NISSHINBO

Annual Report 2004

(Year ended March 31, 2004)

Financial Highlights

(Years ended 31st March)

Consolidated:

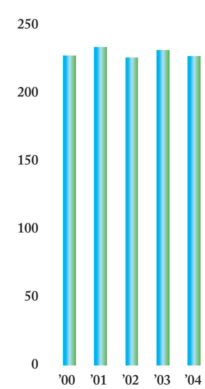
	(millions of yen)		(millions of US dollars)
	2004	2003	**2004**
Net Sales	**¥ 226,883**	¥ 231,193	**$ 2,161**
Net Income	**3,919**	777	**37**
Shareholders' Equity	**214,132**	186,028	**2,039**

Per Share:

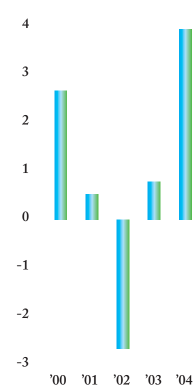
	(Yen)		(US dollars)
Net Income	**¥ 17.86**	¥ 3.18	**$ 0.17**
Shareholders' Equity	**1,030.98**	860.52	**9.82**
Cash Dividends	**7.00**	7.00	**0.07**

The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥105=US$1.

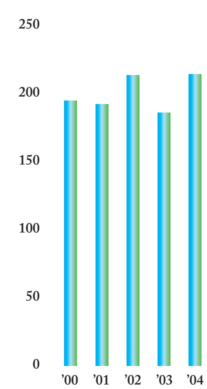
Net Sales
(billions of yen)



Net Income
(billions of yen)



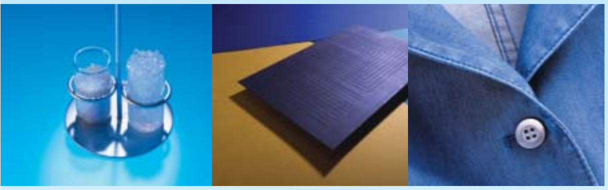
Shareholders' Equity
(billions of yen)



In this annual report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ materially from those anticipated in these statements.

CONTENTS

The paper used for this Annual Report is from Nisshinbo's *VENT NOUVEAU* series of fine papers.



NISSHINBO Industries, Inc. (the “Company”) was founded in 1907 as a manufacturer of cotton yarns and threads, and quickly assumed a position of leadership in the industry. Our nearly 100-year history has been characterized by strategic moves taken in advance of competitors and designed to raise productivity, improve quality and add value. Today, we are a total textiles manufacturer, controlling operations from spinning to finishing. This, together with our accumulated high levels of technology, gives us an advantage in the development of truly distinctive products and in quality control.

Through the application in other fields of technologies and expertise originally developed in the textiles area, we have diversified our operations into the manufacture of automobile brakes, papers, chemical products, machine tools and others. These non-textile lines have grown steadily and now account for over 70% of consolidated net sales.

We offer a truly diverse range of products tailored to customer needs: high value-added finishing processing and products in the textiles segment, including *SUPER SOFT (SS)*, *SUPER SOFT PEACHPHASE (SSP)* and *NON CARE*, as well as new-generation electronic braking systems, high heat-insulation panels, bipolar plates for fuel cell and filters for plasma display panels (PDPs).

“Nisshinbo”, comprising the Company and its consolidated subsidiaries and affiliates, aims to be a 21st century manufacturer offering a lineup of highly efficient leading-edge production systems and a diverse range of high value-added products. With its approach that emphasizes innovation, Nisshinbo will strive to solidify its position as a highly profitable company that contributes to society through its diverse product lineup.

Textiles

Textile products have been the mainstay of our business since our foundation. We lead the Japanese textiles industry with our high-quality products, backed up by our accumulated technology, and have gained the trust of customers. We have the top share in the domestic markets for shirt materials, denim, and polyester and cotton blended uniform materials.

We undertake comprehensive operations including spinning and finishing, and by integrating manufacturing and sales activities we have established a flexible system enabling supply of original products that overseas manufacturers cannot match for quality. One of our particular strengths is an ability to respond quickly to the precise needs of customers. We offer a variety of unique, high value-added textile finishing processes and products, including *SS* soft and easy-care fabrics, *SSP* wrinkle-free fabrics, *CELTOPIA* cotton/wool blended fabrics, *NON CARE* ultimate wrinkle-free fabrics, *Nisshinbo Mobilon* spandex and *OIKOS* non-woven cotton fabrics. Nisshinbo has also entered the shirt apparel sector through its subsidiaries as a means of strengthening activities in areas close to consumers.

We are taking aggressive measures to expand our overseas operations, targeting both domestic and overseas markets. To strengthen its global competitiveness, Nisshinbo has upgraded and expanded its production facilities in China and Indonesia, and is working to promote sales of high-quality products. In addition, we also operate NISSHINBO (SHANGHAI) CO., LTD., our sales base in China, and the Global Operation Promotion Office, which was set up to provide maximum support for our overseas operations.

Non-textiles

AUTOMOBILE BRAKES

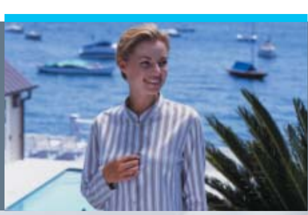
We are one of Japan's leading manufacturers of friction materials and automobile brakes, and this sector has an important role in our drive toward diversification. By obtaining a clear picture of customer needs, we look to the future and undertake technology development and investments in areas related to high coefficient of friction, noise/vibration characteristics, improvements of brake pad life, application of new, eco-friendly technologies, construction methods and materials. Our product development emphasis is on "green" pads using environment-friendly materials.

Through our affiliates, Nisshinbo also offers a diverse range of control systems, including the Anti-lock Brake System (ABS), as well as Stability Control Systems, which help avoid dangerous situations by controlling directional movement of a vehicle to enable safe driving. Our original, compact, lightweight and low-cost *NT* series ABS is available in a wide lineup and is sold in markets worldwide.

In parallel with the development of our own technologies, we engage in technology exchange and collaborate with major overseas brake manufacturers. We have also set up production bases for friction materials and automobile brakes in the United States, Thailand and South Korea in order to strengthen our presence in those markets.

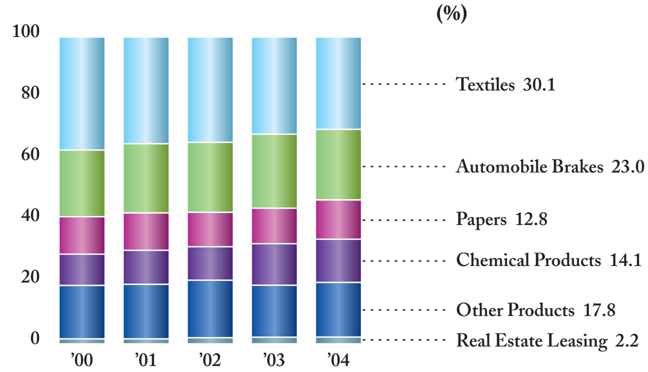
PAPERS

We manufacture a wide range of paper and paper-related products, including household papers, such as tissue paper, toilet paper and kitchen-use paper towels, fine papers used for quality printing, publications and packaging, synthetic papers and labels. Our value-added products include *COTTON FEEL*, a household paper made using our spinning technologies, *VENT NOUVEAU* and *MILT GA*, natural-feel fine papers for high-quality printing, and synthetic papers for fine digital printing.



Consolidated Sales Composition (%)

Sales by Segment in Fiscal 2004 (%)



Note: Chemical Products, previously included in the Other Products sector, was treated independently from fiscal 2003 due to the growing importance and potential of the sector. Figures for previous fiscal years have been adapted to take account of this change.

CHEMICAL PRODUCTS

We produce rigid-type polyurethane foam used for heat-insulation material, flexible types used for cushion material, and a glass fiber-reinforced polyurethane foam, which is a lightweight, strong, corrosion-resistant material widely used in the water treatment and construction industries. In the civil engineering field, we provide products such as *SET FOAM*. We are also a pioneer in the introduction of environment-friendly, non-fluorocarbon polyurethane foam for application as heat-insulation material in the construction field. Moreover, we are expanding the applications of our original polyurethane elastomer *Nisshinbo Mobilon*, which has excellent elasticity and water-resistance characteristics and is used in a number of industrial products and consumer goods fields. In addition, we provide new carbon products for application mainly in semiconductor production and other electronics sectors.

Other materials produced by Nisshinbo include *APG®* (Aqua Porous Gel), *BCN®* (Bio Contact N) and Vacuum Insulation Panel. We also produce molded plastic cross-flow fans for air conditioners for electric appliance markets, mainly in China and Southeast Asia.

OTHER PRODUCTS

• Machine Tools

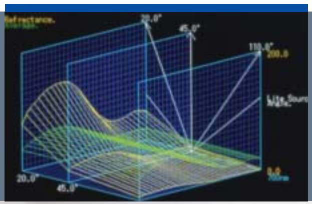
We are an acknowledged specialist in the manufacture and sale of customized machine tools and CNC sheet-metal machinery. This business supplies its FMS hardware/software systems to such leading-edge industries as the automotive, electronics and aircraft industries through its domestic and overseas sales networks. We also supply environment-related products, including a photovoltaic module manufacturing system and a kitchen waste disposal unit for commercial use, as well as precision processing products to the automobile and other industries on an OEM basis.

• Others

We manufacture medical-use electronic equipment, including ultrasound diagnostic devices and surgical equipment, applied electronic equipment, including "handy" terminals and CRT graphic displays, and radio communications equipment, including mobile telephones and PHSs. In the digital household electronics field, we manufacture and market optical filters for PDPs. We also provide bipolar plates for fuel cell which are widely regarded as next-generation energy system parts, and develop and supply the production systems that integrate the *CHOSHOKU SENKA* fuzzy logic computer color matching (CCM) system, manufacturing process support system and enterprise resource planning packages. All are based on our original technologies.

REAL ESTATE LEASING

We are engaged in the real estate leasing business for the purpose of efficient utilization of unused land. We lease office and residential buildings in Tokyo, and land previously occupied by our factory facilities for use as shopping centers and model homes.



Interview with the President

Q1. Could you give us a brief overview of fiscal 2004, ended March 31, 2004, and summarize your consolidated business results?

During fiscal 2004, the Japanese economy was characterized by improved conditions in several industries amid a pickup in personal consumption and greater willingness by companies to make capital investments. Growing expectations of an economic recovery in the second half were further underpinned by rising stock prices.

Under these conditions, consolidated net sales decreased 1.9% from the previous fiscal year to ¥226,883 million (US$2,161 million). Nonetheless, operating income jumped 41.9% to ¥8,496 million (US$81 million) and net income was ¥3,919 million (US$37 million). By business segment, sales for the Textiles decreased 7.6% to ¥68,403 million (US$651 million), and sales for the Non-textiles edged up 0.8% to ¥158,480 million (US$1,509 million). The ratio of Non-textiles sales to total sales increased 1.9 percentage points to 69.9%, while the ratio of Textiles sales to total sales decreased 1.9 percentage points to 30.1%.

Fiscal 2004 saw Nisshinbo launch a new three-year management plan to “strengthen profit-making capabilities and increase corporate value.” Unfortunately, we fell short of the plan’s first-year targets of consolidated net sales of ¥237,000 million and operating income of ¥9,000 million. Lower sales in the Textiles resulted from such factors as an industry-wide preference for lower prices and Nisshinbo’s closing of domestic plants and shift to overseas production in response to an influx of garments from overseas. Conversely, in the

Three-year Management Plan 2006

Basic Objective

•Increase profitability with the aim of enhancing corporate value

Key Tasks

- Business plan: Formulate business plans for each segment and verify progress
- Performance assessment: Assess segment performances every term based on the performance assessment criteria
- Consolidated management: Reinforce management capabilities of the Group companies
- New businesses: Promote commercialization of R&D themes companywide

Promotional Measures

In response to changing public perspectives on companies and globalization of management, the Company will promote the following measures to take a more central role in the market.

1. Stress Customer Satisfaction (CS)
2. Improve asset efficiency
3. Establish globally optimized production and distribution systems
4. Form flexible corporate alliances and concentrate management resources on key areas of strength
5. Develop and reinforce new businesses
6. Enhance investor relations
7. Ensure full compliance

Non-textiles, several divisions reported improved results. However, the results of our mainstay Automobile Brakes business was significantly affected by a shift of its ABS products business to Continental Teves Corporation (CTC), a joint venture.

I view our ability to increase profits despite a decline in sales as a significant accomplishment. This is irrefutable evidence that measures taken to rebuild our businesses have begun to yield tangible results.

Q2. How would you assess the specific accomplishments made during the first year of the three-year plan?

Rather than being a result of activities undertaken in a single year, I feel strongly that all our past efforts to reform our business structure have finally begun to bear fruit. During fiscal 2004, we focused on the theme "thorough goal management and increased profitability," as we strived to achieve the first-year targets of our three-year management plan. Specifically, we focused on accelerating the pace of reforms in our business structure.

In line with our "thorough goal management," during the fiscal year we put into place our "Program for Promoting Annual Management Goals," which closely monitors and evaluates the management goals of each segment headquarters, and our "N21 System," a management system based on the aforementioned program that reflects the achievements of each segment based on the performance evaluation of individual employees. We are also promoting self-reliance that will encourage greater independence of each division. To maintain the benefits of results-oriented operations, we will make ongoing adjustments to ensure our management systems remain highly effective.

We are also focusing on "strengthening profit-making capabilities" and are solidifying our base for raising profitability that we established in fiscal 2003. Each business division continues to make progress in disposing of unprofitable businesses, reducing production costs and streamlining inventories, which is rewarding us with rising profitability. Particularly noteworthy is the Textiles segment, which has trimmed excess production facilities and personnel in Japan and has nearly finished its business restructuring process with the closure of the Hamamatsu Plant in fiscal 2004.

Q3. Could you explain the outlook for fiscal 2005 and describe some of the policies that you will implement in the coming year?

The positive effects of our restructuring surfaced during the second half of fiscal 2004. I expect these benefits will remain evident throughout fiscal 2005. The profitability of Nisshinbo Group companies has improved, thanks in part to a favorable turnaround in the business environment. Moreover, I anticipate that the addition of CHOYA CORP. and Naigai Shirts Co., Ltd., which became consolidated subsidiaries during the year, will also make positive contributions to our business results. In addition, as we also expect to record an extraordinary gain from the return of the proxy portion of employee pension funds to the government, the outlook for both sales and income is bright.

A principal theme in fiscal 2005 will be to "strengthen profitability and expand sales." Using the foundation built through various activities undertaken to the present aimed at "reducing losses," we will now focus on "generating profits," as we enter a phase for establishing a high-profit business structure.

Business Seeds Sprouting Roots

The Research and Development Division is working actively to establish two new businesses, electric double layer capacitors and *CARBODILITE*, which have emerged from the seed stage of development. This division is also progressing with research in such biotechnology-related areas as DNA microarray. From the perspective of protecting the environment, a recent trend in the automobile and electronics industries is the move toward the use of biodegradable plastic components. To ensure that these plastics do not dissolve prematurely, it is necessary to add plastics that strengthen the functions of materials. *CARBODILITE* is outstanding in terms of strengthening this function and has been highly acclaimed by users. In view of the expected large growth in the *CARBODILITE* business, we plan to increase production facilities for this product at our Tokushima Plant.

Turning to capacitors, which are expected to be widely used in electric cars, Nisshinbo developed an electric double layer capacitor by applying its original "ionic liquid" as an electrolyte. We are currently progressing with the development of this business with Japan Radio Co., Ltd., which possesses know-how in the actual manufacture of capacitors.

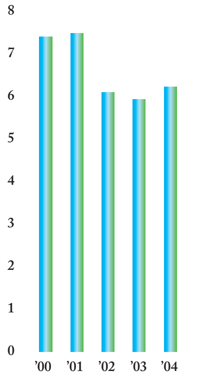
We are currently supplying DNA microarray, which have applications in pharmaceutical products, in vitro diagnostic and food inspection fields in collaboration with other leading companies.

Through its involvement in these product fields, Nisshinbo is acquiring valuable experience and know-how and is establishing a structure that will enable it to realize a speedy and efficient development structure.

During fiscal 2004, Nisshinbo's R&D expenditures amounted to ¥6,220 million (US$59 million), up 5.1% over the previous fiscal year. As of March 31, 2004, the number of domestic and overseas patents held by Nisshinbo was 801, while patent applications outstanding amounted to 1,522.

DNA microarray

R&D Expenditure
(billions of yen)



We have already laid the groundwork for achieving this objective in fiscal 2004. Specifically, we will adopt such measures as developing new materials, cultivating new growth businesses, expanding our business through M&A activities and alliances, responding to globalization, establishing a new business promotion organizational structure, and carrying out selective capital investment to attain further growth in businesses where we have carved out strong positions. By taking these steps, we are sewing additional seeds for further growth in sales and profits. I believe that making efficient use of our assets will also be key to the realization of these objectives.

Q4. What are your thoughts on developing new materials and cultivating new businesses?

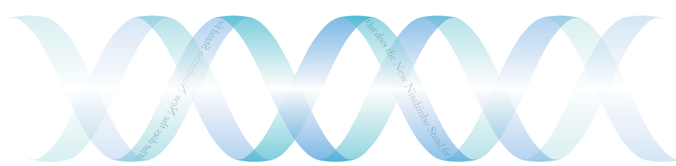
Our basic direction is toward the pursuit of production innovation. To the present, Nisshinbo and other Japanese manufacturers have built their profit structures based on process innovation. However, process innovation has now spread worldwide and no longer represents a competitive strength. I believe that greater emphasis on originality, the basis of production, will be the key factor underlying competitiveness in the future. However, this approach also carries risks. Developing the highest-quality products is meaningless if it does not accurately reflect market needs or a company does not possess a leadership position for that product. This is perhaps the biggest risk facing manufacturers. Conversely, pressing ahead with new approaches and distributing risk are also paramount. Moreover,

A Business Commercialization Process that Responds Quickly to Change

The Business Developing Division is involved in commercialization in growth fields characterized by dramatic changes. Therefore, this department strives to make effective use of goal management as it works to create a structure with an emphasis on speed. Looking at our various businesses, in optical filters for PDPs, a sector expected to grow in tandem with increased demand for large-size, thin-screen TVs, we successfully developed new products using our superior production methods. In April 2004, we put the final touches on a structure for mass production of optical filters at the Harisaki Plant and are now placing top priority on securing new customers.

Regarding bipolar plates for fuel cell, fuel cell manufacturers still remain in the development process phases and therefore we anticipate that more time will be needed for commercialization. Nisshinbo is still focusing its efforts on development of prototypes for bipolar plates for fuel cell.

On a different front, we are introducing management systems that clearly define the differences between R&D and business operations. During fiscal 2004, we obtained ISO9001:2000 certification-the international standard for management systems-at the Business Developing Division.



Next-generation condenser device (Original “ionic liquid” as electrolyte in capacitor) it is essential to accurately gauge market conditions. We are forming a business commercialization process that makes accurate assessments of market outlooks through a mutually complementary structure composed of our Research and Development Division, which handles development of new materials and products, and the Business Developing Division, which is in charge of commercialization. The Business Developing Division is currently actively moving ahead with projects for optical filters for PDPs and bipolar plates for fuel cell. We also have several other promising new materials and products in the development stage that have strong potential for commercialization. These include *CARBODILITE*, a high functional polymer resin, and an electric double layer capacitor that uses our ionic liquid as an electrolyte.

We are also continuing our energetic development efforts in our existing fields. We have developed a host of highly competitive and unique products that have received widespread plaudits in their respective markets. These include such textile products as our *NON CARE* pure cotton wash-and-wear shirts with no need for ironing that integrate nanotechnologies, as well as chemical products that include *N's VIP* high-function vacuum heat insulation panel. We will continue to aggressively allocate management resources to the development of materials and new businesses.

Q5. Will you please tell us about the aims of your aggressive pursuit of business alliances?

Over the years, Nisshinbo has undertaken totally integrated operations from development and manufacturing to marketing. Without a doubt, integrated operations furnish a number of important benefits, chief among them being the ability to control our entire business operations and generate significant profits during times of business expansion. This approach has delivered crucial results. Nevertheless, the breathtaking pace of changes in today's society and markets brings a significant risk of being late to the market. Even if we develop outstanding materials for which there is a market, there is an ever-present danger of being pushed out of this market by late entrants during the time it takes to independently prepare new production facilities and establish new sale routes. Therefore, to achieve speed in our business activities, we seek to collaborate with leading companies possessing functions that Nisshinbo lacks, and thus strive to form alliances between two strong companies while mutually sharing profits from this cooperation. Nisshinbo boasts outstanding products and materials. We intend to adopt a business style that allows us to effectively deploy such strengths to expand our markets and business domains.

Q6. Could you describe your thinking regarding M&A, which is also one means of expanding your businesses?

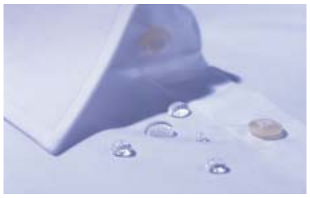
We do not intentionally focus on M&A beforehand as an end in itself. Rather, we view M&A as one means of forming alliances and undertake M&A on a case-by-case basis. In our Textiles business, during fiscal 2004 we increased our holdings in CHOYA CORP. and Naigai Shirts Co., Ltd. and made these consolidated Nisshinbo subsidiaries, thereby launching our entry into the apparel business. In the textiles industry, materials manufacturers such as Nisshinbo once led the business. However, the entire structure of this business has undergone a dramatic transformation, with the pendulum of power swinging toward apparel makers and sales companies that operate in markets close to consumers. With operations ranging

Strategies for Expanding Our Textiles Business

In our Textiles business, we have virtually completed the rebuilding of our domestic operations and intend to implement aggressive strategies to expand our markets deploying our worldwide optimal production and sales scheme. We are working to introduce high-quality "Nisshinbo Quality" mainstay products produced at our Indonesia and China joint ventures in markets worldwide, while the Global Operation Promotion Office is coordinating strategies as we strive to maximize profits. In China, NISSHINBO (SHANGHAI) CO., LTD. is working to expand sales in that country. In Japan, we have established a supply structure for high value-added products that integrate manufacturing and sales functions, and we also intend to expand sales of high value-added products made in Japan including shirts, *Nisshinbo Mobilon* spandex and casual wear, in China, Europe and the United States.

In spring 2004, Nisshinbo introduced original shirts under the brand name of Nisshinbo. Nisshinbo has also launched full-scale efforts to expand its business for garments by turning to the subsidiaries Naigai Shirts Co., Ltd. and CHOYA CORP., which engage in catalog sales of *COMFORT PROPOSAL* garments. Nisshinbo aims to achieve synergies by compartmentalizing the functions of CHOYA CORP., which has built an upscale brand image for its shirts and offers highly functional products such as water and oil repellent and skincare products and *NON CARE* shirts that dramatically stabilize shapes, with Naigai Shirts Co., Ltd.'s mass-market products. We will also focus on providing OEM products through joint development and sales tie-ups with large-scale retailers while also promoting our own brands. In addition, we will strengthen our activities close to end users, which will allow us to quickly develop and supply products that match customer needs.

Nisshinbo is working to develop products that integrate nanotechnologies and these efforts are paying off. Besides *NON CARE* shirts, we have developed *Agfresh* silver nano antibacterial and deodorizing technologies that use nano-sized silver particles and we are expanding the applications of this technology to such items as uniforms, shirts and knitted products. We are also developing water and oil repellent items, deodorants and skincare products with distinctive features. In spring 2004, we began marketing these items under our *Nanoscience* series brand name. We also commercialized our banana-based fibers, an environment-friendly material, marking the first time in the industry that banana stalks disposed of after harvesting have been commercially converted into a textile material.



Nanoscience series waterproof shirt

from materials to processing, Nisshinbo also seeks to engage in activities close to consumers. Our recent M&A activities have permitted us to realize this objective. Let me point out, however, that we lack the requisite know-how in sectors such as women's apparel, which is significantly and easily affected by rapid changes in popular fashion. With this in mind, Nisshinbo decided to target shirts, an apparel sector where we possess the necessary capabilities. This sector is not subject to significant swings and we are confident we can secure an adequate level of sales by applying our accumulated know-how.

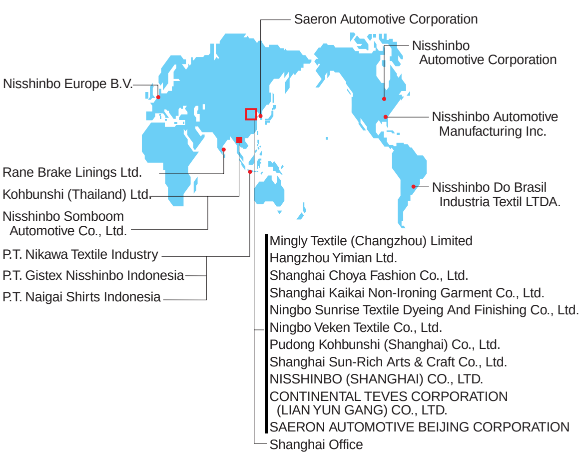
We are also cultivating new markets for Nisshinbo's new materials by using the sales channels of our subsidiary, Iwao & Co., Ltd. Although these sales are comparatively small, we believe these new materials have significant long-term potential.

Our M&A activities are not aimed solely at investing funds to generate profits but are also intended to upgrade and expand Group management. In addition, M&A activities generate synergies and yield benefits that exceed those realized through ordinary investments.

Q7. What strategies are you implementing to respond to globalization?

Our strategies are dictated by the business environment, primarily for our Textiles and Automobile Brakes businesses. Our Textiles business has been buffeted by an influx of garments from overseas, which has made it difficult to earn profits on our mainstay domestic products. In Japan, we are scaling down our production facilities as much as possible and specializing in distinctive products, while raising the percentage of mainstay products manufactured overseas.

Overseas Network



Our brake parts

Automobile Brakes Business Focusing on Overseas Business

Automobile production in Japan is gradually trending downward as a result of the shift to overseas manufacturing. The strategy of the Automobile Brakes business focuses on maintaining its current level of business in Japan by raising market share while expanding its profits in its overseas operations. At present, this division has a 2:1 domestic-overseas production ratio and aims to achieve a 1:1 ratio within several years. Based on its policy of "optimizing overall business" for its domestic and overseas business activities, this division established a Global Business Department that will serve a headquarters function to respond quickly to globalization. Moving forward, this division will strive to improve its competitiveness in terms of quality and cost to meet the expectations of customers.

At present, we operate a structure in our Textiles business for producing 250,000 spindles in Japan and 350,000 overseas. We export mainstay products produced at our overseas bases to Japan and other global markets. We are also working to expand sales in the regions where these products are manufactured. By building a global production structure and emphasizing distinctive products, we are transforming our Textiles segment into a highly competitive business.

In our Automobile Brakes business, we have established overseas bases to respond to the overseas production of Japanese automakers as well as the U.S. Big Three and European automakers. During this process, we have also forged valuable relationships with prominent overseas automakers and worked to expand our sales. I believe the trend toward globalization of the automobile industry is likely to gather momentum in the years ahead. In a noteworthy development during fiscal 2004, we established a base in the China automobile brake business through our subsidiary in Korea. In addition to having outstanding technological capabilities, the Automobile Brakes business requires the ability to make capital investments. We will utilize our strong capital investment capabilities, which also reflect our abundant financial resources, to ensure we can respond flexibly and quickly to the needs of the market.

Q8. Could you talk about the establishment of the business promotion structure?

In April 2004, we merged our Mechatronics Division with the ABS Division to form the new Precision Instrument & Machinery Division. Although our mechatronics business was operating in the red, we have achieved important progress in reforming our business structure into a well-balanced organization consisting of three businesses—specialized machinery, OEM automobile precision components, and general sheet metal processing machinery. These businesses achieved a profit in fiscal 2004. On the other hand, the ABS Division is transferring its business to CTC, and plans call for the division to shift its focus to specialization in ABS components processing in the near future. By combining the components processing technologies of the ABS Division with the development and design know-how and marketing structure of the Mechatronics Division, we aim to create synergies as we redouble efforts to build these operations into a core business. The recently established Precision Instrument & Machinery Division will participate in projects for providing technology to Chinese companies and use such activities as a springboard for cultivating new markets.

Q9. Could you explain your thinking underlying the various measures you have implemented?

In 2007, Nisshinbo will celebrate the 100th anniversary of its establishment. We are a company that was born in Japan and our so-called “Nisshinbo DNA,” which has been developed throughout our long history, permeates our operations. To ensure that we evolve properly from the present point in time, which marks a turning point for us as a company, I believe we must also significantly alter our own “Nisshinbo DNA.” From a long-term perspective, management must create opportunities to allow us to change our DNA.

Q10. What do you mean when you say “change the Nisshinbo DNA?”

A chief characteristic of “Nisshinbo DNA” is an emphasis on “stock-type” management, which is Japanese-style management that

International Technical Agreements

As licensee:

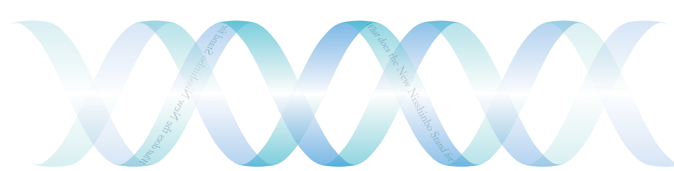
- Taltech Limited of the British Virgin Islands for Pucker Free Seam Technology
- Continental Teves AG & Co. oHG of Germany for MK60 ABS and ESP TCS technologies
- Meritor Heavy Vehicle Systems, LLC of the U.S. for disc brake and drum brake technologies

As licensor:

- Jiangsu yawei machine tool Co., LTD. of China for CNC turret punch press technology
- Rane Brake Linings Ltd. of India for friction materials technology
- Heng Tong Auto Parts Inc. of Taiwan for friction materials and passenger car disc brake technologies

As cross-licensing partners:

- TMD Friction Beteiligungs GmbH & Co KG of Germany for friction materials technology
- TRW Inc. of the U.K. for drum brake technology
- Continental Teves AG & Co. oHG of Germany for passenger car disc brake technology
- Continental Teves AG & Co. oHG of Germany for NT20/MK20 ABS and TCS technologies



focuses on long-term sustained growth, the accumulation of various types of assets and payment of stable dividends. Our efforts to change our DNA are focused on adding an element of "flow-type" management, which stresses short-term profits and dividends. We are undertaking our current three-year management plan with an eye toward changing our DNA. Our principal theme in fiscal 2005, "strengthen profitability and expand sales," is based on our emphasis on "flow-type" management. In other words, we aim to aggressively utilize our assets and expand profits during the coming fiscal year. Let me point out, however, that we do not intend to suddenly shift radically to flow-type management with the top priority on profits. Instead, we will adopt a perspective aimed at raising profit levels over the long term. We do not intend to achieve this objective during the short three-year duration of our management plan but will make a gradual transformation over a longer period.

Various other business activities that I have referred to are also aimed at changing the "Nisshinbo DNA" and raising our growth capabilities and our ability to survive in the future. Through such attitudes, we intend to transform our awareness and create additional sources of fresh power.

On the other hand, our "Nisshinbo DNA" still retains features that function as the very core of our existence as a company. These include undertaking fair business activities and contributing to the betterment of society. The raison d'etre of companies is not solely to earn profits. Companies also play a crucial role as members of society. As such, Nisshinbo will strive to strike a balance between its business activities and the expectations and needs of numerous stakeholders, which include shareholders, customers business partners, employees, local communities and public institutions.

Q11. What are you doing to ensure fair business activities?

We are confident we are taking the correct approach to corporate governance under our present structure for monitoring through the Board of Directors. We considered shifting to a method more in line with global standards, however, merely adopting such a system in form only is unlikely to yield any meaningful results. We must undertake sufficient deliberations to ensure a means of effective corporate governance that befits Nisshinbo. Under our present system, we appointed an additional external auditor to ensure

Chemical Products Business Rapidly Building a High-Profit Structure through Selection and Concentration

The Chemical Products Division executes systematic selection and concentration of its businesses and is making notable headway in rapidly reorganizing into a high-profit structure, focusing on four areas: expanding high-profit businesses, reducing production costs, withdrawing from unprofitable businesses and expanding sales in overseas markets. Because the development of new materials is key to success in this industry, the Chemical Products Division devotes its efforts to product development. This division is working to cultivate its business for environment-related products such as *N's VIP* heat insulation materials that are effective in preventing global warming, *APG®* (Aqua Porous Gel) and *BCN®* (Bio Contact N) for water purifying, and CFC-free polyurethane foam, as well as such health and medical-related products as low resilience foam and seats used in railway cars.

In overseas markets, we have achieved progress in strengthening our sales structure and are working to expand sales of elastomers, carbon and *N's VIP* products.

BCN® has a high water-absorbing capability

Paper Products Division Formulating a Differentiation Strategy

The Paper Products Division is working to promote products for which it quickly implemented a differentiation strategy. With our activities concentrated on promoting distinctive products, developing new products and cultivating new fields, we will make unprecedented efforts to reduce costs by trimming expenses at production plants and strengthen our ability to respond flexibly to changes in the market. We will also focus on overseas procurement and supply of OEM products as we work to build a structure that can secure profits. This division's household papers have won especially high acclaim from consumers. In June 2004, the Shimada Plant, which produces household papers, completed work on expanding and strengthening production facilities, and the Papers business has now firmly put into place a structure for expanding sales. In our label printing-related business, we will use the transfer of production to our Kawagoe Plant as a springboard for strengthening our affiliations with subsidiaries and carrying out efficient business activities.

COTTON FEEL, our household paper brand transparency in management. This corporate governance structure is augmented by timely advice from advisory lawyers, auditing by several certified public accounting offices, and our own exhaustive efforts to ensure fair financial auditing. In addition, we established the Auditing Department to enhance the effectiveness of our operational and accounting audits. We also proactively promote information disclosure, beginning with such IR information as our quarterly results.

In striving to strengthen compliance, under our Corporate Conduct Charter we seek to imbue all employees with a deep sense of corporate ethics, which cover thorough compliance with laws and preserving human rights. Moreover, under the auspices of our Corporate Ethics Committee we have established a Corporate Ethics Reporting System, which offers a point of contact from within the company and overseas.

In accordance with our Corporate Conduct Charter, we are also making earnest and extensive efforts to manage and respond to various risks, beginning with those related to product safety.

We also place top priority on protecting the environment. Guided by the Nisshinbo Environmental Charter, we are making smooth progress in reducing the volume of waste materials as well as lowering the environmental load. We are also strengthening our activities for securing ISO14001, the international standard for management systems. Additionally, we are making important headway in promoting our environment-related products and businesses, which include banana fibers using discarded banana stalks, recycling PET bottles into materials and recycling used paper. We provide details on our environment-related activities on our website.

Q12. Finally, do you have any special message to convey to shareholders?

Although we will introduce flow-type management, we must still meet stakeholder expectations for long-term prosperity. To achieve this objective, we must strengthen the stability of our financial structure and make such deliberations as reviewing our asset portfolio. Regarding the redistribution of profits, Nisshinbo implements a policy of maintaining stable dividends that are unaffected by fluctuations in profits during any fiscal year. Our cash dividends per share for fiscal 2004 will be ¥7.00 (US$0.07) per common share. When we determine that we have established an even stronger profit structure, we would like to raise our dividends in line with increases in profit as a means of redistributing profits.

Companies are vital entities serving as cornerstones of free market economies and play a key role in society, which includes providing people with useful products and services, contributing to the betterment of local communities, providing stable employment and helping to protect the environment. Also, based on a spirit of self-responsibility, companies must allocate a portion of their assets and profits to renewing and expanding facilities, engaging in R&D and undertaking M&A activities. Through the vitality of our business activities, we aim to contribute to the further development of society. In closing, I ask for the continued support of our shareholders, customers and friends.

Y. Sashida

Yoshikazu Sashida
President

Achieving Growth of Our Precision Instrument & Machinery Business through Collaboration

In April 2004, the Precision Instrument & Machinery Division began operations after being established by a merger of our Mechatronics and ABS division following a review of our business promotion organization. In sheet metal processing, we provided YAWEI Co., Ltd., in China with technology for turret punch presses, and are supporting the building of a structure for that company to carry out sales and manufacturing of turret presses. We aim to expand our share of the Chinese market by introducing affordably priced products targeted at selected markets. We will bolster our sales affiliations with Marubeni Corporation for solar panels and strengthen our ties with CTC in ABS components. We will also carry out business that will allow us to cooperate with companies with strong technology and sales capabilities.

Real Estate Leasing Business Contributing to Business Results

From April 2004, our real estate leasing business began operating as the Real Estate Department. This department is diversifying methods for making effective use of idle land to expand transactions and carrying out negotiations on rent review with current lessees to secure profits from currently leased properties. In fiscal 2005, the department will pursue the development of the grounds of the former Tokyo and Hamamatsu Plants.

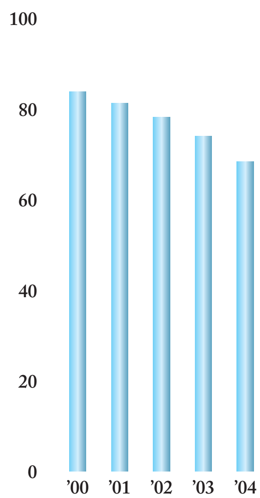
APITA Shimada Shopping Center
(Shizuoka Prefecture, Japan)

Textiles

In fiscal 2004, ended March 31, 2004, Japan's consumption of textiles showed few signs of recovery amid a harsh environment that exhibited growing preference for low-priced items and an ongoing shift to overseas production, mainly for garments. Against this background, the Textiles segment moved to strengthen its competitiveness by reorganizing domestic production plants, which included closing its Hamamatsu Plant at the end of March 2004, while also bolstering its overseas business. In addition, the segment strengthened its earnings foundation, focusing efforts on continuing to develop new products, fortifying sales capabilities and reducing sales and administrative expenses. Despite such negative factors as sluggish sales of denim and an increase in retirement benefit expenses, the Textiles segment achieved a sharp improvement in operating income by reducing valuation losses on idle inventories, pruning fixed costs and achieving growth in income at overseas subsidiaries. Consolidated net sales of the Textiles segment amounted to ¥68,403 million (US$651 million), a year-on-year decrease of 7.6% and accounting for 30.1% of total consolidated net sales, down 1.9 percentage points from the previous year. Operating income totaled ¥725 million (US$7 million).

With regard to yarns for textiles and knitted products, despite an unavoidable decline in sales and operating income for denim products due to production adjustments in Japan and scant exports to Europe and the United States, the division recorded growth in income for all other categories. Of particular note, operating income for commercial yarns jumped steeply, thanks to efforts to reduce costs and expand sales of differentiated yarns. Similarly, operating income for uniforms and others rose steeply, due to a recovery in demand and the use of products produced overseas.

Sales of Textiles
(billions of yen)



Amid a decline in sales of shirt materials resulting from sluggish shipments both in Japan and overseas, we moved to strengthen Nisshinbo's overall capabilities in the textiles industry and took measures to expand our business into domains closer to consumers by increasing our shares in the shirt apparel companies, CHOYA and Naigai Shirts, thereby making these companies into Nisshinbo subsidiaries.

Sales of spandex retreated owing to a slump in domestic demand for pantyhose products. However, operating income advanced thanks to efforts to offer differentiated products.

Nisshinbo worked to develop new products throughout the fiscal year and introduced a wide range of healthy, comfortable and environment-friendly products. These included *NON CARE* pure cotton wash-and-wear shirts with no need for ironing, deodorized antibacterial *GAIA COT* with enhanced

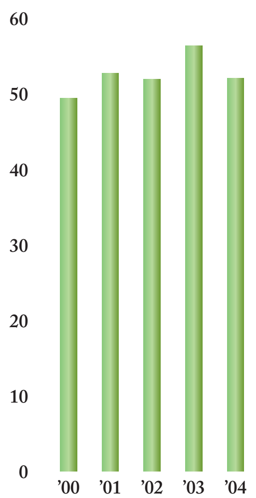
NON CARE pure cotton wash-and-wear shirts with no need for ironing
(Left: *NON CARE* shirt Right: Ordinary shirt)

Our *COMFORT PROPOSAL* direct marketing business offers high value-added products, such as those in our prestigious *SUPER SOFT* line

An entry at the Annual Nisshinbo Fashion Contest functions, the world's first ecology material that uses banana fibers, and antibacterial deodorized *Agfresh* products, which utilize nanotechnologies and silver-based materials.

Overseas, P.T. Nikawa Textile Industry shifted its operations in Indonesia toward high value-added products and achieved increases in sales and operating profit. Nisshinbo Do Brasil Industria Textil LTDA. also achieved steady growth in its business results. In China, we made progress in our cooperative production system with Mingly Textiles (Changzhou) Limited and Hangzhou Yimian Ltd., while Ningbo Sunrise Textile Dyeing And Finishing Co., Ltd. and Ningbo Veken Textile Co., Ltd., commenced operations at a new plant and expanded their production of spun yarn and woven fabrics.

Sales of Automobile Brakes
(billions of yen)



Non-textiles

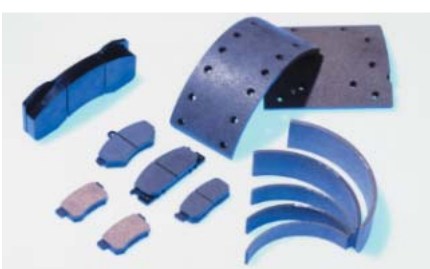
In the Non-textiles segment, excluding the Other Products sector, sales were lower in our Automobile Brakes business, a main pillar of this segment. This decrease was due to the transfer of ABS products to Continental Teves Corporation (CTC) and sluggish sales of vehicles equipped with our products. Nevertheless, favorable results in the Papers and Chemical Products sectors supported a 0.8% rise in net sales for this segment, to total ¥158,480 million (US$1,509 million). Operating income rose 16.4% to ¥7,771 million (US$74 million). Sales in the Non-textiles segment accounted for 69.9% of total sales, up 1.9 percentage points from the previous fiscal year.

Automobile Brakes

Sales in the Automobile Brakes sector declined 7.6% to ¥52,076 million ($496 million). Operating income fell 12.5% to ¥4,812 million (US$46 million). Although overseas subsidiaries posted gains in new orders for automobile brakes, owing to an expansion of sales to the U.S. Big Three and European automakers, the value of this growth was inevitably curtailed by the appreciation of the yen. In Japan, an increase in production of commercial vehicles accompanying the tightening of exhaust emission regulations supported our performance. However, a slump in sales of vehicles equipped with our products and lower orders for spare parts resulted in only a slight rise in sales and a decrease in operating income. Sales and operating income of ABS declined owing to the transfer of these operations to the equity method affiliate, Continental Teves Corporation (CTC). The transfer of this business was also the primary reason for the decline in sales and operating income in the Automobile Brakes sector. However, CTC achieved growth in its business results that surpassed its own targets.

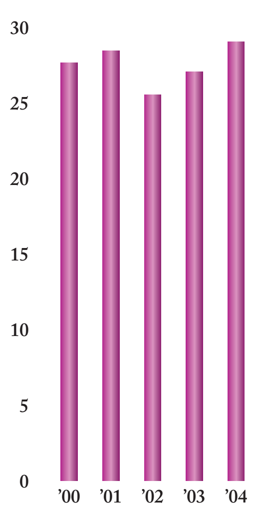
Papers

Sales of paper products rose 7.3% to ¥29,009 million



Our brake parts

Sales of Papers
(billions of yen)



Our fine paper products used in printing, publications and packagings

(US$276 million). Operating income increased 11.0% to ¥2,024 million (US$19 million) as stable prices for raw pulp material compensated for a rise in costs for transferring production plants in our label-related business.

Despite dwindling market prices, sales and operating income in household papers increased, thanks to an expansion of sales of distinctive new products as well as continued low procurement prices for pulp.

Amid a constricted market, we also posted growth in sales and operating income in fine papers, reflecting favorable results for such products as high-quality printing papers. Although sales of synthetic paper products rose, operating income declined because of weak market prices and a rise in production costs.

Operating income for standard molded products increased owing to the effects of cost reductions. Despite a rise in sales and the receiving of large orders for label-related products, an increase in costs accompanying the transfer of facilities from the former Tokyo Plant to the Kawagoe Plant resulted in a decline in operating income.

Chemical Products

Sales of chemical products increased 4.3%, to ¥32,098 million (US$306 million). Operating income soared 146.8% to ¥612 million (US$6 million). Despite an ongoing slump in demand and lack of visible signs of a recovery in market conditions in the construction and civil engineering industries, which are primary sources of demand, we achieved improved income in polyurethane foam by expanding sales of such highly functional products as *N's VIP*, vacuum heat insulation panels and heat insulation panels for LNG tanks.

In polyurethane elastomers, we worked to expand sales of our favorably performing apparel tapes for overseas markets. However, sales and operating income for polyurethane elastomers rose only slightly due to the effects of the appreciation of the yen.

Sales of carbon products increased due to growth in sales of plates for semiconductor manufacturing systems. Operating income in carbon products also improved despite an increase in expenses for developing our overseas business.

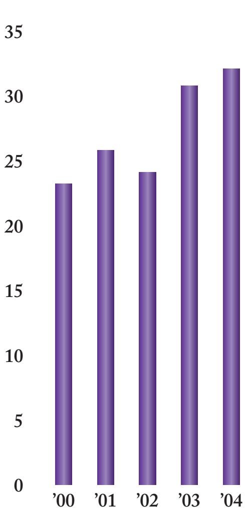
Sales and operating income in molded plastic cross-flow fans for air conditioners rose from the previous fiscal year thanks to a rise in orders from overseas subsidiaries owing to a heat wave in Europe and an expansion of the market in Southeast Asia.

Other Products

Sales in the Other Products sector rose 5.6% to ¥40,356 million (US$384 million). An operating loss of ¥1,156 million (US$11 million) was recorded, ¥1,530 million less than in the previous year.

Our polyurethane foams for heat insulation in a large scale project

Sales of Chemical Products
(billions of yen)



Note: Chemical Products, previously included in the Other Products sector, was treated independently from fiscal 2003 due to the growing importance and potential of the sector. Figures for previous fiscal years have been adapted to take account of this change.

CNC Turret punch press *HIQ-3048*

• Machine Tools

Sales and operating income of machine tools increased, as a recovery in domestic capital investment underpinned robust demand, while orders for OEM products, mainly automobile-related components, were strong. In the Machine Tools business, we progressed with a reform of our business structure that had been over-reliant on sheet metal processing machines. We have nearly completed our reorganization into a balanced structure comprising three categories: customized machine tools that include solar cell production machinery; OEM machine tools, including precision machinery for automobiles; and sheet metal machinery. From fiscal 2005, the Machine Tools business will make a new start when it is merged into the operations of the Precision Instrument & Machinery Division, which combines our ABS and Mechatronics division.

• Others

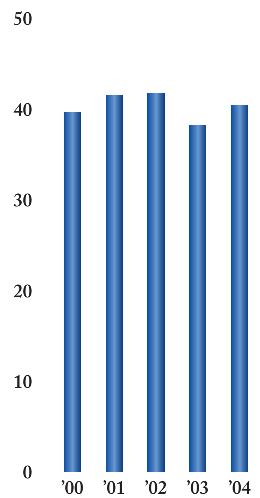
Despite the effects of declining prices, sales of electronic communications equipment increased thanks to favorable conditions in IT-related industries. In addition, the implementation of rationalization measures enabled a large reduction in the operating loss of electronic communications equipment.

Sales of optical filters for PDPs increased along with an expansion of the market. However, strong requests for price decreases from users prevented optical filters for PDPs from achieving an operating profit, although the size of the operating loss declined.

Performance in our fuel cell business was sluggish, as demand for these products remains low with the business still in its early development stages. With an eye to the future, we are working to establish technologies for mass production while engaging in the development of new products to expand business, and hence, demand.

In CCM systems, we focused on strengthening our technological capabilities and progressed with two projects: developing distinctive CCM systems and developing enterprise resource planning packages.

Sales of Other Products
(billions of yen)

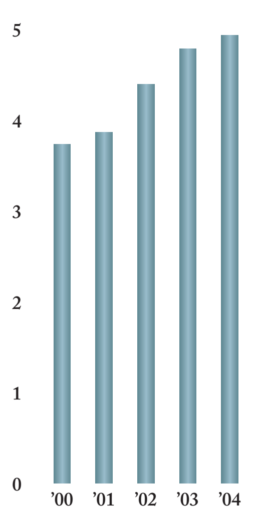


Real Estate Leasing

Our Real Estate Leasing business is steadily expanding, as evidenced by a 3.3% rise in sales over fiscal 2003 to ¥4,941 million (US$47 million). Operating income edged up 1.8% to ¥2,614 million (US$25 million). The continued growth in sales and operating income was due in part to the contribution made from the leasing of the grounds of the former Notogawa Plant to a distribution company.

Our optical filters for plasma display panels (PDP)

Sales of Real Estate Leasing
(billions of yen)



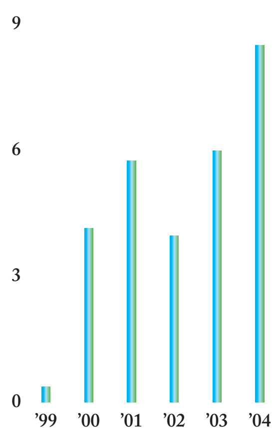
Friend Mart Shopping Center (Shiga Prefecture, Japan)

Six-year Summary

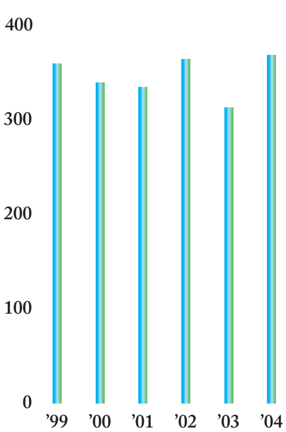
(millions of yen)

	1999	2000	2001	2002	2003	2004
Net Sales	226,800	227,452	233,535	225,836	231,193	226,883
Operating Income	373	4,140	5,751	3,968	5,989	8,496
Net Income	4,161	2,648	517	-2,649	777	3,919
Shareholders' Equity	200,779	194,685	192,331	213,665	186,028	214,132
Total Assets	359,390	339,373	334,460	364,161	312,909	368,444
Shareholders' Equity Ratio (%)	55.9	57.4	57.5	58.7	59.5	58.1
Return on Equity (%)	2.1	1.3	0.3	-1.3	0.4	2.0
Capital Investment	23,002	23,232	17,093	13,243	9,057	8,989
Depreciation and Amortization	13,411	14,228	13,134	13,422	12,758	11,776
Per Share (in yen):						
Net Income	17.60	11.36	2.32	-12.03	3.18	17.86
Shareholders' Equity	843.17	857.05	868.49	988.02	860.52	1,030.98
Cash Dividends	7.00	7.00	7.00	7.00	7.00	7.00
Number of Employees	8,452	8,235	8,104	8,456	8,627	9,875

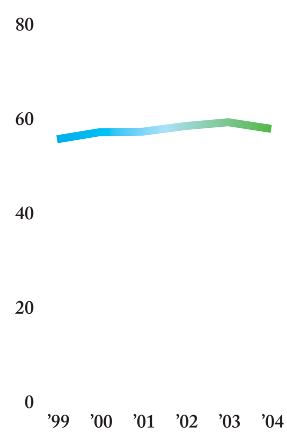
Operating Income
(billions of yen)



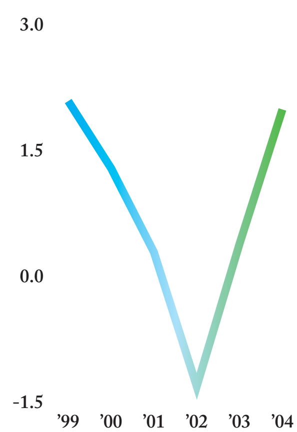
Total Assets
(billions of yen)



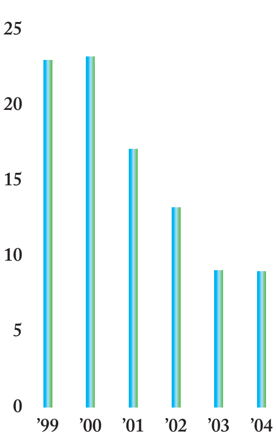
Shareholders' Equity Ratio
(%)



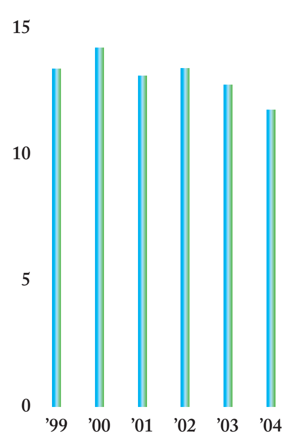
Return on Equity
(%)



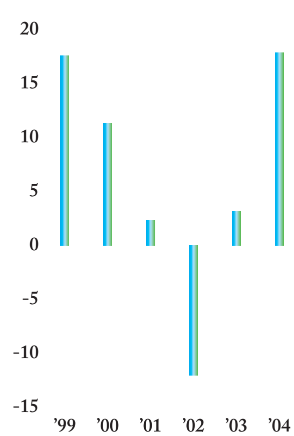
Capital Investment
(billions of yen)



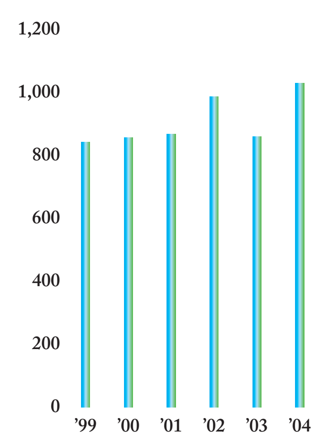
Depreciation and Amortization
(billions of yen)



Net Income per Share
(yen)



Shareholders' Equity per Share
(yen)



Financial Review

Operating Results

Consolidated net sales for fiscal 2004, ended March 31st, 2004 amounted to ¥226,883 million (US$2,161 million), down 1.9% from fiscal 2003.

Net sales of the Textiles segment declined 7.6% to ¥68,403 million (US$651 million), reflecting a decrease in domestic sales caused by preferences for low-price goods and an ongoing shift to overseas production, mainly for garments. Nonetheless, the Textiles segment achieved a sharp improvement in profitability and recorded an operating profit by taking such measures as reorganizing its production facilities, including the closing of a domestic plant; strengthening its overseas business in China and Indonesia; developing new products; bolstering its sales capabilities; and reducing selling, general and administrative (SG&A) expenses. The percentage of Textiles sales to total sales was 30.1%, down 1.9 percentage points from the previous fiscal year. Despite a decline in sales in the Automobile Brakes business along with the transfer of the ABS products-related business to an affiliate, overall sales in the Non-textiles segment rose 0.8% to ¥158,480 million (US$1,509 million), due largely to higher sales in Papers and Chemical Products. The percentage of Non-textiles sales to total sales was 69.9%, up 1.9 percentage points from the previous fiscal year.

Cost of sales decreased 3.4% to ¥192,480 million (US$1,833 million). The ratio of cost of sales to net sales decreased 1.4 percentage points to 84.8%. SG&A expenses declined 0.1% to ¥25,907 million (US$247 million). Cost and expenses totaled ¥218,387 million (US$2,080 million), a decrease of 3.0% from the previous fiscal year. Therefore, operating income rose 41.9% to ¥8,496 million (US$81 million).

In other income (expenses), equity in earnings of affiliates was ¥233 million (US$2 million), an improvement of ¥543 million from equity in loss of affiliates recorded in the previous fiscal year. This improvement reflected the recording of profits in fiscal 2004 by affiliates accounted for by the equity method. Other, net amounted to expenses of ¥2,471 million (US$24 million). This included gain on sale of securities of ¥2,555 million (US$24 million), an improvement of ¥3,004 million from loss on sale of securities in the previous year. Conversely, expenses included provision for loss from guarantee of indebtedness of affiliated companies of ¥506 million (US$5 million) and retirement benefits paid due to restructuring of business operations of ¥2,836 million (US$27 million), an increase of ¥2,778 million, that mainly resulted from the closing of a production plant in the Textiles segment. As a result, other expenses amounted to ¥1,715 million (US$16 million), a decrease of ¥720 million from fiscal 2003.

Due to the previous factors, income before income taxes and minority interests jumped ¥3,227 million to ¥6,781 million (US$65 million). After deducting income taxes of ¥2,807 million (US$27 million) and subtracting minority interests in net income of $55 million (US$0.5 million), net income for fiscal 2004 amounted to ¥3,919 million (US$37 million). Net income per share was ¥17.86 (US$0.17), an increase of ¥14.68 from the previous fiscal year. ROE was 2.0%, up 1.6 percentage points from the previous fiscal year. Total cash dividends per share were ¥7.0 (US$0.07), the same as for fiscal 2003. Cash dividends paid totaled ¥1,484 million (US$14 million). Taking a long-term perspective, we will continue to implement our basic policy of maintaining dividends at a stable level.

* For details of divisional results, see "Review of Operations."

Financial Position

Total assets amounted to ¥368,444 million (US$3,509 million), up 17.7% from the previous fiscal year-end. Current assets rose 2.2% to ¥140,663 million (US$1,339 million). Although cash and cash equivalents and deferred tax assets declined, current assets rose because of an expansion in inventories and receivables accompanying an increase in the number of newly consolidated subsidiaries in the Textiles segment.

Property, plant and equipment decreased 1.5% to ¥103,003 million (US$981 million). Investment and other assets soared 76.3% to ¥124,808 million (US$1,189 million) mainly due to a rise in unrealized gains on investment securities attributable to a recovery in stock markets.

On the liabilities side, total current liabilities rose 5.4% to ¥83,152 million (US$792 million), due to a rise in payables. Long-term liabilities jumped 54.4% to ¥66,091 million (US$629 million) owing to rises in long-term debt and deferred tax liabilities. Total current and long-term liabilities increased 22.6% to ¥149,243 million (US$1,421 million).

Shareholders' equity increased 15.1% to ¥214,132 million (US$2,039 million). The shareholders' equity ratio declined 1.4 percentage points to 58.1%. Shareholders' equity per share was ¥1,030.98 (US$9.82), an increase of ¥170.46 from the previous year.

Cash Flows

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥8,911 million (US$85 million). This resulted from making adjustments for such items as income taxes-paid of ¥4,091 million (US$39 million) and depreciation and amortization of ¥11,776 (US$112 million) to income before income taxes and minority interests of ¥6,781 million (US$65 million).

Cash flows from investing activities

Net cash used in investing activities was ¥4,078 million (US$39 million). This was primarily due to such cash outflows as payment for purchase of property, plant and equipment of ¥8,674 million (US$83 million) as well as cash inflows that included proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates of ¥5,445 million (US$52 million).

Cash flows from financing activities

Net cash used in financing activities amounted to ¥12,486 million (US$119 million). This was due to a decrease in short-term bank loans of ¥5,043 million (US$48 million) owing to the repayment of these funds to financial institutions along with the introduction of a Cash Management System (CMS), as well as payment for purchase of treasury stock of ¥5,027 million (US$48 million).

As a result of the above, cash and cash equivalents at the end of the fiscal year totaled ¥21,787 million (US$207 million), down ¥7,736 million over fiscal 2003.

Consolidated Balance Sheets

31st March, 2004 and 2003

ASSETS

	(millions of yen)		(thousands of US dollars) (Note 1)
	2004	2003	2004
Current assets:			
Cash and cash equivalents	¥ 21,787	¥ 29,523	$ 207,495
Time deposits	6,012	5,273	57,257
Marketable securities (Note 4)	656	592	6,248
Receivables			
Notes receivable, trade	13,458	12,093	128,171
Accounts receivable, trade	46,465	41,888	442,524
Unconsolidated subsidiaries and affiliates	5,897	7,493	56,162
Other	695	675	6,619
	66,515	62,149	633,476
Less allowance for doubtful accounts	(980)	(1,215)	(9,333)
	65,535	60,934	624,143
Inventories (Note 3)	43,117	37,351	410,638
Deferred tax assets (Note 7)	1,984	2,552	18,895
Other current assets	1,542	1,350	14,686
Total current assets	140,633	137,575	1,339,362
Property, plant and equipment:			
Land	18,723	16,760	178,314
Buildings and structures	103,247	98,277	983,305
Machinery, equipment and tools	191,140	193,129	1,820,381
Construction in progress	1,727	711	16,448
	314,837	308,877	2,998,448
Less accumulated depreciation	(211,834)	(204,325)	(2,017,467)
	103,003	104,552	980,981
Investments and other assets:			
Investment securities (Note 4)	115,162	64,297	1,096,781
Investments in and advances to unconsolidated subsidiaries and affiliates	4,930	3,870	46,952
Deferred tax assets (Note 7)	254	368	2,419
Intangibles	1,920	—	18,286
Other	2,542	2,247	24,209
	124,808	70,782	1,188,647
	¥ 368,444	¥ 312,909	$3,508,990

See Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	(millions of yen) 2004	2003	(thousands of US dollars) (Note 1) 2004
Current liabilities:			
Short-term bank loans (Note 5)	¥ 37,708	¥ 37,570	$ 359,124
Current portion of long-term debt (Note 5)	2,416	3,282	23,010
Payables			
Notes and accounts payable, trade	26,521	20,859	252,581
Unconsolidated subsidiaries and affiliates	451	405	4,295
Other	4,386	3,557	41,771
	31,358	24,821	298,647
Employees' savings deposits	3,534	4,021	33,657
Accrued expenses	3,753	3,695	35,743
Accrued income taxes	1,697	3,831	16,162
Other current liabilities	2,686	1,685	25,581
Total current liabilities	83,152	78,905	791,924
Long-term liabilities:			
Long-term debt (Note 5)	9,820	7,574	93,524
Accrued severance benefits (Note 6)	22,542	23,574	214,686
Deferred tax liabilities (Note 7)	25,925	3,553	246,904
Other long-term liabilities	7,804	8,107	74,324
	66,091	42,808	629,438
Minority interests in consolidated subsidiaries	5,069	5,168	48,276
Commitments and contingencies (Note 12)			
Shareholders' equity (Notes 10 and 13):			
Common stock:			
Authorized — 380,137,000 shares			
Issued ——— 216,580,939 shares	27,588	27,588	262,743
Additional paid-in capital	20,401	20,401	194,295
Retained earnings	133,757	131,531	1,273,876
Net unrealized gain on available-for-sale securities	41,194	9,628	392,324
Foreign currency translation adjustments	(3,582)	(2,921)	(34,114)
Less shares in treasury			
2004 — 8,965,904 shares			
2003 — 504,285 shares	(5,226)	(199)	(49,772)
	214,132	186,028	2,039,352
	¥ 368,444	¥ 312,909	$3,508,990

Consolidated Statements of Income

Years ended 31st March, 2004 and 2003

	(millions of yen) 2004	(millions of yen) 2003	(thousands of US dollars) (Note 1) 2004
Net sales	¥ 226,883	¥ 231,193	$2,160,790
Costs and expenses:			
Cost of sales	192,480	199,272	1,833,143
Selling, general and administrative expenses	25,907	25,932	246,733
	218,387	225,204	2,079,876
Operating income	8,496	5,989	80,914
Other income (expenses):			
Interest and dividend income	1,530	1,957	14,571
Interest expenses	(1,007)	(1,464)	(9,590)
Equity in earnings (losses) of affiliates	233	(310)	2,219
Other, net (Note 11)	(2,471)	(2,618)	(23,533)
	(1,715)	(2,435)	(16,333)
Income before income taxes and minority interests	6,781	3,554	64,581
Income taxes (Note 7)			
Current	1,929	4,529	18,371
Deferred	878	(1,558)	8,362
	2,807	2,971	26,733
Income before minority interests	3,974	583	37,848
Minority interests in net income	(55)	194	(524)
Net income	¥ 3,919	¥ 777	$ 37,324

	(yen) 2004	(yen) 2003	(US dollars) 2004
Per share:			
Net income	¥ 17.86	¥ 3.18	$ 0.17
Cash dividends	7.00	7.00	0.07

See Notes to Consolidated Financial Statements.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

Years ended 31st March, 2004 and 2003

	(millions of yen)		(thousands of US dollars) (Note 1)
	2004	2003	2004
Common stock:			
Balance at beginning of year (2004 and 2003 — 216,580,939 shares)	¥ 27,588	¥ 27,588	$ 262,743
Balance at end of year (2004 and 2003 — 216,580,939 shares)	¥ 27,588	¥ 27,588	$ 262,743
Additional paid-in capital:			
Balance at beginning of year	¥ 20,401	¥ 20,401	$ 194,295
Balance at end of year	¥ 20,401	¥ 20,401	$ 194,295
Retained earnings:			
Balance at beginning of year	¥ 131,531	¥ 141,022	$1,252,676
Adjustments due to decrease in affiliates accounted for by the equity method	—	(8,667)	—
Adjustments due to decrease in a subsidiary of an affiliate accounted for by the equity method	(92)	—	(876)
Net income	3,919	777	37,324
Cash dividends	(1,512)	(1,515)	(14,400)
Directors' and statutory auditors' bonuses	(89)	(86)	(848)
	¥ 133,757	¥ 131,531	$1,273,876
Net unrealized gain on available-for-sale securities:			
Balance at beginning of year	¥ 9,628	¥ 25,715	$ 91,695
Net changes	31,566	(16,087)	300,629
Balance at end of year	¥ 41,194	¥ 9,628	$ 392,324
Foreign currency translation adjustments:			
Balance at beginning of year	(¥ 2,921)	(¥ 1,151)	($ 27,819)
Net changes	(661)	(1,770)	(6,295)
Balance at end of year	(¥ 3,582)	(¥ 2,921)	($ 34,114)
Treasury stock at cost:			
Balance at beginning of year	(¥ 199)	(¥ 80)	($ 1,896)
Add: acquired	(5,027)	(119)	(47,876)
Balance at end of year	(¥ 5,226)	(¥ 199)	($ 49,772)

See Notes to Consolidated Financial Statements.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended 31st March, 2004 and 2003

	(millions of yen)		(thousands of US dollars) (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,781	¥ 3,554	$ 64,581
Adjustments to reconcile net income to net cash provided by operating activities:			
Income taxes-paid	(4,091)	(1,154)	(38,962)
Depreciation and amortization	11,776	12,758	112,152
Equity in (earnings) losses of affiliates	(233)	310	(2,219)
Provision for doubtful receivables	399	713	3,800
Provision for accrued pension and severance benefits	4,422	2,920	42,114
Payment of accrued pension and severance benefits	(6,384)	(2,329)	(60,800)
Directors' and statutory auditors' bonuses paid	(96)	(92)	(914)
(Gain) loss on sale of property, plant and equipment	(156)	421	(1,486)
(Gain) loss on sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	(2,555)	449	(24,333)
Write-down of investment securities	10	473	95
Loss on plant closures	879	709	8,371
Other	(418)	(1,006)	(3,981)
Changes in operating assets and liabilities:			
Receivables	(532)	1,293	(5,066)
Inventories	(1,277)	5,615	(12,162)
Payables	1,282	(405)	12,210
Other	(896)	(198)	(8,533)
Net cash provided by operating activities	8,911	24,031	84,867
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	921	14,071	8,772
Proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	5,445	3,427	51,857
Payment for purchase of property, plant and equipment	(8,674)	(10,242)	(82,609)
Payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	(2,209)	(563)	(21,038)
Decrease in loans receivable	(295)	(471)	(2,810)
(Increase) decrease in time deposits	(190)	809	(1,810)
Cash acquired from newly consolidated subsidiaries, net of payment for purchase of companies	663	—	6,314
Other, net	261	(976)	2,486
Net cash provided by (used in) investing activities	(4,078)	6,055	(38,838)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	2,106	1,101	20,057
Repayment of long-term debt	(2,973)	(2,378)	(28,314)
Decrease in short-term bank loans	(5,043)	(10,514)	(48,029)
Cash dividends paid	(1,512)	(1,515)	(14,400)
Payment for purchase of treasury stock	(5,027)	(149)	(47,876)
Other	(37)	(462)	(352)
Net cash used in financing activities	(12,486)	(13,917)	(118,914)
Effect of exchange rate changes on cash	(83)	(327)	(791)
Net increase (decrease) in cash and cash equivalents	(7,736)	15,842	(73,676)
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	—	282	—
Cash and cash equivalents of decreased consolidated subsidiaries at beginning of year	—	(20)	—
Cash and cash equivalents at beginning of year	29,523	13,419	281,171
Cash and cash equivalents at end of year	¥ 21,787	¥ 29,523	$ 207,495

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING FINANCIAL STATEMENTS:

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the accompanying footnotes include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

The United States dollar ($) amounts included herein are given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥105 = $1, the approximate exchange rate at 31st March, 2004. The 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 United States dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation

The consolidated financial statements include the accounts of Nisshinbo Industries, Inc. (the "Company") and its significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

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

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

(b) 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 income statement to the extent that they are not hedged by forward exchange contracts.

Investments in and advances to unconsolidated subsidiaries and affiliates in foreign currencies are translated at the historical rates effective at the dates of transaction from which such accounts were originated.

(c) Foreign currency financial statements

The balance sheet accounts, revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

(d) Cash equivalents

Cash equivalents include time deposits which mature or become due within six months of the date of acquisition.

(e) Marketable and investment securities

Marketable and investment securities classified as available-for-sale securities are reported at fair value, with unrealized gain and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

(f) Inventories

Inventories are stated principally at the lower of cost or market, cost being substantially determined by the average cost method.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is computed principally on the declining balance method over their estimated useful lives.

(h) Retirement and pension plans

Under the employees' retirement plans for the Company and certain consolidated subsidiaries, the annual provision for retirement benefits is calculated to state the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

(i) Income taxes

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

(j) Derivative financial instruments

The Group uses a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currency and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps which 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 are recognized and included in interest expense or income.

3. INVENTORIES:

Inventories at 31st March, 2004 and 2003 were as follows:

	(millions of yen) 2004	(millions of yen) 2003	(thousands of US dollars) 2004
Finished products	¥ 25,756	¥ 20,916	$ 245,295
Work in process	7,082	7,776	67,448
Materials and supplies	10,279	8,659	97,895
	¥ 43,117	¥ 37,351	$ 410,638

4. MARKETABLE AND INVESTMENT SECURITIES:

The carrying amounts and aggregate fair value of securities available-for-sale included in marketable and investment securities at 31st March, 2004 and 2003 were as follows:

	(millions of yen) 2004	(millions of yen) 2003	(thousands of US dollars) 2004
Cost	¥ 37,712	¥ 39,936	$ 359,162
Unrealized gains	70,324	23,963	669,752
Unrealized losses	(276)	(7,445)	(2,628)
Fair value	¥ 107,760	¥ 56,454	$1,026,286

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT:

The annual interest rates applicable to the short-term bank loans at 31st March, 2004 and 2003 were 0.6% to 8.8%.

Long-term debt at 31st March, 2004 and 2003 consisted of the following:

	(millions of yen) 2004	(millions of yen) 2003	(thousands of US dollars) 2004
Long-term debt with collateral:			
Loans from banks maturing serially to 2011, ranging from 1.7% to 4.8%	¥ 2,669	¥ 624	$ 25,419
2.4% bonds due in 2007	1,000	—	9,524
Long-term debt without collateral:			
Loans from banks maturing serially to 2016, ranging from 1.3% to 7.0%	3,082	4,282	29,353
Capital lease obligations, due through 2019	5,485	5,950	52,238
	12,236	10,856	116,534
Less current portion	(2,416)	(3,282)	(23,010)
	¥ 9,820	¥ 7,574	$ 93,524

Annual maturities of long-term debt were as follows:

Year ending 31st March,	(millions of yen)	(thousands of US dollars)
2005	¥ 2,416	$ 23,010
2006	2,208	21,028
2007	2,283	21,743
2008	2,365	22,524
2009 and thereafter	2,964	28,229
	¥ 12,236	$ 116,534

At 31st March, 2004 and 2003, net book value of assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	(millions of yen) 2004	(millions of yen) 2003	(thousands of US dollars) 2004
Property, plant and equipment	¥ 8,914	¥ 6,443	$ 84,895
Notes receivable, trade	21	—	200
Inventories	2,018	—	19,219
	¥ 10,953	¥ 6,443	$ 104,314

6. RETIREMENT AND PENSION PLANS:

Under most circumstances, employees terminating their employment are entitled to lump-sum severance payments based on the rate of pay at termination, years of service and certain other factors.

The liability for retirement benefits for directors and corporate auditors at 31st March, 2004 and 2003 were ¥698 million ($6,648 thousand) and ¥847 million. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at 31st March, 2004 and 2003 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2004	2003	2004
Projected benefit obligation	¥ 65,163	¥ 65,064	$ 620,600
Fair value of plan assets	(33,040)	(25,594)	(314,667)
	32,123	39,470	305,933
Unrecognized prior service cost	2,663	3,043	25,362
Unrecognized actuarial loss	(12,542)	(19,786)	(119,448)
Unrecognized transitional obligation	(400)	—	(3,809)
Net liability	¥ 21,844	¥ 22,727	$ 208,038

The components of net periodic benefit costs for the years ended 31st March, 2004 and 2003 were as follows:

	(millions of yen)		(thousands of US dollars)
	2004	2003	2004
Service cost	¥ 1,878	¥ 1,660	$ 17,886
Interest cost	1,653	1,802	15,743
Expected return on plan assets	(531)	(1,220)	(5,057)
Amortization of prior service cost	(203)	(195)	(1,933)
Recognized actuarial loss	1,416	712	13,485
Amortization of transitional obligation	57	—	543
Net periodic benefit costs	¥ 4,270	¥ 2,759	$ 40,667

Assumptions used for the years ended 31st March, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.0%~2.5%	2.5%~3.0%
Expected rate of return on plan assets	0.0%~4.0%	3.5%~4.0%
Amortization period of prior service cost	10~15 years	15 years
Recognition period of actuarial gain / loss	10~15 years	15 years
Amortization period of transitional obligation	10 years	—

7. INCOME TAXES:

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at 31st March, 2004 and 2003 were as follows:

	(millions of yen)		(thousands of US dollars)
	2004	2003	2004
Deferred tax assets:			
Inventories	¥ 693	¥ 411	$ 6,600
Tax loss carryforwards	6,130	666	58,381
Allowance for doubtful accounts	432	597	4,114
Accrued employees' bonuses	928	912	8,838
Accrued severance benefits	9,301	9,110	88,581
Other	1,877	1,479	17,876
Less valuation allowance	(8,655)	(1,744)	(82,428)
	¥ 10,706	¥ 11,431	$ 101,962
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(¥ 28,565)	(¥ 6,778)	($ 272,048)
Deferred gains on sale of property	(4,245)	(4,469)	(40,428)
Other	(1,583)	(817)	(15,076)
	(¥ 34,393)	(¥ 12,064)	($ 327,552)
Net deferred tax	(¥ 23,687)	(¥ 633)	($ 225,590)

A reconciliation between the normal effective statutory tax rate for the years ended 31st March, 2004 and 2003 and the actual effective tax rates reflected in the accompanying consolidated statement of income was as follows:

	2004	2003
Normal effective statutory tax rate	42.0%	42.0%
Dividend income not taxable	(0.5)	(2.0)
Expenses not deductible for income tax purposes	1.2	2.2
Tax benefits not recognized on operating losses of subsidiaries	1.2	7.2
Equity in (earnings) losses of affiliates	(1.4)	3.7
Lower income tax rates applicable to income in certain foreign countries	(2.9)	(4.1)
Consolidation adjustment of gain on 20%-50% owned affiliate securities sold	—	18.9
Decrease in deferred tax assets due to effect of tax rate	0.8	4.1
Other	1.0	11.6
Actual effective tax rate	41.4%	83.6%

8. LEASES:

The Group leases certain machinery, computer equipment and other assets.

Total rental expenses for the years ended 31st March, 2004 and 2003 were ¥387 million ($3,686 thousand) and ¥447 million, respectively, including ¥387 million ($3,686 thousand) and ¥432 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the years ended 31st March, 2004 and 2003 was as follows:

	(millions of yen)		(thousands of US dollars)
	2004	2003	2004
Acquisition cost	¥ 2,058	¥ 2,229	$ 19,600
Accumulated depreciation	(1,168)	(1,595)	(11,124)
Net leased property	¥ 890	¥ 634	$ 8,476

Obligations under finance leases:

	(millions of yen)		(thousands of US dollars)
	2004	2003	2004
Due within one year	¥ 310	¥ 253	$ 2,952
Due after one year	580	381	5,524
Total	¥ 890	¥ 634	$ 8,476

Depreciation expense under finance leases:

	(millions of yen)		(thousands of US dollars)
	2004	2003	2004
Depreciation expense	¥ 387	¥ 432	$ 3,686

Depreciation expense, which is not reflected in the accompanying statements of income, is computed by the straight-line method.

9. DERIVATIVES:

The Group enters into foreign currency forward contracts to hedge exchange risk associated with certain assets and liabilities denominated in foreign currencies. Foreign currency forward contracts which qualify for hedge accounting for the years ended 31st March, 2004 and 2003 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at 31st March, 2004 and 2003, are excluded from disclosure of market value information.

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities. Such contracts outstanding at 31st March, 2004 and 2003 were as follows:

	(millions of yen)						(thousands of US dollars)		
	2004			2003			2004		
	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized loss
Interest rate swaps:									
Fixed rate payments, floating rate receipt	¥ 2,910	(¥ 16)	(¥ 16)	¥ 1,495	¥ 9	¥ 9	$27,714	($ 152)	($ 152)

10. SHAREHOLDERS' EQUITY:

The Japanese Commercial Code provides that an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equal 25% of common stock. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each fiscal year.

11. OTHER INCOME (EXPENSES) — OTHER, NET:

Other income (expenses) — Other, net consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2004	2003	2004
Gain (loss) on sale of property, plant and equipment	¥ 156	(¥ 421)	$ 1,486
Gain (loss) on sale of securities	2,555	(449)	24,333
Write-down of securities	(10)	(473)	(95)
Write-off of inventories	(13)	(239)	(124)
Loss on plant closures	(879)	(709)	(8,371)
Provision for loss from guarantee of indebtedness of affiliated	(506)	—	(4,819)
Retirement benefits paid due to restructuring of business operations	(2,836)	(58)	(27,010)
Other, net	(938)	(269)	(8,933)
	(¥ 2,471)	(¥ 2,618)	($ 23,533)

12. COMMITMENTS AND CONTINGENCIES:

Contingent liabilities at 31st March, 2004 and 2003 for trade notes discounted with banks amounted to ¥106 million ($1,010 thousand) and ¥318 million, respectively. Contingent liabilities at 31st March, 2004 and 2003 for loans guaranteed amounted to ¥3,456 million ($32,914 thousand) and ¥2,208 million, respectively.

Commitments for capital expenditures outstanding at 31st March, 2004 and 2003 were in the approximate amounts of ¥1,949 million ($18,562 thousand) and ¥1,113 million, respectively.

13. SUBSEQUENT EVENT:

Appropriation of retained earnings

On 29th June, 2004, Nisshinbo's shareholders authorised the appropriation of retained earnings as follows:

	(millions of yen)	(thousands of US dollars)
Cash dividends (¥3.50 per share)	¥ 727	$ 6,924
Directors' bonuses	60	571

Pension plans

The Company and certain domestic subsidiaries have two types of pension plans for employees; a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the company. According to the enactment of the Defined Benefit Pension Plan Law, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on 1st April, 2004.

As a result of this exemption, the Company and certain subsidiaries will recognize a gain on exemption from future pension obligation of the governmental program in the amount of ¥5,030 million in the following year ending 31st March, 2005.

14. SEGMENT INFORMATION:

Information about industry segments, geographic segments and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended 31st March, 2004 and 2003 were as follows:

(1) Industry Segments

(millions of yen) 2004

	Textiles	Automobile Brakes	Papers	Chemical Products	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	¥ 68,403	¥ 52,076	¥ 29,009	¥ 32,098	¥ 4,941	¥ 40,356	¥ —	¥ 226,883
Intersegment sales	0	—	11	865	320	1,652	(2,848)	—
Total sales	68,403	52,076	29,020	32,963	5,261	42,008	(2,848)	226,883
Operating expenses	67,678	47,264	26,996	32,351	2,647	43,164	(1,713)	218,387
Operating income (loss)	¥ 725	¥ 4,812	¥ 2,024	¥ 612	¥ 2,614	(¥ 1,156)	(¥ 1,135)	¥ 8,496
II. Total Assets, Depreciation and Capital Expenditures								
Total assets	¥ 92,695	¥ 56,375	¥ 20,262	¥ 23,768	¥ 15,879	¥ 33,267	¥ 126,198	¥ 368,444
Depreciation	¥ 3,586	¥ 3,819	¥ 1,251	¥ 1,052	¥ 852	¥ 1,216	¥ —	¥ 11,776
Capital expenditures	¥ 1,480	¥ 3,489	¥ 1,824	¥ 795	¥ 663	¥ 738	¥ —	¥ 8,989

(millions of yen) 2003

	Textiles	Automobile Brakes	Papers	Chemical Products	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	¥ 74,034	¥ 56,352	¥ 27,024	¥ 30,778	¥ 4,785	¥ 38,220	¥ —	¥ 231,193
Intersegment sales	0	—	14	887	304	1,386	(2,591)	—
Total sales	74,034	56,352	27,038	31,665	5,089	39,606	(2,591)	231,193
Operating expenses	74,721	50,851	25,215	31,416	2,520	42,292	(1,811)	225,204
Operating income (loss)	(¥ 687)	¥ 5,501	¥ 1,823	¥ 249	¥ 2,569	(¥ 2,686)	(¥ 780)	¥ 5,989
II. Total Assets, Depreciation and Capital Expenditures								
Total assets	¥ 80,223	¥ 61,626	¥ 19,918	¥ 21,436	¥ 16,850	¥ 29,835	¥ 83,021	¥ 312,909
Depreciation	¥ 4,202	¥ 4,328	¥ 1,250	¥ 1,086	¥ 862	¥ 1,030	¥ —	¥ 12,758
Capital expenditures	¥ 2,842	¥ 2,261	¥ 1,331	¥ 615	¥ 586	¥ 1,422	¥ —	¥ 9,057

(thousands of US dollars) 2004

	Textiles	Automobile Brakes	Papers	Chemical Products	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	$ 651,457	$ 495,962	$ 276,276	$ 305,695	$ 47,057	$ 384,343	$ —	$ 2,160,790
Intersegment sales	0	—	105	8,238	3,048	15,733	(27,124)	—
Total sales	651,457	495,962	276,381	313,933	50,105	400,076	(27,124)	2,160,790
Operating expenses	644,552	450,133	257,105	308,104	25,210	411,086	(16,314)	2,079,876
Operating income (loss)	$ 6,905	$ 45,829	$ 19,276	$ 5,829	$ 24,895	($ 11,010)	($ 10,810)	$ 80,914
II. Total Assets, Depreciation and Capital Expenditures								
Total assets	$ 882,809	$ 536,905	$ 192,971	$ 226,362	$ 151,228	$ 316,829	$ 1,201,886	$ 3,508,990
Depreciation	$ 34,152	$ 36,372	$ 11,914	$ 10,019	$ 8,114	$ 11,581	$ —	$ 112,152
Capital expenditures	$ 14,095	$ 33,229	$ 17,372	$ 7,571	$ 6,314	$ 7,029	$ —	$ 85,610

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended 31st March, 2004 and 2003 were as follows:

	(millions of yen)							
	2004				2003			
	Japan	Others	Eliminations/ Corporate	Consolidated	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 201,431	¥ 25,452	¥ —	¥ 226,883	¥208,448	¥ 22,745	¥ —	¥231,193
Interarea transfer	3,683	3,353	(7,036)	—	2,569	3,116	(5,685)	—
Total sales	205,114	28,805	(7,036)	226,883	211,017	25,861	(5,685)	231,193
Operating expenses	197,595	26,646	(5,854)	218,387	206,017	24,133	(4,946)	225,204
Operating income (loss)	¥ 7,519	¥ 2,159	(¥ 1,182)	¥ 8,496	¥ 5,000	¥ 1,728	(¥ 739)	¥ 5,989
Total assets	¥ 224,214	¥ 18,031	¥ 126,199	¥ 368,444	¥209,793	¥ 20,095	¥ 83,021	¥312,909

	(thousands of US dollars)			
	2004			
	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$1,918,390	$ 242,400	$ —	$2,160,790
Interarea transfer	35,076	31,933	(67,009)	—
Total sales	1,953,466	274,333	(67,009)	2,160,790
Operating expenses	1,881,857	253,771	(55,752)	2,079,876
Operating income (loss)	$ 71,609	$ 20,562	($ 11,257)	$ 80,914
Total assets	$2,135,371	$ 171,724	$1,201,895	$3,508,990

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended 31st March, 2004 and 2003 amounted to ¥42,210 million ($402,000 thousand) and ¥41,210 million, respectively.

Independent Auditors' Report

To the Board of Directors of
Nisshinbo Industries, Inc.

We have audited the consolidated balance sheets of Nisshinbo Industries, Inc. and consolidated subsidiaries as of 31st March, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied 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 financial position of Nisshinbo Industries, Inc. and consolidated subsidiaries as of 31st March, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan.

The United States dollar amounts shown in the consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into US dollars on the basis described in Note 1.

M Tsukeshiba

Masami Tsukeshiba
Certified Public Accountant

E. Nagashima

Etsuko Nagashima
Certified Public Accountant

29th June, 2004
Tokyo, Japan

Nisshinbo History

1907 Nisshin Cotton Spinning Co., Ltd. established.

1908 The former Kameido Head Office Plant began operations.

1920 Office opened in Nihonbashi, and thereafter became the head office of Nisshin Cotton Spinning.
Nisshin Cotton Spinning merged with Okazaki Boseki Co., Ltd. (the present Harisaki Plant).

1921 Nagoya Plant began operations (completely burnt down in 1945 due to the war, restored in 1951).

1924 Nisshin Cotton Spinning merged with Tokyo Boseki Co., Ltd.

1925 Branch office opened in Nagoya (the present Nagoya Branch).
Branch office opened in Osaka (the present Osaka Branch).

1926 Hamamatsu Plant began operations.

1933 Toyama Plant began operations.

1937 Nisshin Cotton Spinning acquired Kawagoe Boseki Co., Ltd. (the present Kawagoe Plant).

1938 Nisshin Cotton Spinning merged with Nisshin Rayon Co., Ltd. (the present Miai Plant).

1940 Toa Jitsugyo Co., Ltd. established (the company name changed to Nissin Toa Inc. in 1990).

1945 Nisshin Cotton Spinning acquired the Meiji Plant of Nanshin Seiki Co., Ltd. (the present Fuji Plant).

1947 Non-textiles Division set up and thereafter expanded operations to include automobile brakes, chemical products, papers and machine tools.

1949 Nihon Postal Franker Co., Ltd. established.
Nisshin Cotton Spinning listed on the Tokyo Stock Exchange.
Nitto Asbestos Co., Ltd. established (the company name changed to Nisshinbo Brake Sales Co., Ltd. in 1987).

1950 Ueda Japan Radio Co., Ltd. established.

1952 Shimada Plant began operations.

1958 Tokushima Plant began operations.
Nippon Kohbunshikan Co., Ltd. established (the company name changed to Nippon Kohbunshi Co., Ltd. in 1986).

1961 Nisshin Cotton Spinning listed on the first section of the Tokyo Stock Exchange.

1962 Nisshin Cotton Spinning's English company name changed to Nisshin Spinning Co., Ltd.

1966 Fujieda Plant began operations.

1972 Nisshinbo Do Brasil Industria Textil LTDA. (Brazil) established.

1978 Nisshin Spinning acquired Tokai Seishi Kougyou Co., Ltd.

1981 Tatebayashi Chemical Plant (the present Tatebayashi Plant) began operations.

1984 Nisshin Spinning's English company name changed to Nisshinbo Industries, Inc.

1985 Nisshinbo Industries acquired Nisshin Denim Inc.

1986 The Machine Tools Department of the Miai Plant spun off to create the Miai Mechatronics Plant.
Anti-skid Brake System (now ABS) Division set up.

1987 Hamakita Plant began operations.

1989 Kohbunshi (Thailand) Ltd. established.

1992 Chiba Plant began operations.

1993 The head office relocated to its present location in Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo.
Pudong Kohbunshi (Shanghai) Co., Ltd. (China) established.

1995 Nisshinbo Automotive Corporation (U.S.A.) established.
Nisshinbo Urban Development Co., Ltd. established.

1996 Nisshinbo Somboon Automotive Co., Ltd. (Thailand) established.

1997 Nisshinbo Automotive Manufacturing Inc. (U.S.A.) established through complete financing from the subsidiary Nisshinbo Automotive Corporation.

1998 P.T. Gistex Nisshinbo Indonesia established as a joint venture.

1999 Saeron Automotive Corporation (South Korea) established.
Research & Development Center established.

2000 P.T. Nikawa Textile Industry (Indonesia) established as a subsidiary through the additional acquisition of stocks.
Continental Teves Corporation established as a joint venture.

2001 Ningbo Sunrise Textile Dyeing And Finishing Co., Ltd. (China) established as a joint venture.

2002 Ningbo Veken Textile Co., Ltd. (China) established as a joint venture.
Nisshinbo Industries acquired all shares of Iwao & Co., Ltd.
NISSHINBO (SHANGHAI) CO., LTD. (China) began operations.

2004 CONTINENTAL TEVES CORPORATION (LIAN YUN GANG) CO., LTD. (China) established.
Nisshinbo Industries acquired additional stock in Naigai Shirts Co., Ltd. and CHOYA CORP.

Nisshinbo Group

The Nisshinbo Group consists of Nisshinbo Industries, Inc., its 43 subsidiaries, and 7 affiliates.

Main Group Companies (As of March 31, 2004)

Consolidated Subsidiaries

Company	Location	Capital	Business
Nisshin Toa Inc.	Tokyo, Japan	¥450 million	Textiles, Food Ingredients, Papers
Ebisu Syokuhu Co., Ltd.	Shizuoka, Japan	¥50 million	Textiles
Nisshinbo Yarn Dyed Co., Ltd.	Nagoya, Japan	¥80 millon	Textiles
Nisshin Denim Inc.	Tokushima, Japan	¥200 million	Textiles
Nisshin Tex Co., Ltd.	Osaka, Japan	¥10 million	Textiles
Naigai Shirts Co., Ltd.	Osaka, Japan	¥90 million	Textiles
Nisshinbo Mobix Co., Ltd.	Wakayama, Japan	¥80 millon	Textiles
CHOYA CORP.	Tokyo, Japan	¥2,844 million	Textiles
Nisshinbo Do Brasil Industria Textil LTDA.	Brazil	R$20.075 million	Textiles
P.T. Naigai Shirts Indonesia	Indonesia	US$0.85 million	Textiles
Shanghai Choya Fashion Co., Ltd.	China	34 million Yuan	Textiles
P.T. Nikawa Textile Industry	Indonesia	US$75 million	Textiles
P.T. Gistex Nisshinbo Indonesia	Indonesia	US$10 million	Textiles
Nisshinbo Brake Sales Co., Ltd.	Tokyo, Japan	¥150 million	Automobile Brakes
Nisshinbo Automotive Corporation	U.S.A.	US$88 million	Automobile Brakes
Nisshinbo Automotive Manufacturing Inc.	U.S.A.	US$15.44 million	Automobile Brakes
Nisshinbo Somboon Automotive Co., Ltd.	Thailand	BAHT732.6 million	Automobile Brakes
Saeron Automotive Corporation	South Korea	WON8,160 million	Automobile Brakes
Tokai Seishi Kougyou Co., Ltd.	Shizuoka, Japan	¥300 million	Papers
Nihon Postal Franker Co., Ltd.	Tokyo, Japan	¥310 million	Papers, Chemical Products
Nisshinbo Engineering Co., Ltd.	Tokyo, Japan	¥10 million	Chemical Products
Nippon Kohbunshi Co., Ltd.	Tokyo, Japan	¥310 million	Plastic Molded Products
Kohbunshi (Thailand) Ltd.	Thailand	BAHT100 million	Plastic Molded Products
Pudong Kohbunshi (Shanghai) Co., Ltd.	China	US$7 million	Plastic Molded Products
Iwao & Co., Ltd.	Osaka, Japan	¥250 million	Textiles, Chemical Products, Real Estate Leasing
Nisshinbo Urban Development Co., Ltd.	Tokyo, Japan	¥480 million	Real Estate Leasing
Kansai Nisshinbo Urban Development Co., Ltd.	Osaka, Japan	¥30 million	Real Estate Leasing
Nisshinbo Europe B.V.	The Netherlands	EUR2.165 million	Real Estate Leasing
Nisshinbo Kikai Hanbai Co., Ltd.	Tokyo, Japan	¥30 million	Machine Tools
Ueda Japan Radio Co., Ltd.	Nagano, Japan	¥700 million	Electronics

Subsidiary and Affiliates Accounted for by the Equity Method

Company	Location	Capital	Business
Continental Teves Corporation	Tokyo, Japan	¥2,890 million	Automobile Brakes
ASAHI CHEMITECH CO., LTD.	Tokyo, Japan	¥161 million	Chemical Products

Board of Directors and Statutory Auditors

President
Yoshikazu Sashida

Senior Executive Director
Takashi Iwashita

Senior Executive Director
Kunihiro Toda

Executive Director
Yasuo Takeuchi

Executive Director
Masao Kinoshita

Executive Director
Hajime Takagiwa

Executive Director
Shizuka Uzawa

Director
Masashi Shinagawa

Director
Yoshihito Onda

Director
Hideo Yakuden

Director
Kinjirou Kawashima

Director
Seiichiro Tomizawa

Director
Yoshihiro Sakaki

Director
Kazuo Manaka

Director
Yoshio Ide

Director
Masaaki Isobe

Standing Statutory Auditor
Kenji Tasaki

Statutory Auditor
Shoichi Hayashi

Statutory Auditor
Tomofumi Akiyama

Statutory Auditor
Yoshikuni Utsunomiya

Statutory Auditor
Takehiko Urushihara

Corporate Data

(As of March 31, 2004)

Founded: February 5, 1907

Head Office: 2-31-11, Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo 103-8650, Japan
Tel: 03-5695-8833 Fax: 03-5695-8970
URL: http://www.nisshinbo.co.jp/

Osaka Branch: 2-4-2, Kitakyuhoji-machi, Chuo-ku, Osaka 541-0057, Japan
Tel: 06-6267-5501 Fax: 06-6267-5679

Nagoya Branch: 5-2-38, Sakae, Naka-ku, Nagoya 460-0008, Japan
Tel: 052-261-6151 Fax: 052-263-9480

Employees:

Parent Company	3,143
Subsidiaries	6,732
Total	9,875

Common Stock:

Authorized: 380,137,000 shares

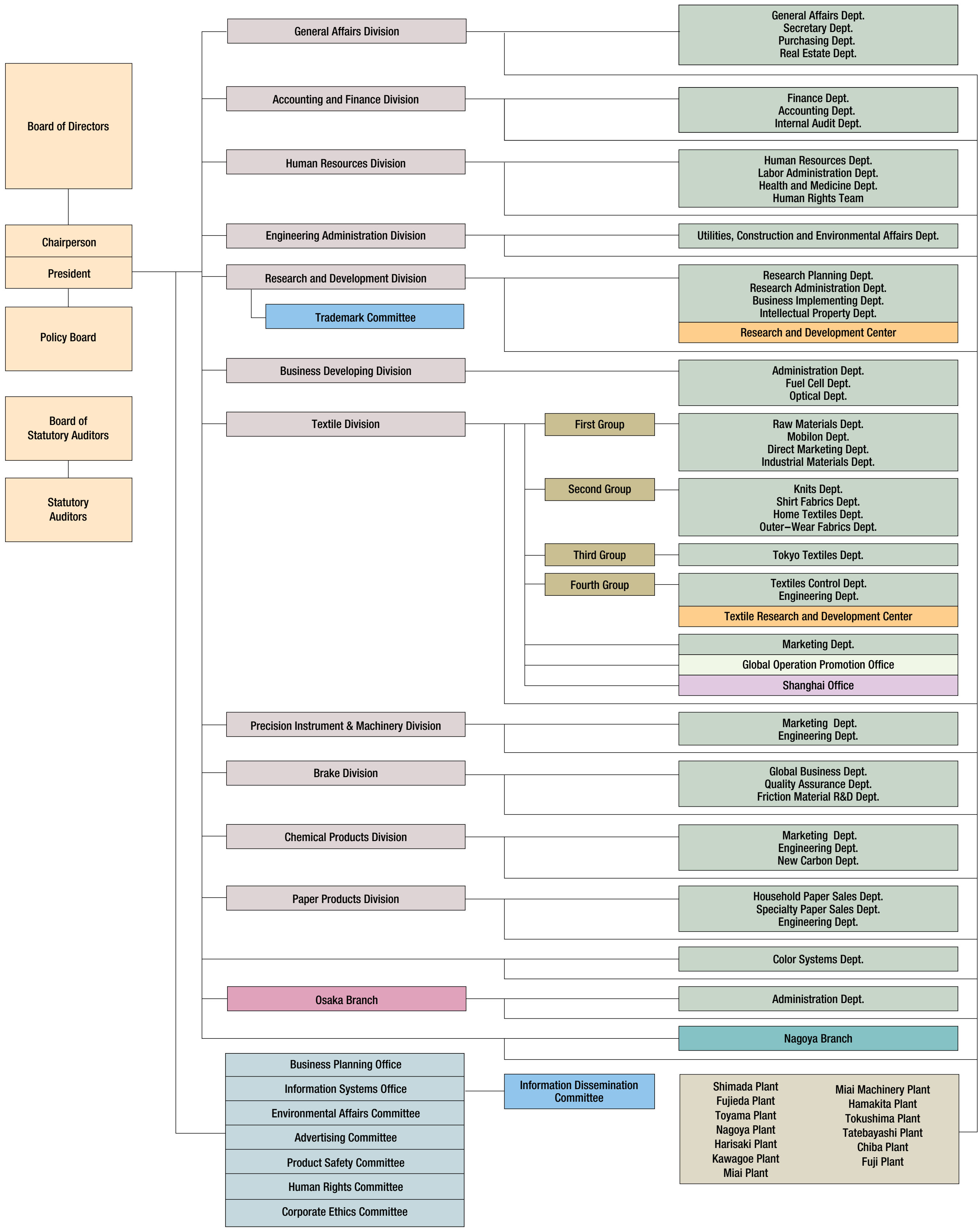
Issued: 216,580,939 shares
¥27,588 million — US$263 million

Shareholders: 12,865

Listings: Tokyo, Osaka, Nagoya, Fukuoka and Sapporo

Transfer Agent: UFJ Trust Bank Limited
1-4-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

Organization Chart



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