

# SUMINOE TEXTILE CO., LTD.

Annual Report 2009

What interior products can do for  
global warming prevention



## Message from the President



Ichizo Yoshikawa, *President*

### Corporate Philosophy

We take pride in being a pioneer in the interior design and furnishings industry, and dedicate ourselves to the creation of comfortable living spaces with unique character.

We put our corporate philosophy into practice on a daily basis and maintain high ethical standards in all aspects of our business operations, so as to continuously enhance Suminoe Textile's profile as a leader in its industry.

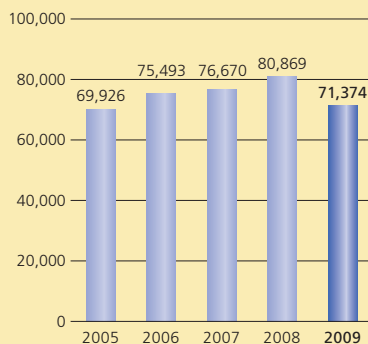
We have drawn up the Code of Conduct set out below to serve as the core principles of our compliance-based management, for observance by all officers and employees of the Company as individuals, and by the Company itself as a collective body.

### Code of Conduct

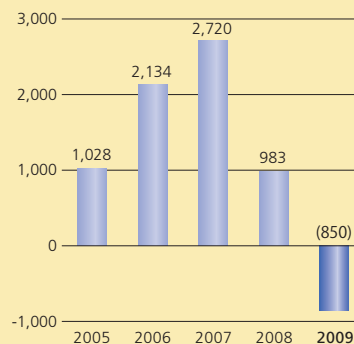
- We comply with all laws and social norms, and conduct corporate activities in an impartial and ethically sound manner.
- We contribute to the advancement of the community through the production and sale of good-quality products.
- We treat all employees of the Company fairly, act with due respect for their individual personalities, and place high importance on their health and safety.
- We place high priority on maintaining good relationships with all our stakeholders.
- We make proactive contributions to the community, as expected of a good corporate citizen.
- We take very seriously the impact of our business activities on the global environment, and contribute to environmental preservation initiatives.

## Consolidated Financial Highlights

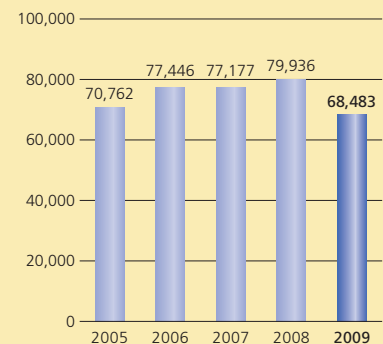
Net Sales (Millions of Yen)



Net Income (Loss) (Millions of Yen)



Total Assets (Millions of Yen)



## Target Business Indicators

The Suminoe Textile Group has set itself medium- to long-term targets of 6% or higher for ROE and 4% or higher for ROA. The management is effectively allocating management resources with the aim of realizing a steady increase in operating cash flows as a precondition for improving profitability and raising the Group's enterprise value.

## Overview of the Term under Review

From the mid-point of the term under review, the Japanese economy entered a sharp downturn as a result of the slowdown of the global economy, originally triggered by the financial crisis in the United States. Capital investment decreased in response to deteriorating corporate earnings, unemployment began to rise, and consumer spending became sluggish. Against the background of these factors, the business operations of the Suminoe Textile Group were adversely affected.

Amid an extremely difficult operating environment, we took aggressive measures in all our business operations in line with the basic policies under our

ACTION-2008 medium-term management plan. As a result, we were able to hold down the decrease in sales on a consolidated basis to 11.7% from the previous year, at ¥71,374 million (US\$739,857 thousand). Operating income dropped 96.6% to ¥79 million (US\$819 thousand). Meanwhile, we also posted extraordinary losses in the amount of ¥1,041 million. This was due to restructuring expenses involved in the closure of one of our major production plants for domestic operations, in Osaka, among other restructuring measures, as well as losses on valuation of equity holdings. As a result, we recognized a net loss of ¥850 million (US\$8,811 thousand).

## Business Overview by Segment

### *Interior fittings segment*

Owing to major declines in the scale of the market for renovation work on office buildings and other commercial facilities, as well as in new construction activity, sales by the Company of roll carpets fell steeply, and sales of carpet tiles also dropped below the previous-year level. Amid an across-the-board stagnancy in consumer spending, sales of ecologically friendly and

Years ended May 31	Millions of Yen					Thousands of U.S. Dollars*1
	2009	2008	2007	2006	2005	2009
Net sales .....	¥71,374	¥80,869	¥76,670	¥75,493	¥69,926	\$739,857
Income (loss) before income taxes and minority interests.....	(754)	2,233	2,211	2,162	1,387	(7,816)
Net income (loss) .....	(850)	983	2,720	2,134	1,028	(8,811)
Total assets .....	68,483	79,936	77,177	77,446	70,762	709,889
Total equity*2.....	25,049	28,153	29,512	27,223	22,786	259,656
Amounts per share (in yen and U.S. dollars):						
Net income (loss)*3 .....	¥(11.24)	¥12.92	¥35.48	¥27.83	¥13.39	\$ (0.12)
Cash dividends applicable to the year .....	2.50	5.00	5.00	3.50	2.50	0.03

\*1. U.S. dollar amounts are converted from Japanese yen amounts at the rate of U.S.\$1 to ¥96.47, the approximate rate on May 31, 2009.

\*2. Amounts posted under "total equity" represent the total sum of equity and minority interests. For the term ended May 2005 and before, the corresponding figures represent amounts posted under shareholders' equity using the previous accounting standards.

\*3. Net income (loss) per share of common stock is computed based on the weighted average number of shares outstanding.

unique products such as those employing SUMITRON® (a special polyester fiber made from recycled PET bottles) held comparatively firm, thanks to which sales of carpets, rugs, and mats for general household use posted year-on-year growth. Operating income, however, fell sharply as rigorous cost-cutting measures, mostly in the second half of the year, were insufficient to offset the steep fall in overall segment sales.

As a result of the foregoing, sales for the Interior Fittings segment posted a year-on-year decrease of 6.8% to ¥35,276 million (US\$365,668 thousand), while segment operating income was down 13.6% at ¥905 million (US\$9,381 thousand).

### Automotive textile and traffic facilities segment

In the field of textile products for automotive interiors, the number of vehicles manufactured in Japan in the first half of the year followed a gradual downward trend, but production then fell steeply from October onward. In line with this, the Group's automotive interior fabrics business recorded both sales and operating income above the previous year's level for the first half, but from the third quarter sales halved on a year-on-year comparison, while operating income turned to loss.

In the Group's overseas operations, the traditional Big Three ceased to be the main players in the U.S. auto market, and vehicle sales in North America remain very weak. As a result, our subsidiary Suminoe Textile of America Corporation (STA) posted slow sales and was unable to record a profit. We are continuing to support our American subsidiary with a view to improving its earnings structure.

In China, our subsidiary SPM Automotive Textile Co., Ltd. based in Guangzhou, posted increased sales and favorable earnings.

Sales of interior furnishing materials for newly-built railway cars followed a firm trend, but replacement demand contracted in the face of the economic downturn. Sales of interior products for buses dropped sharply. As a result, total revenues and earnings from the sale of materials for mass-transit vehicles fell below the previous year's level.

As a result of the above, total sales in the Automotive Textile and Traffic Facilities segment recorded a year-on-year decrease of 17.0% to ¥31,625 million (US\$327,822 thousand), while operating income fell 84.3% to ¥404 million (US\$4,187 thousand).

### Others

A sharp increase was registered in orders received for electric carpets, and production expanded smoothly at our Chinese manufacturing subsidiary Suzhou Suminoe Textiles Co., Ltd., contributing to earnings together with sales on the Japanese market. Orders received by our domestic manufacturing subsidiaries declined, however, and profitability also deteriorated. In our carpet tile OEM business, sales were slack in Japan but export sales rose. In our products for aircraft, orders held firm, and our environmentally friendly olefin-based hard flooring material found new applications in elevator floors.

As a result of the above, total sales for this segment were down by 8.9% year-on-year, at ¥4,473 million (US\$46,367 thousand), while operating income was down 9.9% at ¥190 million (US\$1,970 thousand).

## **Medium- and Long-Term Management Strategies and Issues**

### **Medium-term management strategies**

The Group's ACTION-2008 medium-term management plan, adopted in June 2006, had two main goals – the strengthening of the Group's business structure and the expansion of its profit base. The sales target for fiscal 2008, ending May 2009, the final year under this plan, was ¥80,000 million, and this target was achieved one year ahead of schedule in May 2008. Owing to the global business downturn, however, sales for fiscal 2008 fell below this level.

We will report on our next three-year medium-term management plan as soon as the operating environment has clarified to the point where we can make reasonable forecasts and set appropriate targets.

### Issues to be addressed

During the reporting term we carried out manufacturing process improvements and took measures to raise production efficiency, in line with our fundamental goals of eliminating waste at all our domestic production facilities and lowering the cost of sales as far as is feasible. Unfortunately, the operating environment for our mainstay automotive interior operations changed more rapidly than we had projected, and this greatly impacted the Company's earnings. To reestablish our business over a long-term perspective, we believe it is necessary to implement a radical restructuring of our manufacturing base on a priority basis. To that end, we closed our Osaka Plant and reduced the production scale of subsidiary Suminoe Nara Co., Ltd. to a more suitable level.

We have reached an agreement with Teijin Fibers, Ltd. whereby the two companies will spin off and amalgamate their fabric operation departments involved in the production of coverings for automobile seats as well as ceiling coverings. The resultant new company is scheduled to be established on December 1, 2009 under the name Suminoe Teijin Techno Co., Ltd. We aim to combine our expertise in the design, development and marketing of seat coverings, which we have developed thanks to many years of business collaboration with vehicle manufacturers, with the sophisticated fiber production and processing technologies possessed by the Teijin Fibers Group. We believe that this collaboration will create an unprecedented example of vertical integration in the Japanese automobile interior industry and result in a uniquely efficient manufacturing and marketing enterprise.

We made Companywide efforts to strengthen the financial position and earnings base of our principal overseas subsidiaries, particularly Suminoe Textile of America (STA), for which the reporting term was the 7th year of operations, as well as for our other subsidiaries and affiliated companies in Japan and overseas. We will continue to make efforts to expand our business scale as a total supplier of automobile interior products, with an eye to further expansion in the world market.

### Outlook for the Current Term

During fiscal 2009, the term ending May 2010, the prospects for the business environment remain unclear, as the global economic downturn has yet to bottom out, although many countries will undoubtedly implement economic stimulus packages. Amid these circumstances, we will be focusing on restructuring our automobile seat coverings business and strengthening our global network with special focus on STA. We will also be actively developing and marketing environmentally friendly products – a field in which we have a competitive edge – with the goals of realizing a leaner business structure that can produce profits even amid a contracting market, and of achieving a larger share of the market.

### Basic Policy on Shareholder Returns and Dividends for the Term under Review and the Current Term

The Company positions shareholder return as a key management issue, and follows a policy of making stable dividend payments at an appropriate level, taking business results into account. Based on this policy, we paid ¥2.50 (US\$0.03) per share as the interim dividend for the reporting term. As a result of a severe deterioration in business performance for the second half of the term amid the economic downturn, we will regrettably be unable to pay a term-end dividend this time. We intend to pay a term-end dividend of ¥2.50 (US\$0.03) per share for the current business term ending May 2010.



Ichizo Yoshikawa  
*President*

# Consolidated Balance Sheets

Suminoe Textile Co., Ltd. and Subsidiaries  
May 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 6,529	¥ 8,960	\$ 67,679
Marketable securities (Note 3).....	274	779	2,840
Short-term investment .....	220		2,281
Receivables:			
Trade notes .....	6,597	9,378	68,384
Trade accounts .....	9,324	12,469	96,652
Other.....	1,100	1,242	11,403
Allowance for doubtful receivables .....	(77)	(43)	(798)
Inventories (Note 4) .....	10,749	10,302	111,423
Deferred tax assets (Note 8) .....	476	567	4,934
Other.....	1,365	1,504	14,149
Total current assets.....	<u>36,557</u>	<u>45,158</u>	<u>378,947</u>
<b>Property, plant and equipment (Notes 2.f and 5):</b>			
Land .....	16,692	16,737	173,028
Buildings and structures.....	14,414	14,707	149,414
Machinery and equipment (Notes 2.i and 11).....	13,089	17,312	135,679
Construction in progress.....	78	228	809
Total.....	<u>44,273</u>	<u>48,984</u>	<u>458,930</u>
Accumulated depreciation .....	(21,122)	(24,811)	(218,949)
Net property, plant and equipment.....	<u>23,151</u>	<u>24,173</u>	<u>239,981</u>
<b>Other assets:</b>			
Investment securities (Notes 3 and 5) .....	5,049	7,490	52,338
Investments in and loans to associated companies .....	470	549	4,872
Deferred tax assets (Note 8) .....	1,655	723	17,156
Other.....	1,830	2,200	18,969
Allowance for doubtful accounts .....	(229)	(357)	(2,374)
Total other assets .....	<u>8,775</u>	<u>10,605</u>	<u>90,961</u>
<b>Total .....</b>	<b><u>¥68,483</u></b>	<b><u>¥79,936</u></b>	<b><u>\$709,889</u></b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Notes 2.i and 5).....	¥ 7,728	¥ 7,848	\$ 80,108
Current portion of long-term debt (Notes 2.i and 5).....	2,042	1,221	21,167
Payables:			
Trade notes .....	4,290	5,820	44,470
Trade accounts .....	10,761	16,441	111,548
Construction.....	147	226	1,524
Accrued expenses .....	1,991	3,035	20,639
Income taxes payable.....	115	803	1,192
Other (Note 8) .....	306	532	3,171
Total current liabilities.....	<b>27,380</b>	<b>35,926</b>	<b>283,819</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 5) .....	6,714	5,806	69,597
Liability for retirement benefits (Note 6) .....	3,462	3,940	35,887
Deferred tax liabilities (Note 8) .....	3	19	31
Deferred tax liabilities related to land revaluation excess (Note 2.f)...	5,445	5,445	56,442
Long-term accounts payable .....		192	
Other.....	430	455	4,457
Total long-term liabilities .....	<b>16,054</b>	<b>15,857</b>	<b>166,414</b>
<b>Commitments and contingent liabilities (Notes 11 and 13)</b>			
<b>Equity (Notes 2.f and 7):</b>			
Common stock – authorized, 300,000,000 shares; issued, 76,821,626 shares in 2009 and 2008.....	9,554	9,554	99,036
Capital surplus.....	2,653	2,653	27,501
Retained earnings .....	5,201	6,429	53,913
Net unrealized gain on available-for-sale securities.....	545	2,410	5,649
Deferred loss on derivatives under hedge accounting.....	(20)	(28)	(207)
Land revaluation excess .....	7,184	7,184	74,469
Foreign currency translation adjustments .....	(137)	(44)	(1,420)
Treasury stock – at cost; 1,237,959 shares in 2009 and 1,197,711 shares in 2008 .....	(325)	(319)	(3,369)
Total.....	<b>24,655</b>	<b>27,839</b>	<b>255,572</b>
Minority interests.....	394	314	4,084
Total equity .....	<b>25,049</b>	<b>28,153</b>	<b>259,656</b>
<b>Total .....</b>	<b>¥68,483</b>	<b>¥79,936</b>	<b>\$709,889</b>

# Consolidated Statements of Operations

Suminoe Textile Co., Ltd. and Subsidiaries  
Years ended May 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>Net sales</b> .....	<b>¥71,374</b>	<b>¥80,869</b>	<b>\$739,857</b>
<b>Cost of sales</b> .....	<b>56,761</b>	<b>63,844</b>	<b>588,380</b>
Gross profit.....	<b>14,613</b>	<b>17,025</b>	<b>151,477</b>
<b>Selling, general and administrative expenses (Note 9)</b> .....	<b>14,534</b>	<b>14,723</b>	<b>150,658</b>
Operating income.....	<b>79</b>	<b>2,302</b>	<b>819</b>
<b>Other income (expenses):</b>			
Interest and dividend income.....	<b>149</b>	<b>149</b>	<b>1,544</b>
Rental income.....	<b>216</b>	<b>217</b>	<b>2,239</b>
Gain on transfer of business.....	<b>77</b>		<b>798</b>
Interest expense.....	<b>(265)</b>	<b>(264)</b>	<b>(2,747)</b>
Rental expense.....	<b>(53)</b>	<b>(60)</b>	<b>(549)</b>
Loss on sales and disposal of property, plant and equipment.....	<b>(70)</b>	<b>(44)</b>	<b>(726)</b>
Write-down of investment securities.....	<b>(91)</b>		<b>(943)</b>
Impairment loss for long-lived assets.....		<b>(17)</b>	
Equity in losses of associated companies.....	<b>(35)</b>	<b>(316)</b>	<b>(363)</b>
Loss on sale of investment to associated company.....	<b>(38)</b>		<b>(394)</b>
Business structure improvement expenses (Note 10).....	<b>(779)</b>		<b>(8,075)</b>
Other – net.....	<b>56</b>	<b>266</b>	<b>581</b>
Other expenses – net.....	<b>(833)</b>	<b>(69)</b>	<b>(8,635)</b>
<b>Income (loss) before income taxes and minority interests</b> .....	<b>(754)</b>	<b>2,233</b>	<b>(7,816)</b>
<b>Income taxes (Note 8):</b>			
Current.....	<b>(348)</b>	<b>(987)</b>	<b>(3,607)</b>
Prior years' income taxes.....		<b>(148)</b>	
Deferred.....	<b>274</b>	<b>(102)</b>	<b>2,840</b>
Total income taxes.....	<b>(74)</b>	<b>(1,237)</b>	<b>(767)</b>
<b>Minority interests</b> .....	<b>(22)</b>	<b>(13)</b>	<b>(228)</b>
<b>Net income (loss)</b> .....	<b>¥ (850)</b>	<b>¥ 983</b>	<b>\$ (8,811)</b>

	Yen	U.S. Dollars
<b>Per share of common stock (Note 2.o):</b>		
Net income (loss).....	<b>¥(11.24)</b>	<b>¥12.92</b>
Cash dividends applicable to the year.....	<b>2.50</b>	<b>5.00</b>
		<b>\$ (0.12)</b>
		<b>0.03</b>

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

Suminoe Textile Co., Ltd. and Subsidiaries  
Years ended May 31, 2009 and 2008

	Number of shares of common stock outstanding	Millions of Yen				
		Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting
<b>Balance, June 1, 2007</b> .....	76,648,050	¥9,554	¥2,653	¥6,052	¥3,836	¥ 2
Net income .....				983		
Cash dividends, ¥5.0 per share .....				(383)		
Purchase of treasury stock .....	(1,024,135)					
Net change in the year .....				(223)	(1,426)	(30)
<b>Balance, May 31, 2008</b> .....	75,623,915	9,554	2,653	6,429	2,410	(28)
Net loss .....				(850)		
Cash dividends, ¥5.0 per share .....				(378)		
Purchase of treasury stock .....	(40,248)					
Net change in the year .....					(1,865)	8
<b>Balance, May 31, 2009</b> .....	75,583,667	¥9,554	¥2,653	¥5,201	¥ 545	¥(20)

	Millions of Yen					
	Land revaluation excess	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
<b>Balance, June 1, 2007</b> .....	¥6,961	¥175	¥ (42)	¥29,191	¥321	¥29,512
Net income .....				983		983
Cash dividends, ¥5.0 per share .....				(383)		(383)
Purchase of treasury stock .....			(277)	(277)		(277)
Net change in the year .....	223	(219)		(1,675)	(7)	(1,682)
<b>Balance, May 31, 2008</b> .....	7,184	(44)	(319)	27,839	314	28,153
Net loss .....				(850)		(850)
Cash dividends, ¥5.0 per share .....				(378)		(378)
Purchase of treasury stock .....			(6)	(6)		(6)
Net change in the year .....		(93)		(1,950)	80	(1,870)
<b>Balance, May 31, 2009</b> .....	¥7,184	¥(137)	¥(325)	¥24,655	¥394	¥25,049

	Thousands of U.S. Dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting
<b>Balance, May 31, 2008</b> .....	\$99,036	\$27,501	\$66,642	\$24,982	\$(290)
Net loss .....			(8,811)		
Cash dividends, \$0.05 per share .....			(3,918)		
Purchase of treasury stock .....					
Net change in the year .....				(19,333)	83
<b>Balance, May 31, 2009</b> .....	\$99,036	\$27,501	\$53,913	\$ 5,649	\$(207)

	Thousands of U.S. Dollars (Note 1)					
	Land revaluation excess	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
<b>Balance, May 31, 2008</b> .....	\$74,469	\$ (456)	\$(3,307)	\$288,577	\$3,255	\$291,832
Net loss .....				(8,811)		(8,811)
Cash dividends, \$0.05 per share .....				(3,918)		(3,918)
Purchase of treasury stock .....			(62)	(62)		(62)
Net change in the year .....		(964)		(20,214)	829	(19,385)
<b>Balance, May 31, 2009</b> .....	\$74,469	\$(1,420)	\$(3,369)	\$255,572	\$4,084	\$259,656

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Suminoe Textile Co., Ltd. and Subsidiaries  
Years ended May 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>Operating activities:</b>			
Income (loss) before income taxes and minority interests.....	¥ (754)	¥ 2,233	\$ (7,816)
Adjustments for:			
Income taxes – paid .....	(1,204)	(863)	(12,481)
Depreciation and amortization.....	1,173	1,194	12,159
Increase (decrease) in allowance for doubtful receivables and accounts...	(63)	49	(653)
Loss on sales and disposal of property, plant and equipment .....	70	44	726
Business structure improvement expenses.....	779		8,076
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable.....	5,895	(1,647)	61,107
Increase in inventories.....	(483)	(1,509)	(5,007)
Increase (decrease) in notes and accounts payable – trade .....	(7,182)	4,829	(74,448)
Decrease in liability for retirement benefits.....	(477)	(54)	(4,945)
(Increase) decrease in other current assets.....	627	(511)	6,449
Increase (decrease) in other current liabilities.....	(850)	542	(8,811)
Decrease in long-term accounts payable .....		(259)	
Other – net.....	(267)	668	(2,717)
Total adjustments .....	(1,982)	2,483	(20,545)
Net cash provided by (used in) operating activities .....	(2,736)	4,716	(28,361)
<b>Investing activities:</b>			
Proceeds from sales of property, plant and equipment.....	82	184	850
Purchases of property, plant and equipment .....	(797)	(1,136)	(8,262)
Proceeds from sales and redemption of securities.....	14,264	13,550	147,859
Purchases of marketable and investment securities.....	(13,848)	(13,551)	(143,547)
Increase in other assets .....	(154)	(153)	(1,596)
Net cash used in investing activities .....	(453)	(1,106)	(4,696)
<b>Financing activities:</b>			
Net change in short-term bank loans .....	(106)	(382)	(1,099)
Proceeds from long-term debt .....	2,400	2,051	24,878
Repayments of long-term debt .....	(1,323)	(2,327)	(13,715)
Proceeds from stock issuance to minority shareholders.....	90		933
Purchase of treasury stock .....	(6)	(277)	(62)
Dividends paid .....	(378)	(381)	(3,918)
Dividends paid to minority shareholders.....	(9)	(7)	(93)
Net cash provided by (used in) financing activities.....	668	(1,323)	6,924
Foreign currency translation adjustments on cash and cash equivalents...	90	(73)	933
Net increase (decrease) in cash and cash equivalents.....	(2,431)	2,214	(25,200)
Cash and cash equivalents, beginning of year .....	8,960	6,746	92,879
Cash and cash equivalents, end of year.....	¥ 6,529	¥ 8,960	\$ 67,679

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Suminoe Textile Co., Ltd. and Subsidiaries  
Years ended May 31, 2009 and 2008

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2008 financial statements to conform to the classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Suminoe Textile Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥96.47 to \$1, the approximate rate of exchange at May 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of significant accounting policies

### a. Consolidation

The accompanying consolidated financial statements as of May 31, 2009 include the accounts of the Company and all subsidiaries (together, the "Group").

Under the control or influence concept, those companies which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in associated companies are accounted for by the equity method.

Costs in excess of net assets of subsidiaries at the date of acquisition that cannot be specifically assigned to individual assets are being amortized over a period not exceeding 20 years.

All significant intercompany transactions and balances have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

### b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted

accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

The Company applied this accounting standard effective June 1, 2008. The effect of this change was immaterial.

### c. Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits that represent short-term investments, all of which mature within three months of the date of acquisition.

### d. Inventories

Prior to June 1, 2008, inventories were stated at cost, determined by the average method. In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this new accounting standard for measurement of inventories effective June 1, 2008. The effect of this change was to decrease operating income by ¥60 million (\$622 thousand) and increase loss before income taxes and minority interests by ¥60 million (\$622 thousand).

### e. Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, for which management has the positive intent and ability to hold to maturity, are reported at amortized cost, and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

#### **f. Property, plant and equipment**

Property, plant and equipment except land are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998 at rates based on the useful lives of the assets. Depreciation of lease assets that deem not to transfer ownership is computed by the straight-line method over the respective lease period. The range of estimated useful lives is principally from 3 to 50 years for buildings and from 4 to 17 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

Under the "Law of Land Revaluation," promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of May 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of operations from this revaluation. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

As of May 31, 2009, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,732 million (\$17,954 thousand).

#### **g. Long-lived assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable.

An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The impairment loss resulting from the rationalization of the Company's business operations was included in "Business structure improvement expenses" (See Note 10).

#### **h. Retirement benefits**

The companies in the Group have both lump-sum severance payments and defined contribution pension plans for employees' retirement benefits. The Group accounts for the liability for retirement benefits based on the projected benefit obligations at the balance sheet date.

In addition, certain subsidiaries have a contributory trusted pension plan covering most of their employees together with multi-employers. They fund and record contributions as a charge to income as current period costs. The pension fund assets available for benefits under this plan were approximately ¥475 million (\$4,924 thousand) and ¥492 million at May 31, 2009 and 2008, respectively.

The Company provides for the liability for directors and corporate auditors' retirement benefits at the amounts which would be required to be paid if all directors and corporate auditors retired at the balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

#### **i. Leases**

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective June 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change was immaterial.

#### **j. Income taxes**

The provision for current income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### **k. Foreign currency transactions**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

#### **l. Foreign currency financial statements**

The balance sheet accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rates as of the balance sheet dates except for equity, which is translated at the historical rates. Revenue and expense accounts of the foreign subsidiaries and associated companies are translated into Japanese yen at the average annual exchange rates.

Differences arising from such translation are shown as "Foreign currency translation adjustments" as a separate component of equity.

### **m. Derivatives and hedging activities**

The Company uses foreign exchange forward contracts and interest rate swaps to manage its exposures to fluctuations in foreign exchange and interest rates. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and the resulting gains or losses are recognized in the consolidated statements of operations and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts are utilized to hedge foreign currency exposures on overseas transactions. Trade payables and receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

### **n. Bond issuance costs**

Bond issuance costs are charged to income as incurred.

### **o. Per share information**

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the year, retroactively adjusted for stock splits.

The computations of net income (loss) per share of common stock are based on the weighted average number of shares outstanding during each year of 75,601,467 shares for the year ended May 31, 2009 and 76,084,737 shares for the year ended May 31, 2008.

Diluted net income (loss) per share is not disclosed because the Group has not issued dilutive securities.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

### **p. New accounting pronouncements**

#### *Business Combinations*

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows;

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

#### *Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*

The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

#### *Asset Retirement Obligations*

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement

Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

### 3. Marketable and investment securities

Marketable and investment securities as of May 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current:			
Other securities .....	¥ 274	¥ 779	\$ 2,840
Non-current:			
Equity securities .....	5,028	7,468	52,120
Government and corporate bonds.....	21	22	218
Total .....	¥5,049	¥7,490	\$52,338

The carrying amounts and aggregate fair values of marketable and investment securities at May 31, 2009 and 2008 were as follows:

	Millions of Yen			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as available-for-sale:				
Equity securities .....	¥3,450	¥1,504	¥566	¥4,388
Government and corporate bonds.....	24		3	21
Total .....	¥3,474	¥1,504	¥569	¥4,409

	Millions of Yen			
	2008			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as available-for-sale:				
Equity securities .....	¥3,400	¥3,634	¥239	¥6,795
Government and corporate bonds.....	24		2	22
Total .....	¥3,424	¥3,634	¥241	¥6,817

	Thousands of U.S. Dollars			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as available-for-sale:				
Equity securities .....	\$35,763	\$15,590	\$5,867	\$45,486
Government and corporate bonds.....	249		31	218
Total .....	\$36,012	\$15,590	\$5,898	\$45,704

Available-for-sale securities included in marketable and investment securities whose fair value is not readily determinable as of May 31, 2009 and 2008 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Available-for-sale:			
Equity securities .....	¥640	¥ 673	\$6,634
Other .....	274	779	2,840
Total .....	¥914	¥1,452	\$9,474

Proceeds from sales of available-for-sale securities for the years ended May 31, 2009 and 2008 were ¥247 million (\$2,560 thousand) and ¥631 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥6 million (\$62 thousand) and ¥0 million (\$0 thousand), respectively for the year ended May 31, 2009 and ¥25 million and ¥10 million, respectively, for the year ended May 31, 2008.

The carrying values of debt securities and investment funds in trust by contractual maturities for securities classified as available-for-sale at May 31, 2009 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Due in one year or less.....	¥274
Due in more than one year and less than five years .....	21	218

### 4. Inventories

Inventories at May 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009		2009
	2009	2008	2009
Finished products and purchased merchandise .....	¥ 7,859	¥ 7,449	\$ 81,466
Work-in-process.....	1,331	1,475	13,797
Materials and supplies.....	1,559	1,378	16,160
Total .....	¥10,749	¥10,302	\$111,423

## 5. Short-term bank loans and long-term debt

Short-term bank loans are principally comprised of bank overdrafts. As is customary in Japan, the Group obtains financing by discounting trade notes receivable with banks. The weighted average annual interest rates for short-term bank loans and notes discounted at May 31, 2009 and 2008 were 1.26% and 1.61%, respectively.

Long-term debt at May 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Unsecured bonds:			
0.39%, due June 2010 .....	¥1,000	¥1,200	\$10,366
1.18%, due December 2010.....	500	500	5,183
Loans from banks, 1.30% to 2.30%, due serially to 2013:			
Collateralized.....	1,467	1,636	15,207
Unsecured.....	5,135	3,691	53,229
Obligations under finance leases...	654		6,779
Total .....	8,756	7,027	90,764
Less current portion .....	2,042	1,221	21,167
Long-term debt, less current portion .....	¥6,714	¥5,806	\$69,597

At May 31, 2009, annual maturities of long-term debt, less current portion, were as follows:

Year Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2011.....	¥3,027	\$31,378
2012.....	3,372	34,954
2013.....	271	2,809
2014.....	44	456
Total .....	¥6,714	\$69,597

At May 31, 2009, assets pledged as collateral for short-term bank loans of ¥1 million (\$10 thousand) and long-term debt (including current portion) of ¥1,467 million (\$15,207 thousand) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment, less accumulated depreciation.....	¥8,500	\$88,110
Investment securities.....	2,758	28,589

Bank overdrafts are generally covered under basic written agreements which provide that additional collateral (including sums on deposit with such banks) or guarantors will be furnished at the banks' request and that any collateral furnished will be applicable to all indebtedness due to such banks. Certain long-term loan agreements provide that lenders may request the Group to submit proposals to pay dividends for approval. The Group has never received such a request from any of their lenders.

## 6. Retirement benefits

The Company and certain subsidiaries have unfunded retirement plans covering substantially all of their employees.

Under the unfunded retirement plans, employees terminating their employment are entitled, in most circumstances, to lump-sum severance payments determined by reference to the rate of pay at time of termination, years of service and certain other factors.

The liability for retirement benefits for 2009 and 2008 included ¥271 million (\$2,809 thousand) and ¥244 million, respectively, for retirement benefits of directors and corporate auditors.

The liability for employees' retirement benefits at May 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation .....	¥3,331	¥3,793	\$34,529
Unrecognized actuarial loss.....	(140)	(97)	(1,451)
Net liability .....	¥3,191	¥3,696	\$33,078

The components of net periodic benefit costs for the years ended May 31, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost.....	¥229	¥224	\$2,374
Interest cost.....	86	86	891
Recognized actuarial loss .....	18	18	187
Payment to defined contribution pension plan .....	148	142	1,534
Net periodic benefit costs...	¥481	¥470	\$4,986

Assumptions used for the years ended May 31, 2009 and 2008 are set forth as follows:

	2009	2008
Discount rate .....	2.0%	2.5%
Recognition period of actuarial gain/loss .....	10 years	10 years

## 7. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 8. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended May 31, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at May 31, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets:			
Allowance for doubtful receivables and accounts.....	¥ 91	¥ 125	\$ 943
Liabilities for retirement benefits.....	1,404	1,600	14,554
Tax loss carryforwards.....	1,935	666	20,058
Investment securities.....	341	347	3,535
Other.....	480	648	4,976
Less valuation allowance.....	(1,744)	(1,148)	(18,078)
Total deferred tax assets.....	¥2,507	¥2,238	\$25,988
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities.....	¥ 379	¥ 967	\$ 3,929
Other.....	5	5	52
Total deferred tax liabilities.....	¥ 384	¥ 972	\$ 3,981
Net deferred tax assets.....	¥2,131	¥1,290	\$22,090
Net deferred tax liabilities.....	¥ 8	¥ 24	\$ 83

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended May 31, 2009 and 2008 is as follows:

	2009	2008
Normal effective statutory tax rate.....	40.7%	40.7%
Change in valuation allowance.....	(65.6)	6.8
Equity in losses of associated companies.....	24.4	5.8
Expenses not deductible for income tax purposes...	(5.0)	1.3
Per capita levy.....	(5.6)	1.9
Difference of tax rates for foreign subsidiaries.....	1.7	(0.3)
R&D tax credit.....		(0.9)
Reversal of land revaluation.....		(4.1)
Prior years' income taxes.....		6.6
Other - net.....	(0.4)	(2.4)
Actual effective tax rates.....	(9.8)%	55.4%

At May 31, 2009, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥4,912 million (\$50,917 thousand), which are available to be offset against taxable income of the Company and subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2010.....	¥ 179	\$ 1,855
2011.....	203	2,104
2013.....	35	363
2014.....	156	1,617
2015.....	2,285	23,686
Thereafter.....	2,054	21,292
Total .....	¥4,912	\$50,917

## 9. Research and development costs

Research and development costs charged to income were ¥236 million (\$2,446 thousand) and ¥250 million for the years ended May 31, 2009 and 2008, respectively.

## 10. Business structure improvement expenses

On February 26, 2009, the Board of Directors of the Company approved a plan for the rationalization of the Company's business operations, including workforce downsizing at the Osaka Factory and the Nara Factory.

The Company recognized losses associated with the plan for operations rationalization as "Business structure improvement expenses," which consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Loss on sales and disposal of property, plant and equipment .....	¥212	\$2,197
Loss on impairment of property, plant and equipment .....	123	1,275
Additional retirement allowance for voluntary early retirement.....	409	4,240
Other.....	35	363
Total .....	¥779	\$8,075

Loss on impairment of property, plant and equipment included in "Business structure improvement expenses" consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Osaka Factory (Matsubara, Osaka):		
Buildings and structures, machinery and equipment and other assets .....	¥ 30	\$ 311
Nara Factory (Ando-cho, Nara):		
Buildings and structures, machinery and equipment and other assets .....	77	798
Other:		
Other assets.....	16	166
Total .....	¥123	\$1,275

For measuring the amount of the impairment loss, fixed assets are grouped based upon how such assets were managed. Idle assets are accounted per individually. The book value of such assets was reduced to the estimated recoverable amounts, which were measured at their net realizable selling prices.

## 11. Leases

As discussed in Note 2.i, the Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense, on a "as if capitalized" basis for the years ended May 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Machinery and equipment:			
Acquisition cost.....	¥150	¥250	\$1,555
Accumulated depreciation.....	(76)	(114)	(787)
Net leased property .....	¥ 74	¥136	\$ 768

Obligations under finance leases as of May 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year.....	¥37	¥ 62	\$384
Due after one year .....	37	74	384
Total .....	¥74	¥136	\$768

The amounts of acquisition cost and obligations under finance leases include the imputed interest expense portion.

The minimum rental commitments under noncancellable operating leases at May 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year.....	¥127	\$1,316
Due after one year .....	679	7,039
Total .....	¥806	\$8,355

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, computed by the straight-line method, was ¥38 million (\$394 thousand) and ¥55 million for the years ended May 31, 2009 and 2008, respectively.

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## 12. Derivatives

The Group enters into derivative financial instrument contracts, in the normal course of business, to reduce the exposure to fluctuations in interest rates and foreign exchange rates. The Group has utilized interest rate swaps to hedge interest exposure on long-term debt. The Group also enters into foreign exchange forward contracts to hedge market risk from changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Group does not hold or issue derivatives for trading purposes. Subsidiaries do not enter into derivatives.

Because the counterparties to these derivatives are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors, and the execution and control of derivatives are controlled by the Finance Department. Each derivative transaction is reported to the Accounting Department.

Derivative financial instruments which qualify for hedge accounting for the years ended May 31, 2009 and 2008, are not subject to the disclosure of market value information.

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## 13. Contingent liabilities

Contingent liabilities at May 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Employees' housing loans guaranteed.....	¥1	\$10

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## 14. Subsequent events

### *a. Establishment of a New Company*

On March 30, 2009, the Board of Directors of both the Company and Teijin Fibers Limited determined that the Company will spin off its automotive textile department and Teijin Fibers Limited will spin off one of its departments, and that these businesses will be transferred to the newly-founded Suminoe Teijin Techno Co., Ltd. (Tentative Name). The plan of this corporate division was approved by the Company's Board of Directors on July 7, 2009.

(1) Objective of corporate division

The objective is to increase business efficiency and profitability by way of establishment of new company through a joint spin-off.

(2) Legal form of the corporate division

Establishment of new company through a joint spin-off

(3) Date of entry into force

The date of approval for the plan of corporate division: July 7, 2009

The scheduled date of entry into force: December 1, 2009 (scheduled)

(4) Share issuance of newly-established company  
Newly-established company issued 1,000 shares, and allocated 501 shares (50.1% in issued shares) to the Company, and 499 shares (49.9%) to Teijin Fibers Limited.

(5) Capital stock of new company  
450 million yen

(6) Rights and duties transferred  
Assets, liability, other rights and duties, and contractual status pertaining to the businesses transferred will be inherited by the new company from the Company and Teijin Fibers Limited.

### *b. Preferential Treatment Program of Early Retirement*

At the meeting of the Board of Directors on August 20, 2009, the Company approved to implement preferential treatment program of early retirement as summarizes below, which is a part of the restructuring of the automotive textile and traffic facility department and the purpose for what is to more effectively manage by means of optimizing personnel organization.

(1) Eligibility for applicants

Regular employees (136 employees) who belong to automotive textile and traffic facility department, and who are over age 35 (at October 15, 2009).

(2) Targeted number of employees

Approximately 30 employees

(3) Time limit of availability of early retirement plan  
September 25, 2009

(4) Retirement date

October 15, 2009

(5) Retirement plan incentives

A special lump-sum retirement payment to be made in addition to the existing one-time retirement benefit. If there are applicants, they are entitled to use the services of outplacement agency.

Though it is difficult to estimate the effect on future financial statements because the number of applicants is not yet determined at the date of submitting the annual report, the special lump-sum retirement payments, if any, will be classified as extraordinary loss in the next fiscal year.

## 15. Segment information

Information about industry segments, geographical segments and sales to foreign customers of the Company and subsidiaries for the years ended May 31, 2009 and 2008, is as follows:

### (1) Industry Segments

#### a. Sales and Operating Income

	Millions of Yen				
	2009				
	Interior fittings	Automotive textile and traffic facilities	Others	Eliminations/ Corporate	Consolidated
Sales to customers .....	¥35,276	¥31,625	¥4,473		¥71,374
Intersegment sales .....	5	42	94	¥ (141)	
Total sales .....	35,281	31,667	4,567	(141)	71,374
Operating expenses .....	34,376	31,263	4,377	1,279	71,295
Operating income .....	¥ 905	¥ 404	¥ 190	¥(1,420)	¥ 79

#### b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen				
	2009				
	Interior fittings	Automotive textile and traffic facilities	Others	Eliminations/ Corporate	Consolidated
Total assets .....	¥25,733	¥20,785	¥3,000	¥18,965	¥68,483
Depreciation and amortization .....	400	565	113	95	1,173
Impairment loss .....	44	52	11	16	123
Capital expenditures .....	112	620	30	131	893

Note:

The impairment loss was included in "Business structure improvement expenses" (See Note 10).

#### a. Sales and Operating Income

	Millions of Yen				
	2008				
	Interior fittings	Automotive textile and traffic facilities	Others	Eliminations/ Corporate	Consolidated
Sales to customers .....	¥37,864	¥38,098	¥4,907		¥80,869
Intersegment sales .....	67	17	158	¥ (242)	
Total sales .....	37,931	38,115	5,065	(242)	80,869
Operating expenses .....	36,884	35,540	4,854	1,289	78,567
Operating income .....	¥ 1,047	¥ 2,575	¥ 211	¥(1,531)	¥ 2,302

#### b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen				
	2008				
	Interior fittings	Automotive textile and traffic facilities	Others	Eliminations/ Corporate	Consolidated
Total assets .....	¥26,340	¥26,885	¥3,819	¥22,892	¥79,936
Depreciation and amortization .....	390	605	121	78	1,194
Impairment loss .....	17				17
Capital expenditures .....	613	1,151	234	16	2,014

a. Sales and Operating Income

Thousands of U.S. Dollars					
2009					
	Interior fittings	Automotive textile and traffic facilities	Others	Eliminations/ Corporate	Consolidated
Sales to customers .....	\$365,668	\$327,822	\$46,367		\$739,857
Intersegment sales .....	52	435	974	\$ (1,461)	
Total sales .....	365,720	328,257	47,341	(1,461)	739,857
Operating expenses .....	356,339	324,070	45,371	13,258	739,038
Operating income .....	\$ 9,381	\$ 4,187	\$ 1,970	\$(14,719)	\$ 819

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

Thousands of U.S. Dollars					
2009					
	Interior fittings	Automotive textile and traffic facilities	Others	Eliminations/ Corporate	Consolidated
Total assets .....	\$266,746	\$215,455	\$31,098	\$196,590	\$709,889
Depreciation and amortization .....	4,146	5,857	1,171	985	12,159
Impairment loss .....	456	539	114	166	1,275
Capital expenditures .....	1,161	6,427	311	1,358	9,257

Notes:

As discussed in Note 2.d, effective June 1, 2008, the Group applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." The effect of this change was to decrease operating income of Interior Fittings by ¥26 million (\$270 thousand), operating income of Automotive Textile and Traffic Facilities by ¥29 million (\$301 thousand) and operating income of others by ¥5 million (\$52 thousand) for the year ended May 31, 2009.

The impairment loss was included in "Business structure improvement expenses" (See Note 10).

## (2) Geographical Segments

The geographical segments of the Group and its subsidiaries for the year ended May 31, 2009 are summarized as follows:

	Millions of Yen				
	Japan	North America	Others	Eliminations/ Corporate	Consolidated
Sales to customers .....	¥63,620	¥6,256	¥1,498		¥71,374
Intersegment sales .....	445	18	935	¥ (1,398)	
Total sales .....	64,065	6,274	2,433	(1,398)	71,374
Operating expenses .....	61,933	7,047	2,310	5	71,295
Operating income (loss) .....	¥ 2,132	¥ (773)	¥ 123	¥ (1,403)	¥ 79
Total assets .....	¥49,908	¥3,825	¥1,633	¥13,117	¥68,483

	Thousands of U.S. Dollars				
	Japan	North America	Others	Eliminations/ Corporate	Consolidated
Sales to customers .....	\$659,480	\$64,849	\$15,528		\$739,857
Intersegment sales .....	4,613	187	9,692	\$ (14,492)	
Total sales .....	664,093	65,036	25,220	(14,492)	739,857
Operating expenses .....	641,992	73,049	23,945	52	739,038
Operating income (loss) .....	\$ 22,101	\$ (8,013)	\$ 1,275	\$ (14,544)	\$ 819
Total assets .....	\$517,362	\$39,651	\$16,927	\$135,949	\$709,889

### Notes:

As discussed in Note 2.d, effective June 1, 2008, the Group applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." The effect of this change was to decrease operating income of Japan by ¥39 million (\$404 thousand), and operating income of others by ¥4 million (\$41 thousand), and increase operating loss of North America by ¥17 million (\$176 thousand) for the year ended May 31, 2009.

Under Japanese accounting regulations, the Group is not required to disclose geographical segment information for the year ended May 31, 2008 because sales and total assets in Japan represented more than 90% of those of the Group.

## (3) Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 2009 amounted to ¥8,557 million (\$88,701 thousand).

Under Japanese accounting regulations, the Group is not required to disclose sales to foreign customers information for the year ended May 31, 2008 because sales to foreign customers represented less than 10% of those of the Group.



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To the Board of Directors of Suminoe Textile Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Suminoe Textile Co., Ltd. (the "Company") and subsidiaries as of May 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suminoe Textile Co., Ltd. and subsidiaries as of May 31, 2009 and 2008, 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.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu LLC".

August 21, 2009

## BOARD OF DIRECTORS AND CORPORATE AUDITORS (as of August 28, 2009)

### President

Ichizo Yoshikawa  
(Representative Director)

### Managing Directors

Makoto Odajima  
(Representative Director)

### Directors

Shinji Yoshida  
Toshikazu Masukawa  
Kenji Sukino  
Yoshiaki Tanihara  
Shozo Kawabata  
Yasuaki Kitano  
Hitoshi Iida

### Corporate Auditors

Ken-ichi Yamagata  
Satoshi Adachi  
Isao Yamabe

## INVESTOR INFORMATION (as of May 31, 2009)

Year of Establishment:	1883	Issued Shares:	76,821,626 shares
Paid-in Capital Stock:	¥9,554,173,950	Shareholders:	6,777
Authorized Shares:	300,000,000 shares	Employees:	376
Major Shareholders:	Takashimaya Company, Limited Nippon Life Insurance Company Marubeni Corporation Mizuho Corporate Bank, Ltd. Japan Trustee Services Bank, Ltd. (Trust account 4G) TOYOTA MOTOR CORPORATION The Master Trust Bank of Japan Ltd. (as trustee for Retirement Benefit Trust of UNITIKA LTD.) The Bank of Tokyo-Mitsubishi UFJ, Ltd. Suminoe Textile Kyoeikai Suminoe Textile Employees' Association		

## CORPORATE DATA (as of May 31, 2009)

### Subsidiaries

Suminoe Co., Ltd.  
Runon Co., Ltd.  
Marunaka Souei Co., Ltd.  
Suminoe Works Co., Ltd.  
Suminoe Logistics Co., Ltd.  
Sewing Hyogo Co., Ltd.  
Tango Textile Co., Ltd.  
Suminoe Koka Co., Ltd.  
Suminoe Nara Co., Ltd.  
Suminoe Textile of America Corp.  
Suzhou Suminoe Textiles Co., Ltd.  
SPM Automotive Textile Co., Ltd.  
Kansai Laboratory Co., Ltd.  
Degora Trading Co., Ltd.  
Many Able Co., Ltd.

### Associated Companies

T.C.H. Suminoe Co., Ltd.  
KST Co., Ltd.  
Suzhou Suminoe Koide Automotive Accessories Co., Ltd.  
PT Sinar Suminoe Indonesia  
Sumisho Airbag Systems Co., Ltd.

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Nishi-Gotanda 2-Chome,  
Shinagawa-ku, Tokyo 141-0031  
Phone: +81-3-5434-2860  
Fax: +81-3-5434-6542

### Sales Offices

Sapporo, Sendai, Kita-kanto, Chiba,  
Yokohama, Shizuoka, Kanazawa,  
Nagoya, Kyoto, Kobe, Okayama,  
Hiroshima, Fukuoka, Kagoshima

### Factories

Nara, Osaka, Shiga, Kyoto

### R&D Center

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Osaka 580-0006  
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Fax: +81-72-330-2519

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