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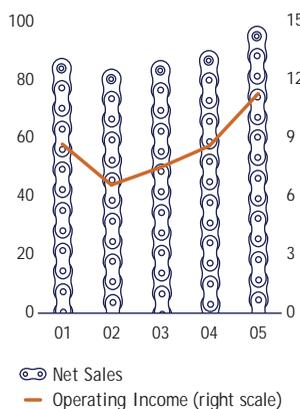
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FINANCIAL SECTION

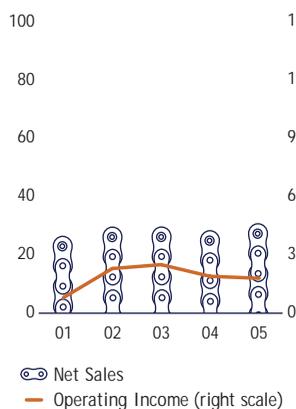
Tsubakimoto Chain Co. and Consolidated Subsidiaries

Years Ended March 31

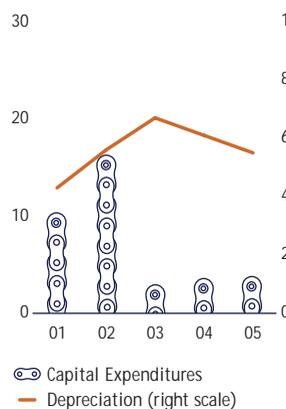
Net Sales and Operating Income
Power Transmission Products
Billion ¥



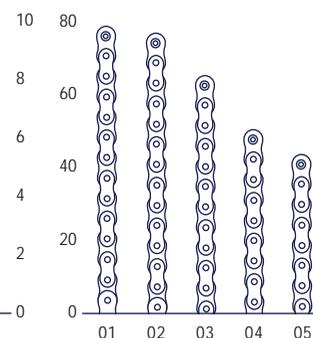
Net Sales and Operating Income
Materials Handling Systems
Billion ¥



Capital Expenditures and Depreciation
Billion ¥



Interest-Bearing Debt
Billion ¥



MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Business Segment Information

Years Ended March 31

	Millions of Yen			
	2005	2004	2003	% change
NET SALES TO CUSTOMERS:				
Power Transmission Products:				
Domestic Sales	¥ 63,012 (64.0)	¥ 57,127 (63.4)	¥ 54,244 (62.5)	+10.3
Overseas Sales	35,392 (36.0)	32,954 (36.6)	32,530 (37.5)	+7.4
Total	98,404 (100.0)	90,081 (100.0)	86,774 (100.0)	+9.2
Materials Handling Systems:				
Domestic Sales	23,638 (77.3)	21,867 (76.9)	22,605 (76.8)	+8.1
Overseas Sales	6,953 (22.7)	6,559 (23.1)	6,847 (23.2)	+6.0
Total	30,591 (100.0)	28,426 (100.0)	29,452 (100.0)	+7.6
Others	568	634	444	-10.4
TOTAL	¥129,563	¥119,141	¥116,670	+8.7
OPERATING INCOME:				
Power Transmission Products	¥ 11,263	¥ 8,630	¥ 7,526	+30.5
Materials Handling Systems	1,800	1,882	2,463	-4.4
Others	101	84	13	+20.2
Corporate and eliminations	(2,716)	(2,645)	(2,651)	—
TOTAL	¥ 10,448	¥ 7,951	¥ 7,351	+31.4

Review of Operations

POWER TRANSMISSION PRODUCTS

In the fiscal year ended March 31, 2005, with support from favorable capital investment in Japan and economic conditions in Asia, we recorded higher sales of chains, automotive parts, and power transmission units and components. As a result, sales of power transmission products rose 9.2%, to ¥98.4 billion. Each operational category also recorded higher profits, and operating income was up 30.5%, to ¥11.3 billion. On the other hand, conditions in North America remained challenging.

Chains

In chain operations, our high-value-added chains, such as steel chains for applications that require high durability and precision and plastic chains, offer world-leading quality and functionality.

In the year under review, private-sector capital investment in Japan improved in a wide range of industries, such as machine tools, shipbuilding, steel, and IT, and our operating environment was generally favorable. Especially strong sales growth was recorded by chains for the machine tools industry and lube-free, long-life Lambda® RS Roller Chains. Outside Japan, conditions were generally favorable in Asia and other regions. In North America, the high quality of Tsubakimoto Chain Group products is recognized; we received large orders from the construction machinery industry, and we expect further business from this industry in the future.

In North America, U.S. Tsubaki, Inc., was slow to recover lost orders, and increased prices for steel and other materials and the appreciation of the yen put pressure on profitability. However, in Japan we worked to offset the effects of higher steel costs by adjusting our prices and raising productivity, and we increased production at the Kyotanabe Plant. Overall, chain operations recorded higher profits. Subsidiaries, including Tsubakimoto Custom Chain Co., Tsubakimoto Machinery Co., and Tsubakimoto Europe B.V., made significant contributions to performance.

At the Kyotanabe Plant, which is our chief plant for industrial-use chains, in the year under review we introduced the cell manufacturing method to all 76 assembly lines. Through the synchronization of the assembly lines with component processing, we expect dramatic increases in productivity and reductions in inventories.

Automotive Parts

In the supply of timing chain drive systems and components, the Tsubakimoto Chain Group is a world leader as a result of the functionality and quality of its products as well as its complete system for backing up the rapid product development efforts of automakers.

In the year under review, with Japanese automakers rapidly increasing production overseas, Tsubakimoto Automotive (Shanghai) Co., Ltd., which we established in China in April 2004, began to supply products to Japanese automakers. With the addition of China to our Saitama Plant, in Japan, U.S. Tsubaki, in North America, Tsubakimoto Europe, in Europe, and Tsubakimoto Automotive (Thailand) Co., Ltd., in Thailand, we completed our five-point production system for timing chain drive systems, and we worked to bolster our production system at each of these sites. In the year under review, we supplied parts for the new engines of Japanese automakers and other major automakers around the world, and for the second consecutive year sales were a record high.

We also registered record high profits on a consolidated basis, but improving profitability at the four production sites outside of Japan was challenging. In response to this issue, we will bolster our efforts in construction equipment and improve production efficiency.

Power Transmission Units and Components

In power transmission units and components, Tsubaki Emerson Co. recorded higher sales of such products as reducers and linear actuators to the domestic machine tools, LCD-related equipment, and injection molding equipment industries, and sales of power transmission units and components recorded double-digit growth. We also achieved higher profits in all business units – reducers, motion control units, and clutches. The merger of Tsubakimoto Chain's power transmission units

and components operations and Tsubakimoto Emerson Co., Ltd., resulted in cost reductions and significant profit growth. Group companies, such as Tsubakimoto Sprocket Co. and Tsubaki Emerson Gear (Tianjin) Co., Ltd., also recorded higher sales and profits. Overseas, we were on track with clutch knockdown production in Europe and recorded favorable sales growth. In North America, we worked to rationalize our sprocket production and supply systems.

MATERIALS HANDLING SYSTEMS

In the year under review, solid results from a consolidated subsidiary offset a sluggish performance by parent company Tsubakimoto Chain, and sales rose 7.6%, to ¥30.6 billion. Achieving a profit in products for the automotive industry was challenging, and operating income was down 4.3%, to ¥1.8 billion.

In materials handling systems, Tsubakimoto Chain's core fields are the automotive, distribution, pharmaceutical, and newspaper industries. By concentrating our investment of resources on these fields, we have built solid market positions. In particular, our linear motor high-speed sorting systems for the distribution industry have garnered the top share of the domestic market, and our automotive body paint shop conveyor systems have also been highly evaluated. We have implemented fundamental restructuring measures in this business segment, and we are now building a flexible profit structure that can respond to changing trends in orders.

In the year under review, automatic roll paper feeding systems for the newspaper industry, one of our strengths, faced difficult conditions due to a decline in capital investment in that industry. However, we received large orders for high-speed automatic sorting systems for the distribution industry, for body paint shop conveyor systems for the automotive industry, and for book distribution products. In addition, contributions were made by chip conveyor systems for the machine tools industry and bulk conveyance systems for such materials as grain and feed. Sales increased on a consolidated basis.

A decline in orders from the newspaper industry and pressure on profits with products for the automotive industry resulted in lower operating income on both a consolidated basis and a nonconsolidated basis.

Financial Review

In the fiscal year ended March 31, 2005, the Tsubakimoto Chain Group recorded increased sales and profits for the third consecutive year. In addition to external factors, such as favorable economic conditions in Asia and robust capital investment in Japan, these results were also attributable to the Group's efforts to improve profitability with cost reductions and other measures and to reinforce the Company's financial position with reductions in interest-bearing debt.

Operating Environment

In the year under review, the Tsubakimoto Chain Group's operating environment was marked by strong exports and a high level of capital investment in a wide range of industries, such as the domestic automotive, machine tools, and IT industries. On the other hand, raw materials prices rose and there was cause for concern about the future course of the U.S. economy.

Income and Expenses

In the year under review, we recorded increases in net sales and profits for the third consecutive year.

Higher sales were recorded by chain, automotive parts, and power transmission units and components operations in the power transmission products business segment and by the materials handling systems business segment, and consolidated net sales increased 8.7%, to ¥129.6 billion.

The cost of sales rose 8.2%, to ¥94.6 billion. Higher raw materials costs and unprofitable orders in materials handling systems were offset by Groupwide price adjustments, and the cost of sales ratio declined 0.4 percentage points, to 73.0%. Gross profit was up 10.3%, to ¥34.9 billion.

Selling, general and administrative (SG&A) expenses rose 3.3%, to ¥24.5 billion, but due to the success of measures to improve productivity the ratio of SG&A expenses to net sales declined 1.0 percentage points, to 18.9%.

Operating income was up 31.4%, to ¥10.4 billion, while the operating margin rose 1.4 percentage points, to 8.1%.

In other income and expenses, fund efficiency was improved through the introduction of a cash management system, and interest-bearing debt was reduced. As a result, interest expense decreased to ¥1.2 billion, from ¥1.4 billion in the fiscal year ended March 2004. In the previous year,

extraordinary profit was recorded from the transition from a tax qualified pension plan to a defined contribution pension plan, but in the year under review there were no major extraordinary items. As a result, net extraordinary loss in the year under review was ¥0.3 billion, compared with net extraordinary profit of ¥0.3 billion in the previous year.

Income before income taxes and minority interests grew 31.5%, to ¥8.6 billion, and net income was up 31.5%, to ¥4.4 billion. The net margin was up to 3.4%, from 2.8% in the previous year.

Net income per share was up from ¥17.40 to ¥22.77, and return on equity (ROE) increased from 5.3% to 6.4%.

Cash Flows

Net cash provided by operating activities rose ¥1.7 billion, to ¥9.7 billion, due primarily to increases in income before income taxes and minority interests and trade notes and accounts payable. Depreciation was ¥5.5 billion, compared with ¥6.1 billion in the previous year.

Net cash used in investing activities was ¥2.5 billion, compared with net cash provided by investing activities of ¥9.1 billion in the previous year. Declines were recorded in payments for purchase of investments in securities and payments for purchase of property, plant and equipment. On the other hand, a decline was also recorded in proceeds from sales of property, plant and equipment.

Net cash used in financing activities for the year under review was ¥9.4 billion, compared with ¥15.5 billion in the previous year. We worked to reduce interest-bearing debt through continued repayment of loans from financial institutions and redemption of bonds.

Cash and cash equivalents at fiscal year-end were down ¥2.1 billion, to ¥11.6 billion.

Operating Risks

Financial Position

Total assets at year-end were up ¥3.8 billion, to ¥179.3 billion.

Trade notes and accounts receivable increased due to higher sales, and as a result total current assets rose ¥2.4 billion, to ¥72.1 billion.

Mainly due to the gain on valuation of investment in securities, investments and other assets increased ¥2.4 billion, to ¥31.7 billion.

Total current liabilities rose ¥5.4 billion, to ¥53.8 billion, due to higher trade notes and accounts payable and to higher short-term bank loans. The current ratio was 1.34, compared with 1.44 at the previous year-end. We continued to repay interest-bearing debt, which was down ¥6.9 billion at year-end, to ¥43.4 billion.

Total debt decreased ¥1.5 billion from the previous year-end, to ¥103.7 billion.

Total shareholders' equity climbed ¥4.8 billion, to ¥71.6 billion, due primarily to an increase in net unrealized holding gains on securities resulting from favorable stock market conditions and to an increase in net income in the year under review. As a result, the equity ratio rose to 40.0%, from 38.1%.

Dividend Policy

Tsubakimoto Chain considers the provision of a return to shareholders to be one of its most important management issues. The Company's policy has been to provide stable dividend payments. However, from the year under review, in addition to the stable dividends, the Company will use a dividend policy that also gives consideration to consolidated performance. In accordance with that policy, the Company raised the year-end dividend by ¥1.00 per share, to ¥4.00, which, combined with the interim dividend, resulted in an annual dividend of ¥7.00 per share.

As of June 30, 2005, the matters that could affect the judgment of investors include those outlined below.

(1) The Tsubakimoto Chain Group, which is conducting aggressive global development, works to reduce the influence of foreign exchange rate fluctuations to a minimal level by using foreign exchange forward agreements distributed among the time an order is received, the time the sale is recorded, and the time payment is received in the foreign currency. However, short-term, dramatic fluctuations in exchange rates could affect management performance.

(2) In chains for general industrial applications, accompanying the marketing in Japan of chains made in China, the Group may face price competition in the market for low-value-added products. Also, in materials handling systems, where competition for orders is intense, it may not be possible for the Company to avoid low-profitability orders, which could affect management performance.

(3) The Tsubakimoto Chain Group supplies parts for engines, such as timing chains and tensioners, to automakers in Japan and overseas. In the unlikely event of a natural disaster or man-made disaster at the Saitama Plant, the Company's main production base in Japan, it is possible that the Group would 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 an overseas production base in place of output from the Saitama Plant.

(4) Accompanying the global economic recovery, the price of steel has increased markedly, and the Group has been unable to avoid rising prices for the raw materials for its products and demand-supply pressure. In response to these cost increases, the Group is working to reduce the cost of sales by enhancing productivity and to revise selling prices. However, in the event that the price of steel continues to rise for a long period, the Group may be unable to offset the increased costs, and management performance could be affected.

(5) To expand sales in the Chinese market, which continues to grow, the Tsubakimoto Chain Group is accelerating operational expansion in China. 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, and management performance could be affected.

Eleven-Year Financial Summary

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

	2005	2004	2003	2002
Net sales	¥129,563	¥119,141	¥116,670	¥113,741
Operating income	10,448	7,951	7,351	6,038
Income (loss) before income taxes and minority interests	8,598	6,537	2,800	2,661
Net income (loss) – Basic	4,449	3,385	1,531	1,202
– Diluted	—	—	—	—
Net income (loss) per share (yen and dollars)	¥22.77	¥17.40	¥7.92	¥6.27
Interest expense:				
Net	¥ 1,161	¥ 1,363	¥ 1,636	¥ 1,585
Gross: Interest received	34	68	103	223
Interest paid	1,195	1,431	1,739	1,808
Capital expenditures	3,698	3,506	2,942	16,194
Depreciation	5,504	6,083	6,736	5,611
Total current assets	72,125	69,735	83,074	90,750
Total current liabilities	53,801	48,395	52,062	58,125
Property, plant and equipment, net	75,394	76,307	80,416	85,381
Total noncurrent liabilities	49,850	56,758	67,638	77,676
Total assets	179,263	175,432	183,260	201,555
Common stock	17,077	17,077	17,077	17,077
Retained earnings	39,344	36,199	33,975	33,500
Total shareholders' equity	71,634	66,873	60,307	62,674
Equity ratio (%)	40.0	38.1	32.9	31.1
Return on equity (%)	6.4	5.3	2.5	1.9
Debt-to-equity ratio (times)	0.61	0.75	1.08	1.22
Net cash provided by operating activities	¥ 9,673	¥ 7,995	¥ 12,020	¥ 7,709
Net cash provided by (used in) investing activities	(2,465)	9,068	(3,014)	(10,718)
Net cash provided by (used in) financing activities	(9,412)	(15,538)	(14,216)	(4,243)
Cash and cash equivalents at the end of the year	11,562	13,681	12,417	17,679
Number of shares outstanding at year-end (thousands)	191,406	191,406	191,406	191,406
Number of employees	4,765	4,709	4,871	4,916

Millions of Yen Except Per Share Data							Thousands of U.S. Dollars (Note 1)
2001	2000	1999	1998	1997	1996	1995	2005
¥114,206	¥106,281	¥110,919	¥128,298	¥127,231	¥110,424	¥101,670	\$1,207,258
6,962	2,705	2,358	6,435	6,374	4,329	234	97,354
226	2,725	(1,018)	5,508	5,931	3,649	179	80,116
465	1,218	(1,715)	2,709	3,280	1,796	(634)	41,455
—	—	—	—	—	—	—	—
¥2.42	¥6.36	¥(8.92)	¥14.08	¥17.04	¥9.33	¥(3.29)	\$0.212
¥ 1,666	¥ 1,577	¥ 1,163	¥ 1,172	¥ 1,073	¥ 1,063	¥ 951	\$ 10,818
284	162	263	323	385	492	835	317
1,950	1,739	1,426	1,495	1,458	1,555	1,786	11,135
10,251	32,487	5,157	15,050	5,680	4,759	4,290	34,458
4,321	4,444	4,620	4,790	4,783	4,837	5,165	51,286
93,984	83,143	72,541	81,622	80,929	77,995	63,452	672,056
65,374	50,080	47,256	62,224	58,349	62,312	45,902	501,314
82,179	76,352	48,249	48,837	38,331	36,904	37,709	702,516
74,066	67,474	27,397	18,710	21,847	16,849	19,966	464,499
208,877	184,468	137,691	147,668	145,268	141,863	127,893	1,670,360
17,077	17,077	17,077	17,077	17,075	17,068	17,066	159,122
33,480	34,020	31,943	35,260	33,791	31,682	31,060	366,605
66,463	63,750	61,673	64,989	63,516	61,392	60,768	667,480
31.8	34.6	44.8	44.0	43.7	43.3	47.5	
0.7	1.9	—	4.2	5.2	2.9	—	
1.18	1.16	0.73	0.64	0.62	0.60	0.57	
¥ 5,968	¥ 3,268	¥ 6,951	¥ 2,740	¥ 4,028	¥ 5,456	¥ 6,099	\$ 90,132
(10,834)	(28,755)	(4,527)	(4,475)	(4,663)	(4,245)	(3,975)	(22,969)
2,026	27,166	2,427	1,021	955	1,246	(1,196)	(87,700)
24,853	27,586	24,879	20,029	21,999	21,679	19,222	107,734
191,406	191,406	191,406	192,406	192,399	192,377	192,374	
5,237	5,440	5,368	5,720	5,789	5,844	5,829	

Consolidated Balance Sheets

Tsubakimoto Chain Co. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Current assets:			
Cash and cash equivalents	¥ 11,562	¥ 13,681	\$ 107,734
Marketable securities	43	97	400
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	411	50	3,830
Other	35,215	32,911	328,131
Inventories	21,287	20,193	198,351
Deferred income tax assets (Note 16)	2,058	1,830	19,176
Other:			
Unconsolidated subsidiaries and affiliates	116	141	1,081
Other current assets	1,707	1,129	15,906
Allowance for doubtful accounts	(274)	(297)	(2,553)
Total current assets	72,125	69,735	672,056
Property, plant and equipment (Note 9):			
Land (Note 11)	36,034	35,938	335,762
Buildings and structures	42,014	41,583	391,483
Machinery and equipment	74,217	72,653	691,549
Construction in progress	1,361	907	12,682
Less accumulated depreciation	(78,232)	(74,774)	(728,960)
Property, plant and equipment, net	75,394	76,307	702,516
Investments and other assets:			
Investment in securities:			
Unconsolidated subsidiaries and affiliates	278	459	2,590
Other	21,188	18,640	197,428
Investments in unconsolidated subsidiaries and affiliates	474	24	4,417
Long-term loans receivable	41	64	382
Deferred income tax assets (Note 16)	1,933	1,883	18,012
Deferred income tax assets on revaluation of land	2,113	2,113	19,689
Other assets (Note 9)	5,949	6,500	55,432
Allowance for doubtful accounts	(232)	(293)	(2,162)
Total investments and other assets	31,744	29,390	295,788
Total assets	¥179,263	¥175,432	\$1,670,360

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Current liabilities:			
Short-term bank loans and current portion of long-term debt (Note 9)	¥ 19,105	¥ 18,991	\$ 178,019
Trade notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	560	489	5,218
Other	20,936	17,395	195,080
Income taxes payable	2,330	1,697	21,711
Accrued expenses	4,237	3,763	39,480
Other	6,633	6,060	61,806
Total current liabilities	53,801	48,395	501,314
Noncurrent liabilities:			
Long-term debt (Note 9)	24,275	31,325	226,193
Accrued pension and severance cost (Note 15)	11,024	11,554	102,721
Deferred income tax liabilities (Note 16)	8,203	6,709	76,435
Other	6,348	7,170	59,150
Total noncurrent liabilities	49,850	56,758	464,499
Minority interests	3,978	3,406	37,067
Contingent liabilities (Note 10)			
Shareholders' equity (Note 13):			
Common stock:			
Authorized – 299,000,000 shares in 2005 and 2004			
Issued – 191,406,969 shares in 2005 and 2004	17,077	17,077	159,122
Capital surplus	12,653	12,653	117,900
Revaluation surplus (Note 11)	(3,091)	(3,091)	(28,802)
Retained earnings (Note 6)	39,344	36,199	366,605
Net unrealized holding gains on securities	8,591	7,066	80,050
Foreign currency translation adjustments	(1,575)	(2,003)	(14,676)
Total common stock	72,999	67,901	680,199
Treasury stock:			
3,794,043 shares in 2005 and 2,862,995 shares in 2004	(1,365)	(1,028)	(12,719)
Total shareholders' equity	71,634	66,873	667,480
Total liabilities and shareholders' equity	¥179,263	¥175,432	\$1,670,360

Consolidated Statements of Income

Tsubakimoto Chain Co. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Net sales (Note 17)	¥129,563	¥119,141	¥116,670	\$1,207,258
Cost of sales (Note 14)	94,630	87,477	85,064	881,755
Gross profit	34,933	31,664	31,606	325,503
Selling, general and administrative expenses (Note 14)	24,485	23,713	24,255	228,149
Operating income (Note 17)	10,448	7,951	7,351	97,354
Other income (expenses):				
Interest and dividend income	193	250	232	1,798
Interest expense	(1,195)	(1,431)	(1,739)	(11,135)
Equity in earnings of an affiliate	21	42	36	196
Foreign exchange loss	(163)	(284)	(265)	(1,519)
Other, net	(415)	(312)	(616)	(3,867)
Ordinary income	8,889	6,216	4,999	82,827
Extraordinary profit (losses):				
Loss on evaluation of investment securities	—	(42)	(1,908)	—
Net gain on the modification of retirement benefit plan	—	1,116	—	—
Loss on disposal of inventories	—	(664)	—	—
Other, net	(291)	(89)	(291)	(2,711)
Income before income taxes and minority interests	8,598	6,537	2,800	80,116
Income taxes (Note 16):				
Current	3,314	2,553	1,389	30,880
Deferred	159	237	(301)	1,482
Minority interests	(676)	(362)	(181)	(6,299)
Net income	¥ 4,449	¥ 3,385	¥ 1,531	\$ 41,455

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

Consolidated Statements of Shareholders' Equity

Tsubakimoto Chain Co. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Common stock:				
Balance at beginning of the year	¥17,077	¥17,077	¥17,077	\$159,122
Balance at end of the year	¥17,077	¥17,077	¥17,077	\$159,122
Capital surplus:				
Balance at beginning of the year	¥12,653	¥12,653	¥12,653	\$117,900
Profit on sale of treasury stock	0	0	—	0
Balance at end of the year	¥12,653	¥12,653	¥12,653	\$117,900
Revaluation surplus:				
Balance at beginning of the year	¥(3,091)	¥(3,097)	¥(3,015)	\$ (28,802)
Net changes during the year	—	6	(82)	—
Balance at end of the year	¥(3,091)	¥(3,091)	¥(3,097)	\$ (28,802)
Retained earnings:				
Balance at beginning of the year	¥36,199	¥33,975	¥33,500	\$337,300
Increase (decrease) in retained earnings, resulting from consolidation of additional subsidiaries	(73)	—	45	(680)
Increase in retained earnings, resulting from application of the equity method	—	—	58	—
Net income	4,449	3,385	1,531	41,455
Cash dividends paid	(1,130)	(1,132)	(1,141)	(10,529)
Bonuses to directors and corporate auditors	(101)	(29)	(22)	(941)
Reversal of revaluation surplus	—	—	4	—
Balance at end of the year	¥39,344	¥36,199	¥33,975	\$366,605
Unrealized holding gains (losses) on securities:				
Balance at beginning of the year	¥ 7,066	¥ 1,529	¥ 2,319	\$ 65,840
Net changes during the year	1,525	5,537	(790)	14,210
Balance at end of the year	¥ 8,591	¥ 7,066	¥ 1,529	\$ 80,050
Foreign currency translation adjustments:				
Balance at beginning of the year	¥(2,003)	¥ (865)	¥ 146	\$ (18,664)
Net changes during the year	428	(1,138)	(1,011)	3,988
Balance at end of the year	¥(1,575)	¥(2,003)	¥ (865)	\$ (14,676)
Treasury stock:				
Balance at beginning of the year	¥(1,028)	¥ (965)	¥ (6)	\$ (9,579)
Net changes during the year	(337)	(63)	(959)	(3,140)
Balance at end of the year	¥(1,365)	¥(1,028)	¥ (965)	\$ (12,719)

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

Consolidated Statements of Cash Flows

Tsubakimoto Chain Co. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 8,598	¥ 6,537	¥ 2,800	\$ 80,116
Adjustments for:				
Depreciation	5,504	6,083	6,736	51,286
Loss (gain) on sales of property, plant and equipment	(866)	243	93	(8,069)
Loss on valuation of investment in securities	—	42	1,908	—
Allowance for doubtful accounts, net	(85)	(216)	(134)	(792)
Increase (decrease) in accrued pension and severance cost	(568)	(6,087)	156	(5,293)
(Decrease) increase in account payable for transfer to differed contribution pension plan	(447)	4,692	—	(4,165)
Decrease (increase) in trade notes and accounts receivable	(2,380)	(4,132)	1,531	(22,177)
Decrease (increase) in inventories	(630)	2,223	325	(5,870)
Increase (decrease) in trade notes and accounts payable	3,168	1,052	(3,980)	29,519
Other	963	118	4,472	8,973
Sub total	13,257	10,555	13,907	123,528
Interest and dividend income received	209	311	225	1,947
Interest expenses paid	(1,210)	(1,440)	(1,748)	(11,275)
Income taxes paid	(2,583)	(1,431)	(364)	(24,068)
Net cash provided by operating activities	9,673	7,995	12,020	90,132
Cash flows from investing activities:				
Increase in time deposits (due after 3 months)	—	(9)	(108)	—
Decrease in time deposits (due after 3 months)	93	119	86	867
Payments for purchase of investments in securities	(192)	(2,049)	(7,827)	(1,789)
Proceeds from sales of investments in securities	188	8,107	9,557	1,752
Payments for purchase of investments in subsidiaries	(439)	(10)	(0)	(4,091)
Increase in long-term loans receivable	(48)	(36)	(111)	(447)
Decrease in long-term loans receivable	171	55	14	1,593
Payments for purchase of property, plant and equipment	(3,034)	(5,307)	(5,379)	(28,271)
Proceeds from sales of property, plant and equipment	796	8,104	754	7,417
Other	—	94	—	—
Net cash provided by (used in) investing activities	(2,465)	9,068	(3,014)	(22,969)
Cash flows from financing activities:				
Increase (decrease) in short-term bank loans, net	2,658	(6,463)	(8,499)	24,767
Proceeds from long-term loans	3,156	430	473	29,407
Repayment of long-term loans	(6,985)	(7,707)	(1,050)	(65,086)
Issuance of bonds	—	98	99	—
Payments on redemption of bonds	(6,200)	(100)	(2,585)	(57,771)
Payments on installment purchases	(456)	(527)	(412)	(4,249)
Cash dividends	(1,130)	(1,132)	(1,141)	(10,529)
Cash dividends for minority shareholders	(119)	(74)	(142)	(1,109)
Payments for purchase of treasury stock	(339)	(69)	(959)	(3,158)
Proceeds from sales of treasury stock	3	6	—	28
Net cash used in financing activities	(9,412)	(15,538)	(14,216)	(87,700)
Effect of exchange rate changes on cash and cash equivalents				
Net increase (decrease) in cash and cash equivalents	(2,131)	1,264	(5,314)	(19,857)
Cash and cash equivalents at the beginning of the year	13,681	12,417	17,679	127,479
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	12	—	52	112
Cash and cash equivalents at the end of the year	¥ 11,562	¥ 13,681	¥ 12,417	\$ 107,734

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 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 are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 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:

- Tsubaki Emerson Co.
- Tsubakimoto Custom Chain Co.
- Tsubakimoto Sprocket Co.
- Tsubakimoto Mayfran Inc.
- Tsubakimoto Bulk Systems Corporation
- Tsubakimoto Machinery Co.
- Tsubakimoto Nishinohon Co., Ltd.
- Hokkaido Tsubakimoto Chain Co., Ltd.
- Tsubakimoto Iron Casting Co., Ltd.
- Tsubaki Support Center Co.
- U.S. Tsubaki, Inc. (U.S.A.)
- Ballantine, Inc. (U.S.A.)
- Tsubaki of Canada Limited (Canada)
- Tsubakimoto Europe B.V. (Netherlands)
- Tsubakimoto U.K. Ltd. (U.K.)
- Taiwan Tsubakimoto Co. (Taiwan)
- Tsubakimoto Singapore Pte. Ltd. (Singapore)
- Tsubakimoto Automotive (Thailand) Co., Ltd. (Thailand)
- Tsubakimoto Thailand Co., Ltd. (Thailand)
- Tsubaki Australia Pty. Limited (Australia)
- Tsubaki Emerson Gear (Tianjin) Co., Ltd. (China)
- Tsubaki Conveyor of America, Inc. (U.S.A.)
- Korea Conveyor Ind. Co., Ltd. (Republic of Korea)

(c) Unconsolidated subsidiaries and affiliates

Investments in the affiliates over which the Company has the ability to exercise significant influence are accounted for using the equity method.

One affiliate, Tianjin Tsubakimoto Conveyor Systems Co., Ltd., (China) has been accounted for under the equity method in the consolidated financial statements.

Investments in 6 insignificant unconsolidated subsidiaries and 5 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 ¥107.32=\$1, the approximate exchange rate prevailing on March 31, 2005.

(e) Cash and cash equivalents

For the purposes of cash flows statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, net of overdrafts, and all highly liquid investments with original maturities of three months or less which present insignificant risk of changes in value.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial instruments

(1) Securities

Held-to-maturity debt securities are stated at their amortized cost adjusted for the amortization of premiums and the accretion of discount to maturity.

Marketable securities classified as other securities are carried at fair value as of the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. The cost of securities sold is primarily calculated by the moving-average method.

Non-marketable securities classified as other securities are stated at cost primarily determined by the moving-average method.

(2) Derivatives finance instruments

Derivative financial instruments are stated at fair value. Under the accounting standard for financial instruments, a gain or loss on derivatives designed 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 rates applied to the 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 same exchange rates those applied to the corresponding contracts.

The impact of the transfer of projected benefit obligation and pension assets under the tax qualified non-contributory defined benefit plan to the defined contribution pension plan at March 31, 2005, is as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Decrease in benefit obligation	¥800	\$7,454
Plan assets transferred to the defined contribution pension plan	(436)	(4,062)
Decrease in retirement benefits	364	3,392
Amount not yet transferred to the defined contribution pension plan	(365)	(3,401)
Net gain on the modification of retirement benefit plan	¥ —	\$ —

The total amount to be transferred to the defined contribution pension plan within eight years is ¥364 million (\$3,392 thousand), of which ¥45 million (\$419 thousand) is in other of current liabilities and ¥319 million (\$2,973 thousand) is included in other of noncurrent liabilities.

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Service cost	¥ 824	¥ 1,355	\$ 7,678
Interest cost	377	645	3,513
Expected return on plan assets	(99)	(157)	(922)
Net gain on the modification of retirement benefit plan	—	(1,116)	—
Amortization:			
Actuarial losses	193	434	1,798
Contribution of the defined contribution pension plan	312	—	2,907
Net periodic benefit cost	¥1,607	¥ 1,161	\$14,974

Assumptions used in calculation of above information for the years ended March 31, 2005 and 2004 are as follows:

Method of attributing benefits to period of service	Straight-line basis
Discount rate	2.5%
Expected rate of return on plan assets	2.5%
Amortization period for actuarial losses	10 years
Amortization period of prior service cost	1 year

16. 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 40.5% for the years ended March 31, 2005 and 2004. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2005 and 2004 are insignificant and not presented.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2005 and 2004, are presented below:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Deferred income tax assets:			
Accrued pension and severance cost	¥ 4,216	¥ 4,075	\$ 39,284
Transfer to defined contribution pension plan	1,725	1,905	16,074
Accrued bonuses	955	801	8,899
Allowance for doubtful accounts	142	131	1,323
Tax loss carryforwards	41	58	382
Loss on valuation of investment in securities	161	329	1,500
Impairment loss on deposits for golf club membership	139	159	1,295
Other	1,169	1,258	10,893
Total gross deferred income tax assets	8,548	8,716	79,650
Deferred income tax liabilities:			
Reserve for deduction entry of property replaced by purchase	(5,175)	(5,182)	(48,220)
Profit from valuation for the consolidation of capital account	(370)	(372)	(3,448)
Other	(7,215)	(6,158)	(67,229)
Total gross deferred income tax liabilities	(12,760)	(11,712)	(118,897)
Net deferred income tax liabilities	¥ (4,212)	¥ (2,996)	\$ (39,247)

(b) Inventories

Inventories are stated principally at cost, which is determined by the first-in, first-out (FIFO) method, by the specific identification method or by the moving-average cost method, except for the inventories of certain subsidiaries, which are valued at the lower of cost or market.

(c) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is computed mainly by the declining-balance method except for buildings for which the straight-line method is applied.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	4 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) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the actual ratio of bad debts in the past. Additionally, for accounts receivable considered at risk (bankruptcy, companies under rehabilitation plan), an allowance is booked based on an estimation of the uncollectible amount on a case-by-case basis.

(f) Accrued pension and severance costs

In order to provide for retirement benefits to be paid to employees, the amount considered to have accrued as at the end of the term is stated based on the estimated amount of retirement benefit obligations and pension plan assets as at the end of the term.

Prior service cost is charged to income as incurred.

Actuarial gain or loss is proportionally amortized in each year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

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

(g) Translation of foreign currencies

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.

Assets and liabilities of foreign subsidiaries and a company accounted for using the equity method 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. Shareholders' equity of foreign subsidiaries and a company accounted for using the equity method is translated into Japanese yen at the historical rates. The translation difference in Japanese yen amounts arising from the use of different rates are recognized as foreign currency translation adjustments in the balance sheets. Translation adjustments of foreign currency financial statements are reflected in shareholders' equity and minority interests in the consolidated balance sheets.

(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) Taxes

Accrued income taxes are stated at the estimated amount payable for corporation, enterprise, and inhabitant taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

3. DIFFERENCE BETWEEN COST AND NET EQUITY OF CONSOLIDATED SUBSIDIARIES

The difference between the cost and the underlying net equity in investments in consolidated subsidiaries and affiliates accounted for on an equity basis is allocated to identifiable assets based on their fair value at respective dates of acquisition. Unallocated costs are deferred and amortized by the straight-line method for less than 5 years.

4. FISCAL YEAR-END DIFFERENCES

BETWEEN THE COMPANY AND SUBSIDIARIES

Certain subsidiary results are reported in the consolidated financial statements using a December 31 or a January 31 year-end. Material differences in inter-company transactions and accounts arising from the use of different fiscal year-ends are approximately adjusted through consolidation procedures.

5. INTERCOMPANY TRANSACTIONS

All material intercompany balances and transactions, including unrealized profit in inventories and property, plant and equipment, have been eliminated on consolidation.

6. APPROPRIATIONS OF RETAINED EARNINGS

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

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Companies operate internationally, giving rise to exposure to market risks from fluctuations in foreign currency exchange and interest rates. In the normal course of its risk management efforts, the Companies use a variety of derivative financial instruments, which are comprised of foreign currency forward exchange contracts and interest rate swap agreements, to reduce its exposures. In accordance with the

Company's policy, these financial instruments are utilized solely for hedging purposes, and the Company does not hold or issue financial instruments for trading or speculation purposes.

The Companies have entered into foreign currency forward exchange contracts with banks as hedges against receivables and payables denominated in foreign currencies. As these foreign currency forward exchange contracts are utilized solely for hedging purposes, the resulting gains or losses are offset against foreign exchange gains or losses on the underlying hedged assets and liabilities.

Interest rate swap agreements are used to limit the Company's exposure to losses in relation to the corresponding interest expense of underlying debt from adverse fluctuations in interest rates. The related differentials to be paid or received under the interest rate swap agreements are recognized in interest expense over the terms of the agreements.

The Companies do not anticipate any credit loss from nonperformance by the counter-parties to foreign currency forward exchange contracts and interest rate swap agreements.

Since the derivative financial instruments of the Company are solely for hedging purposes, gains or losses arising from changes in fair value are deferred as an asset or liability to be offset against foreign exchange gains or losses on the underlying hedged assets and liabilities. Accordingly, the information relating to fair values is not applicable.

8. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

(a) Held-to-maturity debt securities with available fair value at March 31, 2005 and 2004 are as follows:

	Millions of Yen					
	2005			2004		
	Carrying amount	Unrealized gain (losses)	Estimated fair value	Carrying amount	Unrealized gain (losses)	Estimated fair value
Bonds	¥100	¥(6)	¥94	¥100	¥(8)	¥92

	Thousands of U.S. Dollars (Note 1)					
	2005			2004		
	Carrying amount	Unrealized gain (losses)	Estimated fair value	Carrying amount	Unrealized gain (losses)	Estimated fair value
Bonds	\$932	\$(56)	\$876	\$932	\$(75)	\$857

(b) Other securities with available fair value at March 31, 2005 and 2004 are as follows:

	Millions of Yen					
	2005			2004		
	cost	Carrying amount	Unrealized gain (losses)	cost	Carrying amount	Unrealized gain (losses)
Securities with unrealized gain:						
Equity securities	¥5,971	¥20,485	¥14,514	¥5,963	¥17,911	¥11,948
Debt securities	-	-	-	-	-	-
Other	-	-	-	100	100	0
Securities with unrealized loss:						
Equity securities	2	2	(0)	5	5	(0)
Debt securities	54	44	(10)	79	65	(14)
Other	179	164	(15)	227	205	(22)

	Thousands of U.S. Dollars (Note 1)					
	2005			2004		
	cost	Carrying amount	Unrealized gain (losses)	cost	Carrying amount	Unrealized gain (losses)
Securities with unrealized gain:						
Equity securities	\$55,637	\$190,878	\$135,241	\$55,563	\$166,893	\$111,331
Debt securities	-	-	-	-	-	-
Other	-	-	-	932	932	0
Securities with unrealized loss:						
Equity securities	19	19	(0)	47	47	(0)
Debt securities	503	410	(93)	736	606	(130)
Other	1,668	1,528	(140)	2,115	1,910	(205)

(C) The realized gains and losses on sale of other securities during the year ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2005	2004	2005	2004
Selling amount	¥176	¥1,503	\$1,640	\$14,005
Gain on sales of securities	5	310	47	2,889
Loss on sales of securities	(8)	(74)	(75)	(690)

(d) The carrying amounts of other securities which were not practicable to determine fair value at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2005	2004	2005	2004
Debt investment in funds	¥1,532	¥2,432	\$14,275	\$22,661
Equity investment in unlisted companies	398	284	3,709	2,646
Unquoted foreign bonds	450	390	4,193	3,634

(e) Redemption schedules for debt securities with maturity dates at March 31, 2005 and 2004 are as follows:

	Millions of Yen			
	2005			
	Due within one year	Due after one year, within five years	Due after five year, within ten years	Due after more than ten years
Debt securities				
Debt securities	¥44	¥-	¥-	¥100
Others	-	-	-	-
	Millions of Yen			
	2004			
	Due within one year	Due after one year, within five years	Due after five year, within ten years	Due after more than ten years
Debt securities				
Debt securities	¥412	¥42	¥1	¥100
Others	142	-	-	-
	Thousands of U.S. Dollars (Note 1)			
	2005			
	Due within one year	Due after one year, within five years	Due after five year, within ten years	Due after more than ten years
Debt securities				
Debt securities	\$410	\$-	\$-	\$932
Others	-	-	-	-

	2004			
	Due within one year	Due after one year, within five years	Due after five year, within ten years	Due after more than ten years
Debt securities				
Debt securities	\$3,839	\$391	\$9	\$932
Others	1,323	-	-	-

9. SHORT-TERM LOAN AND LONG-TERM DEBT

Short-term loans at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Loans, principally from banks and insurance companies with weighted average interest rates of 1.7% at March 31, 2005 and 2.3% at March 31, 2004			
Secured	¥ 6,122	¥ 6,115	\$ 57,044
Unsecured	3,787	360	35,287
Total	¥ 9,909	¥ 6,975	\$ 92,331

Long-term loans at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Loans, principally from banks and insurance companies with weighted average interest rates of 2.3% at March 31, 2005 and 2.3% at March 31, 2004			
Secured	¥13,142	¥19,183	\$122,456
Unsecured	17,629	15,258	164,266
Secured 2.3% bonds due 2007	800	800	7,454
Secured 0.73% to 1.2% bonds due 2005	100	100	932
Unsecured 2.4% bonds due 2005	1,600	1,600	14,909
Unsecured 2.3% due 2005	-	6,200	-
Unsecured 0.38% to 0.44% bonds due 2007	200	200	1,863
	33,471	43,341	311,880
Less amounts due with in one year	9,196	12,016	85,687
Total	¥24,275	¥31,325	\$226,193

The aggregate maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars (Note 1)
2006	¥ 9,196	\$ 85,687
2007	7,967	74,236
2008	2,213	20,621
2009	2,213	20,621
2010	8,698	81,047
and thereafter	3,184	29,668
Total	¥33,471	\$311,880

At March 31, 2005 and 2004, the following assets were pledged as collateral for bank loans and long-term debt:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Property, plant and equipment	¥56,321	¥57,803	\$524,795
Other noncurrent items	63	63	587
	¥56,384	¥57,866	\$525,382

10. CONTINGENT LIABILITIES

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥2,147 million (\$20,006 thousand) and ¥2,847 million at March 31, 2005 and 2004, respectively.

11. REVALUATION OF LAND

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

The difference between the fair value at March 31, 2005 and the book value after the revaluation at March 31, 2005, is as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2005	2005
Fair value at March 31, 2005	¥22,189	\$206,755
Book value after the revaluation at March 31, 2005	31,494	293,458
Difference	¥ 9,305	\$ 86,703

12. PER SHARE AMOUNTS

	Yen	U.S. Dollars (Note 1)
	2005	2004
Shareholders' equity per share	¥380.91	\$3.549
Net income per share – Basic	22.77	17.40
– Diluted	—	—

The diluted net income per share is not presented, because the Company does not have convertible bonds or bonds with warrants.

The basic financial data for the computation of basic net income per share for the year ended March 31, 2005, is as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Information on basic net income:		
Net income	¥4,449	\$41,455
Deduction from net income:		
Bonuses to directors and statutory auditors	170	1,584
Adjusted net income allocated in common stock	4,279	39,871
Weighted average number of shares of common stock outstanding during 2005	187,889,323 shares	

13. SHAREHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") requires the Company to transfer an amount equal to at least 10% of appropriations paid in cash to the 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 capital surplus in excess of 25% of common stock, subject to shareholders' approval, may be used for dividend distributions.

14. RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to income as incurred. Research and development costs are included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2005 and 2004 are ¥2,215 million (\$20,639 thousand) and ¥1,092 million, respectively.

15. ACCRUED PENSION AND SEVERANCE COSTS

The Company has established a lump-sum severance indemnity, a defined contribution pension plan and a non-contributory defined benefit plan. Additional benefits may be granted to employees depending on the conditions under which termination occurs.

The subsidiaries in Japan have established approved retirement annuity systems and lump-sum severance indemnities as defined benefit plans. Additional benefits may be granted to employees depending on the conditions under which termination occurs.

The following table sets forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2005 and 2004:

	Thousands of U.S. Dollars (Note 1)		
	Millions of Yen		
	2005	2004	2005
Benefit obligation at end of year	¥(16,078)	¥(17,652)	\$(149,814)
Fair value of plan assets at end of year	3,748	4,640	34,924
Funded status:			
Benefit obligation in excess of plan assets	(12,330)	(13,012)	(114,890)
Unrecognized actuarial loss	1,306	1,458	12,169
Accrued pension liability recognized in the consolidated balance sheets	(11,024)	(11,554)	(102,721)

Note: Certain domestic subsidiaries have adopted allowed alternative treatment of the Accounting Standards for Retirement Benefits for Small Business Entities.

On April 1, 2005, 5 subsidiaries in Japan adopted a defined contribution pension plan.

These 5 subsidiaries in Japan adopted Financial Accounting Standards Implementation Guidance No. 1, "Accounting for Transfers between Retirement Benefit Plans" issued by the Accounting Standards Board of Japan on January 31, 2002.

17. SEGMENT INFORMATION

Information by business segment and geographical segment for the years ended March 31, 2005, 2004 and 2003, is as follows:

(A) BUSINESS SEGMENT	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Net sales:				
Power transmission products:				
Customers	¥ 98,404	¥ 90,081	¥ 86,774	\$ 916,921
Intersegment	1,383	1,371	1,383	12,887
Total	99,787	91,452	88,157	929,808
Materials handling systems:				
Customers	30,592	28,426	29,452	285,054
Intersegment	82	123	111	764
Total	30,674	28,549	29,563	285,818
Others:				
Customers	568	634	444	5,292
Intersegment	1,783	1,836	847	16,614
Total	2,351	2,470	1,291	21,906
Eliminations	(3,249)	(3,330)	(2,341)	(30,274)
Consolidated total	¥129,563	¥119,141	¥116,670	\$1,207,258
Operating income (loss):				
Power transmission products	¥ 11,263	¥ 8,630	¥ 7,526	\$ 104,948
Materials handling systems	1,800	1,882	2,463	16,772
Others	101	84	13	941
Corporate and eliminations	(2,716)	(2,645)	(2,651)	(25,307)
Consolidated total	¥ 10,448	¥ 7,951	¥ 7,351	\$ 97,354
Total assets:				
Power transmission products	¥112,608	¥115,011	¥124,213	\$1,049,273
Materials handling systems	24,406	21,955	23,986	227,413
Others	1,750	2,393	2,216	16,307
Corporate and eliminations	40,499	36,073	32,845	377,367
Consolidated total	¥179,263	¥175,432	¥183,260	\$1,670,360
Depreciation:				
Power transmission products	¥ 4,795	¥ 5,324	¥ 5,891	\$ 44,679
Materials handling systems	370	409	456	3,448
Others	6	6	12	56
Corporate and eliminations	333	344	377	3,103
Consolidated total	¥ 5,504	¥ 6,083	¥ 6,736	\$ 51,286
Capital expenditures:				
Power transmission products	¥ 3,125	¥ 3,148	¥ 2,635	\$ 29,118
Materials handling systems	295	182	222	2,749
Others	18	14	8	168
Corporate and eliminations	260	162	77	2,423
Consolidated total	¥ 3,698	¥ 3,506	¥ 2,942	\$ 34,458

(B) GEOGRAPHICAL SEGMENT	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Net sales:				
Japan:				
Customers	¥ 93,820	¥ 84,840	¥ 81,768	\$ 874,208
Intersegment	10,504	9,608	9,921	97,875
Total	104,324	94,448	91,689	972,083
North America:				
Customers	22,090	23,291	25,965	205,833
Intersegment	350	253	213	3,261
Total	22,440	23,544	26,178	209,094
Europe:				
Customers	5,718	4,719	3,811	53,280
Intersegment	0	4	4	0
Total	5,718	4,723	3,815	53,280
Asia and Oceania:				
Customers	7,936	6,292	5,126	73,947
Intersegment	534	526	685	4,976
Total	8,470	6,818	5,811	78,923
Eliminations	(11,389)	(10,392)	(10,823)	(106,121)
Consolidated total	¥129,563	¥119,141	¥116,670	\$1,207,258
Operating income:				
Japan	¥ 11,419	¥ 8,385	¥ 7,938	\$ 106,401
North America	619	865	951	5,768
Europe	423	340	329	3,942
Asia and Oceania	858	795	479	7,995
Corporate and eliminations	(2,871)	(2,434)	(2,346)	(26,752)
Consolidated total	¥ 10,448	¥ 7,951	¥ 7,351	\$ 97,354
Total assets:				
Japan	¥112,243	¥113,927	¥122,001	\$1,045,872
North America	17,477	18,085	22,351	162,849
Europe	4,573	4,103	3,505	42,611
Asia and Oceania	7,783	6,585	6,491	72,522
Corporate and eliminations	37,187	32,732	28,912	346,506
Consolidated total	¥179,263	¥175,432	¥183,260	\$1,670,360

Major countries and areas included in each geographic segment are as follows:

North America: United States, Canada

Europe: Netherlands, United Kingdom

Asia and Oceania: Taiwan, People's Republic of China, Korea, Singapore, Thailand, Australia

18. INFORMATION FOR CERTAIN LEASES

The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases as of March 31, 2005 is as follows:

	Millions of Yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥1,418	¥ 897	¥521
Others	452	217	235
Total	¥1,870	¥1,114	¥756

	Thousands of U.S. Dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	\$13,213	\$ 8,358	\$4,855
Others	4,212	2,022	2,190
Total	\$17,425	\$10,380	\$7,045

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥445 million (\$4,146 thousand) and ¥551 million (\$5,134 thousand) for the years ended March 31, 2005 and 2004, respectively.

Future lease payments as of March 31, 2005 and 2004, inclusive of interest under such leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Due within one year	¥340	¥408	\$3,168
Due after one year	416	552	3,876
Total	¥756	¥960	\$7,044

19. SUBSEQUENT EVENT

1. On June 29, 2005, the shareholders of the Company approved payment of a cash dividend of ¥4 (\$0.04) per share or a total of ¥750 million (\$6,988 thousand) to shareholders of record as of March 31, 2005. In addition, a payment of bonuses to directors was approved which is amount to ¥84 million(\$782 thousand).

2. On June 29, 2005, the Company resolved the issuance of unsecured domestic yen bonds in accordance with the approval of the Company's Board of Directors' meeting.

The general description is as follows:

Issue amount: ¥7,000 million (\$65,225 thousand) par value

Issue period: During from July 1, 2005 to September 22, 2005

Redemption period: 5 years to 7 years

Interest: less or equal to 1.80% p.a.

Purposes: repayments of borrowings, repayments of bonds and operating capital

The Company has left detail of the conditions to the discretion of the Company's president and representative director.

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the three years ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the three years ended March 31, 2005, 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, 2005 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 (d).

Ernst & Young ShinNihon

Ernst & Young ShinNihon

Osaka, Japan
June 30, 2005