	8,906	75,400
Tools, furniture and fixtures	980	8,299
Construction in progress	428	3,624
Cash and cash equivalents	230	1,948
Investments in securities	123	1,042
Other assets	63	533
	¥56,042	\$474,570

The Company has concluded lines-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit at March 31, 2007 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Lines of credit	¥15,000	\$127,022
Credit utilized	2,000	16,936
Available credit	¥13,000	\$110,086

7. INCOME TAXES

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2007 and 2006.

A reconciliation of the statutory and effective tax rates for the years ended March 31, 2007 is summarized as follows:

	2007
Statutory tax rate	40.6%
Permanent difference such as entertainment expenses	0.4
Undistributed earnings of foreign subsidiaries	6.1
Valuation allowance for deferred tax assets	1.7
Other	(0.1)
Effective tax rate	48.7%

Disclosure of reconciliation between statutory and effective tax rate for the year ended March 31, 2006 has been omitted as such difference was immaterial.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Accrued retirement benefits	¥ 4,102	¥ 4,241	\$ 34,736
Obligation on transfer to defined contribution pension plans	1,560	1,893	13,210
Accrued bonuses	1,081	1,038	9,154
Unrealized gains and losses on inventories	524	483	4,437
Accrued enterprise tax	319	271	2,702
Other	2,353	1,002	19,926
Gross deferred tax assets	9,939	8,928	84,165
Less: valuation allowance	(861)	(357)	(7,291)
Total deferred tax assets	9,078	8,571	76,874
Deferred tax liabilities:			
Deferred gain on replacement of property	(5,391)	(5,377)	(45,652)
Undistributed earnings of foreign subsidiaries	(1,664)	—	(14,091)
Net unrealized gain on revaluation of assets and liabilities of subsidiaries	(757)	(269)	(6,411)
Unrealized holding gain on securities	(9,006)	(11,475)	(76,264)
Other	(1,366)	(1,347)	(11,567)
Total deferred tax liabilities	(18,184)	(18,468)	(153,985)
Net deferred tax liabilities	¥ (9,106)	¥ (9,897)	\$ (77,111)

8. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries pay additional retirement benefits under certain conditions. Certain overseas subsidiaries also have defined benefit plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Retirement benefit obligation	¥(13,491)	¥(14,108)	\$(114,243)
Plan assets at fair value	2,312	3,123	19,578
Unfunded retirement benefit obligation	(11,179)	(10,985)	(94,665)
Unrecognized actuarial loss	964	1,069	8,163
Accrued retirement benefits	¥(10,215)	¥ (9,916)	\$ (86,502)

As permitted under the accounting standard for retirement benefits, certain domestic subsidiaries calculate their retirement benefit obligation for their employees by simplified methods.

Certain domestic consolidated subsidiaries amended a portion of their lump-sum payment plans and adopted defined contribution pension plans and advance payment schemes for retirement benefits at March 31, 2005 and April 1, 2006. An overseas consolidated subsidiary amended a portion of its defined benefit pension plan and adopted defined contribution pension plan at January 1, 2007. The effects of these amendments to the retirement benefit plans as of March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Decrease in retirement benefit obligation	¥ 958	¥ 3,188	\$ 8,112
Decrease in plan assets	(834)	—	(7,062)
Plan assets transferred from tax-qualified pension plans	—	(1,455)	—
Unrecognized actuarial loss	—	(472)	—
Unrecognized prior service cost	—	(173)	—
Decrease in accrued retirement benefits	124	1,088	1,050
Plan assets not to be transferred to defined contribution pension plans	—	(1,361)	—
Net gain (loss) on amendments to retirement benefit plans	¥ 124	¥ (273)	\$ 1,050

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Service cost	¥ 663	¥ 658	\$ 5,614
Interest cost	282	341	2,388
Expected return on plan assets	(67)	(89)	(567)
Net (gain) loss on amendments to retirement benefit plans	(124)	273	(1,050)
Contributions to defined contribution pension plans	515	440	4,361
Amortization of unrecognized actuarial loss	214	147	1,812
Retirement benefit expenses	¥1,483	¥1,770	\$12,558

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rates	Principally 2.0%	2.0%
Expected rates of return on plan assets	Principally 2.5%	2.5%

9. CONTINGENT LIABILITIES

At March 31, 2007, the Company and its consolidated subsidiaries were contingently liable for the following items:

	Millions of Yen	Thousands of
	2007	U.S. Dollars
Notes receivable discounted	¥193	\$1,635
Guarantees of home mortgage loans by employees	319	2,701
Guarantees of loans made by affiliates	267	2,261
Total	¥779	\$6,597

10. NET UNREALIZED LOSS ON LAND REVALUATION

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the "Law on Land Revaluation." Differences on land revaluation have been accounted for as "Net unrealized loss on land revaluation" under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its corresponding fair value by ¥10,500 million (\$88,915 thousand) and ¥10,435 million at March 31, 2007 and 2006, respectively.

11. SHAREHOLDERS' EQUITY

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital sock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met. The Company's legal reserve amounted to ¥3,376 million (\$28,588 thousand) at March 31, 2007.

**12. NOTE TO THE CONSOLIDATED STATEMENTS
OF CHANGES IN NET ASSETS**

(a) Movements in treasury stock during the year ended March 31, 2007 are summarized as follows:

	Type of treasury stock Common stock
Number of treasury stock as of March 31, 2006	3,865,828
Increase in number treasury stock	56,188
Decrease in number of treasury stock	(7,256)
Number of treasury stock as of March 31, 2007	<u>3,914,760</u>

(b) Matters related to dividends

1. Dividend payment

Details of a resolution for dividend payment approved at an annual general meeting of shareholders held on June 29, 2006 are summarized as follows:

Dividends on common stock

(1) Total dividend amount	¥1,125 million (\$9,527 thousand)
(2) Dividends per share	¥6.0
(3) Record date	March 31, 2006
(4) Effective date	June 30, 2006

Details of a resolution for dividend payment approved at a Board of Directors' meeting on November 15, 2006 are summarized as follows:

Dividends on common stock

(1) Total dividend amount	¥562 million (\$4,759 thousand)
(2) Dividends per share	¥3.0
(3) Record date	September 30, 2006
(4) Effective date	December 8, 2006

2. Dividends whose record date is attributable to the accounting period ended March 31, 2007 but whose effective date is subsequent to the end of the said accounting period.

The Company approved a resolution for dividend payment at the annual general meeting of shareholders held on June 28, 2007 as follows:

Dividends on common stock

(1) Total dividend amount	¥750 million (\$6,351 thousand)
(2) Source of dividend payment	Retained earnings
(3) Dividends per share	¥4.0
(4) Record date	March 31, 2007
(5) Effective date	June 29, 2007

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 amounted to ¥3,595 million (\$30,443 thousand) and ¥3,422 million, respectively.

Research and development costs are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Power transmission products	¥2,391	¥2,267	\$20,247
Materials handling systems	1,204	1,155	10,196
Total	<u>¥3,595</u>	<u>¥3,422</u>	<u>\$30,443</u>

14. LOSS ON IMPAIRMENT OF FIXED ASSETS

The Company and its consolidated subsidiaries group their fixed assets relating to Power transmission products, Materials handling systems and other businesses primarily at each business which manages receipts and payments separately. They also group their fixed assets which they have determined to dispose of, and idle assets primarily at each asset. Consequently, the Company and its consolidated subsidiaries wrote down the following items to their respective recoverable amounts and recorded the related loss on impairment of fixed assets of ¥307 million (\$2,600 thousand) and ¥32 million in the consolidated statements of income for the years ended March 31, 2007 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Land	¥217	¥32	\$1,838
Buildings and structures	90	—	762
Total	<u>¥307</u>	<u>¥32</u>	<u>\$2,600</u>

The carrying amounts of the above fixed assets were written down to their respective recoverable amounts and were measured using their respective net selling prices principally based on appraisal valuations.

**15. SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED
STATEMENTS OF CASH FLOWS**

In April 2006, the Company acquired 51% of the shares of TSUBAKI YAMAKYU CHAIN Co., Ltd. whose assets and liabilities, and the related cost of acquired shares and payments for acquisition of shares are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 2,904	\$ 24,591
Fixed assets	2,436	20,628
Goodwill	38	322
Current liabilities	(2,618)	(22,170)
Non-current liabilities	(1,285)	(10,882)
Minority interests	(704)	(5,961)
Cost of acquired shares	771	6,528
Cash and cash equivalents	(255)	(2,159)
Payments for acquisition of shares	<u>¥ (516)</u>	<u>\$ (4,369)</u>

16. LEASES

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2007 and 2006, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases under which the Company and its consolidated subsidiaries are lessees and which are currently accounted for as operating leases:

	Millions of Yen		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 296	¥132	¥164
Tools, furniture and fixtures	765	387	378
Other assets	400	221	179
Total	¥1,461	¥740	¥721

	Millions of Yen		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 143	¥ 52	¥ 91
Tools, furniture and fixtures	1,119	801	318
Other assets	378	205	173
Total	¥1,640	¥1,058	¥582

	Thousands of U.S. Dollars		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	\$ 2,507	\$1,118	\$1,389
Tools, furniture and fixtures	6,478	3,277	3,201
Other assets	3,387	1,871	1,516
Total	\$12,372	\$6,266	\$6,106

Lease payments related to finance leases accounted for as operating leases and depreciation which have not been reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Lease payments	¥310	¥369	\$2,625
Depreciation	310	369	2,625

Future minimum lease payments subsequent to March 31, 2007 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥269	\$2,278
2009 and thereafter	452	3,828
	¥721	\$6,106

The acquisition cost and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

Future minimum lease payments subsequent to March 31, 2007 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 81	\$ 686
2009 and thereafter	64	542
	¥145	\$1,228

17. DERIVATIVES

The Company and certain consolidated subsidiaries utilize derivative financial instruments to reduce foreign exchange rate and interest-rate risk. The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts to ensure stable profit by hedging the risk of exchange rate fluctuation which impacts their assets and liabilities denominated in foreign currencies. In addition, the Company and certain consolidated subsidiaries utilize interest-rate swaps to hedge the effect of any fluctuation in interest rates on their borrowings. The Company and these consolidated subsidiaries do not enter into derivatives contracts for speculative trading purposes.

The Company and certain consolidated subsidiaries are exposed to certain market risk arising from their forward foreign exchange contracts and interest-rate swap agreements. They are also exposed to the risk of credit loss in the event of nonperformance by the counterparties with respect to such forward foreign exchange contracts and interest-rate swap agreements; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Each business department determines the appropriate amount of forward foreign exchange contracts within predetermined limits and the financial sections of each department execute and manage these positions. In addition, the Finance Department of the Company enters into and manages interest-rate swap positions as an integral part of the process of entering into loan agreements.

At March 31, 2007 and 2006, the outstanding forward foreign exchange contracts were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:									
Sell:									
U.S. dollars	¥2,164	¥2,187	¥(23)	¥2,284	¥2,351	¥(67)	\$18,325	\$18,520	\$(195)
Canadian dollars	142	142	0	258	261	(3)	1,202	1,202	0
Australian dollars	65	67	(2)	145	141	4	550	567	(17)
Pounds sterling	15	15	(0)	—	—	—	127	127	(0)
Buy:									
Japanese yen	1,230	1,200	(30)	1,211	1,196	(15)	10,416	10,162	(254)
U.S. dollars	16	16	(0)	—	—	—	135	135	(0)
Pounds sterling	—	—	—	18	18	(0)	—	—	—
Total			¥(55)			¥(81)			\$(466)

At March 31, 2007, the outstanding interest rate swap positions were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Notional amount	Fair value	Unrealized loss	Notional amount	Fair value	Unrealized loss	Notional amount	Fair value	Unrealized loss
Interest-rate swap agreements:									
Floating paid/fixed received	¥150	¥(10)	¥(10)	¥ —	¥ —	¥ —	\$1,270	\$(85)	\$(85)
Total			¥(10)			¥ —			\$(85)

18. AMOUNTS PER SHARE

Amounts per share at March 31, 2007 and 2006 and for the years then ended were as follows:

	Yen		U.S. Dollars
	2007	2006	2007
Net assets	¥432.20	¥410.66	\$3.660
Net income	45.55	34.78	0.386
Cash dividends	7.00	9.00	0.059

The amounts per share of net assets are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each year end.

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

Information used in the calculation of basic net income per share is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Net income	¥8,541	¥6,606	\$72,326
Net income not for distribution to shareholders of common stock:			
Appropriation for directors' bonuses	—	(82)	—
Net income on which basic net income per share is calculated	¥8,541	¥6,524	\$72,326
	Thousands of shares		
	2007	2006	

Weighted-average number of shares of common stock on which basic net income per share is calculated

187,519 187,578

Diluted net income per share for the years ended March 31, 2007 and 2006 has not been presented because no potentially dilutive shares of common stock were outstanding.

19. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of power transmission products and material handling systems. The Company and its consolidated subsidiaries also engage in certain other activities such as building maintenance, insurance brokerage, sales of health care equipment, and so forth.

The business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 are outlined as follows:

Business Segments

	Millions of Yen					
	2007					
	Power transmission products	Materials handling systems	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	¥122,981	¥32,172	¥ 594	¥155,747	¥ —	¥155,747
Intergroup sales and transfers	1,570	146	1,918	3,634	(3,634)	—
Net sales	124,551	32,318	2,512	159,381	(3,634)	155,747
Operating expenses	107,184	30,429	2,284	139,897	(158)	139,739
Operating income	¥ 17,367	¥ 1,889	¥ 228	¥ 19,484	¥ (3,476)	¥ 16,008
II. Total assets, depreciation, impairment loss and capital expenditures						
Total assets	¥128,457	¥25,303	¥2,884	¥156,644	¥56,096	¥212,740
Depreciation	5,278	279	5	5,562	386	5,948
Impairment loss	247	60	—	307	—	307
Capital expenditures	9,817	294	2	10,113	781	10,894
	Millions of Yen					
	2006					
	Power transmission products	Materials handling systems	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	¥111,865	¥35,309	¥ 587	¥147,761	¥ —	¥147,761
Intergroup sales and transfers	1,791	175	1,836	3,802	(3,802)	—
Net sales	113,656	35,484	2,423	151,563	(3,802)	147,761
Operating expenses	98,767	33,378	2,260	134,405	(474)	133,931
Operating income	¥ 14,889	¥ 2,106	¥ 163	¥ 17,158	¥ (3,328)	¥ 13,830
II. Total assets, depreciation and capital expenditures						
Total assets	¥115,031	¥26,670	¥2,235	¥143,936	¥54,522	¥198,458
Depreciation	4,836	320	5	5,161	348	5,509
Capital expenditures	5,756	292	768	6,816	673	7,489
	Thousands of U.S. Dollars					
	2007					
	Power transmission products	Materials handling systems	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	\$1,041,418	\$272,436	\$ 5,030	\$1,318,884	\$ —	\$1,318,884
Intergroup sales and transfers	13,295	1,236	16,242	30,773	(30,773)	—
Net sales	1,054,713	273,672	21,272	1,349,657	(30,773)	1,318,884
Operating expenses	907,647	257,676	19,341	1,184,664	(1,338)	1,183,326
Operating income	\$ 147,066	\$ 15,996	\$ 1,931	\$ 164,993	\$ (29,435)	\$ 135,558
II. Total assets, depreciation, Impairment loss and capital expenditures						
Total assets	\$1,087,789	\$214,269	\$24,422	\$1,326,480	\$475,027	\$1,801,507
Depreciation	44,695	2,363	42	47,100	3,268	50,368
Impairment loss	2,092	508	—	2,600	—	2,600
Capital expenditures	83,131	2,490	17	85,638	6,614	92,252

Geographic Segment Information

Segment information by geographic area for the years ended March 31, 2007 and 2006 is summarized as follows:

	Millions of Yen						
	2007						
	Japan	North America	Europe	Asia and Oceania	Total	Eliminations	Consolidated
External sales	¥111,466	¥28,288	¥9,126	¥6,867	¥155,747	¥ —	¥155,747
Intersegment sales	14,933	582	16	674	16,205	(16,205)	—
Net sales	126,399	28,870	9,142	7,541	171,952	(16,205)	155,747
Operating expenses	110,620	27,569	8,296	6,431	152,916	(13,177)	139,739
Operating income	¥ 15,779	¥ 1,301	¥ 846	¥1,110	¥ 19,036	¥ (3,028)	¥ 16,008
Total assets	¥127,777	¥21,475	¥6,053	¥7,493	¥162,798	¥ 49,942	¥212,740

	Millions of Yen						
	2006						
	Japan	North America	Europe	Asia and Oceania	Total	Eliminations	Consolidated
External sales	¥102,330	¥30,245	¥7,275	¥7,911	¥147,761	¥ —	¥147,761
Intersegment sales	15,080	687	13	557	16,337	(16,337)	—
Net sales	117,410	30,932	7,288	8,468	164,098	(16,337)	147,761
Operating expenses	102,982	29,953	6,750	7,512	147,197	(13,266)	133,931
Operating income	¥ 14,428	¥ 979	¥ 538	¥ 956	¥ 16,901	¥ (3,071)	¥ 13,830
Total assets	¥117,956	¥20,404	¥4,903	¥5,975	¥149,238	¥ 49,220	¥198,458

	Thousands of U.S. Dollars						
	2007						
	Japan	North America	Europe	Asia and Oceania	Total	Eliminations	Consolidated
External sales	\$ 943,907	\$239,546	\$77,280	\$58,151	\$1,318,884	\$ —	\$1,318,884
Intersegment sales	126,454	4,929	136	5,707	137,226	(137,226)	—
Net sales	1,070,361	244,475	77,416	63,858	1,456,110	(137,226)	1,318,884
Operating expenses	936,743	233,458	70,252	54,458	1,294,911	(111,585)	1,183,326
Operating income	\$ 133,618	\$ 11,017	\$ 7,164	\$ 9,400	\$ 161,199	\$ (25,641)	\$ 135,558
Total assets	\$1,082,031	\$181,853	\$51,257	\$63,452	\$1,378,593	\$ 422,914	\$1,801,507

Each segment principally covers the following countries or regions:

- North America: U.S.A. and Canada
- Europe: The Netherlands and U.K.
- Asia and Oceania: Taiwan, People's Republic of China, Singapore, Thailand and Australia

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen				
	2007				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	¥28,830	¥9,866	¥16,119	¥3,443	¥ 58,258
Consolidated net sales					155,747
Overseas sales as a percentage of consolidated net sales	18.5%	6.3%	10.4%	2.2%	37.4%

	Millions of Yen				
	2006				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	¥31,148	¥7,944	¥13,927	¥491	¥ 53,510
Consolidated net sales					147,761
Overseas sales as a percentage of consolidated net sales	21.1%	5.4%	9.4%	0.3%	36.2%

	Thousands of U.S. Dollars				
	2007				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	\$244,136	\$83,546	\$136,498	\$29,156	\$ 493,336
Consolidated net sales					1,318,884

20. SUBSEQUENT EVENT

(a) The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2007, was approved at the annual general meeting of the shareholders held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends (¥4.0 = U.S.\$0.03 per share)	¥750	\$6,351

(b) At a meeting of the Board of Directors held on May 14, 2007, pursuant to the provision of Article 156 of the Corporation Law of Japan, a resolution for the acquisition of treasury stock was approved. Such acquisition was resolved and implemented as follows:

The reason for the acquisition of treasury stock was to have flexible management in order to adapt to changes in the Company's business environment.

1. Details of resolution

- (1) Type of shares to be acquired: Common stock
- (2) Number of shares to be acquired: 1,400,000 shares
- (3) Total amount of shares to be acquired: ¥1,200 million
- (4) Period of acquisition of shares: From May 15, 2007 to May 22, 2007

2. Details of acquisition

- (1) Acquisition date: May 16, 2007
- (2) Number of shares acquired: 1,361,000 shares
- (3) Amount of shares acquired: ¥1,032 millions

Report of Independent Auditors

The Board of Directors
TSUBAKIMOTO CHAIN CO.

We have audited the accompanying consolidated balance sheets of TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

June 28, 2007

Ernst & Young ShinNihon