

# TOHO RAYON CO., LTD.

and Consolidated Subsidiaries

## FINANCIAL STATEMENTS

### 1999

Year ended March 31, 1999

### Financial Highlights

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

|                            | Millions of yen |          | Thousands of<br>U.S. dollars (Note) |  |
|----------------------------|-----------------|----------|-------------------------------------|--|
|                            | 1999            | 1998     | 1999                                |  |
| Net Sales .....            | ¥ 51,348        | ¥ 59,772 | \$ 425,948                          |  |
| Net Loss .....             | 4,500           | 453      | 37,329                              |  |
| Shareholders' Equity ..... | 16,900          | 13,403   | 140,191                             |  |
| Per Share:                 |                 |          |                                     |  |
|                            | Yen             |          | U.S. dollars                        |  |
| Net Loss .....             | 37.30           | 4.94     | 0.31                                |  |
| Shareholders' Equity ..... | 119.20          | 146.03   | 0.99                                |  |

Note: The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥120.55 = US\$1. The amounts previously reported for the years through 1998 have been revised to reflect the same rate of conversion. See Note 1 of Notes to Consolidated Financial Statements.

**CONSOLIDATED BALANCE SHEETS**

March 31, 1999 and 1998

|   | Millions of yen |                 | Thousands of          |
|---|-----------------|-----------------|-----------------------|
|   | 1999            | 1998            | U.S. dollars (Note 1) |
|   |                 |                 | 1999                  |
| <b>ASSETS</b>                                 |                 |                 |                       |
| <b>CURRENT ASSETS:</b>                        |                 |                 |                       |
| Cash.....                                     | ¥ 12,440        | ¥ 3,343         | \$ 103,194            |
| Marketable securities.....                    | 765             | 792             | 6,346                 |
| Notes and accounts receivable (Note 6).....   | 12,912          | 16,728          | 107,109               |
| Less allowance for doubtful accounts .....    | (269)           | (264)           | (2,231)               |
|   | <b>12,643</b>   | <b>16,464</b>   | <b>104,878</b>        |
| Inventories (Note 2) .....                    | 11,761          | 12,759          | 97,561                |
| Other current assets .....                    | 1,430           | 894             | 11,862                |
| TOTAL CURRENT ASSETS .....                    | <b>39,039</b>   | <b>34,252</b>   | <b>323,841</b>        |
| <b>PROPERTY, PLANT AND EQUIPMENT (Note 3)</b> |                 |                 |                       |
| Land.....                                     | 1,650           | 1,665           | 13,687                |
| Buildings and structures .....                | 7,280           | 9,362           | 60,390                |
| Machinery and equipment.....                  | 10,421          | 12,518          | 86,445                |
| Construction in progress .....                | 418             | 2,632           | 3,467                 |
| Other .....                                   | 268             | 363             | 2,224                 |
| NET PROPERTY, PLANT AND EQUIPMENT .....       | <b>20,037</b>   | <b>26,540</b>   | <b>166,213</b>        |
| <b>OTHER ASSETS:</b>                          |                 |                 |                       |
| Investments in securities (Note 6) .....      | 2,244           | 2,588           | 18,615                |
| Long-term accounts receivable.....            | 4,840           | 4,657           | 40,149                |
| Other .....                                   | 1,020           | 1,512           | 8,461                 |
| Less allowance for doubtful accounts .....    | (4,951)         | (4,598)         | (41,070)              |
|   | <b>909</b>      | <b>1,571</b>    | <b>7,540</b>          |
| TOTAL OTHER ASSETS .....                      | <b>3,153</b>    | <b>4,159</b>    | <b>26,155</b>         |
|   | <b>¥ 62,229</b> | <b>¥ 64,951</b> | <b>\$ 516,209</b>     |

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

|   | Millions of yen |              | Thousands of<br>U.S. dollars (Note 1) |
|---|-----------------|--------------|---------------------------------------|
|   | 1999            | 1998         | 1999                                  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                 |              |                                       |
| <b>CURRENT LIABILITIES:</b>   |                 |              |                                       |
| Short-term bank loans and current maturities of long-term debt (Note 3).....  | ¥ 26,557        | ¥ 29,547     | \$ 220,299                            |
| Notes and accounts payable.....   | 7,560           | 10,589       | 62,713                                |
| Income taxes payable .....  | 182             | 191          | 1,510                                 |
| Accrued expenses and other current liabilities .....  | 2,837           | 2,317        | 23,533                                |
| TOTAL CURRENT LIABILITIES .....   | 37,136          | 42,644       | 308,055                               |
| <b>LONG-TERM DEBT, LESS CURRENT MATURITIES (Note 3).....</b>  | <b>5,643</b>    | <b>5,268</b> | <b>46,810</b>                         |
| <b>RETIREMENT BENEFITS .....</b>  | <b>2,038</b>    | <b>2,627</b> | <b>16,906</b>                         |
| <b>OTHER LIABILITIES .....</b>  | <b>50</b>       | <b>569</b>   | <b>415</b>                            |
| TOTAL LIABILITIES .....   | 44,867          | 51,108       | 372,186                               |
| <b>MINORITY INTERESTS .....</b>   | <b>462</b>      | <b>440</b>   | <b>3,832</b>                          |
| <b>CONTINGENCIES AND COMMITMENTS (Notes 4 and 5)</b>  |                 |              |                                       |
| <b>STOCKHOLDERS' EQUITY:</b>  |                 |              |                                       |
| Common stock, ¥50 par value -<br>Shares authorized, 200,000,000;<br>Issued, 91,786,738 shares in 1998 and<br>141,786,738 shares in 1999 (Note 8)..... | 13,065          | 9,065        | 108,378                               |
| Additional paid-in capital (Note 8).....  | 9,943           | 5,943        | 82,480                                |
| Accumulated deficits .....  | (6,108)         | (1,605)      | (50,667)                              |
| TOTAL STOCKHOLDERS' EQUITY .....  | 16,900          | 13,403       | 140,191                               |
|   | ¥ 62,229        | ¥ 64,951     | \$ 516,209                            |

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years ended March 31, 1999 and 1998

|  | Millions of yen |          | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
|  | 1999            | 1998     | 1999                                  |
| <b>NET SALES</b> .....   | ¥ 51,348        | ¥ 59,772 | \$ 425,948                            |
| <b>COST OF SALES</b> .....   | 42,214          | 49,451   | 350,179                               |
| Gross profit .....   | 9,134           | 10,321   | 75,769                                |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> .....                            | 7,482           | 7,912    | 62,065                                |
| Operating income .....   | 1,652           | 2,409    | 13,704                                |
| <b>OTHER INCOME (EXPENSES):</b>  |                 |          |                                       |
| Interest and dividend income .....   | 77              | 140      | 639                                   |
| Interest expenses .....  | (717)           | (693)    | (5,948)                               |
| Loss on devaluation of equity securities .....                                       | (339)           | (463)    | (2,812)                               |
| Loss on sale of equity securities .....  | (35)            | (139)    | (290)                                 |
| Gain on sale of property, plant and equipment .....                                  | 1,274           | 197      | 10,568                                |
| Write-off of accounts receivable .....   | (339)           | (1,095)  | (2,812)                               |
| Restructuring costs .....  | (4,922)         | (322)    | (40,830)                              |
| Amortization of deferred assets .....  | (369)           | —        | (3,061)                               |
| Other, net .....   | (276)           | (82)     | (2,289)                               |
|  | (5,646)         | (2,457)  | (46,835)                              |
| Loss before income taxes and minority interests in<br>earnings of subsidiaries ..... | (3,994)         | (48)     | (33,131)                              |
| <b>INCOME TAXES</b> .....  | 464             | 363      | 3,850                                 |
| Loss before minority interests .....   | (4,458)         | (411)    | (36,981)                              |
| <b>MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES</b> .....                          | (42)            | (42)     | (348)                                 |
| <b>Net loss</b> .....  | ¥ (4,500)       | ¥ (453)  | \$ (37,329)                           |
| <b>NET LOSS PER SHARE:</b> .....   | ¥ (37.3)        | ¥ (4.94) | \$ (0.31)                             |

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

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years ended March 31, 1999 and 1998

|  | 1999            |           | 1998                               |      |
|--|-----------------|-----------|------------------------------------|------|
| <b>COMMON STOCK:</b>   |                 |           |                                    |      |
| Shares (Thousands)   |                 |           |                                    |      |
| Balance at beginning of year .....                               | <b>91,787</b>   |           | 91,787                             |      |
| Issuance of common stock (Note 8) .....                          | <b>50,000</b>   |           | —                                  |      |
| Balance at end of year .....                                     | <b>141,787</b>  |           | 91,787                             |      |
|  |                 |           |                                    |      |
|  | Millions of yen |           | Thousands of U.S. dollars (Note 1) |      |
|  | 1999            |           | 1998                               |      |
| Amount   |                 |           |                                    | 1999 |
| Balance at beginning of year .....                               | ¥ 9,065         | ¥ 9,065   | \$ 75,197                          |      |
| Issuance of common stock (Note 8) .....                          | 4,000           | —         | 33,181                             |      |
| Balance at end of year .....                                     | ¥ 13,065        | ¥ 9,065   | \$ 108,378                         |      |
| <b>ADDITIONAL PAID-IN CAPITAL:</b>                               |                 |           |                                    |      |
| Balance at beginning of year .....                               | ¥ 5,943         | ¥ 5,943   | \$ 49,299                          |      |
| Issuance of common stock (Note 8) .....                          | 4,000           | —         | 33,181                             |      |
| Balance at end of year .....                                     | ¥ 9,943         | ¥ 5,943   | \$ 82,480                          |      |
| <b>ACCUMULATED DEFICITS:</b>                                     |                 |           |                                    |      |
| Balance at beginning of year .....                               | ¥ (1,605)       | ¥ (1,149) | \$ (13,314)                        |      |
| Net loss for the year .....                                      | (4,500)         | (453)     | (37,329)                           |      |
| Bonuses paid to directors and corporate statutory auditors ..... | (3)             | (3)       | (24)                               |      |
| Balance at end of year .....                                     | ¥ (6,108)       | ¥ (1,605) | \$ (50,667)                        |      |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended March 31, 1999 and 1998

|   | Millions of yen |                | Thousands of          |
|---|-----------------|----------------|-----------------------|
|   | 1999            | 1998           | U.S. dollars (Note 1) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                    |                 |                | <b>1999</b>           |
| Net Loss.....   | ¥ (4,500)       | ¥ (453)        | \$ (37,329)           |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                 |                |                       |
| Depreciation and amortization.....  | 3,677           | 3,462          | 30,502                |
| Gain on sale of property, plant and equipment.....                              | (1,274)         | (197)          | (10,568)              |
| Loss on devaluation of equity securities.....                                   | 339             | 463            | 2,812                 |
| Loss on sale of equity securities.....  | 35              | 139            | 290                   |
| Write-off of accounts receivable.....   | 339             | 1,095          | 2,812                 |
| Restructuring costs of plants.....  | 2,491           | 126            | 20,664                |
| Amortization of deferred assets.....  | 369             | —              | 3,061                 |
| Bonuses paid to directors and corporate statutory auditors.....                 | (3)             | (3)            | (24)                  |
| Changes in operating assets and liabilities:                                    |                 |                |                       |
| Decrease in notes and accounts receivable.....                                  | 3,821           | 1,316          | 31,696                |
| Decrease in inventories.....  | 998             | 1,208          | 8,279                 |
| Increase in other current assets.....   | (536)           | (284)          | (4,447)               |
| (Decrease) increase in income taxes payable.....                                | (9)             | 33             | (75)                  |
| Decrease in notes and accounts payable.....                                     | (3,029)         | (2,137)        | (25,127)              |
| Increase in accrued expenses and other current liabilities.....                 | 520             | 86             | 4,314                 |
| (Decrease) increase in retirement benefits.....                                 | (589)           | 38             | (4,886)               |
| (Decrease) increase in other long-term liabilities.....                         | (519)           | 356            | (4,305)               |
| Increase (decrease) in minority interests.....                                  | 22              | (36)           | 183                   |
| NET CASH PROVIDED BY OPERATING ACTIVITIES.....                                  | <u>2,152</u>    | <u>5,212</u>   | <u>17,852</u>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                    |                 |                |                       |
| Purchase of property and equipment.....   | (4,828)         | (5,128)        | (40,050)              |
| Proceeds from sale of property, plants and equipment.....                       | 6,437           | 179            | 53,397                |
| (Increase) decrease in equity securities.....                                   | (3)             | 277            | (25)                  |
| Decrease in long-term accounts receivable and other.....                        | (46)            | (943)          | (381)                 |
| NET CASH PROVIDED BY (USED IN ) INVESTING ACTIVITIES.....                       | <u>1,560</u>    | <u>(5,615)</u> | <u>12,941</u>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                    |                 |                |                       |
| (Decrease) increase in short-term bank loans.....                               | (2,666)         | 404            | (22,116)              |
| Proceeds from long-term debt.....   | 3,310           | 2,543          | 27,457                |
| Repayment of long-term debt.....  | (3,259)         | (1,794)        | (27,034)              |
| Proceeds from issuance of common stock.....                                     | 8,000           | —              | 66,363                |
| NET CASH PROVIDED BY FINANCING ACTIVITIES.....                                  | <u>5,385</u>    | <u>1,153</u>   | <u>44,670</u>         |
| <b>NET INCREASE IN CASH.....</b>  | <b>9,097</b>    | <b>750</b>     | <b>75,463</b>         |
| <b>CASH AT BEGINNING OF YEAR.....</b>   | <b>3,343</b>    | <b>2,593</b>   | <b>27,731</b>         |
| <b>CASH AT END OF YEAR.....</b>   | <b>¥ 12,440</b> | <b>¥ 3,343</b> | <b>\$ 103,194</b>     |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 1999 and 1998

**NOTE 1 — SUMMARY OF 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 are 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 statements of cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

The translations of the Japanese yen (¥) amounts into U.S. dollars (\$) are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥120.55 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 rates of exchange.

**CONSOLIDATION**

The consolidated financial statements included the accounts of the Company and subsidiaries. All significant intercompany balances and transactions or unrealized intercompany profits have been eliminated in the consolidated financial statements.

The number of consolidated subsidiaries at March 31 was as follows:

|                           | <u>1999</u> | <u>1998</u> |
|---------------------------|-------------|-------------|
| Consolidated subsidiaries | 13          | 12          |

Investments in affiliates, which would be accounted for by the equity method, are carried at cost (adjusted for any substantial and non-recoverable decline in value). The effect on net income or loss from those investments is immaterial to the consolidated financial statements.

**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 designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital 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 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 the each period, and for common stock and additional paid-in capital are historical rates. Differences arising from translation were included in other assets in 1999 and other liabilities in 1998 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 rate 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.

**CASH**

Cash includes cash on hand and amounts due from banks.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**

For the Company and its consolidated domestic subsidiaries, notes and accounts receivable, including advances and loans receivable, are valued by providing for individual amounts deemed to be uncollectible plus the maximum amount for possible losses in respect of doubtful accounts which could be charged to income under the Japanese Corporate Income Tax Law. For consolidated foreign subsidiaries, they adopt the policy of providing the allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts.

**MARKETABLE SECURITIES, INVESTMENTS IN SECURITIES**

Securities that have quoted market prices are valued at their cost or at their listed stock exchange price at the end of the year, whichever is lower. All other investments are stated at 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 primarily using the declining-balance method. In accordance with revisions of the Japanese Corporate Income Tax Law, buildings acquired by the Company and its consolidated domestic subsidiaries after March 31, 1998 are depreciated using the straight-line method. The effect of this change was immaterial to the consolidated financial statements.

Also effective April 1, 1998, in accordance with revisions referred to above, the Company and its consolidated domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures.

The effect of this change was to decrease operating income and loss before income taxes, minority interests in earnings of subsidiaries by ¥49 million (\$406 thousand).

Maintenance, repair and minor renewals are charged to income as incurred.

## 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 EXPENSES

Issuance expenses for stock are charged to income as incurred.

## RESEARCH AND DEVELOPMENT EXPENSES

Previously research and development (R&D) expenses related to development of new products and production processes had been deferred, and amortized over five years using the straight-line method and their amortization costs had been charged to operating expenses. Effective April 1, 1998, the Company changed its accounting method to charge R&D expenses to operations when they incur since relations between R&D activities and their contributions to sales are not clear. As a result of this change, the Company charged all unamortized R&D expenses as of April 1, 1998 to other expenses as amortization of deferred assets and the effect of this change was to increase operating income by ¥13 million (\$108 thousand) and increase loss before income taxes and minority interests in earnings of subsidiaries for the year by ¥356 million (\$2,953 thousand).

## RETIREMENT BENEFITS

Employees severing their connection 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 liabilities for retirement benefits computed on the assumption that all employees terminated their employment at each period. The Company and the other domestic subsidiaries provide for 40% of liabilities for retirement benefits computed on the assumption that all employees terminated their employment at each period. The overseas consolidated subsidiary provides for such liability calculated by the actuarial method.

For directors and corporate statutory auditors, the Company and its two domestic subsidiaries provide for 100% of liabilities for retirement benefits based on the estimated amount that would be payable at the end of each year in accordance with the articles of corporation. The amounts of those liabilities, which are included in an account of retirement benefits in the consolidated balance sheets, were ¥148 million (\$1,228 thousand) and ¥245 million at March 31, 1999 and 1998, respectively.

Most employees of the Company and consolidated domestic subsidiaries are covered by a trustee pension plan. Un-amortized past service costs under the plan amounted to ¥2,875 million (\$23,849 thousand) at September 30, 1998, which is currently being amortized on a straight-line basis over fourteen years.

## ACCRUED EMPLOYEES' BONUSES

The Company and its consolidated domestic subsidiaries previously provided the accrued bonuses using the formula provided the Japanese Corporate Income Tax Law. Effective April 1, 1998, 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.

As a result of this change, the effect was to increase operating income by ¥105 million (\$871 thousand) and decrease loss before income taxes and minority interests in earnings of subsidiaries for the year by ¥105 million (\$871 thousand).

## INCOME TAXES

The Company is subject to a number of different income taxes which, in the aggregate, reflect a statutory tax rate of approximately 47% for the year ended March 31, 1999, and 52% for the year ended March 31, 1998. However, there is a reduction for special tax credits applicable to foreign technical license fee and increases in research and development expenses. There is also a reduction of taxes on dividend income from Japanese companies. There are limits on deductions of certain expenses.

Deferred income taxes relating to temporary differences between books and tax are not provided for as it has not been customary to do so in Japan.

## 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.

#### NOTE 2 — INVENTORIES

Inventories consist of the following:

|                       | Millions of yen |          | Thousands of          |
|-----------------------|-----------------|----------|-----------------------|
|                       | 1999            | 1998     | U.S. dollars (Note 1) |
| Finished goods .....  | ¥ 5,994         | ¥ 6,681  | \$ 49,722             |
| Work in process ..... | 1,304           | 1,229    | 10,817                |
| Raw materials.....    | 3,119           | 3,819    | 25,873                |
| Supplies .....        | 1,344           | 1,030    | 11,149                |
| Total .....           | ¥ 11,761        | ¥ 12,759 | \$ 97,561             |

#### NOTE 3 — SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding at March 31, 1999 and 1998 bore interest at annual rates of 0.375% - 1.875% and 0.2% - 1.375%, respectively.

Long-term debt consists of the following:

|  | Millions of yen |         | Thousands of          |
|--|-----------------|---------|-----------------------|
|  | 1999            | 1998    | U.S. dollars (Note 1) |
| Secured loans, 1.875%-6.9% .....   | ¥ 6,508         | ¥ 6,877 | \$ 53,986             |
| Unsecured loans, 1.875% - 2.5% .....   | 1,505           | 1,085   | 12,484                |
| 2.4% mortgaged convertible yen<br>sinking fund bonds due in November, 1999 ..... | 327             | 327     | 2,713                 |
|  | 8,340           | 8,289   | 69,183                |
| Less current maturities.....   | (2,697)         | (3,021) | (22,373)              |
| Total .....  | ¥ 5,643         | ¥ 5,268 | \$ 46,810             |

The annual maturities of long-term debt outstanding at March 31, 1999 were as follows:

| Year ending March 31, | Amount          |                                    |
|-----------------------|-----------------|------------------------------------|
|                       | Millions of yen | Thousands of U.S. dollars (Note 1) |
| 2000                  | ¥ 2,697         | \$ 22,373                          |
| 2001                  | 2,335           | 19,370                             |
| 2002                  | 1,689           | 14,011                             |
| 2003                  | 1,078           | 8,942                              |
| 2004 and thereafter   | 541             | 4,487                              |
| Total                 | ¥ 8,340         | \$ 69,183                          |

Buildings and land, at net book value of ¥1,276 million (\$10,585 thousand) at March 31, 1999, were pledged as collateral for long-term debt of ¥6,835 million (\$56,699 thousand).

**NOTE 4 — CONTINGENCIES**

Contingent liabilities for notes receivable discounted at banks with recourse at March 31, 1999, were ¥106 million (\$879 thousand).

**NOTE 5 — LEASES**

The Company and subsidiaries lease certain machinery, equipment and tools under non-cancelable finance leases without transfer of ownership. Assuming that finance leases without transfer of ownership were capitalized, they would be recorded on the consolidated financial statements as of March 31, 1999 and 1998 as follows:

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

## Machinery and equipment

|  | Millions of yen |      | Thousands of          |
|--|-----------------|------|-----------------------|
|  | 1999            | 1998 | U.S. dollars (Note 1) |
| Purchase price equivalents .....           | ¥ 64            | ¥ 57 | \$ 531                |
| Accumulated depreciation equivalents ..... | (47)            | (39) | (390)                 |
| Book value equivalents .....               | ¥ 17            | ¥ 18 | \$ 141                |

## Tools

|  | Millions of yen |       | Thousands of          |
|--|-----------------|-------|-----------------------|
|  | 1999            | 1998  | U.S. dollars (Note 1) |
| Purchase price equivalents .....           | ¥ 605           | ¥ 516 | \$ 5,019              |
| Accumulated depreciation equivalents ..... | (320)           | (251) | (2,655)               |
| Book value equivalents .....               | ¥ 285           | ¥ 265 | \$ 2,364              |

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

## (2) Lease commitments

|                           | Millions of yen |       | Thousands of          |
|---------------------------|-----------------|-------|-----------------------|
|                           | 1999            | 1998  | U.S. dollars (Note 1) |
| Due within one year ..... | ¥ 124           | ¥ 110 | \$ 1,029              |
| Due over one year .....   | 178             | 174   | 1,476                 |
| Total .....               | ¥ 302           | ¥ 284 | \$ 2,505              |

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

## (3) Lease payments and depreciation equivalents

|                                | Millions of yen |       | Thousands of          |
|--------------------------------|-----------------|-------|-----------------------|
|                                | 1999            | 1998  | U.S. dollars (Note 1) |
| Lease payments.....            | ¥ 122           | ¥ 150 | \$ 1,012              |
| Depreciation equivalents ..... | ¥ 122           | ¥ 150 | \$ 1,012              |

The depreciation is calculated on a straight-line method over the lease period without residual value.

## NOTE 6 — MARKET VALUE INFORMATION - PARENT (non-consolidated) ONLY

At March 31, 1999 and 1998, book value, market value and unrealized gains (losses) of quoted securities of the Company were as follows:

### (1) Current assets

|                   | Millions of yen |              |                  |            |              |                  | Thousands of U.S. dollars (Note 1) |              |                  |
|-------------------|-----------------|--------------|------------------|------------|--------------|------------------|------------------------------------|--------------|------------------|
|                   | 1999            |              |                  | 1998       |              |                  | 1999                               |              |                  |
|                   | Book value      | Market value | Unrealized gains | Book value | Market value | Unrealized gains | Book value                         | Market value | Unrealized gains |
| Current assets:   |                 |              |                  |            |              |                  |                                    |              |                  |
| Equity securities | ¥ 736           | ¥ 1,155      | ¥ 419            | ¥ 760      | ¥ 1,268      | ¥ 508            | \$ 6,105                           | \$ 9,581     | \$ 3,476         |

### (2) Non-current assets

|                     | Millions of yen |              |                  |            |              |                  | Thousands of U.S. dollars (Note 1) |              |                  |
|---------------------|-----------------|--------------|------------------|------------|--------------|------------------|------------------------------------|--------------|------------------|
|                     | 1999            |              |                  | 1998       |              |                  | 1999                               |              |                  |
|                     | Book value      | Market value | Unrealized gains | Book value | Market value | Unrealized gains | Book value                         | Market value | Unrealized gains |
| Non-current assets: |                 |              |                  |            |              |                  |                                    |              |                  |
| Equity securities   | ¥ 1,829         | ¥ 2,313      | ¥ 484            | ¥ 2,136    | ¥ 2,644      | ¥ 508            | \$ 15,172                          | \$ 19,187    | \$ 4,015         |
| Other               | —               | —            | —                | 26         | 18           | (8)              | —                                  | —            | —                |
|                     | ¥ 1,829         | ¥ 2,313      | ¥ 484            | ¥ 2,162    | ¥ 2,662      | ¥ 500            | \$ 15,172                          | \$ 19,187    | \$ 4,015         |

## NOTE 7 — 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.

At March 31, 1999, the Company had outstanding off-balance derivative transactions as below:

### Forward Foreign Exchange Contracts

|                    | Millions of yen                    |                    |          |          |         |  | Fair value | Unrealized gains (losses) |
|--------------------|------------------------------------|--------------------|----------|----------|---------|--|------------|---------------------------|
|                    | Contract amount in Yen equivalent  |                    |          |          |         |  |            |                           |
|                    | Due within one year                | Due after one year | Total    |          |         |  |            |                           |
| Sell, U.S. Dollars | ¥ 281                              | ¥ —                | ¥ 281    | ¥ 292    | ¥ (11)  |  |            |                           |
| Sell, DM           | 46                                 | 17                 | 63       | 62       | 1       |  |            |                           |
| Sell, Euro         | 134                                | —                  | 134      | 132      | 2       |  |            |                           |
|                    |                                    |                    |          |          |         |  |            |                           |
|                    | Thousands of U.S. dollars (Note 1) |                    |          |          |         |  | Fair value | Unrealized gains (losses) |
|                    | Contract amount in Yen equivalent  |                    |          |          |         |  |            |                           |
|                    | Due within one year                | Due after one year | Total    |          |         |  |            |                           |
| Sell, U.S. Dollars | \$ 2,331                           | \$ —               | \$ 2,331 | \$ 2,422 | \$ (91) |  |            |                           |
| Sell, DM           | 382                                | 141                | 523      | 514      | 9       |  |            |                           |
| Sell, Euro         | 1,112                              | —                  | 1,112    | 1,095    | 17      |  |            |                           |

## 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              | ¥ 600   | ¥ 20       | ¥ 20                      |
| Pay fixed rate, receive floating rate | 300                 | 6,300              | 6,600   | (213)      | (213)                     |
|                                       | ¥ 600               | ¥ 6,600            | ¥ 7,200 | ¥ (193)    | ¥ (193)                   |
| Buy, interest rate cap contracts      | ¥ —                 | ¥ 1,500            | ¥ 1,500 | ¥ 18       | ¥ 18                      |

  

|                                       | 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 | \$ 2,489                           | \$ 2,489           | \$ 4,978  | \$ 166     | \$ 166                    |
| Pay fixed rate, receive floating rate | 2,489                              | 52,260             | 54,749    | (1,767)    | (1,767)                   |
|                                       | \$ 4,978                           | \$ 54,749          | \$ 59,727 | \$ (1,601) | \$ (1,601)                |
| Buy, interest rate cap contracts      | \$ —                               | \$ 12,443          | \$ 12,443 | \$ 149     | \$ 149                    |

### NOTE 8 — STOCKHOLDERS' EQUITY

At July 29, 1998, the Company issued 50,000 thousand shares of common stock at ¥160 (\$1.32725) per share in cash for an aggregate issuance proceeds of ¥8,000 million (\$66,362 thousand), each half of which were credited to a common stock account and an additional paid-in capital account.

### NOTE 9 — SEGMENT INFORMATION

The Company and subsidiaries operate primarily in the manufacture and sales of products in three business segments: textile industry, carbon fiber industry and other.

(1) Business segment information for the years ended March 31, 1999 and 1998 was as follows:

| Year ended March 31, 1999     | Millions of yen |              |         |          |                          |              |
|-------------------------------|-----------------|--------------|---------|----------|--------------------------|--------------|
|                               | Textile         | Carbon fiber | Other   | Total    | Corporate or elimination | Consolidated |
| Net sales                     | ¥ 28,478        | ¥ 17,417     | ¥ 6,928 | ¥ 52,823 | ¥ (1,475)                | ¥ 51,348     |
| Operating expenses            | 30,865          | 13,778       | 6,487   | 51,130   | (1,434)                  | 49,696       |
| Operating income (loss)       | ¥ (2,387)       | ¥ 3,639      | ¥ 441   | ¥ 1,693  | ¥ (41)                   | ¥ 1,652      |
| Identifiable assets           | ¥ 25,942        | ¥ 19,279     | ¥ 4,735 | ¥ 49,956 | ¥ 12,273                 | ¥ 62,229     |
| Depreciation and amortization | ¥ 1,295         | ¥ 2,121      | ¥ 190   | ¥ 3,606  | ¥ 71                     | ¥ 3,677      |
| Capital expenditures          | ¥ 571           | ¥ 1,399      | ¥ 815   | ¥ 2,785  | ¥ 49                     | ¥ 2,834      |

Year ended March 31, 1998

|                               | Millions of yen |              |         |          |                          | Consolidated |
|-------------------------------|-----------------|--------------|---------|----------|--------------------------|--------------|
|                               | Textile         | Carbon fiber | Other   | Total    | Corporate or elimination |              |
| Net sales                     | ¥ 35,023        | ¥ 17,946     | ¥ 8,518 | ¥ 61,487 | ¥ (1,715)                | ¥ 59,772     |
| Operating expenses            | 37,506          | 13,423       | 8,041   | 58,970   | (1,607)                  | 57,363       |
| Operating income (loss)       | ¥ (2,483)       | ¥ 4,523      | ¥ 477   | ¥ 2,517  | ¥ (108)                  | ¥ 2,409      |
| Identifiable assets           | ¥ 32,663        | ¥ 21,241     | ¥ 4,263 | ¥ 58,167 | ¥ 6,784                  | ¥ 64,951     |
| Depreciation and amortization | ¥ 1,902         | ¥ 1,263      | ¥ 206   | ¥ 3,371  | ¥ 91                     | ¥ 3,462      |
| Capital expenditures          | ¥ 1,219         | ¥ 3,910      | ¥ 187   | ¥ 5,316  | ¥ 4                      | ¥ 5,320      |

Year ended March 31, 1999

|                               | Thousands of U.S. dollars (Note 1) |              |           |            |                          | Consolidated |
|-------------------------------|------------------------------------|--------------|-----------|------------|--------------------------|--------------|
|                               | Textile                            | Carbon fiber | Other     | Total      | Corporate or elimination |              |
| Net sales                     | \$ 236,234                         | \$ 144,479   | \$ 57,470 | \$ 438,183 | \$ (12,235)              | \$ 425,948   |
| Operating expenses            | 256,035                            | 114,293      | 53,811    | 424,139    | (11,895)                 | 412,244      |
| Operating income (loss)       | \$ (19,801)                        | \$ 30,186    | \$ 3,659  | \$ 14,044  | \$ (340)                 | \$ 13,704    |
| Identifiable assets           | \$ 215,197                         | \$ 159,925   | \$ 39,279 | \$ 414,401 | \$ 101,808               | \$ 516,209   |
| Depreciation and amortization | \$ 10,742                          | \$ 17,594    | \$ 1,577  | \$ 29,913  | \$ 589                   | \$ 30,502    |
| Capital expenditures          | \$ 4,737                           | \$ 11,605    | \$ 6,760  | \$ 23,102  | \$ 407                   | \$ 23,509    |

(2) Geographic segment information for the years ended March 31, 1999 and 1998 was as follows:

Year ended March 31, 1999

|                         | Millions of yen |         |          |                          | Consolidated |
|-------------------------|-----------------|---------|----------|--------------------------|--------------|
|                         | Japan           | Other   | Total    | Corporate or elimination |              |
| 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, 1998

|                         | Millions of yen |         |          |                          | Consolidated |
|-------------------------|-----------------|---------|----------|--------------------------|--------------|
|                         | Japan           | Other   | Total    | Corporate or elimination |              |
| Net sales               | ¥ 56,929        | ¥ 7,519 | ¥ 64,448 | ¥ (4,676)                | ¥ 59,772     |
| Operating expenses      | 53,799          | 7,071   | 60,870   | (3,507)                  | 57,363       |
| Operating income (loss) | ¥ 3,130         | ¥ 448   | ¥ 3,578  | ¥ (1,169)                | ¥ 2,409      |
| Identifiable assets     | ¥ 51,085        | ¥ 7,081 | ¥ 58,166 | ¥ 6,785                  | ¥ 64,951     |

Year ended March 31, 1999

|                         | Thousands of U.S. dollars (Note 1) |           |            |                          | Consolidated |
|-------------------------|------------------------------------|-----------|------------|--------------------------|--------------|
|                         | Japan                              | Other     | Total      | Corporate or elimination |              |
| Net sales               | \$ 402,953                         | \$ 63,227 | \$ 466,180 | \$ (40,232)              | \$ 425,948   |
| Operating expenses      | 383,434                            | 59,834    | 443,268    | (31,024)                 | 412,244      |
| Operating income (loss) | \$ 19,519                          | \$ 3,393  | \$ 22,912  | \$ (9,208)               | \$ 13,704    |
| Identifiable assets     | \$ 364,919                         | \$ 49,482 | \$ 414,401 | \$ 101,808               | \$ 516,209   |

(3) The following is overseas sales information by geographic areas for the years ended March 31, 1999 and 1998 were as follows:

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, 1998

|  | (Millions of yen) |         |         |          |
|--|-------------------|---------|---------|----------|
|  | Asia              | Europe  | Other   | Total    |
| Overseas sales   | ¥ 7,008           | ¥ 4,546 | ¥ 3,062 | ¥ 14,616 |
| Percentage of overseas sales to consolidated net sales | 11.7%             | 7.6%    | 5.2%    | 24.5%    |

Year ended March 31, 1999

|                | Thousands of U.S. dollars (Note 1) |           |           |           |
|----------------|------------------------------------|-----------|-----------|-----------|
|                | Asia                               | Europe    | Other     | Total     |
| Overseas sales | \$ 36,441                          | \$ 43,716 | \$ 19,669 | \$ 99,826 |

**NOTE 10 — SUBSEQUENT EVENT**

On June 29, 1999, the annual stockholders' meeting of the Company approved that additional paid in capital of ¥4,714,500,715 (\$39,108,260) transferred to the accumulated deficit account in order to offset against accumulated deficit.

## 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, 1999 and 1998 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, 1999 and 1998, 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, except for the changes, with which we concur, made as of April 1, 1998, in the methods of accounting for accrued employees' bonuses and research and development costs described in Note 1 to the consolidated financial statements.

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.

(A Member Firm of Andersen Worldwide SC)

Tokyo, Japan

June 29, 1999

## 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 |          |          |          |          |
|--|-----------------|----------|----------|----------|----------|
|  | 1999            | 1998     | 1997     | 1996     | 1995     |
| <b>For the year:</b>                         |                 |          |          |          |          |
| Net Sales .....                              | ¥ 51,348        | ¥ 59,772 | ¥ 58,732 | ¥ 61,812 | ¥ 77,126 |
| Operating Income (Loss) .....                | 1,652           | 2,409    | (233)    | (1,310)  | (1,279)  |
| Net Income (Loss) .....                      | (4,500)         | (453)    | (2,815)  | (1,933)  | (4,797)  |
| Net Income (Loss) per Share (in Yen) .....   | (37.30)         | (4.94)   | (30.67)  | (21.06)  | (52.27)  |
| <b>At Year-end:</b>                          |                 |          |          |          |          |
| Stockholders' Equity .....                   | ¥ 16,900        | ¥ 13,403 | ¥ 13,859 | ¥ 17,495 | ¥ 19,839 |
| Total Assets .....                           | 62,229          | 64,951   | 65,812   | 70,044   | 79,394   |
| Stockholders' Equity per Share (in Yen) .... | 119.20          | 146.03   | 150.99   | 190.62   | 216.16   |



TOHO RAYON CO., LTD.