

TOHO TENAX CO., LTD.

and Consolidated Subsidiaries

FINANCIAL STATEMENTS 2002

Year ended March 31, 2002

Financial Highlights

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

	Millions of yen		Thousands of U.S. dollars*
	2002	2001	2002
Net sales	¥ 33,651	¥ 39,760	\$ 252,540
Net loss	(1,581)	(6,174)	(11,865)
Total stockholders' equity	8,454	9,757	63,445
Per share:	Yen		U.S. dollars
Net loss	¥ (11.2)	¥ (43.5)	\$ (0.1)
Stockholders' equity	59.6	68.8	0.4

Note: * The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥133.25=US\$1. See Note 1 of Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

As of March 31, 2002 and 2001

ASSETS	March 31,		March 31,
	2002	2001	2002
	(Millions)		(Thousands) (Note 1)
CURRENT ASSETS:			
Cash and cash equivalents	¥ 509	¥ 842	\$ 3,820
Notes and accounts receivable, trade	8,615	11,540	64,653
Less allowance for doubtful accounts	(186)	(186)	(1,396)
	<u>8,429</u>	<u>11,354</u>	<u>63,257</u>
Inventories (Note 2)	8,868	10,370	66,551
Deferred income taxes (Note 10)	127	92	953
Other current assets	1,483	778	11,130
TOTAL CURRENT ASSETS	<u>19,416</u>	<u>23,436</u>	<u>145,711</u>
PROPERTY, PLANT AND EQUIPMENT (Note 3):			
Land	1,746	1,733	13,103
Buildings and structures	4,959	5,315	37,216
Machinery and equipment	7,692	9,291	57,726
Construction in progress	335	165	2,514
Other	496	573	3,722
NET PROPERTY, PLANT AND EQUIPMENT	<u>15,228</u>	<u>17,077</u>	<u>114,281</u>
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Note 7)	505	649	3,790
Long-term loans receivable	12	19	90
Other	630	828	4,728
Less allowance for doubtful accounts	(149)	(150)	(1,118)
	<u>493</u>	<u>697</u>	<u>3,700</u>
Deferred income taxes (Note 10)	260	257	1,951
TOTAL OTHER ASSETS	<u>1,258</u>	<u>1,603</u>	<u>9,441</u>
	<u>¥ 35,902</u>	<u>¥ 42,116</u>	<u>\$ 269,433</u>

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31,		March 31,
	2002	2001	2002
	(Millions)		(Thousands) (Note 1)
CURRENT LIABILITIES:			
Short-term bank loans and current maturities of long-term debt (Note 3)	¥ 12,773	¥ 17,225	\$ 95,858
Short-term loans from the parent company (Note 3)	6,000	–	45,028
Notes and accounts payable, trade	4,767	6,987	35,775
Income taxes payable	64	93	480
Deferred income taxes (Note 10)	1	1	7
Accrued employees' bonuses	368	468	2,762
Accrued expenses and other current liabilities	1,015	3,202	7,617
TOTAL CURRENT LIABILITIES	24,988	27,976	187,527
LONG-TERM DEBT, LESS CURRENT MATURITIES (Note 3)	744	1,980	5,583
SEVERANCE AND RETIREMENT BENEFITS (Note 4)			
Employees	1,307	1,813	9,809
Directors and statutory auditors	119	155	893
DEFERRED INCOME TAXES (Note 10)	2	–	15
OTHER LIABILITIES	288	435	2,161
TOTAL LIABILITIES	27,448	32,359	205,988
MINORITY INTERESTS	–	–	–
CONTINGENCIES AND COMMITMENTS (Note 5)			
STOCKHOLDERS' EQUITY:			
Common stock			
Authorized- 200,000,000 shares			
Issued-141,786,738 shares	13,065	13,065	98,049
Additional paid-in capital	5,229	5,229	39,242
Accumulated deficits	(9,405)	(7,824)	(70,581)
Net unrealized holding gains on investment securities	4	–	30
Foreign currency translation adjustments	(437)	(713)	(3,280)
Treasury stock, at cost	(2)	–	(15)
TOTAL STOCKHOLDERS' EQUITY	8,454	9,757	63,445
	¥ 35,902	¥ 42,116	\$ 269,433

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2002 and 2001

	Year ended March 31,		Year ended
	2002	2001	March 31,
	(Millions)		(Thousands) (Note 1)
NET SALES (Note 11)	¥ 33,651	¥ 39,760	\$ 252,540
COST OF SALES	29,727	34,889	223,092
Gross profit	3,924	4,871	29,448
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	5,504	6,376	41,306
Operating loss	(1,580)	(1,505)	(11,858)
OTHER INCOME (EXPENSES):			
Interest and dividend income	31	39	233
Interest expenses	(348)	(505)	(2,611)
Gain on sale of property, plant and equipment	4,108	395	30,829
Write-down of inventories	—	(210)	—
Gain on securities contributed to employee retirement benefit trust	—	496	—
Amortization of net transition obligation	—	(2,903)	—
Restructuring costs (Note 12)	(5,681)	(1,974)	(42,634)
Reversal of allowance for doubtful accounts	—	35	—
Loss on devaluation of investment securities	(57)	(18)	(428)
Severance and retirement benefit expenses	(74)	—	(555)
Gain on compensations of equipments removal	2,400	—	18,011
Investigation costs related to antitrust laws	(402)	—	(3,017)
Other, net	112	136	841
	89	(4,509)	669
Loss before income taxes and minority interests in earnings of subsidiaries	(1,491)	(6,014)	(11,189)
INCOME TAXES (Note 10):			
Current	132	127	991
Deferred	(42)	33	(315)
Loss before minority interests in earnings of subsidiaries	(1,581)	(6,174)	(11,865)
MINORITY INTERESTS IN LOSSES OF SUBSIDIARIES	—	—	—
NET LOSS	¥ (1,581)	¥ (6,174)	\$ (11,865)
	Yen		U.S. Dollars
NET LOSS PER SHARE:	¥ (11.2)	¥ (43.5)	\$ (0.1)

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended March 31, 2002 and 2001

	Year ended March 31,		Year ended March 31,
	2002	2001	2002
COMMON STOCK:			(Thousands) (Note 1)
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>\$ 98,049</u>
Balance at end of year	<u>¥ 13,065</u>	<u>¥ 13,065</u>	<u>\$ 98,049</u>
ADDITIONAL PAID-IN CAPITAL (Millions):			
Balance at beginning of year	<u>¥ 5,229</u>	<u>¥ 5,229</u>	<u>\$ 39,242</u>
Balance at end of year	<u>¥ 5,229</u>	<u>¥ 5,229</u>	<u>\$ 39,242</u>
ACCUMULATED DEFICITS (Millions):			
Balance at beginning of year	<u>¥ (7,824)</u>	<u>¥ (1,647)</u>	<u>\$ (58,716)</u>
Net loss for the year	<u>(1,581)</u>	<u>(6,174)</u>	<u>(11,865)</u>
Bonuses paid to directors and corporate statutory auditors	<u>—</u>	<u>(3)</u>	<u>—</u>
Balance at end of year	<u>¥ (9,405)</u>	<u>¥ (7,824)</u>	<u>\$ (70,581)</u>
NET UNREALIZED HOLDING GAINS ON INVESTMENT SECURITIES (Millions):			
Balance at beginning of year	<u>¥ —</u>	<u>¥ —</u>	<u>\$ —</u>
Net increase for the year	<u>4</u>	<u>—</u>	<u>30</u>
Balance at end of year	<u>¥ 4</u>	<u>¥ —</u>	<u>\$ 30</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS (Millions):			
Balance at beginning of year	<u>¥ (713)</u>	<u>¥ (774)</u>	<u>\$ (5,351)</u>
Adjustments from translation of foreign currency financial statements	<u>276</u>	<u>61</u>	<u>(2,071)</u>
Balance at end of year	<u>¥ (437)</u>	<u>¥ (713)</u>	<u>\$ (3,280)</u>
TREASURY STOCK, AT COST (Millions):			
Balance at beginning of year	<u>¥ —</u>	<u>¥ —</u>	<u>\$ —</u>
Treasury stock	<u>(2)</u>	<u>—</u>	<u>(15)</u>
Balance at end of year	<u>¥ (2)</u>	<u>¥ —</u>	<u>\$ (15)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2002 and 2001

	Year ended March 31,		Year ended
	2002	2001	March 31,
	(Millions)		(Thousands)
			(Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income taxes and minority interests in earnings of subsidiaries	¥ (1,491)	¥ (6,014)	\$ (11,189)
Depreciation and amortization	2,742	2,976	20,578
Reversal of allowance for doubtful accounts	(1)	(64)	(8)
Decrease in severance and retirement benefits	(646)	(119)	(4,848)
Interest and dividend income	(31)	(39)	(233)
Interest expense	348	505	2,612
Gain on sale and disposal of property and equipment	(4,108)	(395)	(30,829)
Gain on securities contributed to employee retirement benefit trust	—	(496)	—
Restructuring costs	5,681	1,974	42,634
Loss on devaluation of other assets	15	55	113
Loss on devaluation of investment securities	57	18	428
Severance and retirement benefit expenses	74	2,903	555
Write-down of inventories	—	210	—
Gain on sales of equity securities	(15)	—	(113)
Bonuses paid to directors and corporate statutory auditors	—	(3)	—
Investigation costs related to antitrust laws	402	—	3,017
Gain on compensations of equipment removal	(2,400)	—	(18,011)
Change in operating assets and account receivables			
(Increase) Decrease in notes and accounts receivable	3,011	(493)	22,597
Decrease in inventories	1,235	1,516	9,268
(Increase) Decrease in other current assets	133	(55)	998
Decrease in notes and accounts payable	(2,155)	(618)	(16,173)
Decrease in accrued expenses and other current liabilities	(447)	(83)	(3,355)
Other net	(48)	39	(360)
Subtotal	2,356	1,817	17,681
Interest and dividend received	30	34	225
Interest expense paid	(338)	(513)	(2,536)
Compensations of equipments removal received	2,400	—	18,011
Restructuring paid	(5,091)	(93)	(38,206)
Investigation costs related to antitrust laws paid	(398)	—	(2,987)
Income taxes paid	(162)	(198)	(1,216)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,203)	1,047	(9,028)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,770)	(2,291)	(13,283)
Proceeds from sale of property, plant and equipment	2,188	2,476	16,420
Decrease in equity securities	—	10	—
Other net	168	43	1,261
NET CASH PROVIDED BY INVESTING ACTIVITIES	586	238	4,398
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (Decrease) in short-term bank loans	1,959	(3,122)	14,702
Repayment of long-term debt	(1,717)	(2,242)	(12,886)
Increase in treasury stock	(2)	—	(15)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	240	(5,364)	1,801
EFFECT OF TRANSLATION OF CASH AND CASH EQUIVALENTS	44	(30)	330
NET DECREASE IN CASH AND EQUIVALENTS	(333)	(4,109)	(2,499)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	842	4,951	6,319
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 509	¥ 842	\$ 3,820

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2002 and 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS**

Toho Tenax Co., Ltd. (the "Company" On July 1, 2001, Toho Rayon Co., Ltd. changed its corporate name to Toho Tenax Co., Ltd.) and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan. 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. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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, 2002, which was ¥133.25 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, 2002 and 2001 were as follows:

	2002	2001
Consolidated subsidiaries	11	13

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

The Company merged Toho Composites Co., Ltd., which was a consolidated subsidiary, on July 1, 2001.

Toho Rayon GmbH merged Tenax Fibers GmbH & Co., KG, both of which were the consolidated subsidiaries, and changed its name to Tenax Fibers GmbH on January 1, 2002.

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 Code, at least 50% of the issue price of new shares 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 Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, it is available for distribution by the resolution of the shareholders' meeting. Legal reserve is included in accumulated deficits in the accompanying consolidated financial statements.

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.

TRANSLATION OF FOREIGN CURRENCIES

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

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. Statements of operations 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.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for bad debts for notes and accounts receivable, including advances and loans receivable, is 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.

MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Upon applying the Japanese accounting standard for financial instruments, the Company and its domestic subsidiaries 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 ("held-to-maturity debt securities"), (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 ("available-for-sale securities").

Prior to April 1, 2001, 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 was as follows.

	March 31, 2001 (Millions)
Book values	¥ 498
Market values	555
Net unrealized holding gains on securities	34
Deferred income taxes	23

Effective April 1, 2001, available-for-sale securities with available market value are stated at market value and the others without available market value are stated at moving-average cost. Realized gains and losses on sale of such securities are computed using moving-average cost. As a result of adopting the new accounting standard for evaluation of available-for-sale securities, investments in securities were increased by ¥16 million (\$120 thousand) and net unrealized holding gains on investment securities, as a separate component of stockholders' equity, were increased, net of applicable income tax, by ¥4 million (\$30 thousand).

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 a 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.

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.

The useful lives are 15 to 50 years for buildings and structures, and from 7 to 15 years for machinery and equipment.

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.

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

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted the new accounting standard for severance and retirement benefits, and 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, of which ¥2,825 million 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 will be recognized in expenses in equal amounts over 5 years commencing with the year ended March 31, 2001. 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.

For directors and corporate statutory auditors, the Company and its three 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.

ACCRUED EMPLOYEES' BONUSES

The Company and its consolidated domestic subsidiaries 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 or other income.

DERIVATIVES AND HEDGE ACCOUNTING

The Company and its consolidated domestic subsidiaries state derivative financial instruments at fair value and 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:

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 operations 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.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the presentation of the year ended March 31, 2002. These changes had no impact on previously reported results of operations.

NOTE 2 - INVENTORIES

Inventories consist of the following:

	March 31,		March 31, 2002 (Thousands) (Note 1)
	2002 (Millions)	2001	
Finished goods	¥ 5,723	¥ 6,042	¥ 42,949
Work in process	278	867	2,086
Raw materials	2,286	2,643	17,156
Supplies	581	818	4,360
Total	¥ 8,868	¥ 10,370	¥ 66,551

NOTE 3 - SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans outstanding at March 31, 2002 and 2001 bore interest at annual rates of 0.5% - 1.0% and 0.957% - 2.0%, respectively.

Long-term debt consists of the following:

	March 31,		March 31, 2002 (Thousands) (Note 1)
	2002 (Millions)	2001	
Secured loans, 1.675% - 6.9%	¥ 1,766	¥ 3,447	¥ 13,253
Unsecured loans, 1.675% - 2.125%	214	210	1,606
	1,980	3,657	14,859
Less current portion	(1,236)	(1,677)	(9,276)
Total	¥ 744	¥ 1,980	¥ 5,583

The annual maturities of long-term debt outstanding at March 31, 2002 were as follows:

	Amount	
	(Millions)	(Thousands) (Note 1)
Year ending March 31,		
2003	¥ 1,236	\$ 9,276
2004	674	5,058
2005	70	525
Total	¥ 1,980	\$ 14,859

Buildings and land, at net book value of ¥1,309 million (\$9,824 thousand) at March 31, 2002, were pledged as collateral for short-term debt and long-term debt of ¥2,174 million (\$16,315 thousand).

NOTE 4 - EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2002 and 2001 consist of the following:

	March 31,		March 31, 2002 (Thousands) (Note 1)
	2002 (Millions)	2001	
Projected benefit obligation	¥ 5,149	¥ 6,618	¥ 38,641
Less fair value of pension assets	2,279	4,096	17,103
Unfunded projected benefit obligation	2,870	2,522	21,538
Less unrecognized actuarial differences	1,328	396	9,966
Less unrecognized net transition obligation	235	313	1,763
Liability for employees' severance and retirement benefits	¥ 1,307	¥ 1,813	¥ 9,809

Included in the consolidated statements of operations for the year ended March 31, 2002 and 2001 are employees' severance and retirement benefit expenses comprised of the following:

	March 31,		March 31, 2002 (Thousands) (Note 1)
	2002 (Millions)	2001	
Service costs - benefits earned during the year	¥ 230	¥ 280	¥ 1,726
Interest cost on projected benefit obligation	221	204	1,659
Expected return on plan assets	(48)	(49)	(360)
Amortization of net transition obligation	78	2,903	585
Amortization of actuarial differences	26	-	195
Employees' severance and retirement benefit expenses	¥ 507	¥ 3,338	¥ 3,805

The discount rate and the rate of expected return on plan assets used by the Company are 2.8% 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 over 15 years.

NOTE 5 - CONTINGENCIES

At March 31, 2002, the Company and subsidiaries have no contingent liability.

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, 2002 and 2001 as follows:

(1) Purchase price equivalents, Accumulated depreciation equivalents, and Book value equivalents

Machinery and equipment:

	March 31,		March 31,
	2002	2001	2002
	(Millions)		(Thousands)
			(Note 1)
Purchase price equivalents	¥ 25	¥ 82	\$ 188
Accumulated depreciation equivalents	(11)	(62)	(83)
Book value equivalents	¥ 14	¥ 20	\$ 105

Tools:

	March 31,		March 31,
	2002	2001	2002
	(Millions)		(Thousands)
			(Note 1)
Purchase price equivalents	¥ 466	¥ 446	\$ 3,497
Accumulated depreciation equivalents	(299)	(252)	(2,244)
Book value equivalents	¥ 167	¥ 194	\$ 1,253

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

(2) Lease commitments

	March 31,		March 31,
	2002	2001	2002
	(Millions)		(Thousands)
			(Note 1)
Due within one year	¥ 82	¥ 85	\$ 615
Due over one year	99	128	743
Total	¥ 181	¥ 213	\$ 1,358

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

(3) Lease payments and depreciation equivalents

	March 31,		March 31,
	2002	2001	2002
	(Millions)		(Thousands)
			(Note 1)
Lease payments	¥ 105	¥ 89	\$ 788
Depreciation equivalents	¥ 105	¥ 89	\$ 788

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

NOTE 7 - INFORMATION OF SECURITIES

The information of securities as of March 31, 2002 and 2001 was as follows:

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2002.

Available-for-sale securities:

(1) Securities with book values exceeding acquisition costs

	March 31, 2002		
	(Millions)		
Type	Acquisition cost	Book value	Differences
Equity securities	¥ 158	¥ 211	¥ 53
Bonds	3	5	2
Other	3	3	—
Total	¥ 164	¥ 219	¥ 55

	March 31, 2002		
	(Thousands)		
	(Note 1)		
Type	Acquisition cost	Book value	Differences
Equity securities	\$ 1,186	\$ 1,583	\$ 397
Bonds	23	38	15
Other	22	22	—
Total	\$ 1,231	\$ 1,643	\$ 412

(2) Securities with book values not exceeding acquisition costs

	March 31, 2002		
	(Millions)		
Type	Acquisition cost	Book value	Differences
Equity securities	¥ 173	¥ 140	¥ (33)
Total	¥ 173	¥ 140	¥ (33)

	March 31, 2002		
	(Thousands)		
	(Note 1)		
Type	Acquisition cost	Book value	Differences
Equity securities	\$ 1,298	\$ 1,051	\$ (247)
Total	\$ 1,298	\$ 1,051	\$ (247)

The following table summarizes book values of securities with no available fair values as of March 31, 2002 and 2001.

Available-for-sale securities:

Type	March 31, 2002		March 31, 2002
	(Millions)		(Thousands) (Note 1)
	Book value		
Non-listed equity securities	¥ 143	¥ 147	\$ 1,073
Others	3	3	23
Total	¥ 146	¥ 150	\$ 1,096

The following table summarizes available-for-sale securities with maturities and held-to-maturity debt securities:

	March 31, 2002			
	(Millions)			
	Within 1 year	Within 5 years	Over 5 years	Total
Bonds	¥-	¥ 5	¥-	¥ 5
Other	3	-	-	3
Total	¥ 3	¥ 5	¥-	¥ 8

	March 31, 2002			
	(Thousands) (Note 1)			
	Within 1 year	Within 5 years	Over 5 years	Total
Bonds	\$-	\$ 38	\$-	\$ 38
Other	23	-	-	23
Total	\$ 23	\$ 38	\$-	\$ 61

Total sales of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥119 million (\$893 thousand) and the related gains amounted to ¥15 million (\$113 thousand).

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. Upon contribution of these securities, a "gain on securities contributed to employee retirement benefit trust" amounting to ¥496 million was recognized.

NOTE 8 - RESEARCH AND DEVELOPMENT COSTS

Research and development costs in the year ended March 31, 2002 and 2001 amounted to ¥780 million (\$5,854 thousand) and ¥952 million, respectively.

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

As explained in Note 1, the Company and its consolidated domestic subsidiaries are required 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 and subsidiaries utilize 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 subsidiaries 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 and its consolidated domestic subsidiaries evaluate hedge effectiveness semi-annually by comparing the cumulative changes in the interest rate of hedged items and the corresponding changes in the hedging derivative instruments.

The Company and subsidiaries' financial instrument counter-parties were all prime banks operating domestically in Japan, and credit risk in the event of non-performance by the counter-parties is considered minor.

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

Market value and other information as of March 31, 2002 of derivative financial instruments for which hedge accounting has not been applied was as follows:

March 31, 2002	Contract amounts (Excess of one year)	Market value	Unrealized gains (loss)
(Millions)			
Interest rate swap			
Receiving floating interest	¥ 1,300	¥ (13)	¥ (13)
Paying fixed interest	(-)		
Total	¥ 1,300 (-)	¥ (13)	¥ (13)

March 31, 2002	Contract amounts (Excess of one year)	Market value	Unrealized gains (loss)
(Thousands)			
Interest rate swap			
Receiving floating interest	\$ 9,756	\$ (98)	\$ (98)
Paying fixed interest	(-)		
Total	\$ 9,756 (-)	\$ (98)	\$ (98)

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, 2002 and 2001.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	March 31,		March 31,
	2002 (Millions)	2001 (Millions)	2002 (Thousands) (Note 1)
Deferred income tax assets:			
Severance and retirement benefits	¥ 212	¥ 196	\$1,591
Unrealized gain from intercompany sale of fixed assets	46	46	345
Loss carryforwards	59	39	443
Accrued bonuses	29	27	218
Other	41	41	307
Total deferred income tax assets	387	349	2,904
Deferred income tax liabilities:			
Allowance for doubtful accounts	(1)	(1)	(7)
Unrealized gains on investment securities	(2)	—	(15)
Total deferred income tax liabilities	(3)	(1)	(22)
Net deferred income tax assets	¥ 384	¥ 348	\$2,882

Valuation allowance of ¥5,072 million (\$38,064 thousand) and ¥5,305 million was deducted in the above deferred income tax assets at March 31, 2002 and 2001, respectively.

NOTE 11 - SEGMENT INFORMATION

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

(1) Business segment information for the years ended March 31, 2002 and 2001 was as follows:

	Year ended March 31, 2002						Consolidated
	Carbon fiber	Textile	Machinery and Engineering	Service	Total	Corporate or elimination	
	(Millions)						
Net sales	¥ 14,834	¥ 12,212	¥ 5,961	¥ 2,082	¥ 35,089	¥ (1,438)	¥ 33,651
Operating expenses	15,847	13,137	5,703	1,996	36,683	(1,452)	35,231
Operating income (loss)	¥ (1,013)	¥ (925)	¥ 258	¥ 86	¥ (1,594)	¥ 14	¥ (1,580)
Identifiable assets	¥ 18,488	¥ 9,478	¥ 4,884	¥ 1,537	¥ 34,387	¥ 1,515	¥ 35,902
Depreciation and amortization	¥ 2,015	¥ 1,052	¥ 87	¥ 102	¥ 3,256	¥ 17	¥ 3,273
Capital expenditures	¥ 979	¥ 128	¥ 287	¥ 329	¥ 1,723	¥ —	¥ 1,723
	Year ended March 31, 2001						
	(Millions)						
Net sales	¥ 14,921	¥ 18,110	¥ 6,193	¥ 2,097	¥ 41,321	¥ (1,561)	¥ 39,760
Operating expenses	15,895	19,019	5,935	1,965	42,814	(1,549)	41,265
Operating income (loss)	¥ (974)	¥ (909)	¥ 258	¥ 132	¥ (1,493)	¥ (12)	¥ (1,505)
Identifiable assets	¥ 18,915	¥ 15,252	¥ 6,173	¥ 1,490	¥ 41,830	¥ 286	¥ 42,116
Depreciation and amortization	¥ 2,212	¥ 2,245	¥ 77	¥ 107	¥ 4,641	¥ 49	¥ 4,690
Capital expenditures	¥ 2,006	¥ 169	¥ 91	¥ 23	¥ 2,289	¥ —	¥ 2,289

Year ended March 31, 2002							
Carbon fiber	Textile	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated	
			(Thousands) (Note 1)				
Net sales	\$ 111,325	\$ 91,647	\$ 44,735	\$ 15,625	\$ 263,332	\$ (10,792)	\$ 252,540
Operating expenses	118,927	98,589	42,799	14,980	275,295	(10,897)	264,398
Operating income (loss)	\$ (7,602)	\$ (6,942)	\$ 1,936	\$ 645	\$ (11,963)	\$ 105	\$ (11,858)
Identifiable assets	\$ 138,747	\$ 71,129	\$ 36,653	\$ 11,535	\$ 258,064	\$ 11,369	\$ 269,433
Depreciation and amortization	\$ 15,122	\$ 7,895	\$ 653	\$ 765	\$ 24,435	\$ 128	\$ 24,563
Capital expenditures	\$ 7,347	\$ 961	\$ 2,154	\$ 2,469	\$ 12,931	\$ -	\$ 12,931

(2) Geographic segment information for the years ended March 31, 2002 and 2001 was as follows:

Year ended March 31, 2002						
Japan	Europe	Other	Total	Corporate or elimination	Consolidated	
			(Millions)			
Net sales	¥ 30,857	¥ 4,180	¥ 2,311	¥ 37,348	¥ (3,697)	¥ 33,651
Operating expenses	32,518	4,350	2,315	39,183	(3,952)	35,231
Operating loss	¥ (1,661)	¥ (170)	¥ (4)	¥ (1,835)	¥ 255	¥ (1,580)
Identifiable assets	¥ 30,788	¥ 3,051	¥ 1,083	¥ 34,922	¥ 980	¥ 35,902

Year ended March 31, 2001						
Japan	Europe	Other	Total	Corporate or elimination	Consolidated	
			(Millions)			
Net sales	¥ 36,760	¥ 4,128	¥ 2,282	¥ 43,170	¥ (3,410)	¥ 39,760
Operating expenses	38,438	4,148	2,436	45,022	(3,757)	41,265
Operating loss	¥ (1,678)	¥ (20)	¥ (154)	¥ (1,852)	¥ 347	¥ (1,505)
Identifiable assets	¥ 37,481	¥ 3,412	¥ 953	¥ 41,846	¥ 270	¥ 42,116

Year ended March 31, 2002						
Japan	Europe	Other	Total	Corporate or elimination	Consolidated	
			(Thousands) (Note 1)			
Net sales	\$ 231,572	\$ 31,370	\$ 17,343	\$ 280,285	\$ (27,745)	\$ 252,540
Operating expenses	244,038	32,645	17,373	294,056	(29,658)	264,398
Operating loss	\$ (12,466)	\$ (1,275)	\$ (30)	\$ (13,771)	\$ 1,913	\$ (11,858)
Identifiable assets	\$ 231,054	\$ 22,897	\$ 8,128	\$ 262,079	\$ 7,354	\$ 269,433

(3) Overseas sales information by geographic areas for the years ended March 31, 2002 and 2001 was as follows:

	Year ended March 31, 2002			
	Asia	Europe	Other	Total
	(Millions)			
Overseas sales	¥ 1,418	¥ 4,057	¥ 2,311	¥ 7,786
Percentage of overseas sales to consolidated net sales	4.2%	12.0%	6.9%	23.1%

	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, 2002			
	Asia	Europe	Other	Total
	(Thousands) (Note 1)			
Overseas sales	\$ 10,642	\$ 30,447	\$ 17,343	\$ 58,432

NOTE 12 - RESTRUCTURING PLAN

Toho Tenax Co., Ltd., Toho Textile Co., Ltd. and Toho Rayon Tokushima Co., Ltd. resolved at the Board of Directors' meeting of the respective companies held on December 20, 2001 to undergo business restructuring. Accordingly, Toho Rayon Tokushima Co., Ltd. was to withdraw from the rayon business and Toho Textile Co., Ltd. was to close its Tokushima plant and to reduce the Ibigawa plant operations.

The cost of restructuring the textile business amounting to ¥5,681 million (\$42,634 thousand) and ¥1,974 million was recognized in the year ended March 31, 2002 and 2001, respectively.

In order to compensate for the cost, the Board of Directors of the Company resolved to sell a portion of land located at the 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 ¥9,850 million (\$73,921 thousand) while its book value is ¥6 million (\$45 thousand). According to the sale contract of the land, the Company sold a part of the land and recognized ¥3,931 million (\$29,501 thousand) of gain on sale of land in the year ended March 31, 2002. And the Company will sell the rest of the land in the year ending March 31, 2003.

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of Toho Tenax Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2002 and 2001, 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 Tenax Co., Ltd. and subsidiaries as of March 31, 2002 and 2001, 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 (Note 1) applied on a consistent basis during the periods.

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.

Asahi & Co.

Tokyo, Japan
June 27, 2002

Five-year Summary

Years ended March 31

	Millions of yen				
	2002	2001	2000	1999	1998
For the year:					
Net sales	¥ 33,651	¥ 39,760	¥ 41,686	¥ 51,348	¥ 59,772
Operating income (loss)	(1,580)	(1,505)	410	1,652	2,409
Net income (loss)	(1,581)	(6,174)	(568)	(4,500)	(453)
Net income (loss) per share (in yen)	(11.2)	(43.5)	(4.0)	(37.3)	(4.9)
At year-end:					
Total stockholders' equity	¥ 8,454	¥ 9,757	¥ 16,646	¥ 16,900	¥ 13,403
Total assets	35,902	42,116	52,818	62,229	64,951
Stockholders' equity per share (in yen)	59.6	68.8	117.4	119.2	146.0

