

# TOHO TENAX CO., LTD.

and Consolidated Subsidiaries

## FINANCIAL STATEMENTS 2001

Year ended March 31, 2001

### Financial Highlights

(TOHO TENAX CO., LTD.\* and Consolidated Subsidiaries, years ended March 31)

	Millions of yen		Thousands of U.S. dollars**
	2001	2000	2001
Net Sales	¥ <b>39,760</b>	¥ 41,686	<b>\$ 320,904</b>
Net Loss	<b>(6,174)</b>	(568)	<b>(49,830)</b>
Stockholders' Equity	<b>9,757</b>	15,873	<b>78,749</b>

  

Per Share:	Yen		U.S. dollars
	2001	2000	2001
Net Loss	¥ <b>(43.54)</b>	(4.01)	<b>\$ (0.35)</b>
Stockholders' Equity	<b>68.82</b>	111.95	<b>0.56</b>

Notes: \* In July 2001, TOHO RAYON CO., LTD. changed its name to TOHO TENAX CO., LTD.

\*\* The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥123.90=US\$1. See Note 1 of Notes to Consolidated Financial Statements.

**CONSOLIDATED BALANCE SHEETS**

As of March 31, 2001 and 2000

<b>ASSETS</b>	March 31,		March 31,
	<b>2001</b>	<b>2000</b>	<b>2001</b>
	(Millions)		(Thousands) (Note 1)
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 842	¥ 4,951	\$ 6,796
Marketable securities (Note 8)		22	
Notes and accounts receivable, trade (Note 2)	11,540	11,025	93,140
Less allowance for doubtful accounts	(186)	(247)	(1,502)
	11,354	10,778	91,638
Inventories (Note 3)	10,370	12,482	83,697
Deferred income taxes (Note 10)	92	40	743
Other current assets	778	706	6,279
<b>TOTAL CURRENT ASSETS</b>	<b>23,436</b>	<b>28,979</b>	<b>189,153</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 4):</b>			
Land	1,733	1,643	13,987
Buildings and structures	5,315	6,672	42,897
Machinery and equipment	9,291	9,580	74,988
Construction in progress	165	1,040	1,332
Other	573	253	4,625
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>17,077</b>	<b>19,188</b>	<b>137,829</b>
<b>OTHER ASSETS:</b>			
Investments in securities (Note 8)	649	2,984	5,238
Long-term accounts receivable	19	42	153
Other	828	707	6,683
Less allowance for doubtful accounts	(150)	(166)	(1,211)
	697	583	5,625
Deferred income taxes (Note 10)	257	310	2,074
<b>TOTAL OTHER ASSETS</b>	<b>1,603</b>	<b>3,877</b>	<b>12,937</b>
	<b>¥ 42,116</b>	<b>¥ 52,044</b>	<b>\$ 339,919</b>

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31,		March 31,
	2001	2000	2001
	(Millions)		(Thousands) (Note 1)
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans and current maturities of long-term debt (Note 4)	¥ 17,225	¥ 20,639	\$ 139,023
Notes and accounts payable, trade (Note 2)	6,987	7,524	56,392
Income taxes payable	93	164	751
Deferred income taxes (Note 10)	1	2	8
Accrued expenses and other current liabilities	3,670	1,779	29,621
<b>TOTAL CURRENT LIABILITIES</b>	<b>27,976</b>	<b>30,108</b>	<b>225,795</b>
 LONG-TERM DEBT, LESS CURRENT MATURITIES (Note 4)	 1,980	 3,874	 15,981
SEVERANCE AND RETIREMENT BENEFITS (Note 5)	1,968	2,000	15,884
OTHER LIABILITIES	435	189	3,510
<b>TOTAL LIABILITIES</b>	<b>32,359</b>	<b>36,171</b>	<b>261,170</b>
 MINORITY INTERESTS			
 CONTINGENCIES AND COMMITMENTS (Note 6)			
 <b>STOCKHOLDERS' EQUITY :</b>			
Common stock, ¥50 par value - Authorized- 200,000,000 shares			
Issued-141,786,738 shares	13,065	13,065	105,448
Additional paid-in capital	5,229	5,229	42,203
Accumulated deficits	(7,824)	(1,647)	(63,148)
Foreign currency translation adjustments	(713)	(774)	(5,754)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>9,757</b>	<b>15,873</b>	<b>78,749</b>
	<b>¥ 42,116</b>	<b>¥ 52,044</b>	<b>\$ 339,919</b>

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years ended March 31, 2001 and 2000

	Year ended March 31,		Year ended
	2001	2000	March 31,
	(Millions)		(Thousands) (Note 1)
<b>NET SALES (Note 11)</b>	<b>¥ 39,760</b>	<b>¥ 41,686</b>	<b>\$ 320,904</b>
<b>COST OF SALES</b>	<b>34,889</b>	<b>34,777</b>	<b>281,590</b>
Gross profit	<u>4,871</u>	<u>6,909</u>	<u>39,314</u>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>6,376</b>	<b>6,499</b>	<b>51,461</b>
Operating income (loss)	<u>(1,505)</u>	<u>410</u>	<u>(12,147)</u>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	39	84	315
Interest expenses	(505)	(632)	(4,076)
Gain on revaluation of equity securities		187	
Gain on sale of equity securities		84	
Gain (Loss) on sale of property, plant and equipment	395	(12)	3,188
Write-down of inventories	(210)	(259)	(1,695)
Gain on securities contributed to employee retirement benefit trust	496		4,003
Amortization of net transition obligation	(2,903)		(23,430)
Restructuring costs	(1,974)		(15,932)
Reversal of allowance for doubtful accounts	35	110	282
Loss on devaluation of other assets	(55)	(79)	(444)
Loss on devaluation of equity securities	(18)		(145)
Other, net	191	(196)	1,542
	<u>(4,509)</u>	<u>(713)</u>	<u>(36,392)</u>
Loss before income taxes and minority interests in earnings of subsidiaries	<b>(6,014)</b>	<b>(303)</b>	<b>(48,539)</b>
<b>INCOME TAXES (Note 10):</b>			
Current	127	289	1,025
Deferred	33	(23)	266
Loss before minority interests in losses of subsidiaries	<b>(6,174)</b>	<b>(569)</b>	<b>(49,830)</b>
<b>MINORITY INTERESTS IN LOSSES OF SUBSIDIARIES</b>		<b>1</b>	
<b>Net loss</b>	<b>¥ (6,174)</b>	<b>¥ (568)</b>	<b>\$ (49,830)</b>
	Yen		U.S. Dollars
<b>NET LOSS PER SHARE:</b>	<b>¥ (43.5)</b>	<b>¥ (4.0)</b>	<b>\$ (0.4)</b>

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

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years ended March 31, 2001 and 2000

	Year ended March 31,		Year ended
	2001	2000	March 31,
			2001
			(Thousands)
			(Note 1)
<b>COMMON STOCK:</b>			
Number of shares (Thousands)			
Balance at beginning of year	<u>141,787</u>	<u>141,787</u>	
Balance at end of year	<u>141,787</u>	<u>141,787</u>	
Amount (Millions)			
Balance at beginning of year	<u>¥ 13,065</u>	<u>¥ 13,065</u>	<u>\$ 105,448</u>
Balance at end of year	<u>¥ 13,065</u>	<u>¥ 13,065</u>	<u>\$ 105,448</u>
<b>ADDITIONAL PAID-IN CAPITAL (MILLIONS):</b>			
Balance at beginning of year	<u>¥ 5,229</u>	<u>¥ 9,943</u>	<u>\$ 42,203</u>
Amount transferred to accumulated deficits		<u>(4,714)</u>	
Balance at end of year	<u>¥ 5,229</u>	<u>¥ 5,229</u>	<u>\$ 42,203</u>
<b>ACCUMULATED DEFICITS (MILLIONS):</b>			
Balance at beginning of year	<u>¥ (1,647)</u>	<u>¥ (6,108)</u>	<u>\$ (13,294)</u>
Cumulative effect of adopting deferred income tax accounting		318	
Net loss for the year	<u>(6,174)</u>	<u>(568)</u>	<u>(49,830)</u>
Transfer from additional paid-in capital		4,714	
Bonuses paid to Directors and corporate statutory auditors	<u>(3)</u>	<u>(3)</u>	<u>(24)</u>
Balance at end of year	<u>¥ (7,824)</u>	<u>¥ (1,647)</u>	<u>\$ (63,148)</u>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS (MILLIONS):</b>			
Balance at beginning of year	<u>¥ (774)</u>	<u>¥ (21)</u>	<u>\$ (6,246)</u>
Adjustments from translation of foreign currency financial statements	<u>61</u>	<u>(753)</u>	<u>492</u>
Balance at end of year	<u>¥ (713)</u>	<u>¥ (774)</u>	<u>\$ (5,754)</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended March 31, 2001 and 2000

	Year ended March 31,		Year ended
	2001	2000	March 31,
	(Millions)		(Thousands)
			(Note 1)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Loss before income taxes and minority interests in			
losses (earnings) of subsidiaries	¥ (6,014)	¥ (303)	\$ (48,539)
Depreciation and amortization	2,976	2,918	24,019
Reversal of allowance for doubtful accounts	(64)	(110)	(517)
Decrease in severance and retirement benefits	(119)	(38)	(960)
Interest and dividend income	(39)	(84)	(315)
Interest expense	505	632	4,076
(Gain) Loss on sale disposal of property and equipment	(395)	12	(3,188)
Gain on securities contributed to employee			
retirement benefit trust	(496)		(4,003)
Gain on revaluation of equity securities		(187)	
Restructuring costs	1,974		15,932
Loss on devaluation of other assets	55	79	444
Loss on devaluation of equity securities	18		145
Severance and retirement benefit expenses	2,903		23,430
Write-down of inventories	210	259	1,695
Gain on sales of equity securities		(84)	
Bonuses paid to directors and corporate			
statutory auditors	(3)	(3)	(24)
Change in operating assets and account receivables			
(Increase) Decrease in notes and			
accounts receivable	(493)	1,887	(3,979)
Decrease (Increase) in inventories	1,516	(1,337)	12,236
(Increase) Decrease in other current assets	(55)	749	(444)
(Decrease) Increase in notes and accounts payable	(618)	114	(4,988)
Decrease in accrued expenses and other			
current liabilities	(83)	(1,089)	(670)
Other net	39	21	315
Subtotal	1,817	3,436	14,665
Interest and dividend received	34	84	274
Interest expense paid	(513)	(633)	(4,140)
Restructuring paid	(93)		(751)
Income taxes paid	(198)	(306)	(1,598)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,047</b>	<b>2,581</b>	<b>8,450</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(2,291)	(2,789)	(18,491)
Proceeds from sale of property, plant and equipment	2,476	112	19,984
Decrease in equity securities	10	108	81
Decrease in long-term accounts receivable and other	43	113	347
<b>NET CASH PROVIDED BY (USED IN) INVESTING</b>	<b>238</b>	<b>(2,456)</b>	<b>1,921</b>
<b>ACTIVITIES</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans	(3,122)	(4,832)	(25,198)
Proceeds from long-term debt		974	
Repayment of long-term debt	(2,242)	(3,501)	(18,095)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(5,364)</b>	<b>(7,359)</b>	<b>(43,293)</b>
<b>LOSSES FROM TRANSLATION OF CASH AND</b>			
<b>CASH EQUIVALENTS</b>	<b>(30)</b>	<b>(255)</b>	<b>(242)</b>
<b>NET DECREASE IN CASH AND EQUIVALENTS</b>	<b>(4,109)</b>	<b>(7,489)</b>	<b>(33,164)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>			
<b>OF YEAR</b>	<b>4,951</b>	<b>12,440</b>	<b>39,960</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>¥ 842</b>	<b>¥ 4,951</b>	<b>\$ 6,796</b>

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2001 and 2000

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES BASIS OF PRESENTING 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 appropriate Local Finance Bureau of the Ministry of Finance 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 statements of stockholders' equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 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 include the accounts of the Company and subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain other conditions. 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 based on the fair value at the time the Company acquired control of the respective subsidiaries.

The numbers of consolidated subsidiaries at March 31, 2001 and 2000 were as follows:

	2001	2000
Consolidated subsidiaries	13	13

Substantially all of the Company's subsidiaries are included in the consolidated financial statements.

Investments in unconsolidated subsidiaries and affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned) 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.

## 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.

## 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 par 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.

Under the code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

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.

## CONVERSION OF FOREIGN CURRENCIES

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, however, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999. Under the revised accounting standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

There was no effect of adopting the revised accounting standard on the consolidated statements of operations.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for stockholders' equity accounts, which are translated at the historical rates. Operating statements of consolidated overseas subsidiaries are translated at the period-end rates except for transactions with the Company, which are translated at the rates used by the Company.

Due to the adoption of the revised accounting standard, the Company and its domestic subsidiaries have reported foreign currency translation adjustments in the stockholders' equity. The prior years' amount, which was included in assets, has been reclassified to conform to the 2001 presentation.

## 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 amount calculated using the ratio of actual losses on collection in the past for the remaining amounts. Consolidated foreign subsidiaries provide the allowance for doubtful accounts in an amount sufficient to cover probable losses on collection by estimating individually uncollectible amounts and by applying the rate of actual collection losses to the remaining receivables.

## MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Prior to April 1, 2000, securities that have listed market prices were stated at the lower of cost determined primarily using the moving-average method or their listed stock exchange price at the end of the year. All other investments were stated at moving-average cost adjusted for any substantial and non-recoverable decline in value.

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

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity, (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Available-for-sale securities are stated at moving-average cost. Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities at March 31, 2001, which are stated at moving-average cost, included securities with available market value. Summary information on these securities assuming that they were stated at market values are as follows.

	March 31, 2001 (Millions)	March 31, 2001 (Thousands) (Note 1)
Book values	¥ 498	\$ 4,019
Fair values	555	4,479
Net unrealized holding gains on securities	34	274
Deferred income taxes	23	186

If the market value of available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of decline. If the fair market value of equity securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the operating statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new accounting standard for financial instruments, loss before income taxes and minority interests has decreased by ¥16 million (\$129 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, held-to-maturity debt securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥12 million (\$97 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

## INVENTORIES

Inventories are stated primarily 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.

## RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to operations when they are incurred since relations between research and development activities and their contributions to sales are not clear.

## SEVERANCE AND 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.

At March 31, 2000, 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. The Company and the domestic subsidiaries recognized pension expense when, and to the extent, payments were made to the pension plans. Certain overseas consolidated subsidiaries provide for such liabilities calculated by the actuarial method.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998.

Under the new accounting standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥3,215 million (\$25,948 thousand), of which ¥2,825 million (\$22,801 thousand) was recognized as an expense as a result of the contribution of investment securities to the employee retirement benefit trust in September 2000.

The remaining net transition obligation amounting to ¥390 million (\$3,148 thousand) will be recognized in expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001. Prior service costs are recognized as expenses in equal amounts over the average of the estimated remaining service lives of the employees, and actuarial gains and losses are recognized in expenses in equal amounts over the average of the estimated remaining service lives of 15 years commencing with the succeeding period. However, one of consolidated subsidiaries recognizes net transition obligation, prior service cost, and actuarial differences as expense in the period incurred.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥2,714 million (\$21,905 thousand), and loss before income taxes and minority interests in earnings of subsidiaries increased by ¥2,727 million (\$22,010 thousand) compared with what would have been recorded under the previous accounting standard.

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 severance and retirement benefits in the consolidated balance sheets, were ¥155 million (\$1,251 thousand) and ¥165 million at March 31, 2001 and 2000, respectively.

#### ACCRUED EMPLOYEES' BONUSES

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

Income taxes comprise corporate, enterprise and inhabitant taxes. Deferred income taxes are recognized for temporary difference between the financial statement basis and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

#### BONUSES TO DIRECTORS AND CORPORATE STATUTORY AUDITORS

Bonuses to directors and corporate statutory auditors are 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.

#### DERIVATIVES AND HEDGE ACCOUNTING

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated domestic subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

- (1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
  - a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and
  - b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
- (2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

#### RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the presentation of the year ended March 31, 2001. These changes had no impact on previously reported results of operations.

#### NOTE 2 - EFFECT OF BANK HOLIDAY ON MARCH 31, 2001

As financial institutions in Japan were closed on March 31, 2001, amounts that would normally be settled on March 31, 2001 were collected or paid on the following business day, April 2, 2001. The effects of the settlements on April 2 instead of March 31 included the following:

Notes and accounts receivable, trade  
Increased by approximately ¥ 171Million (\$ 1,380 thousands)

Notes and accounts payable, trade  
Increased by approximately ¥ 523Million (\$ 4,221 thousands)

#### NOTE 3 - INVENTORIES

Inventories consist of the following:

	March 31,		March 31,
	2001	2000	2001
	(Millions)		(Thousands) (Note 1)
Finished goods	¥ 6,042	¥ 6,682	\$ 48,765
Work in process	867	3,716	6,998
Raw materials	2,643	996	21,332
Supplies	818	1,088	6,602
Total	¥ 10,370	¥ 12,482	\$ 83,697

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

Short-term bank loans outstanding at March 31, 2001 and 2000 bore interest at annual rates of 0.957% - 2.0% and 0.375% - 1.875%, respectively.

Long-term debt consists of the following:

	March 31,		March 31,
	2001	2000	2001
	(Millions)		(Thousands) (Note 1)
Secured loans, 1.675% - 7.0%	¥ 3,447	¥ 5,825	\$ 27,821
Unsecured loans, 1.875% - 2.125%	210	320	1,695
	3,657	6,145	29,516
Less current portion	(1,677)	(2,271)	(13,535)
TOTAL	¥ 1,980	¥ 3,874	\$ 15,981

The annual maturities of long-term debt outstanding at March 31, 2001 were as follows:

	Amount	
	(Millions)	(Thousands) (Note 1)
Year ending March 31,		
2002	¥ 1,677	\$ 13,535
2003	1,237	9,984
2004	674	5,440
2005	69	557
Total	¥ 3,657	\$ 29,516

Buildings and land, at net book value of ¥1,455 million (\$11,743 thousand) at March 31, 2001, were pledged as collateral for long-term debt of ¥3,823 million (\$30,856 thousand).

## NOTE 5 - EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As explained in Note 1, Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	March 31, 2001 (Millions)	March 31, 2001 (Thousands) (Note 1)
Projected benefit obligation	¥ 6,618	\$ 53,414
Less fair value of pension assets	<u>4,096</u>	<u>33,059</u>
Unfunded projected benefit obligation	2,522	20,355
Less unrecognized actuarial differences	396	3,196
Less unrecognized net transition obligation	<u>313</u>	<u>2,526</u>
Liability for employees' severance and retirement benefits	<u>¥ 1,813</u>	<u>\$ 14,633</u>

Included in the consolidated statement of operations for the year ended March 31, 2001 are employees' severance and retirement benefit expenses comprised of the following:

	March 31, 2001 (Millions)	March 31, 2001 (Thousands) (Note 1)
Service costs – benefits earned during the year	¥ 280	\$ 2,260
Interest cost on projected benefit obligation	204	1,646
Expected return on plan assets	(49)	(395)
Amortization of net transition obligation	<u>2,903</u>	<u>23,430</u>
Employees' severance and retirement benefit Expenses	<u>¥ 3,338</u>	<u>\$ 26,941</u>

The discount rate and the rate of expected return on plan assets used by the Company are 3.5 % and 3.5 %, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Remaining net transition obligation is recognized as an expense in equal amounts over 5 years, and actuarial gains and losses are recognized in expenses in equal amounts primarily over 15 years.

## NOTE 6 - CONTINGENCIES

Contingent liabilities for notes receivable discounted at banks with recourse at March 31, 2001, were ¥5 million (\$40 thousand).

## NOTE 7 - 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, 2001 and 2000 as follows:

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

	March 31,		March 31,
	2001	2000	2001
	(Millions)		(Thousands) (Note 1)
Machinery and equipment:			
Purchase price equivalents	¥ 82	¥ 64	\$ 662
Accumulated depreciation equivalents	(62)	(55)	(501)
Book value equivalents	<u>¥ 20</u>	<u>¥ 9</u>	<u>\$ 161</u>
Tools:			
Purchase price equivalents	¥ 446	¥ 480	\$ 3,600
Accumulated depreciation equivalents	(252)	(240)	(2,034)
Book value equivalents	<u>¥ 194</u>	<u>¥ 240</u>	<u>\$ 1,566</u>

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

### (2) Lease commitments

	March 31,		March 31,
	2001	2000	2001
	(Millions)		(Thousands) (Note 1)
Due within one year	¥ 85	¥ 97	\$ 686
Due over one year	<u>128</u>	<u>152</u>	<u>1,033</u>
Total	<u>¥ 213</u>	<u>¥ 249</u>	<u>\$ 1,719</u>

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

### (3) Lease payments and depreciation equivalents

	March 31,		March 31,
	2001	2000	2001
	(Millions)		(Thousands) (Note 1)
Lease payments	¥ 89	¥ 108	\$ 718
Depreciation equivalents	¥ 89	¥ 108	\$ 718

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

## NOTE 8 - INFORMATION OF SECURITIES

(1) The following tables summarize book values of securities with no available fair values as of March 31, 2001:

Available-for-securities:

	March 31, <u>2001</u> (Millions)	March 31, <u>2001</u> (Thousands) (Note 1)
Non-listed equity securities	¥ 147	\$ 1,186
Other	3	24
Total	<u>¥ 150</u>	<u>\$ 1,210</u>

(2) In September 2000, the Company contributed, receiving no cash, certain investment securities to its employee retirement benefit trust. The market value of the contributed securities at the time of contribution was ¥2,825 million (\$2,801 thousand). Upon contribution of these securities, a "gain on securities contributed to employee retirement benefit trust" amounting to ¥496 million (\$4,003 Thousand) was recognized.

## NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

As explained in Note 1, the new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purpose.

The Company utilizes foreign currency forward contracts, interest rate swap contracts and interest rate cap contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and payables and mitigating future risks of interest rate increases and lowering the financing costs with respect to borrowings.

Foreign currency forward, interest rate swap and interest rate cap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed.

The following summarizes hedging derivative financial instruments used by the Company and items hedged:

Hedging instruments:	Hedged items:
Foreign currency forward contracts	Foreign currency trade receivables
Interest rate swap contracts	Borrowings
Interest rate cap contracts	Borrowings

The Company evaluates hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments. However, where the principal conditions underlying the hedging instruments and the hedged assets or liabilities are similar, the evaluation of effectiveness of hedge is not performed.

The Company's financial instrument counter-parties were all prime banks operating domestically in Japan, and the Company does not expect non-performance by the counter-parties.

Market value and other information on derivative financial instruments at March 31, 2001 is not disclosed as the Company applied hedge accounting to all derivative financial instruments used.

## NOTE 10 - 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% for the years ended March 31, 2001 and 2000.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 are as follows:

	March 31, <u>2001</u> <u>2000</u> (Millions)		March 31, <u>2001</u> (Thousands) (Note 1)
Deferred income tax assets:			
Severance and retirement benefits	¥ 196	¥ 178	\$ 1,582
Unrealized gain from intercompany sale of fixed assets	46	119	371
Loss carry forward	39		315
Accrued bonuses	27		218
Other	41	53	331
Total deferred income tax assets	<u>349</u>	<u>350</u>	<u>2,817</u>
Deferred income tax liabilities:			
Allowance for doubtful accounts	(1)	(2)	(8)
Total deferred income tax liabilities	<u>(1)</u>	<u>(2)</u>	<u>(8)</u>
Net deferred tax assets	<u>¥ 348</u>	<u>¥ 348</u>	<u>\$ 2,809</u>

Valuation allowance of ¥5,305 million (\$42,817 thousand) has already been deducted in the above deferred tax assets at March 31, 2001.

## NOTE 11- 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, 2001 and 2000 was as follows:

	Year ended March 31, 2001						
	Textile	Carbon fiber	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
	(Millions)						
Net sales	¥ 18,110	¥ 14,921	¥ 6,193	¥ 2,097	¥ 41,321	¥ (1,561)	¥ 39,760
Operating expenses	19,019	15,895	5,935	1,965	42,814	(1,549)	41,265
Operating income (loss)	¥ (909)	¥ (974)	¥ 258	¥ 132	¥ (1,493)	¥ (12)	¥ (1,505)
Identifiable assets	¥ 15,252	¥ 18,915	¥ 6,173	¥ 1,490	¥ 41,830	¥ 286	¥ 42,116
Depreciation and amortization	¥ 2,245	¥ 2,212	¥ 77	¥ 107	¥ 4,641	¥ 49	¥ 4,690
Capital expenditures	¥ 169	¥ 2,006	¥ 91	¥ 23	¥ 2,289		¥ 2,289

  

	Year ended March 31, 2000						
	Textile	Carbon fiber	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
	(Millions)						
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	¥ 18,123	¥ 6,248	¥ 1,713	¥ 48,552	¥ 3,492	¥ 52,044
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, 2001						
	Textile	Carbon fiber	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
	(Thousands) (Note 1)						
Net sales	\$ 146,166	\$ 120,428	\$ 49,984	\$ 16,925	\$ 333,503	\$ (12,599)	\$ 320,904
Operating expenses	153,503	128,289	47,902	15,859	345,553	(12,502)	333,051
Operating income (loss)	\$ (7,337)	\$ (7,861)	\$ 2,082	\$ 1,066	\$ (12,050)	\$ (97)	\$ (12,147)
Identifiable assets	\$ 123,099	\$ 152,663	\$ 49,823	\$ 12,026	\$ 337,611	\$ 2,308	\$ 339,919
Depreciation and amortization	\$ 18,119	\$ 17,853	\$ 622	\$ 864	\$ 37,458	\$ 395	\$ 37,853
Capital expenditures	\$ 1,364	\$ 16,190	\$ 734	\$ 186	\$ 18,474		\$ 18,474

As described in Note 1, the Company and consolidated subsidiaries adopted the new accounting standard for severance and retirement benefits. As a result, operating loss of textile increased by ¥33 million (\$266 thousand), operating loss of carbon fiber decreased by ¥42 million (\$339 thousand), operating income of machinery and engineering increased by ¥38 million (\$307 thousand), operating income of service decreased by ¥2 million (\$16 thousand).

As described in Note 1, the Company and consolidated subsidiaries adopted the revised accounting standard for translation of foreign currencies. As a result, identifiable assets for elimination and corporate decreased by ¥713 million (\$5,755 thousand).

(2) Geographic segment information for the years ended March 31, 2001 and 2000 was as follows:

Year ended March 31, 2001					
	Japan	Other	Total	Corporate or elimination	Consolidated
	(Millions)				
Net sales	¥ 36,760	¥ 6,410	¥ 43,170	¥ (3,410)	¥ 39,760
Operating expenses	38,438	6,584	45,022	(3,757)	41,265
Operating loss	¥ (1,678)	¥ (174)	¥ (1,852)	¥ 347	¥ (1,505)
Identifiable assets	¥ 37,481	¥ 4,365	¥ 41,846	¥ 270	¥ 42,116

Year ended March 31, 2000					
	Japan	Other	Total	Corporate or elimination	Consolidated
	(Millions)				
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	¥ 435	¥ 9	¥ 444	¥ (34)	¥ 410
Identifiable assets	¥ 44,184	¥ 3,722	¥ 47,906	¥ 4,138	¥ 52,044

Year ended March 31, 2001					
	Japan	Other	Total	Corporate or elimination	Consolidated
	(Thousands) (Note 1)				
Net sales	\$ 296,691	\$ 51,735	\$ 348,426	\$ (27,522)	\$ 320,904
Operating expenses	310,234	53,140	363,374	\$ (30,323)	333,051
Operating loss	\$ (13,543)	\$ (1,405)	\$ (14,948)	\$ 2,801	\$ (12,147)
Identifiable assets	\$ 302,510	\$ 35,230	\$ 337,740	\$ 2,179	\$ 339,919

As described in Note 1, the Company and consolidated subsidiaries adopted the new accounting standard for severance and retirement benefits. As a result, operating loss of Japan decreased by ¥46 million (\$371 thousand).

As described in Note 1, the Company and consolidated subsidiaries adopted the revised accounting standard for translation of foreign currencies. As a result, identifiable assets for elimination and corporate decreased by ¥713 million (\$5,755 thousand).

3) The following is overseas sales information by geographic areas for the years ended March 31, 2001 and 2000 were as follows:

	Year ended March 31, 2001			
	Asia	Europe	Other	Total
	(Millions)			
Overseas sales	¥ 1,419	¥ 4,125	¥ 2,286	¥ 7,830
Percentage of overseas sales to consolidated net sales	3.6%	10.4%	5.7%	19.7%

	Year ended March 31, 2000			
	Asia	Europe	Other	Total
	(Millions)			
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, 2001			
	Asia	Europe	Other	Total
	(Thousands) (Note 1)			
Overseas sales	\$11,453	\$33,293	\$18,450	\$63,196

#### NOTE 12 - RESTRUCTURING PLAN

Toho Rayon Co., Ltd., Toho Textile Co., Ltd. and Toho Rayon Tokushima Co., Ltd. resolved at the directors' meeting of the respective companies held on December 20, 2000 to undergo business restructuring. Accordingly, Toho Rayon Tokushima Co., Ltd. is to withdraw from the rayon business and Toho Textile Co., Ltd. is to close its Tokushima plant and to reduce the Ibigawa plant operations.

The cost of restructuring the textile business amounting to ¥1,974 million (\$15,932 thousand) was recognized in the year ended March 31, 2001, and ¥5,400 million (\$43,584 thousand) will be recognized as expenses in the year ending March 31, 2002.

In order to compensate for the cost, the Board of Directors of the Company resolved to sell a portion of land located at Tokushima plant. Based on the resolution, the sale contract of the land was concluded on March 22, 2001. The land is to be sold for ¥9,800 million (\$79,096 thousand) while its book value is ¥6 million (\$48 thousand). The sale is expected to generate ¥2,400 million (\$19,370 thousand) of Gain on sale of Land in the year ending March 31, 2002 and ¥2,000 million (\$16,142 thousand) in the year ending at March 31, 2003.

#### NOTE 13 - SUBSEQUENT EVENTS

On May 25, 2001, the Board of Directors of the Company resolved to sell fixed assets located at Mishima plant (land, buildings and machinery) due to expropriation of the land of Mishima plant, and accordingly the following sales contract was concluded as of May 30, 2001:

- a. Location of land: Shizuoka prefecture
- b. Buyer: Shizuoka-ken Tochi Kaihatsu Kousha
- c. Price: ¥3,451 million (\$27,853 thousand)

Buildings and machinery mentioned above are in use at present and are to be transferred to other locations due to the planned construction of a highway by the Ministry of Land, Infrastructure and Transport.

Due to the transaction above, ¥2,000 million (\$16,142 thousand) of gain is projected to be reported in the consolidated statements of operations in the year ending March 31, 2002.

## 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, 2001 and 2000, 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, 2001 and 2000, 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, 2001, Toho Rayon Co., Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for foreign currency translation, financial instruments and employees' severance and retirement benefits.

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.

As stated in Note 13, on May 25, 2001, the Board of Directors resolved the sale of fixed assets located at Mishima plant and the receipts of government grant, and subsequently such agreement was concluded on May 30, 2001. Accordingly, a gain of approximately ¥2,000 million (\$16,142 thousand), net of the amount for advanced depreciation of fixed assets, is expected to be recorded in the consolidated statements of operations in the year ending March 31, 2002.

*Asahi & Co.*

Tokyo, Japan  
June 28, 2001

### 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				
	2001	2000	1999	1998	1997
For the year:					
Net Sales	<b>¥ 39,760</b>	¥ 41,686	¥ 51,348	¥ 59,772	¥ 58,732
Operating Income (Loss)	<b>(1,505)</b>	410	1,652	2,409	(233)
Net Income (Loss)	<b>(6,174)</b>	(568)	(4,500)	(453)	(2,815)
Net Income (Loss) per Share (in Yen)	<b>(43.54)</b>	(4.01)	(37.30)	(4.94)	(30.67)
At Year-end:					
Stockholders' Equity	<b>¥ 9,757</b>	¥ 15,873	¥ 16,900	¥ 13,403	¥ 13,859
Total Assets	<b>42,116</b>	52,044	62,229	64,951	65,812
Stockholders' Equity per Share (in Yen)	<b>68.82</b>	111.95	119.20	146.03	150.99

