

# TOHO RAYON CO., LTD.

and Consolidated Subsidiaries

## FINANCIAL STATEMENTS

### 2000

Year ended March 31, 2000

### Financial Highlights

(TOHO RAYON CO., LTD. and Consolidated Subsidiaries, years ended March 31)

	Millions of yen		Thousands of U.S. dollars (Note)	
	2000	1999	2000	
Net Sales .....	¥ 41,686	¥ 51,348	\$ 392,708	
Net Loss .....	568	4,500	5,351	
Stockholders' Equity .....	16,647	16,900	156,825	
Per Share:	Yen		U.S. dollars	
Net Loss .....	¥ 4.01	¥ 37.30	\$ 0.04	
Stockholders' Equity .....	117.41	119.20	1.11	

Note: The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥106.15 = US\$1. See Note 1 of Notes to Consolidated Financial Statements.

**CONSOLIDATED BALANCE SHEETS**

March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 2) .....	¥ 4,951	¥ 12,440	\$ 46,642
Marketable securities (Note 7).....	22	765	207
Notes and accounts receivable, trade .....	11,025	12,912	103,862
Less allowance for doubtful accounts .....	(247)	(269)	(2,327)
	<b>10,778</b>	<b>12,643</b>	<b>101,535</b>
Inventories (Note 3) .....	12,482	11,761	117,588
Deferred income taxes (Note 9) .....	40	9	377
Other current assets .....	706	1,421	6,651
TOTAL CURRENT ASSETS .....	<b>28,979</b>	<b>39,039</b>	<b>273,000</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 4):</b>			
Land.....	1,643	1,650	15,478
Buildings and structures .....	6,672	7,280	62,854
Machinery and equipment.....	9,580	10,421	90,250
Construction in progress .....	1,040	418	9,798
Other .....	253	268	2,384
NET PROPERTY, PLANT AND EQUIPMENT .....	<b>19,188</b>	<b>20,037</b>	<b>180,764</b>
<b>OTHER ASSETS:</b>			
Investments in securities (Note 7) .....	2,984	2,244	28,111
Long-term accounts receivable.....	42	4,840	396
Other .....	707	999	6,660
Less allowance for doubtful accounts .....	(166)	(4,951)	(1,564)
	<b>583</b>	<b>888</b>	<b>5,492</b>
Deferred income taxes (Note 9) .....	310	—	2,920
Foreign currency translation adjustments .....	774	21	7,292
TOTAL OTHER ASSETS .....	<b>4,651</b>	<b>3,153</b>	<b>43,815</b>
	<b>¥ 52,818</b>	<b>¥ 62,229</b>	<b>\$ 497,579</b>

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

	Millions of yen		Thousands of
	2000	1999	U.S. dollars (Note 1)
			2000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans and current maturities of long-term debt (Note 4).....	¥ 20,639	¥ 26,557	\$ 194,432
Notes and accounts payable, trade .....	7,524	7,560	70,881
Income taxes payable .....	164	182	1,545
Deferred income taxes (Note 9) .....	2	—	19
Accrued expenses and other current liabilities .....	1,779	2,837	16,759
TOTAL CURRENT LIABILITIES .....	<b>30,108</b>	37,136	<b>283,636</b>
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES (Note 4).....</b>	<b>3,874</b>	5,643	<b>36,496</b>
<b>RETIREMENT BENEFITS .....</b>	<b>2,000</b>	2,038	<b>18,841</b>
<b>OTHER LIABILITIES .....</b>	<b>189</b>	50	<b>1,781</b>
TOTAL LIABILITIES .....	<b>36,171</b>	44,867	<b>340,754</b>
<b>MINORITY INTERESTS .....</b>	—	462	—
<b>CONTINGENCIES AND COMMITMENTS (Notes 5 and 6)</b>			
<b>STOCKHOLDERS' EQUITY:</b>			
Common stock, ¥50 par value -			
Shares authorized, 200,000,000;			
Issued, 141,786,738 shares .....	13,065	13,065	123,081
Additional paid-in capital .....	5,229	9,943	49,260
Accumulated deficits .....	(1,647)	(6,108)	(15,516)
TOTAL STOCKHOLDERS' EQUITY .....	<b>16,647</b>	16,900	<b>156,825</b>
	<b>¥ 52,818</b>	¥ 62,229	<b>\$ 497,759</b>

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>NET SALES (Note 10)</b> .....	¥ 41,686	¥ 51,348	\$ 392,708
<b>COST OF SALES</b> .....	34,777	42,214	327,621
Gross profit .....	6,909	9,134	65,087
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> .....	6,499	7,482	61,225
Operating income .....	410	1,652	3,862
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income .....	84	77	791
Interest expenses .....	(632)	(717)	(5,954)
Gain (Loss) on revaluation of equity securities .....	187	(339)	1,762
Gain (Loss) on sale of equity securities .....	84	(35)	791
Gain (Loss) on sale of property, plant and equipment .....	(12)	1,274	(113)
Bad debt expenses .....	—	(339)	—
Write-down of inventories .....	(259)	—	(2,440)
Restructuring costs .....	—	(4,922)	—
Reversal of allowance for doubtful accounts .....	110	—	1,036
Loss on devaluation of other assets .....	(79)	—	(744)
Amortization of deferred assets .....	—	(369)	—
Other, net .....	(196)	(276)	(1,845)
	(713)	(5,646)	(6,716)
Loss before income taxes and minority interests in earnings of subsidiaries .....	(303)	(3,994)	(2,854)
<b>INCOME TAXES:</b>			
Current .....	289	464	2,723
Deferred .....	(23)	0	(217)
Loss before minority interests .....	(569)	(4,458)	(5,360)
<b>MINORITY INTERESTS IN LOSSES (EARNINGS) OF SUBSIDIARIES</b> .....	1	(42)	9
<b>Net loss</b> .....	¥ (568)	¥ (4,500)	\$ (5,351)
<b>NET LOSS PER SHARE:</b> .....	¥ (4.0)	¥ (37.3)	\$ (0.04)

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

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years ended March 31, 2000 and 1999

	2000		1999	
<b>COMMON STOCK:</b>				
Number of shares (Thousands)				
Balance at beginning of year .....	<b>141,787</b>		91,787	
Issuance of common stock .....	—		50,000	
Balance at end of year .....	<b>141,787</b>		141,787	
Amount				
	Millions of yen		Thousands of U.S. dollars (Note 1)	
	<b>2000</b>		1999	
Balance at beginning of year .....	¥ <b>13,065</b>	¥ 9,065	\$ <b>123,081</b>	
Issuance of common stock .....	—	4,000	—	
Balance at end of year .....	¥ <b>13,065</b>	¥ 13,065	\$ <b>123,081</b>	
<b>ADDITIONAL PAID-IN CAPITAL:</b>				
Balance at beginning of year .....	¥ <b>9,943</b>	¥ 5,943	\$ <b>93,669</b>	
Issuance of common stock .....	—	4,000	—	
Amount transferred to accumulated deficits .....	<b>(4,714)</b>	—	<b>(44,409)</b>	
Balance at end of year .....	¥ <b>5,229</b>	¥ 9,943	\$ <b>49,260</b>	
<b>ACCUMULATED DEFICITS:</b>				
Balance at beginning of year .....	¥ <b>(6,108)</b>	¥ (1,605)	\$ <b>(57,541)</b>	
Cumulative effect of adopting deferred income tax accounting .....	<b>318</b>	—	<b>2,996</b>	
Net loss for the year .....	<b>(568)</b>	(4,500)	<b>(5,351)</b>	
Transfer from additional paid-in capital .....	<b>4,714</b>	—	<b>44,409</b>	
Bonuses paid to directors and corporate statutory auditors .....	<b>(3)</b>	(3)	<b>(29)</b>	
Balance at end of year .....	¥ <b>(1,647)</b>	¥ (6,108)	\$ <b>(15,516)</b>	

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Loss before income taxes and minority interests			
in losses (earnings) of subsidiaries .....	¥ (303)	¥ (3,994)	\$ (2,854)
Depreciation and amortization.....	2,918	3,677	27,489
Interest and dividend income .....	(84)	(77)	(791)
Interest expense .....	632	717	5,954
(Gain) Loss on revaluation of equity securities .....	(187)	339	(1,762)
(Gain) Loss on sales of equity securities.....	(84)	35	(791)
(Gain) Loss on sale of property, plant and equipment .....	12	(1,274)	113
Bad debt expenses .....	—	339	—
Write-down of inventories .....	259	—	2,440
Restructuring costs of plants.....	—	2,491	—
Reversal of allowance for doubtful accounts .....	(110)	—	(1,036)
Loss on devaluation of other assets .....	79	—	744
Amortization of deferred assets.....	—	369	—
Bonuses paid to directors and corporate statutory auditors.....	(3)	(3)	(28)
Net changes in operating assets and liabilities:			
Decrease in notes and accounts receivable .....	1,887	3,821	17,777
(Increase) Decrease in inventories .....	(1,337)	998	(12,595)
(Increase) Decrease in other current assets .....	749	(536)	7,056
(Decrease) Increase in notes and accounts payable .....	114	(3,029)	1,074
(Decrease) Increase in accrued expenses and other current liabilities .....	(1,089)	517	(10,259)
Decrease in retirement benefits.....	(38)	(589)	(358)
Decrease in other long-term liabilities .....	—	(519)	—
Decrease in minority interests .....	—	(20)	—
Other, net .....	21	—	196
Subtotal .....	3,436	3,262	32,369
Interest and dividend received .....	84	77	791
Interest expense paid .....	(633)	(714)	(5,963)
Income taxes paid .....	(306)	(473)	(2,883)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>	<b>2,581</b>	<b>2,152</b>	<b>24,314</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment .....	(2,789)	(4,828)	(26,274)
Proceeds from sale of property, plant and equipment .....	112	6,437	1,055
(Increase) Decrease in equity securities.....	108	(3)	1,017
(Increase) Decrease in long-term accounts receivable and other .....	113	(25)	1,065
<b>NET CASH PROVIDED BY (USED IN ) INVESTING ACTIVITIES .....</b>	<b>(2,456)</b>	<b>1,581</b>	<b>(23,137)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans .....	(4,832)	(2,666)	(45,520)
Proceeds from long-term debt.....	974	3,310	9,176
Repayment of long-term debt .....	(3,501)	(3,259)	(32,982)
Proceeds from issuance of common stock .....	—	8,000	—
<b>NET CASH PROVIDED BY (USED IN ) FINANCING ACTIVITIES.....</b>	<b>(7,359)</b>	<b>5,385</b>	<b>(69,326)</b>
<b>Losses from translation of cash and cash equivalents .....</b>	<b>(255)</b>	<b>(21)</b>	<b>(2,402)</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS .....</b>	<b>(7,489)</b>	<b>9,097</b>	<b>(70,551)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....</b>	<b>12,440</b>	<b>3,343</b>	<b>117,193</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 2) .....</b>	<b>¥ 4,951</b>	<b>¥ 12,440</b>	<b>\$ 46,642</b>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended March 31, 2000 and 1999

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****BASIS OF PRESENTATING CONSOLIDATED FINANCIAL STATEMENTS**

Toho Rayon Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated cash flow statements for 1999 and the consolidated statements of stockholders' equity have been prepared for the purpose of inclusion in the consolidated financial statements, although they were not prepared for domestic purposes and not filed with MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

**CONSOLIDATION**

The consolidated financial statements included the accounts of the Company and subsidiaries. All significant intercompany balances, transactions and unrealized intercompany profits have been eliminated in the consolidated financial statements. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded at the fair value at the time the Company acquired control of the respective subsidiaries.

The number of consolidated subsidiaries at March 31, 2000 and 1999 were as follows:

	<u>2000</u>	<u>1999</u>
Consolidated subsidiaries	13	13

The consolidated financial statements include the accounts of the Company and substantially all of its subsidiaries.

Effective for the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. Previously, only majority-owned companies were required to be consolidated. There was no effect of applying this rule to the Company's consolidated financial statements.

Investments in affiliates are carried at cost (adjusted for any substantial and non-recoverable decline in value), because the effect on net loss of applying equity method to those investments is immaterial to the consolidated financial statements.

Effective for the year ended March 31, 2000, all companies are required to account for investments using the equity method in all significant affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned). Previously, only investments in companies of which the Company owned 20% to 50% of the voting rights and had the ability to significantly influence financial, operational or business policies were accounted for using the equity method. There was no effect of applying this rule to the Company's consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc.", effective from the year ended March 31, 2000, the Company is required to prepare consolidated cash flow statements. The prior year's consolidated cash flow statement, which was prepared for readers outside Japan although such statement was not required, has been restated to conform to the 2000 presentation.

**STOCKHOLDERS' EQUITY**

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the pay value thereof, is required to be credited to common stock. The portion which is to be credited to common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock are credited to additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Code.

**FOREIGN STATEMENTS**

The financial statements of foreign subsidiaries are translated into Japanese yen on the basis of the period-end rates for assets, liabilities, income, expenses and net income for each period, and using historical rates for common stock and addi-

tional paid-in capital. Differences arising from translation were included in Foreign currency translation adjustments in the accompanying consolidated balance sheets.

#### **CONVERSION OF FOREIGN CURRENCIES**

Foreign currency amounts are converted into Japanese yen on the basis of the year-end rate for current receivables and payables, and at the historical rates for non-current items. In the case of significant fluctuation of exchange rates during any period, however, long-term receivables are converted at the year-end rate. Gains or losses resulting from exchange adjustments are credited or charged to income as incurred.

#### **ALLOWANCE FOR DOUBTFUL ACCOUNTS**

For the Company and its consolidated domestic subsidiaries, allowance for bad debts for notes and accounts receivable, including advances and loans receivable, are provided for individual amounts deemed to be uncollectible plus the maximum amount allowed under the Japanese Corporate Income Tax Law. Consolidated foreign subsidiaries provide the allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and by applying the rate of actual collection losses to the remaining receivables.

#### **MARKETABLE SECURITIES, INVESTMENTS IN SECURITIES**

Securities that have listed market prices are valued at their cost determined primarily using the moving-average method or at their listed stock exchange price at the end of the year, whichever is lower. All other investments are stated at moving-average cost adjusted for any substantial and non-recoverable decline in value.

Marketable securities are classified as current or non-current assets depending upon management's investment objectives.

#### **INVENTORIES**

Inventories are primarily valued at the lower of cost or market. Cost is determined by the moving-average method

#### **PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**

Property, plant and equipment are carried at cost. Depreciation is computed using primarily the declining-balance method for domestic companies and the straight-line method for foreign subsidiaries. The Company and its domestic subsidiaries depreciate buildings acquired after March 31, 1998 using the straight-line method.

#### **FINANCE LEASES**

Finance leases, except those leases for which the ownership of the leased assets is transferred to the lessees at the end of the lease term, are accounted for in the same manner as operating leases.

#### **STOCK ISSUANCE EXPENSES**

Expenses incurred for issuing stocks are charged to income

as incurred.

#### **RESEARCH AND DEVELOPMENT COSTS**

Effective April 1, 1998, the Company changed the method of accounting for research and development costs and adopted the policy to charge such costs to operations when they are incurred since relations between research and development activities and their contributions to sales are not clear.

#### **RETIREMENT BENEFITS**

Employees terminating their employment with the Company and consolidated domestic subsidiaries on retirement or otherwise are entitled, in most circumstances, to a lump sum severance and annuity payments based on current rates of pay, length of service and certain other factors.

Three consolidated domestic subsidiaries provide for 100% of the liabilities for retirement benefits computed based on the assumption that all employees terminated their employment at the balance sheet date. The Company and the other domestic subsidiaries provide for 40% of the liabilities for retirement benefits computed based on the assumption that all employees terminated their employment at the balance sheet date. Certain overseas consolidated subsidiaries provide for such liabilities calculated by the actuarial method.

For directors and corporate statutory auditors, the Company and its two domestic subsidiaries provide for 100% of the liabilities for the estimated retirement benefits that would be payable at the end of each year in accordance with the internal rules. The amounts of those liabilities, which are included in an account of retirement benefits in the consolidated balance sheets, were ¥165 million (\$1,554 thousand) and ¥148 million at March 31, 2000 and 1999, respectively.

Most employees of the Company and consolidated domestic subsidiaries are covered by a non-contributory trustee pension plan. Unamortized past service costs under the plan amounted to ¥2,545 million (\$23,976 thousand) at September 30, 1999, which is currently being amortized on a straight-line basis over twelve years.

#### **ACCRUED EMPLOYEES' BONUSES**

Effective April 1, 1998, the Company and its consolidated domestic subsidiaries ("domestic companies") accrued the estimated amounts of employees' bonus based on estimated amounts to be paid in the subsequent period.

#### **INCOME TAXES**

Domestic companies provided income taxes at the amounts currently payable for the year ended March 31, 1999. Effective April 1, 1999, domestic companies adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Overseas consolidated subsidiaries had already adopted the accounting for income taxes which recognized tax effects of temporary differences.

As a result of adopting the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as an adjustment of ¥318 million (\$2,996 thousand) to the accumulated deficits brought forward from the previous year. The prior year's financial statements have not been restated.

The effect for the year ended March 31, 2000 was to decrease net loss by ¥13 million (\$122 thousand) and to decrease accumulated deficits at that date by ¥330 million (\$3,109 thousand).

#### BONUSES TO DIRECTORS AND CORPORATE STATUTORY AUDITORS

Bonuses to directors and corporate statutory auditors are

#### NOTE 2 — CASH AND CASH EQUIVALENTS

Reconciliation of cash and deposits shown in the consolidated balance sheet and cash and cash equivalents shown in the consolidated statement of cash flows at March 31, 2000 is as follows:

subject to approval by the stockholders' meeting and are accounted for by an appropriation of retained earnings for the period in which the payment is made.

#### NET LOSS PER SHARE

Net loss per share is computed based upon the weighted-average number of shares of common stock outstanding during the year.

#### AMORTIZATION OF CONSOLIDATION DIFFERENCE

Consolidation difference is amortized over five years on a straight-line basis, and amortization is included in selling, general and administrative expenses.

#### RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the presentation of the year ended March 31, 2000. These changes had no impact on previously reported results of operations or shareholders' equity.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash and deposits . . . . .	¥ 4,951	\$ 46,642
Cash and cash equivalents . . . . .	¥ 4,951	\$ 46,642

#### NOTE 3 — INVENTORIES

Inventories consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Finished goods .....	¥ 6,682	¥ 5,994	\$ 62,949
Work in process .....	3,716	3,119	35,007
Raw materials.....	996	1,304	9,383
Supplies .....	1,088	1,344	10,249
Total .....	¥ 12,482	¥ 11,761	\$ 117,588

#### NOTE 4 — SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding at March 31, 2000 and 1999 bore interest at annual rates of 0.957% - 2.0% and 0.375% - 1.875%, respectively.

Long-term debt consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Secured loans, 1.675%-7.0% .....	¥ 5,825	¥ 6,508	\$ 54,875
Unsecured loans, 1.875% - 2.125% .....	320	1,505	3,015
2.4% mortgaged convertible yen sinking fund bonds due in November, 1999 .....	—	327	—
	6,145	8,340	57,890
Less current maturities.....	(2,271)	(2,697)	(21,394)
Total .....	¥ 3,874	¥ 5,643	\$ 36,496

The annual maturities of long-term debt outstanding at March 31, 2000 were as follows:

Year ending March 31,	Amount	
	Millions of yen	Thousands of U.S. dollars (Note 1)
2001	¥ 2,271	\$ 21,394
2002	1,771	16,684
2003	1,352	12,737
2004	682	6,425
2005	69	650
Total	¥ 6,145	\$ 57,890

Buildings and land, at net book value of ¥2,089 million (\$19,680 thousand) at March 31, 2000, were pledged as collateral for long-term debt of ¥5,875 million (\$55,346 thousand).

#### NOTE 5 — CONTINGENCIES

Contingent liabilities for notes receivable discounted at banks with recourse at March 31, 2000 were ¥144 million (\$1,357 thousand).

#### NOTE 6 — LEASES

The Company and subsidiaries lease certain machinery, equipment and tools under non-cancelable finance leases which do not transfer ownership. Assuming, that assets used under such finance leases were capitalized, they would be recorded on the consolidated financial statements as of March 31, 2000 and 1999 as follows:

##### (1) Purchase Price Equivalents, Accumulated Depreciation Equivalents, and Book Value Equivalents

Machinery and equipment:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Purchase price equivalents .....	¥ 64	¥ 64	\$ 603
Accumulated depreciation equivalents .....	(55)	(47)	(518)
Book value equivalents .....	¥ 9	¥ 17	\$ 85

Tools:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Purchase price equivalents .....	¥ 480	¥ 605	\$ 4,522
Accumulated depreciation equivalents .....	(240)	(320)	(2,261)
Book value equivalents .....	¥ 240	¥ 285	\$ 2,261

Purchase price equivalents were calculated using the inclusive-of-interest method.

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	
Due within one year .....	¥ 97	¥ 124	\$ 914	
Due over one year .....	152	178	1,432	
Total .....	¥ 249	¥ 302	\$ 2,346	

Lease commitments were calculated using the inclusive-of-interest method.

(3) Lease payments and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	
Lease payments.....	¥ 108	¥ 122	\$ 1,017	
Depreciation equivalents .....	108	122	1,017	

The depreciation is calculated using the straight-line method over the lease period assuming no residual value.

**NOTE 7 — MARKET VALUE INFORMATION - PARENT ONLY**

At March 31, 2000, book value, market value and unrealized gains of quoted securities of the Company were as follows:

(1) Current assets

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2000			2000		
	Book value	Market value	Unrealized gains	Book value	Market value	Unrealized gains
Current assets:						
Equity securities	¥ 12	¥ 21	¥ 9	\$ 113	\$ 198	\$ 85
Other	10	10	0	94	94	0
	¥ 22	¥ 31	¥ 9	\$ 207	\$ 292	\$ 85

(2) Non-current assets

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2000			2000		
	Book value	Market value	Unrealized gains	Book value	Market value	Unrealized gains
Non-current assets:						
Equity securities	¥ 2,803	¥ 3,809	¥ 1,006	\$ 26,406	\$ 35,883	\$ 9,477
Other	11	14	3	104	132	28
	¥ 2,814	¥ 3,823	¥ 1,009	\$ 26,510	\$ 36,015	\$ 9,505

**NOTE 8 — DERIVATIVES**

Derivative financial instruments currently utilized by the Company consist of foreign currency forward contracts, interest rate swap contracts and interest rate cap contracts, all of which are for hedging purposes. The Company uses foreign currency forward contracts to offset exposure to market risks arising from changes in foreign exchange rates. The Company enters into interest rate swap agreements and cap contracts to lower the interest costs related to debts and reduce the Company's exposure to adverse movements in interest rates.

The Company's derivative transactions are conducted in accordance with the internal rules, which cover authorities for transactions, maximum amounts allowed, etc., and are executed and administrated by the Company's accounting department. The results of the transactions are compiled monthly by the accounting department and reported to the related departments.

At March 31, 2000, the Company had outstanding off-balance derivative transactions as follows:

#### Forward Foreign Exchange Contracts

	Millions of yen				
	Contract amount in yen equivalent			Fair value	Unrealized gains
	Due within one year	Due after one year	Total		
Sell, DM	¥ 17	¥ —	¥ 17	¥ 14	¥ 3

	Thousands of U.S. dollars (Note 1)				
	Contract amount in yen equivalent			Fair value	Unrealized gains
	Due within one year	Due after one year	Total		
Sell, DM	\$ 160	\$ —	\$ 160	\$ 132	\$ 28

#### Interest Rate Swap Contracts and Interest Rate Cap Contracts

	Millions of yen				
	Notional amount			Fair value	Unrealized gains (losses)
	Due within one year	Due after one year	Total		
Pay floating rate, receive fixed rate	¥ 300	¥ —	¥ 300	¥ 2	¥ 2
Pay fixed rate, receive floating rate	—	7,300	7,300	(160)	(160)
	¥ 300	¥ 7,300	¥ 7,600	¥ (158)	¥ (158)
Buy, interest rate cap contracts	¥ —	¥ 1,500	¥ 1,500	¥ 14	¥ 4

	Thousands of U.S. dollars (Note 1)				
	Notional amount			Fair value	Unrealized gains (losses)
	Due within one year	Due after one year	Total		
Pay floating rate, receive fixed rate	\$ 2,826	\$ —	\$ 2,826	\$ 19	\$ 19
Pay fixed rate, receive floating rate	—	68,771	68,771	(1,507)	(1,507)
	\$ 2,826	\$ 68,771	\$ 71,597	\$ (1,488)	\$ (1,488)
Buy, interest rate cap contracts	\$ —	\$ 14,131	\$ 14,131	\$ 132	\$ (38)

#### NOTE 9 — INCOME TAXES

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 41% and 47% for the years ended March 31, 2000 and 1999, respectively.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Deferred income tax assets:		
Retirement benefits	¥ 178	\$ 1,677
Unrealized gain from intercompany sale of fixed assets	119	1,121
Other	53	499
Total deferred income tax assets	350	3,297
Deferred income tax liabilities:		
Allowance for doubtful accounts	(2)	(19)
Total deferred income tax liabilities	(2)	(19)
Net deferred tax assets	¥ 348	\$ 3,278

Valuation allowance of ¥2,707 million (\$25,502 thousand) has already been deducted in the above deferred tax assets at March 31, 2000.

## NOTE 10 — SEGMENT INFORMATION

The Company and subsidiaries operate primarily in the manufacture and sales of products in four business segments: textile industry, carbon fiber industry, machinery and engineering industry and service.

(1) Business segment information for the years ended March 31, 2000 and 1999 was as follows:

### Year ended March 31, 2000

	Millions of yen						
	Textile	Carbon fiber	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
Net sales	¥ 23,060	¥ 12,907	¥ 6,059	¥ 2,068	¥ 44,094	¥ (2,408)	¥ 41,686
Operating expenses	23,834	12,203	5,700	1,942	43,679	(2,403)	41,276
Operating income (loss)	¥ (774)	¥ 704	¥ 359	¥ 126	¥ 415	¥ (5)	¥ 410
Identifiable assets	¥ 22,468	¥ 18,897	¥ 6,248	¥ 1,713	¥ 49,326	¥ 3,492	¥ 52,818
Depreciation and amortization	¥ 980	¥ 1,715	¥ 70	¥ 128	¥ 2,893	¥ 25	¥ 2,918
Capital expenditures	¥ 428	¥ 2,145	¥ 138	¥ 41	¥ 2,752	¥ 17	¥ 2,769

### Year ended March 31, 1999

	Millions of yen						
	Textile	Carbon fiber	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
Net sales	¥ 28,478	¥ 17,417	¥ 4,818	¥ 2,110	¥ 52,823	¥ (1,475)	¥ 51,348
Operating expenses	30,865	13,778	4,507	1,980	51,130	(1,434)	49,696
Operating income (loss)	¥ (2,387)	¥ 3,639	¥ 311	¥ 130	¥ 1,693	¥ (41)	¥ 1,652
Identifiable assets	¥ 25,942	¥ 19,279	¥ 3,247	¥ 1,488	¥ 49,956	¥ 12,273	¥ 62,229
Depreciation and amortization	¥ 1,295	¥ 2,121	¥ 61	¥ 129	¥ 3,606	¥ 71	¥ 3,677
Capital expenditures	¥ 571	¥ 1,399	¥ 43	¥ 772	¥ 2,785	¥ 49	¥ 2,834

### Year ended March 31, 2000

	Thousands of U.S. dollars (Note 1)						
	Textile	Carbon fiber	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
Net sales	\$ 217,239	\$ 121,592	\$ 57,080	\$ 19,482	\$ 415,393	\$ (22,685)	\$ 392,708
Operating expenses	224,531	114,960	53,698	18,295	411,484	(22,638)	388,846
Operating income (loss)	\$ (7,292)	\$ 6,632	\$ 3,382	\$ 1,187	\$ 3,909	\$ (47)	\$ 3,862
Identifiable assets	\$ 211,663	\$ 178,022	\$ 58,860	\$ 16,137	\$ 464,682	\$ 32,897	\$ 497,579
Depreciation and amortization	\$ 9,232	\$ 16,156	\$ 659	\$ 1,206	\$ 27,253	\$ 236	\$ 27,489
Capital expenditures	\$ 4,032	\$ 20,207	\$ 1,300	\$ 387	\$ 25,926	\$ 160	\$ 26,086

(2) Geographic segment information for the years ended March 31, 2000 and 1999 was as follows:

### Year ended March 31, 2000

	Millions of yen				
	Japan	Other	Total	Corporate or elimination	Consolidated
Net sales	¥ 39,903	¥ 5,079	¥ 44,982	¥ (3,296)	¥ 41,686
Operating expenses	39,468	5,070	44,538	(3,262)	41,276
Operating income (loss)	¥ 435	¥ 9	¥ 444	¥ (34)	¥ 410
Identifiable assets	¥ 44,184	¥ 4,496	¥ 48,680	¥ 4,138	¥ 52,818

Year ended March 31, 1999

	Millions of yen				
	Japan	Other	Total	Corporate or elimination	Consolidated
Net sales	¥ 48,576	¥ 7,622	¥ 56,198	¥ (4,850)	¥ 51,348
Operating expenses	46,223	7,213	53,436	(3,740)	49,696
Operating income (loss)	¥ 2,353	¥ 409	¥ 2,762	¥ (1,110)	¥ 1,652
Identifiable assets	¥ 43,991	¥ 5,965	¥ 49,956	¥ 12,273	¥ 62,229

Year ended March 31, 2000

	Thousands of U.S. dollars (Note 1)				
	Japan	Other	Total	Corporate or elimination	Consolidated
Net sales	\$ 375,911	\$ 47,847	\$ 423,758	\$ (31,050)	\$ 392,708
Operating expenses	371,813	47,763	419,576	(30,730)	388,846
Operating income (loss)	\$ 4,098	\$ 84	\$ 4,182	\$ (320)	\$ 3,862
Identifiable assets	\$ 416,241	\$ 42,355	\$ 458,596	\$ 38,983	\$ 497,579

(3) The following is overseas sales information by geographic areas for the years ended March 31, 2000 and 1999 were as follows:

Year ended March 31, 2000

	Millions of yen			
	Asia	Europe	Other	Total
Overseas sales	¥ 1,774	¥ 3,428	¥ 1,605	¥ 6,807
Percentage of overseas sales to consolidated net sales	4.3%	8.2%	3.8%	16.3%

Year ended March 31, 1999

	Millions of yen			
	Asia	Europe	Other	Total
Overseas sales	¥ 4,393	¥ 5,270	¥ 2,371	¥ 12,034
Percentage of overseas sales to consolidated net sales	8.6%	10.3%	4.5%	23.4%

Year ended March 31, 2000

	Thousands of U.S. dollars (Note 1)			
	Asia	Europe	Other	Total
Overseas sales	\$ 16,712	\$ 32,294	\$ 15,120	\$ 64,126

## Report of Independent Certified Public Accountants

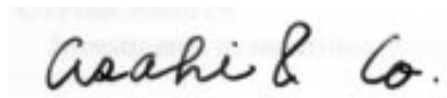
To the Stockholders and the Board of Directors of TOHO RAYON CO.,LTD.

We have audited the accompanying consolidated balance sheets of Toho Rayon Co.,Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Toho Rayon Co.,Ltd. and subsidiaries as of March 31, 2000 and 1999, 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 applied on a consistent basis, during the periods, except as noted in the following paragraph.

As explained in Note 1, in the year ended March 31, 2000, Toho Rayon Co., Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting and income taxes.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.



Tokyo, Japan

June 29, 2000

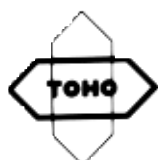
## Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying consolidated financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

**Five-year Summary**

Years ended March 31

	Millions of yen				
	2000	1999	1998	1997	1996
<b>For the year:</b>					
Net Sales .....	¥ <b>41,686</b>	¥ 51,348	¥ 59,772	¥ 58,732	¥ 61,812
Operating Income (Loss) .....	<b>410</b>	1,652	2,409	(233)	(1,310)
Net Income (Loss) .....	<b>(568)</b>	(4,500)	(453)	(2,815)	(1,933)
Net Income (Loss) per Share (in Yen) .....	<b>(4.0)</b>	(37.30)	(4.94)	(30.67)	(21.06)
<b>At Year-end:</b>					
Stockholders' Equity .....	¥ <b>16,647</b>	¥ 16,900	¥ 13,403	¥ 13,859	¥ 17,495
Total Assets .....	<b>52,818</b>	62,229	64,951	65,812	70,044
Stockholders' Equity per Share (in Yen) .....	<b>117.41</b>	119.20	146.03	150.99	190.62



TOHO RAYON CO., LTD.