Pushing the Pace on Profitability

NISSHINBO

Annual Report 2003

(Year ended March 31, 2003)

FINANCIAL HIGHLIGHTS

(Years ended 31st March)

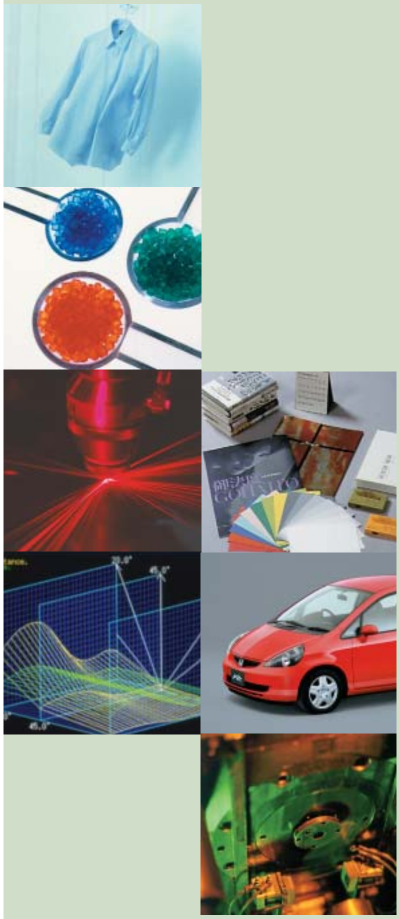
Consolidated:

	(millions of yen)		(millions of US dollars)
	2002	2003	2003
Net Sales	¥ 225,836	¥ 231,193	$ 1,927
Net Income	(2,649)	777	6
Shareholders' Equity	213,664	186,028	1,550

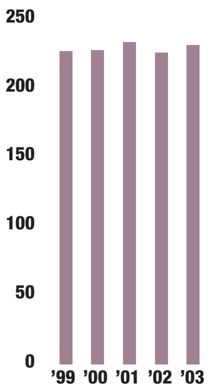
Per Share:

	(yen)		(US dollars)
Net Income	¥ (42.03)	¥ 3.18	$ 0.03
Shareholders' Equity	988.02	860.52	7.17
Cash Dividends	7.00	7.00	0.06

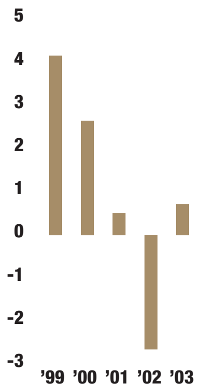
Note: The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥120=US$1.



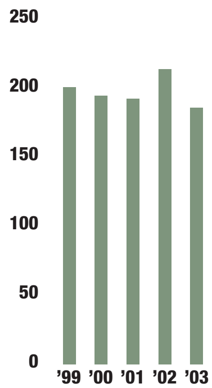
Net Sales
(billions of yen)



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.

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

CONTENTS

Pushing the Pace on Profitability

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 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, machine tools, chemical products, and others. These non-textile lines have grown steadily, and now account for over 65% of consolidated net sales. We offer a truly diverse range of products tailored to customers’ needs: high value-added finishing processing and products in the textiles segment, including *SUPER SOFT (SS)*, S*UPER SOFT PEACHPHASE (SSP)* and *NON CARE*, new-generation electronic braking systems, high heat-insulation panels, fuel cell separators (bipolar plates), and filters for plasma display panels.

The Company and its consolidated subsidiaries and affiliates (together, “Nisshinbo”) are fully focused on enhancing their collective strengths across their entire business range. As a genuinely 21st century manufacturer backed by advanced production systems and a wide range of high value-added products, we will capitalize on these strengths to promote businesses under such themes as strengthening of profitability and enhancement of corporate value.

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 to supply original products that overseas makers cannot match for quality. An ability to respond quickly to the precise needs of customers is our particular strength.

We offer a variety of unique, high value-added textile finishing processing 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.

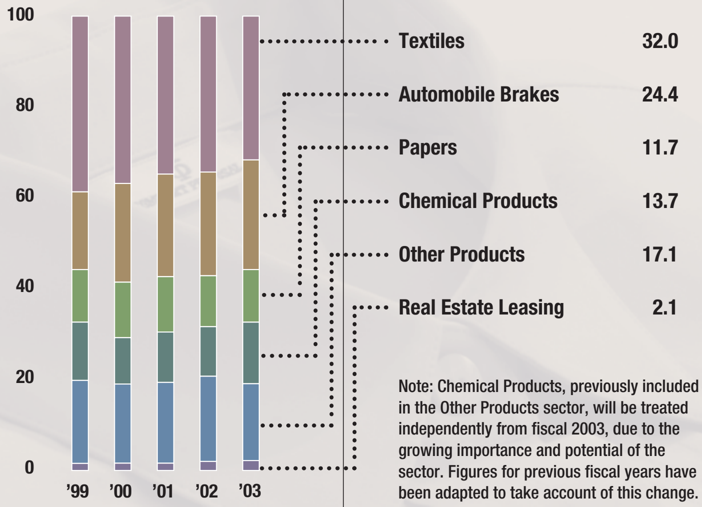
We are taking aggressive measures to expand our overseas operations, targeting both domestic and overseas markets. To sharpen our competitiveness on a global basis, we have been enhancing production facilities in China and Indonesia, and have established joint ventures to be engaged in spinning, weaving and processing in China. In addition, we also operate Nisshinbo (Shanghai) Co., Ltd., our sales base in China, and Global Operation Promotion Office, which was set up to provide maximum support to our overseas operations

Non-textiles

AUTOMOBILE BRAKES

We are one of Japan's leading makers of friction materials and automobile brakes, and this sector has an important role in our drive toward diversification. We undertake technology development and investments looking to the future by getting a clear picture of customers' needs, under such themes as high coefficient of friction, noise/vibration characteristics, improvements of brake pad life, application of new, eco-friendly technology, construction methods and materials. Our product development emphasis is on "green" pads using environment-friendly materials, new concept drum brakes, Anti-lock Brake Systems (ABS) and Stability Control Systems. In the ABS sector, our original, compact, lightweight, low-cost *NT* series is targeted at markets worldwide. Stability Control Systems enhance safe

Consolidated Sales Composition (%) | **Sales by Segment in Fiscal 2003 (%)**



Note: Chemical Products, previously included in the Other Products sector, will be 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.

driving by supporting the driver in controlling directional movement of the vehicle.

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 U.S., 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. These include 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 paper for high-quality printing, and synthetic papers for fine digital printing.

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, a lightweight, high-strength, 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. We are expanding the applications of our original polyurethane elastomer *Nisshinbo Mobilon*, which has excellent elasticity and water-resistance characteristics. *Nisshinbo Mobilon* 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 include *APG®* (Aqua Porous Gel), *BCN®* (Bio Contact N), and Vacuum Insulation Panel, produced by Nisshinbo.

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. We develop and manufacture modular units for FMS and CNC hardware/software systems for the automotive, electronics and aerospace industries. We also manufacture environment-related products, including a photovoltaic module manufacturing system and a kitchen waste disposal unit for commercial use.

Others

We manufacture medical-use electronics equipment, including ultrasonic-scanning diagnostic devices and surgical equipment, applied electronic equipment, including "handy" terminals and CRT graphic displays, and radio communications equipment, including mobile telephones and PHS.

In the digital household electronic field, we manufacture and market optical filters for plasma display panels (PDP).

We also provide fuel cell separators (bipolar plates), which are widely regarded as the next-generation energy system parts.

We also develop and supply the production systems which integrate the *CHOSHOKU SENKA* fuzzy logic computer color matching (CCM) system, manufacturing process support system and automatic inspection system. All are based on 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 lease land previously occupied by factory facilities for use as shopping centers and model homes.

First of all, we would like to report that Mr. Akihiro Mochizuki has retired as chairman and become an advisor to the Company. Mr. Mochizuki served as president and chairman of the Company in difficult times, and under his strong leadership the Company successfully laid the foundation for a new stage of growth.

Q1. What were Nisshinbo's consolidated results for fiscal 2003, ended March 31, 2003?

During fiscal 2003, the Japanese economy went deeper into recession under continued deflationary pressures. Problems relating to the huge amounts of non-performing loans held by banks and a slump in the securities markets militated against the prospects for growth.

Owing to the first-time inclusion of a subsidiary in our consolidated results, consolidated net sales increased 2.4% over fiscal 2002, ended March 31, 2002, to ¥231,193 million (US$1,927 million). Operating income increased 50.9% to ¥5,989 million (US$50 million). Although we posted a loss due to the sale of some of the shares of an affiliate engaged in sales of electronic parts, accounted for by the equity method, the exclusion of this affiliate from the consolidated accounts led to a decrease in investment loss. As a consequence, we posted net income of ¥777 million (US$6 million). By **business segment** (see page 12-15), sales of Textiles decreased 5.3% to ¥74,034 million (US$617 million), and sales of Non-textiles were up 6.1% to ¥157,159 million (US$1,310 million). The ratio of Non-textiles sales to total sales increased 2.6 percentage points to 68.0%, while the ratio of Textiles sales to total sales decreased 2.6 percentage points to 32.0%.

Q2. How do you view the three-year management plan that ended in fiscal 2003?

For the last three years, the Nisshinbo Group as a whole enthusiastically took various actions based on the management plan. However, rapid changes in the business environment forced us to accelerate structural reform, overseas operations and the launch of new businesses, and we incurred extra costs related to restructuring and investment. As a result, we were not able to achieve targeted consolidated sales of ¥300 billion and operating income of ¥13 billion. This was disappointing, but we believe we removed obstacles in our path and set up a base for smooth and speedy business development. The Textile Division, in particular, encouraged the reorganization of unprofitable sectors at home while stepping up its efforts to enhance production and sales bases overseas, with the aim of establishing **a worldwide optimum production scheme** (see page 10) for increased competitiveness.

Q3. What is the focus of the new three-year management plan?

Up to the present, Nisshinbo emphasized the so-called "stock"-type management. This management style involves the accumulation of various assets and resources in-house and is relatively immune to short-term changes in the business environment such as cyclical recession. However, under the ongoing structural change in the business environment, which entails a decline in the value of these assets and resources, we must adopt other measures as well. Our new three-year management plan is designed to introduce a "flow"-type (more fluid) management style into such fields as performance evaluation to revitalize our business operations, while retaining the foundation of the traditional "stock"-type management with more emphasis on efficient utilization of assets and resources in stock to improve profitability.

Our major goal is to "strengthen our profit-making capability

Yoshikazu Sashida, President

and increase our corporate value." For Nisshinbo, increasing corporate value means enhancing our excellent corporate image among all stakeholders, including shareholders, investors, customers, business partners, employees, and local societies. Under the corporate philosophy of "In all sincerity," Nisshinbo takes its corporate responsibility seriously and encourages "honest" corporate activities. **In harmony with society and as a global citizen** (see page 11), we will carry out corporate activities in compliance with relevant regulations, corporate ethics and environmental responsibility with the ultimate goal of achieving further prosperity through fair business operations.

We will make strategic moves that address four important tasks: "effective business planning" and "detailed performance evaluation," designed to facilitate activities of each business segment, "enhanced group management operations" to strengthen the management capabilities of our group companies, and "efficient business development" for promoting commercialization of products originating from our R&D operations.

The theme we have set for fiscal 2004 is "Thorough goal management and increased profitability." This also represents the action theme of the new three-year management plan. As a first step, we intend to spread the idea throughout the Nisshinbo Group.

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

Q4. How are you going to carry out thorough goal management?

For the last three years, we concentrated on the establishment of a business system for effective goal management. During the term under review, we set up a "Program for Promoting Annual Management Goals," which closely monitors and evaluates the management goals of each segment headquarters. Based on this program, we also introduced a management system called "N21 System," which reflects the achievements of each segment on the performance evaluation of individual employees. By clearly defining the responsibilities of each segment headquarters, we plan to enhance their self-reliance. Also, each business headquarters is required to strengthen ties among group companies within the segment. Through these efforts, we will concentrate on three of the designated important tasks, namely "effective business planning," "detailed performance evaluation," and "enhanced group management operations." I intend to attend meetings held at various corporate levels and improve awareness of employees through direct discussions.

Q5. What approach are you taking to promote new business development?

We believe that our most important mission is to "produce what customers demand." As a manufacturer of intermediate materials, we must satisfy customers' requirements and provide materials that contribute to making their final products more competitive. If we could do that, we could also improve profitability. From this point of view, our efforts to develop new businesses will concentrate on promoting direct communications with our customers and gaining their confidence in our products. As an example, we are currently promoting the fuel cell separators (bipolar plates) business by asking our customers to evaluate various prototypes. Our ultimate goal is to establish a de facto standard.

Another important task is to eliminate a "death valley" between our R&D efforts and product commercialization. If we do not have know-how to convert business seeds into products that can contribute to society, these seeds, no matter how excellent they look, will wither. To keep these seeds alive, we are implementing two measures. One is the establishment of **a Business Developing Division which defines a clear path to product commercialization** (see page 8). The other is to draw

a distinctive line between seeds we can promote ourselves and those needing external support by thoroughly considering the possibilities of commercialization in the Business Implementing Department, Research and Development Division. For the latter, our commercialization efforts will take the form of business alliances with other companies having the required expertise, or sales of commercialization rights.

Q6. What is your plan for improving the profitability of existing business sectors?

Under the global deflationary trend, demand and supply imbalance will impose increasing pressures on the sales prices of industrial goods. To make a profit, we must pursue "higher quality," "lower cost," and **"differentiation of product function"** (see page 8), and finally gain competitiveness in the global markets. Nisshinbo has been making efforts to achieve these three goals. Looking back at the past three years, our aggressive business restructuring activity enabled us to become more competitive. We will continue these efforts.

As in the case of new business development, we regard business alliances as an important factor in promoting existing businesses. An alliance may be formed within the Nisshinbo Group or with customers, suppliers, and other companies with technical expertise. For example, the "Triangle Project" in the textile sector, conducted jointly with Teijin Fibers Limited and Nippon keori Kaisha Ltd., will need years to show adequate profit. The point is that it allows us to accumulate technical assets, thereby contributing to the attainment of higher quality and product differentiation. Close ties with shirt and denim material manufacturers enables us to identify the preferences of end users and develop differentiated products exactly tailored to their needs. With each company providing support based on its expertise, we can also eliminate unnecessary costs. Establishing business alliances in a flexible manner is our intention.

Q7. You are also accelerating global business development. Is that correct?

Yes. In the Textiles segment, we plan to encourage the worldwide optimum production scheme. At the same time, the Global Operations Promotion Office is playing a key role in establishing **a global sales channel** (see page 10), with the ultimate goal of improving profitability. We are taking firm steps to make steady progress in overseas development of the textiles business. Currently, we are focusing on reinforcing ties with existing production bases and smoothly launching operations at the two joint ventures established in China during the previous term.

Overseas business development of the Automobile Brakes sector (see page 11) is proceeding steadily. We are promoting speedy business operations to keep pace with the rapid globalization occurring in the automobile industry. In the friction materials and automobile brakes field, the four local enterprises in the U.S., Thailand, and South Korea are showing sound growth, and we are planning to expand their production facilities accordingly. In the ABS segment, we transferred sales and development operations to Continental Teves Corporation (CTC), a joint venture with Continental Teves AG & Co. oHG (CT). This is also an example of a business alliance that enables us to reduce costs and demonstrate our respective areas of expertise in a more efficient manner.

We are also encouraging **global business development in the Papers, Chemical Products, and Machine Tools sectors** (see page 10), pushing ahead with improvement of profitability.

Q8. Nisshinbo is introducing a "flow"-type management style. How are you going to utilize your accumulated assets?

Our intention is to effectively utilize assets and resources entrusted to us by our predecessors and shareholders. We plan to carry out thorough asset management, while encouraging business reform and making the investments required for future growth. The Real Estate Leasing business, one of our focused fields, is showing steady progress, allowing us to set up a system to circulate profits generated in this sector to our mainstay business areas. Regarding marketable securities, we plan to review and optimize our portfolio in order to counter a decrease in asset values caused by the sluggish market conditions. Finally, we will review our capital participation in our subsidiaries and affiliates, as necessary, to promote sound group operations.

Personnel is another important asset. In addition to the continuing cultivation of personnel skills, we will facilitate efficient reallocation of human resources to improve profitability.

Q9. What is your policy regarding dividends?

Our policy regarding dividends is to return profits to shareholders, ideally in line with earnings, while keeping retained earnings at the level required to sustain future growth. Despite our disappointing results for fiscal 2003, the dividend is ¥7.00 (US$0.06) per common share, the same as for fiscal 2002.

We have completed the adjustment of our basic business structure and have made a good start on the new three-year management plan. Because a company is a "living thing," we may face unexpected difficulties in the future, but we are ready to make a swift response to changes in the situation and reinforce our profit base. Our goal is to achieve balanced management that combines the strengths of both "stock"-type and "flow"-type management styles. Nisshinbo and its employees recognize the importance of carrying out corporate activities in harmony with society and in compliance with relevant regulations and corporate ethics, and we will devote ourselves to the achievement of further prosperity through fair business operations. We will also enhance our IR activities and encourage disclosure of information to our shareholders. We take this opportunity to ask for the continued support of our shareholders, customers and friends.

Y. Sashida

Yoshikazu Sashida
President

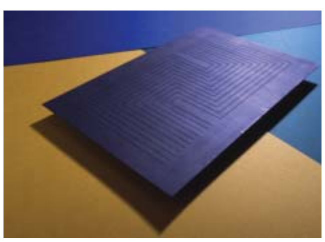
Nisshinbo is engaged in new developments, including research and development, product development, and marketing, with a view to pushing the pace on profitability. In addition, Nisshinbo is putting efforts into overseas development with an eye to market globalization, thereby strengthening earning power through transfer of production bases and market expansion. The following explanation highlights how Nisshinbo is tackling these two agendas.

New development and creation of new markets aimed at an improvement in profitability

Renovating the mechanism for commercializing development projects

In fiscal 2003, Nisshinbo set up a Business Developing Division independently from its Research and Development Division. The purpose is to establish an efficient mechanism that enables highly promising new business projects to acquire earning power as soon as possible and be nurtured to become pillar businesses of Nisshinbo. To be more specific, the Research and Development Division nurtures development and highly promising seeds, and hands over those that are considered most promising and given approval by management to the Business Developing Division in order to develop the projects into profitable lines of business. (See flow chart.)

Next-generation condenser device (Original "ionic liquid" as electrolyte in capacitor)



Carbon molded separators (bipolar plates)

Although the Research and Development Division used to be responsible for the entire commercialization process, the narrowing down of its roles has enabled the division to concentrate on supplying seed businesses, so allowing it to promote research and development activities efficiently with more focused targets. Some of the seed businesses waiting for commercialization include the following:

* An electric double layer capacitor developed by applying our original "ionic liquid" as an electrolyte. There are possible applications in electric cars, etc.
* Applications in the field of biodegradation (return to the soil) of polycarbodiimide that can enhance the functions of materials

Projects currently in progress at the Business Developing Division include fuel cell separators (bipolar plates) (by the Fuel Cell Department) and optical filters for plasma display panels (by the Optical Department). For the former project, following the transfer to the Miai Plant in May 2002, a production system has been established to provide an annual production of 2 million units, and the division is now in the process of promoting development in collaboration with our customers through production of prototypes aimed at full-scale introduction to the fuel cell market. The latter project was transferred to the Harisaki Plant in March 2003, and building up of a production system is currently under way. Against a background of rapid market expansion, we are facing the urgent need to reinforce our production system. With this project, we are witnessing improvements in the profit structure, and expect the business to show a gain.

R&D expenditure for fiscal 2003 was ¥5,917 million (US$49 million), a 2.8% reduction from fiscal 2002. The reduction was attributable to the establishment of a new division, and indicates a smooth shift from development to commercialization. As of the end of March, 31, 2003, the number of domestic and overseas patents held by Nisshinbo was 819, while patent applications outstanding totaled 1,771.

Earning ability supported by competitiveness gained through a differentiation strategy

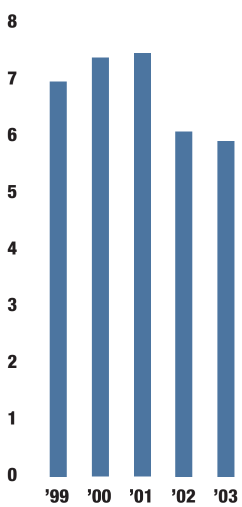
"Differentiation" is the keyword in product development at each division. We are stepping up our initiatives by combining maximum use of diverse technological bases and collaboration with our customers and partners, aimed at developing high value-added

products that can contribute to a high-profit structure.

In the Textiles segment, collaboration among our sales, marketing and production departments in developing products with the Textile Research and Development Center is playing a pivotal role. The direction of the development themes is high performance (wash & wear properties, water-absorbency and quick drying properties, antibacterial properties, etc.), high sensitivity (touch, comfort in wearing, etc.) and environment-friendliness (use of materials and processing methods that can reduce environmental loads). In collaboration with customers, we are promoting development of products that support their needs. Recently, for example, we developed the ***NON CARE*** **100% cotton wash-and-wear shirt.**

In the Automobile Brakes sector, following the transfer of sales and development of ABS and ESP (Electronic Stability Program) to the joint venture company Continental Teves Corporation (CTC), we have focused our efforts on strengthening our technology in friction materials and drum brakes. We have been building the foundations for further growth by implementing technology development and investments looking to the future by getting a clear picture of customers' needs, under such themes as high coefficient of friction, noise/vibration characteristics, improvements of brake pad life, eco-friendly and innovative cost reduction through the application of new technology, construction methods and materials. We place emphasis on strengthening our capability in developing products that can satisfy different market needs in Japan, Europe, and the U.S., and on standardizing the platform as part of the global trend. Development of environment-friendly friction materials is also under way. We are engaged in these activities through diversified collaboration with our overseas subsidiaries, affiliates, and technical affiliation partners.

R&D Expenditure
(billions of yen)



Our Paper business is characterized by product development based on our original technology and unique concept, targeting niche markets which major paper manufacturers are not eager to exploit. Apart from household papers and fine papers, we are making a strong effort to develop all types of ink jet media.

In the Chemical Products sector, we are tackling diversified projects, including: establishment of next-generation CFC-free technology; application of a high-insulation, anti-global warming product, ***N's VIP***; development of recycling-oriented products, ***APG®*** (Aqua Porous Gel) for water treatment; environment-related business involving the use of ***BCN®*** (Bio Contact N); and the nurturing and strengthening of health and nursing care-related businesses.

In the Machine Tools business, apart from development focused on environment-friendly facilities such as a photovoltaic module manufacturing system and kitchen waste disposal units, we also intend to develop products targeting the aircraft industry.

In the CCM systems business, we are proceeding with product development of high-performance and high value-added CCM, and working on product operation and market cultivation. We intend to expand into the cosmetics market, where toning is generally considered difficult, and the automobile market.

Do Jyo Riki III, a kitchen waste disposal unit

Flow Chart of Commercialization of New Business

Basic research	**Research and Development Division**
↓	
Selection of promising projects	**Business Implementing Dept., Research and Development Division**
↓	
Early-stage business	
↓	
Decision reached (whether to proceed)	**Board of Directors' meeting**
↓	
Full-scale commercialization Initiatives to secure profit	**Business Developing Division**

100% pure cotton *NON CARE* wash-and-wear shirt

The first 100% cotton wash-and-wear shirt is a product of our joint project with Itochu Corporation, a leading Japanese trading company, and TAL Apparel Ltd., a major apparel manufacturer in Hong Kong. It is the ultimate 100% cotton shirt, offering all the comfort of a cotton product while remaining genuinely wrinkle free after washing, with no need for ironing. The combination of the material developed by Nisshinbo, the special sewing technology of TAL Apparel Ltd., and the coordination ability of Itochu Corporation, has optimized the product, which is attracting attention in markets in Japan, Europe and the U.S.

Global Development

Establishing an optimized global production and marketing system in the textiles business

Our basic policy is to develop new products and high value-added products in Japan while producing high-quality basic products overseas for the global markets. In this way, we ensure that local and overseas production facilities are kept in balance. However, we make a decision on the optimal production base through comprehensive judgment of conditions, including location of the customer, operation status, leadtime, etc. Therefore, we determine production bases on a case-by-case basis; for instance, we produce high value-added products in Indonesia. In addition, highly advanced technology that we have developed domestically is being used overseas, thereby increasing our competitiveness through the manufacture of high-quality, low-cost products.

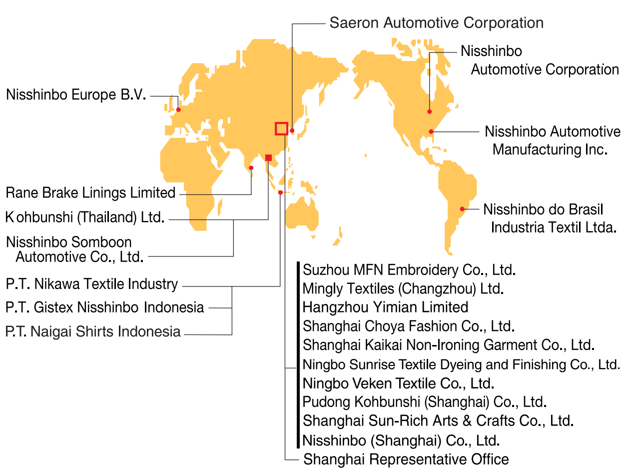
By strengthening facilities and building an integrated production system at P.T. Nikawa Textile Industry (Nikawa Tex) in Indonesia and P.T. Gistex Nisshinbo Indonesia (G&N), we are operating with an increased sense of unity. In addition to Mingly Textiles (Changzhou) Ltd., specializing in spinning and weaving, and Hangzhou Yimian Limited, specializing in spinning, weaving, finishing and knitting in China, we are preparing for the operational launch of Ningbo Veken Textile Co., Ltd., which will produce cotton and synthetic fiber spun yarn, and Ningbo Sunrise Textile Dyeing and Finishing Co., Ltd., which will specialize in bleach and dye processing of shirt and trouser materials. These companies are scheduled to start operations during 2003. The highly advanced technological power we have developed in Japan is being used overseas, ensuring high-quality products under the Nisshinbo brand while keeping costs low and allowing us to be competitive in the markets.

Mingly Textiles (Changzhou) Ltd.

Our overseas business strategy is characterized by exports to Japan, Japanese apparel manufacturing affiliates overseas, and exports to third countries, including Europe and the U.S. Nisshinbo (Shanghai) Co., Ltd. is in charge of marketing products produced in China. In addition, Nisshinbo do Brasil Industria Textil Ltda. is developing stable sales activities centered on the local market.

We set up a Global Operation Promotion Office in April 2002. This office has the role of building strategic marketing systems for markets in Japan, Europe, the U.S. and Asia by coordinating divisions, departments and bases in order to maximize earning capability.

Overseas Network



International Technical Agreements

As licensee:

- Taltech Limited of the British Virgin Islands for Pucker Free Seam Technology
- Meritor Heavy Vehicle Braking Systems (UK) Ltd. for commercial vehicle disc brake technology
- Continental Teves AG & Co. oHG of Germany for MK60 ABS and ESP TCS technology

As licensor:

- Jiangsu yawei machine tool Co., LTD. of China for CNC turret punch press technology
- Rane Brake Linings Limited 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
- Meritor Heavy Vehicle Braking Systems (UK) Ltd. 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

Overseas development of automobile brakes, responding quickly to globalization of automobile production

Based on two domestic companies and four overseas subsidiaries, Nisshinbo is developing its Automobile Brake business by cooperating with several technical affiliation partners overseas. Globalization of the automobile and automobile parts markets has accelerated customers' movements toward "optimal global procurement of parts." Accordingly, Nisshinbo has been required to globalize its entire corporate activities, including QCD (quality, cost, and delivery) and product development. Recognizing globalization as an opportunity, we set up a Global Business Department in April 2003 in our Brake Division with the aim of expediting business development by leveraging the management resources of Group companies at home, abroad and in alliance with our overseas technical affiliation partners. To pursue optimal profitability across Nisshinbo's entire Automobile Brake business, the unit has the role of distributing management resources, including manpower and strategy development, and managing domestic and overseas business offices.

Saeron Automotive Corporation in South Korea plans to set up a subsidiary that manufactures sintering products in a suburb of Beijing, a response to the entry of Korean automobile manufacturers into China. Once the business gets on track, the company will accept new orders locally. Although this marks our first automobile brake business development in China, Nisshinbo is also studying a plan to enter the market independently in the field of friction materials production.

Measures to strengthen earning power through other global activities

In the Paper Products business, we are promoting optimal location production and procurement by procuring from overseas crude papers for household paper products and producing standard molded products in China, etc. We are also planning to develop a high-quality printing paper business overseas.

In the Chemical Products sector, we are preparing for overseas production and overseas sales network development for *N's VIP*, polyurethane elastomer, and carbon products. We have started studying business development in China and Thailand by survey activities in cooperation with a domestic trading company and through reinforcing our partnership with Nippon Kohbunshi Co., Ltd. and its subsidiaries.

In the Machine Tools sector, we have been offering expertise to a turret punch press manufacturing company in China in order to obtain access to local markets. We plan to acquire a market through compartmentalization with an eye to forming alliances with overseas competitor manufacturers.

In the Human Resources Division, we set up a Global Human Resources Department in January 2002 to support smooth global operations and employees' activities at overseas subsidiaries.

Our high-quality printing paper

Promoting corporate activities aimed at coexistence with society

Corporate governance initiatives

We believe that the Company's Board of Directors, which meets monthly, is functioning properly as the supervising organization of Nisshinbo. The Company has two internal auditors and three external auditors. To assure fair practice in financial audits, we receive advice from corporate lawyers as necessary and undergo audits by multiple public accounting firms. We also actively disclose information such as IR information, including quarterly account settlement data.

Activities aimed at stepping up compliance

In accordance with our basic philosophy, "In all sincerity," we have continually made strong efforts to assure compliance. We instituted a "corporate ethics reporting system" in July 2003 by setting up a window to service inside and outside the Company in the Corporate Ethics Committee.

Environmental initiatives

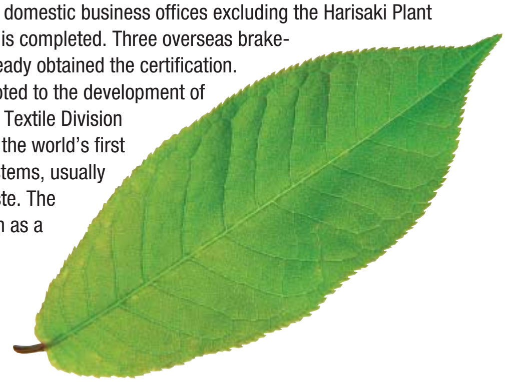
Of the specific action targets set out in the "Nisshinbo Environmental Charter" as revised in April 2000, we have succeeded in achieving the following two:

* Reducing industrial waste emissions for fiscal 2003, ended March 2003, by 10% compared with fiscal 2000, ended March 2000.
* Reducing energy consumption rate (share of energy in the manufacturing cost) by 1% each year, and achieving a 3% reduction in fiscal 2003 compared with fiscal 2000.

We will step up our initiatives, and consider disclosure of environmental information of the entire Group by setting up a website.

Acquisition of ISO14001, the international certification for environmental management systems, by all domestic business offices excluding the Harisaki Plant and Miai Mechatronics Plant is completed. Three overseas brake-related subsidiaries have already obtained the certification.

At Nisshinbo, we are devoted to the development of eco-conscious products. Our Textile Division succeeded in manufacturing the world's first fiber products from banana stems, usually disposed of as industrial waste. The product is attracting attention as a highly water-absorbent and lightweight new material.



Textiles

In fiscal 2003, ended March 31, 2003, Japanese textile consumption showed only a limited recovery in the face of an uncertain economic future. With an increase in the shift of production overseas, mainly of secondary products, and growing concern over credit uneasiness triggered by the disposal of non-performing loans held by banks, the textile industry endured an extremely difficult business environment. In the Textiles segment, while we have been promoting cost reduction through the reorganization of domestic plants and strengthening our overseas business operations, we have also been making efforts to facilitate product development, boost sales capabilities, and reduce sales and administrative costs. Particularly, we conducted a trimming of inventory aimed at strengthening our profitability structure. Although these efforts began to bear some fruit in the latter half of the fiscal year, they were insufficient to cover a fall in sales during the first half. Accordingly, sales and operating income decreased compared with fiscal 2002. Consolidated net sales of the Textiles segment amounted to ¥74,034 million (US$617 million), a decrease of 5.3% and accounting for 32.0% of total consolidated net sales, down 2.6 percentage points. Operating loss was ¥687 million (US$6 million).

Sales of yarns for textiles and knitted products decreased, due to a decrease in domestic demand triggered by the shift of production overseas by customer companies. However, our efforts to concentrate on sales of special and originally developed yarns allowed us to post an increase in operating income.

Our denim products appeal to a wide range of consumers.

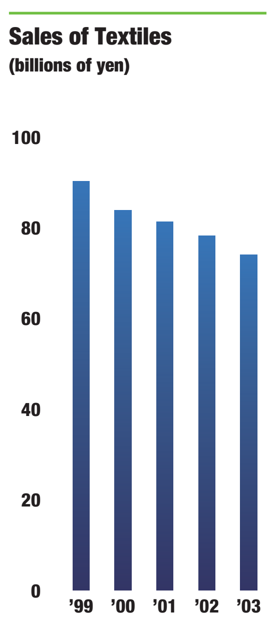
Our *COMFORT PROPOSAL* direct marketing business offers high value-added products, such as those in our prestigious *SUPER SOFT* line

Despite our efforts to expand sales to manufacturers of women's apparel and develop differentiated textile materials, sales and operating income of knitted products decreased sharply, affected by a shift of production overseas of such products as sport wear and casual wear targeting mass-sales outlets.

Sales of shirt materials increased steadily owing to a successful reinforcement of efforts targeted at large domestic and overseas customers. Operating income from domestic products decreased due to a fall in sales prices. Operating income from overseas products increased as a result of our efforts to raise the added value of our products.

Sales and operating income of bedding, our mainstay product in the household textiles sector, decreased sharply due to the firm establishment in the market of low-priced imports.

Sales of denim, our main product, increased owing to a steady growth in the domestic, U.S. and European markets. In the casual wear field, new products such as stretch and complex textile materials were in good demand. However, stagnant demand for general products led to a decrease in overall sales. In spite of a decrease in sales of uniform



materials due to a fall in customer demand, strengthened cooperation with overseas affiliated companies contributed to a recovery in operating income.

Domestic demand for spandex for panty hose remained weak and a reduction in shipment volume caused by users' production adjustments resulted in a decrease in sales. However, operating income increased owing to our efforts in developing and expanding sales of differentiated yarns.

Our *OIKOS* non-woven fabrics, valued for their pure cotton feature, steadily gained market popularity, leading to an expansion in sales of new products together with an increase in overall sales.

In our direct marketing business, *COMFORT PROPOSAL*, certain high-quality goods showed a slowdown in sales in the latter half of the fiscal year. However, sales of *SS* products for women's wear steadily increased, resulting in an increase in overall sales and operating income.

An entry at the Annual Nisshinbo Fashion Contest

Overseas, we completed a reinforcement of spinning facilities at P.T. Nikawa Textile Industry in Indonesia. In China, we expanded our cooperative production system with Mingly Textiles (Changzhou) Ltd. and Hangzhou Yimian Limited. Projects for the launch of operations at Ningbo Sunrise Textile Dyeing and Finishing Co., Ltd. and Ningbo Veken Textile Co., Ltd., which is currently constructing its plant, were carried out as planned.

Non-textiles

The Non-textile segment, excluding the Other Products sector, made a good showing, which, together with the consolidation of an additional subsidiary, led to a growth of the whole segment. Consolidated net sales increased 6.1% from fiscal 2002 to ¥157,159 million (US$1,310 million). Operating income was up 44.8% to ¥6,676 million (US$56 million). The ratio of Non-textile sales to total sales was up 2.6 percentage points to 68.0%. Chemical Products, which were formerly included in the Other Products sector, became an independent sector from fiscal 2003.

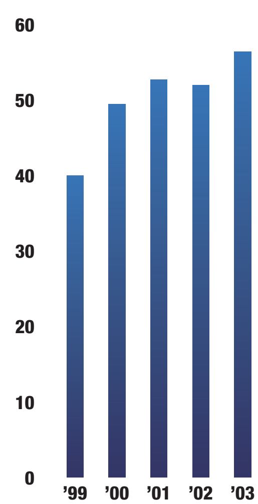

Our brake parts

Automobile Brakes

Sales of Automobile Brakes increased 8.5% from fiscal 2002 to ¥56,353 million (US$470 million). Operating income increased to ¥5,079 million (US$42 million), 53.6% up from fiscal 2002.

Sales of Automobile Brakes increased both in Japan and overseas.

Sales of Automobile Brakes
(billions of yen)



Our ABS is fitted in the Honda MOBILIO
© Honda Motors Co., Ltd.

In Japan, an increase in automobile production and orders for spare parts contributed to good results. Overseas, an increase in orders from the Big Three and other U.S. customers, increased orders in South Korea due to expanded production by major customers, and a rise in shipments in Thailand contributed to a favorable sales performance. In addition to the increases in orders, enhanced efficiency accompanying the transfer of friction materials production facilities to the Tatebayashi Plant began to show results and led to an increase in operating income.

Sales and operating income of ABS increased owing to good sales performance of the vehicles equipped with our products.

Papers

Our household paper products

Sales of paper products increased 6.0% from fiscal 2002 to ¥27,024 million (US$225 million), while operating income was up 4.9% to ¥1,611 million (US$13 million), reflecting stable pulp prices.

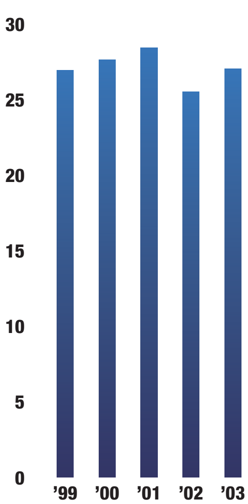
In the household papers sector, sales expansion of new products and a recovery in sales prices contributed to an increase in sales.

Sales of fine papers increased owing to an increase in orders for high-quality printing papers.

In the fabricated products sector, operating income increased slightly due to cost reductions resulting from manufacturing in China and in spite of a decrease in sales owing to a fall in orders.

Sales and operating income of label printing increased due to an increase in orders and our efforts to improve production efficiency.

Sales of Papers
(billions of yen)



Chemical Products

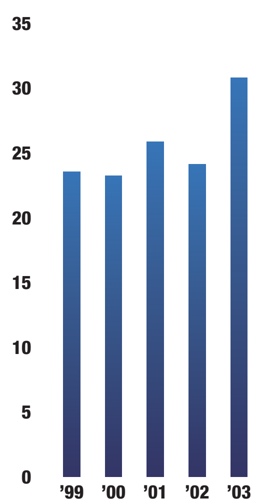
Sales of Chemical Products sector totaled ¥30,778 million (US$256 million), up 27.7% from fiscal 2002. Operating income was ¥151 million (US$1 million), compared with a loss for fiscal 2002.

Despite a decrease in sales of polyurethane foam, affected by stagnation in the construction and plant industries, operating income increased owing to our efforts in expanding sales of new products such as *N's VIP*, a vacuum heat insulation panel, products used in water treatment plants, and seats used in railway cars. Rationalization of production systems and structural reforms were additional contributory factors.

N's VIP, our vacuum insulation panel

Sales and operating income of polyurethane elastomers increased due to a recovery in sales of tapes for apparel for

Sales of Chemical Products
(billions of yen)



Note: Chemical Products, previously included in the Other Products sector, will be 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.

overseas.

Sales of carbon products increased due to a sales expansion of plates for semi-conductor manufacturing systems.

Another contributory factor to the increase in sales was our consolidation with Iwao & Co., Ltd.

Other Products

Sales of Other Products totaled ¥38,220 million (US$319 million), a decrease of 8.3% from fiscal 2002. Operating loss was ¥2,764 million (US$23 million).

Solar Module Laminator, Solar Battery Production Equipment

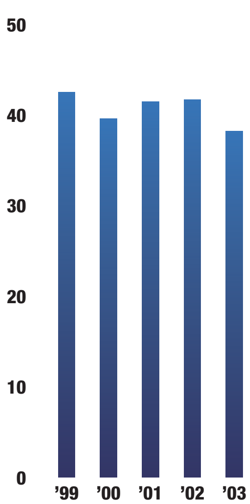
● Machine Tools

In spite of the severe environment, characterized by continued weakness in domestic capital investment in plant and equipment, sales and operating income of Machine Tools increased owing to a good performance by cutting and welding equipment in line with higher demand for auto-related facilities.

● Others

Sales and operating income of electronic communications equipment decreased, due to a termination of transactions with major customers and lower sales prices. Sales of optical filters for plasma display panels (PDP) increased owing to market expansion, while losses increased due mainly to a rise in production costs.

Sales of Other Products
(billions of yen)



Our CCM systems lead the toning industry, especially in the ink and paint industries. In fiscal 2003, we began engineering at toning manufacturing through sales and installation of large-scaled, fuzzy logic CCM, Automatic Dispensing System and Computer Aided Process Control System. We will continue to make efforts in manufacturing process support systems.

CHOSHOKU SENKA color matching system

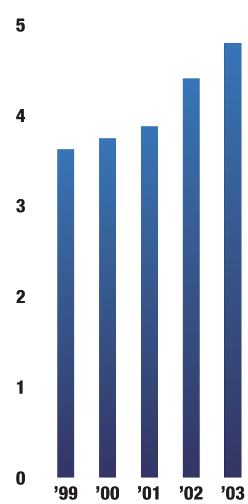
Real Estate Leasing

The Real Estate Leasing business is growing steadily, and sales increased 8.7% over fiscal 2002 to ¥4,785 million (US$40 million). Operating income was up 12.5% to ¥2,569 million (US$21 million).

New leasing projects increased and now include the former ground at the Notogawa Plant leased to Heiwado Co., Ltd., a distribution company, as a commodities and grocery store in February 2003.

Friend Mart Shopping Center (Shiga Prefecture, Japan)

Sales of Real Estate Leasing
(billions of yen)

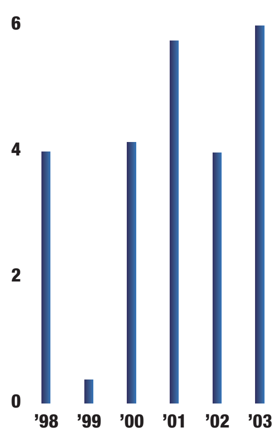


SIX-YEAR SUMMARY

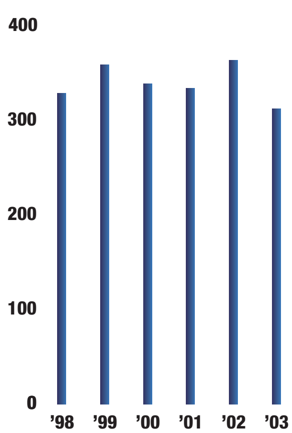
(millions of yen)

	1998	1999	2000	2001	2002	2003
Net Sales	240,249	226,800	227,452	233,535	225,836	231,193
Operating Income	3,989	373	4,140	5,751	3,968	5,989
Net Income	1,087	4,161	2,648	517	-2,649	777
Shareholders' Equity	199,373	200,779	194,685	192,331	213,665	186,028
Total Assets	329,102	359,390	339,373	334,460	364,161	312,909
Shareholders' Equity Ratio (%)	60.6	55.9	57.4	57.5	58.7	59.5
Return on Equity (%)	0.5	2.1	1.3	0.3	-1.3	0.4
Capital Investment	13,385	23,002	23,232	17,093	13,243	9,057
Depreciation and Amortization	13,634	13,411	14,228	13,134	13,422	12,758
Per Share (in yen):						
Net Income	4.60	17.60	11.36	2.32	-12.03	3.18
Shareholders' Equity	843.21	843.17	857.05	868.49	988.02	860.52
Cash Dividends	7.00	7.00	7.00	7.00	7.00	7.00
Number of Employees	8,452	8,452	8,235	8,104	8,456	8,627

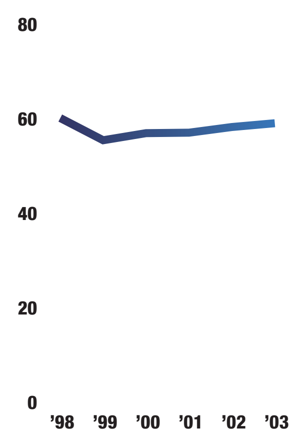
Operating Income
(billions of yen)



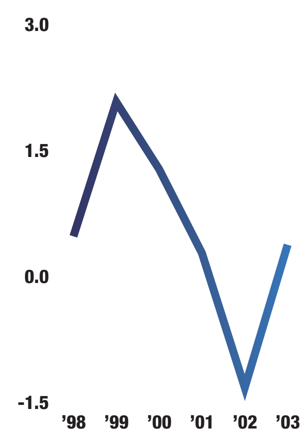
Total Assets
(billions of yen)



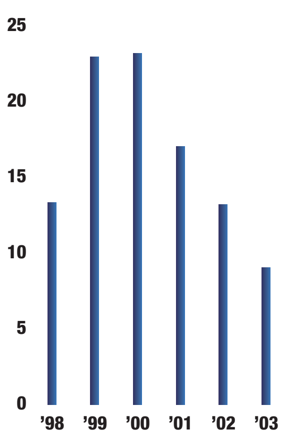
Shareholders' Equity Ratio
(%)



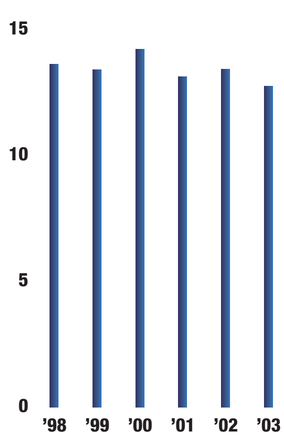
Return on Equity
(%)



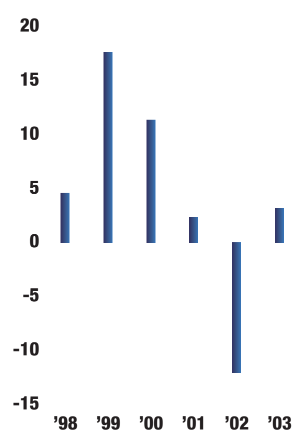
Capital Investment
(billions of yen)



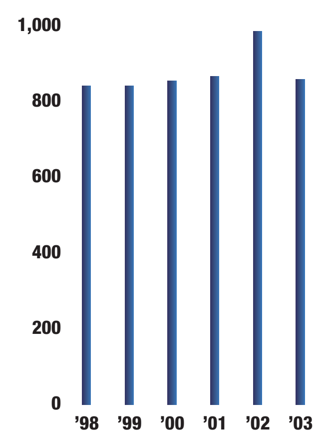
Depreciation and Amortization
(billions of yen)



Net Income per Share
(yen)



Shareholders' Equity per Share
(yen)



FINANCIAL REVIEW

Operating Results

On a consolidated basis, net sales for fiscal 2003, ended March 31, 2003, totaled ¥231,193 million (US$1,927 million), an increase of 2.4% over fiscal 2002.

In the Textiles segment, we reorganized our domestic plants as a means of reducing costs and strengthened overseas operations, while stepping up efforts to develop new products, boost sales capabilities and reduce selling, general and administrative expenses. These initiatives, however, proved insufficient to offset the effect of a severe drop in domestic sales resulting from the pressure of imports on sales prices. Consequently, net sales decreased 5.3% from fiscal 2002 to ¥74,034 million (US$617 million), showing an operating loss. Causative factors included loss on reevaluation of slow-moving inventories and reduced profit of a subsidiary in Indonesia, and the ratio of Textiles sales to total sales was 32.0%, down 2.6 percentage points.

With the exception of the Other Products sector, the Non-textiles segment showed steady sales, with a newly consolidated affiliate in the Chemical Products sector making a contribution. Net sales totaled ¥157,159 million (US$1,310 million), up 6.5% over fiscal 2002 while operating income also increased. The ratio of Non-textiles sales to total sales was 68.0%, up 2.6 percentage points.

Cost of sales increased 1.7% over fiscal 2002 to ¥199,272 million (US$1,661 million), while the ratio of cost of sales to net sales was down 0.6 percentage points to 86.2%. Selling, general and administrative expenses decreased 0.1% to ¥25,932 million (US$216 million). Costs and expenses amounted to ¥225,204 million (US$1,877 million), up 1.5% over fiscal 2002. As a result, operating income increased 50.9% to ¥5,989 million (US$50 million).

Equity in losses of affiliates was ¥310 million (US$3 million), a ¥4,847 million decrease from fiscal 2002, due to the disposal of some shares of Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd. After this disposal, these affiliates were excluded from those accounted for by the equity method. With these factors, other expenses for fiscal 2003 were ¥2,435 million (US$20 million), a ¥1,487 million decrease in loss from fiscal 2002. Income before income taxes and minority interests was ¥3,554 million (US$30 million), up ¥3,508 million over fiscal 2002. After deducting ¥2,971 million (US$25 million) of income taxes and adding ¥194 million (US$2 million) of minority interests in net income, we recorded a net income for fiscal 2003 of ¥777 million (US$6 million). Net income per share was ¥3.18 (US$0.03), an increase of ¥15.21, while ROE was 0.4%, up 1.7 percentage points over fiscal 2002.

Total cash dividends per share for fiscal 2003 were ¥7.00 (US$0.06), the same as for fiscal 2002. Cash dividends paid totaled ¥1,515 million (US$13 million). Taking a long-term point of view, we will continue to follow 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 ¥312,909 million (US$2,608 million), down 14.1% from fiscal 2002. Under current assets, accounts such as cash and cash equivalents, and deferred tax assets increased, while receivables and inventories decreased. As a result, current assets for fiscal 2003 were ¥137,575 million (US$1,146 million), down 1.7% from fiscal 2002. With regard to fixed assets, property, plant and equipment decreased 5.5% to ¥104,552 million (US$871 million). Investments and other assets totaled ¥70,782 million (US$590 million), down 37.7% from fiscal 2002, due to a decrease in the balance of investment securities caused mainly by the slump in the stock market.

Total current liabilities amounted to ¥78,905 million (US$658 million), down 9.3% from fiscal 2002, with a reduction in the balance of short-term bank loans making a contribution. Long-term liabilities were ¥42,808 million (US$357 million), down 26.4% from fiscal 2002, due mainly to reductions in long-term debt and deferred tax liabilities as a result of mark-to-market valuation of marketable securities. Total current and long-term liabilities were ¥121,713 million (US$1,014 million), a 16.1% decrease from fiscal 2002.

Shareholders' equity decreased 12.9% to ¥186,028 million (US$1,550 million), making shareholders' equity ratio 59.5% (up 0.8 percentage points over fiscal 2002), and shareholders' equity per share was ¥860.52 (US$7.17), down ¥127.50 from fiscal 2002.

Cash Flows

Cash flows from operating activities

Net cash provided by operating activities was ¥24,031 million (US$200 million), reflecting ¥3,554 million (US$30 million) net income before income taxes and minority interests, and was offset by ¥12,758 million (US$106 million) for depreciation and amortization, and decrease of ¥5,615 million (US$47 million) in inventories.

Cash flows from investing activities

Net cash provided by investing activities was ¥6,055 million (US$50 million). This was due mainly to proceeds from sales of property, plant, and equipment of ¥14,071 million (US$117 million), including the sale of a former site of the Tokyo Plant, offset by payment for purchase of new property, plant, and equipment of ¥10,242 million (US$85 million).

Cash flows from financing activities

Net cash used in financing activities was ¥13,917 million (US$116 million), due mainly to a ¥11,791 million (US$98 million) decrease in long/short-term borrowings.

As a result of the above, cash and cash equivalents at the end of the fiscal year totaled ¥29,523 million (US$246 million), up ¥16,104 million over fiscal 2002.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets

31st March, 2003 and 2002

ASSETS

	(millions of yen) 2003	(millions of yen) 2002	(thousands of US dollars) (Note 1) 2003
Current assets:			
Cash and cash equivalents	¥ 29,523	¥ 13,419	$ 246,025
Time deposits	5,273	5,794	43,942
Marketable securities (Note 4)	592	—	4,933
Receivables			
Notes receivable, trade	12,093	12,901	100,775
Accounts receivable, trade	41,888	37,001	349,066
Unconsolidated subsidiaries and affiliates	7,493	10,531	62,442
Other	675	13,275	5,625
	62,149	73,708	517,908
Less allowance for doubtful accounts	(1,215)	(742)	(10,125)
	60,934	72,966	507,783
Inventories (Note 3)	37,351	43,380	311,258
Deferred tax assets (Note 7)	2,552	1,528	21,267
Other current assets	1,350	2,886	11,250
Total current assets	137,575	139,973	1,146,458
Property, plant and equipment:			
Land	16,760	16,236	139,667
Buildings and structures	98,277	96,621	818,975
Machinery, equipment and tools	193,129	202,136	1,609,408
Construction in progress	711	2,941	5,925
	308,877	317,934	2,573,975
Less accumulated depreciation	(204,325)	(207,333)	(1,702,708)
	104,552	110,601	871,267
Investments and other assets:			
Investment securities (Note 4)	64,297	87,723	535,808
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 4)	3,870	23,500	32,250
Deferred tax assets (Note 7)	368	532	3,067
Other	2,247	1,832	18,725
	70,782	113,587	589,850
	¥ 312,909	¥ 364,161	$ 2,607,575

See Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	(millions of yen) 2003	(millions of yen) 2002	(thousands of US dollars) (Note 1) 2003
Current liabilities:			
Short-term bank loans (Note 5)	¥ 37,570	¥ 48,415	$ 313,083
Current portion of long-term debt (Note 5)	3,282	2,185	27,350
Payables			
Notes and accounts payable, trade	20,859	19,236	173,825
Unconsolidated subsidiaries and affiliates	405	1,023	3,375
Other	3,557	4,274	29,642
	24,821	24,533	206,842
Employees' savings deposits	4,021	4,165	33,508
Accrued expenses	3,695	3,690	30,792
Accrued income taxes	3,831	422	31,925
Other current liabilities	1,685	3,553	14,042
Total current liabilities	78,905	86,963	657,542
Long-term liabilities:			
Long-term debt (Note 5)	7,574	11,029	63,117
Accrued severance benefits (Note 6)	23,574	22,893	196,450
Deferred tax liabilities (Note 7)	3,553	16,042	29,608
Other long-term liabilities	8,107	8,172	67,558
	42,808	58,136	356,733
Minority interests in consolidated subsidiaries	5,168	5,397	43,067
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	229,900
Additional paid-in capital	20,401	20,401	170,008
Revaluation surplus	—	170	—
Retained earnings	131,531	141,022	1,096,092
Net unrealized gain on available-for-sale securities	9,628	25,715	80,233
Foreign currency translation adjustments	(2,921)	(1,151)	(24,342)
Less shares in treasury			
2003 — 504,285 shares			
2002 — 325,316 shares	(199)	(80)	(1,658)
	186,028	213,665	1,550,233
	¥ 312,909	¥ 364,161	$ 2,607,575

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended 31st March, 2003 and 2002

	(millions of yen) 2003	(millions of yen) 2002	(thousands of US dollars) (Note 1) 2003
Net sales	¥ 231,193	¥ 225,836	$ 1,926,608
Costs and expenses:			
Cost of sales	199,272	195,917	1,660,600
Selling, general and administrative expenses	25,932	25,951	216,100
	225,204	221,868	1,876,700
Operating income	5,989	3,968	49,908
Other income (expenses):			
Interest and dividend income	1,957	2,073	16,308
Interest expenses	(1,464)	(1,767)	(12,200)
Equity in losses of affiliates	(310)	(5,157)	(2,583)
Other, net (Note 11)	(2,618)	929	(21,817)
	(2,435)	(3,922)	(20,292)
Income before income taxes and minority interests	3,554	46	29,616
Income taxes (Note 7)			
Current	4,529	1,426	37,741
Deferred	(1,558)	1,238	(12,983)
	2,971	2,664	24,758
Income (loss) before minority interests	583	(2,618)	4,858
Minority interests in net income (loss)	194	(31)	1,617
Net income (loss)	¥ 777	(¥ 2,649)	$ 6,475

	(yen) 2003	(yen) 2002	(US dollars) 2003
Per share:			
Net income (loss)	¥ 3.18	(¥ 12.03)	$ 0.03
Cash dividends	7.00	7.00	0.06

See Notes to Consolidated Financial Statements.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

Years ended 31st March, 2003 and 2002

	(millions of yen) 2003	(millions of yen) 2002	(thousands of US dollars) (Note 1) 2003
Common stock:			
Balance at beginning of year (2003 — 216,580,939 shares; 2002 — 221,743,939 shares)	¥ 27,588	¥ 27,588	$ 229,900
Balance at end of year (2003 and 2002 — 216,580,939 shares)	¥ 27,588	¥ 27,588	$ 229,900
Additional paid-in capital:			
Balance at beginning of year	¥ 20,401	¥ 20,401	$ 170,008
Balance at end of year	¥ 20,401	¥ 20,401	$ 170,008
Revaluation surplus:			
Balance at beginning of year	¥ 170	¥ —	$ 1,417
Net changes	(170)	170	(1,417)
Balance at end of year	¥ —	¥ 170	$ —
Retained earnings:			
Balance at beginning of year	¥ 141,022	¥ 148,214	$ 1,175,183
Adjustments due to decrease in consolidated subsidiaries	—	79	—
Adjustments due to increase/decrease in 20%~50% owned affiliates	(8,667)	(39)	(72,225)
Adjustments due to increase in ownership interest in 20%~50% owned affiliates	—	(354)	—
Net income (loss)	777	(2,649)	6,475
Cash dividends	(1,515)	(1,550)	(12,625)
Directors' and statutory auditors' bonuses	(86)	(77)	(716)
Retirement of treasury stock	—	(2,602)	—
	¥ 131,531	¥ 141,022	$ 1,096,092
Net unrealized gain on available-for-sale securities:			
Balance at beginning of year	¥ 25,715	¥ —	$ 214,291
Net changes	(16,087)	25,715	(134,058)
Balance at end of year	¥ 9,628	¥ 25,715	$ 80,233
Foreign currency translation adjustments:			
Balance at beginning of year	(¥ 1,151)	(¥ 3,809)	($ 9,592)
Net changes	(1,770)	2,658	(14,750)
Balance at end of year	(¥ 2,921)	(¥ 1,151)	($ 24,342)
Treasury stock at cost:			
Balance at beginning of year	(¥ 80)	(¥ 63)	($ 667)
Add: acquired	(119)	(17)	(991)
Balance at end of year	(¥ 199)	(¥ 80)	($ 1,658)

See Notes to Consolidated Financial Statements.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended 31st March, 2003 and 2002

	(millions of yen)		(thousands of US dollars) (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,554	¥ 46	$ 29,616
Adjustments to reconcile net income to net cash provided by operating activities:			
Income taxes-paid	(1,154)	(1,947)	(9,616)
Depreciation and amortization	12,758	13,422	106,317
Equity in losses of affiliates	310	5,157	2,583
Provision for doubtful receivables	713	(122)	5,942
Provision for accrued pension and severance benefits	2,920	3,453	24,333
Payment of accrued pension and severance benefits	(2,329)	(3,572)	(19,408)
Directors' and statutory auditors' bonuses paid	(92)	(84)	(767)
(Gain) loss on sale of property, plant and equipment	421	(1,751)	3,508
(Gain) loss on sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	449	(3,061)	3,742
Write-down of investment securities	473	1,343	3,942
Loss on plant closures	709	775	5,908
Other	(1,006)	112	(8,383)
Changes in operating assets and liabilities:			
Receivables	1,293	8,323	10,775
Inventories	5,615	884	46,792
Payables	(405)	(7,067)	(3,375)
Other	(198)	(2,613)	(1,650)
Net cash provided by operating activities	24,031	13,298	200,259
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	14,071	4,448	117,259
Proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	3,427	4,869	28,558
Payment for purchase of property, plant and equipment	(10,242)	(12,397)	(85,350)
Payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	(563)	(4,494)	(4,692)
(Increase) decrease in loans receivable	(471)	386	(3,925)
Increase in time deposits	809	(1,002)	6,741
Other, net	(976)	(1,624)	(8,133)
Net cash provided by (used in) investing activities	6,055	(9,814)	50,458
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	1,101	714	9,175
Repayment of long-term debt	(2,378)	(1,998)	(19,817)
Decrease in short-term bank loans	(10,514)	(2,721)	(87,616)
Cash dividends paid	(1,515)	(1,550)	(12,625)
Payment for purchase of treasury stock	(149)	(2,620)	(1,242)
Other	(462)	(9)	(3,850)
Net cash used in financing activities	(13,917)	(8,184)	(115,975)
Effect of exchange rate changes on cash	(327)	220	(2,725)
Net increase (decrease) in cash and cash equivalents	15,842	(4,480)	132,017
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	282	208	2,350
Cash and cash equivalents of decreased consolidated subsidiaries at beginning of year	(20)	(33)	(167)
Cash and cash equivalents at beginning of year	13,419	17,724	111,825
Cash and cash equivalents at end of year	¥ 29,523	¥ 13,419	$ 246,025
Noncash investing and financing activities :			
Assets acquired by incurring accounts payable	¥ 572	¥ 2,056	$ 4,767

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 ¥120 = $1, the approximate exchange rate at 31st March, 2003. 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 dates. 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, 2003 and 2002 were as follows:

	(millions of yen)		(thousands of US dollars)
	2003	2002	2003
Finished products	¥ 20,916	¥ 25,543	$ 174,300
Work in process	7,776	8,343	64,800
Materials and supplies	8,659	9,494	72,158
	¥ 37,351	¥ 43,380	$ 311,258

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, 2003 and 2002 were as follows:

	(millions of yen)		(thousands of US dollars)
	2003	2002	2003
Cost	¥ 39,936	¥ 33,652	$ 332,800
Unrealized gains	23,963	45,285	199,692
Unrealized losses	(7,445)	(768)	(62,042)
Fair value	¥ 56,454	¥ 78,169	$ 470,450

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

Short-term bank loans at 31st March, 2003 and 2002 were principally represented by 180 to 365 days notes issued by Nisshinbo and its consolidated subsidiaries to banks. The annual interest rates applicable to the short-term bank loans at 31st March, 2003 and 2002 were 0.6% to 8.8%.

Long-term debt at 31st March, 2003 and 2002 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2003	2002	2003
Long-term debt with collateral:			
Loans from banks maturing serially to 2005, ranging from 1.7% to 4.8%	¥ 624	¥ 1,061	$ 5,200
Long-term debt without collateral:			
Loans from banks maturing serially to 2016, ranging from 1.3% to 7.0%	4,282	5,356	35,683
Capital lease obligations, due through 2010	5,950	6,797	49,584
	10,856	13,214	90,467
Less current portion	(3,282)	(2,185)	(27,350)
	¥ 7,574	¥ 11,029	$ 63,117

Annual maturities of long-term debt were as follows:

Year ending 31st March,	(millions of yen)	(thousands of US dollars)
2004	¥ 3,282	$ 27,350
2005	1,958	16,317
2006	998	8,317
2007	971	8,092
2008 and thereafter	3,647	30,391
	¥ 10,856	$ 90,467

At 31st March, 2003 and 2002, net book value of assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	(millions of yen)		(thousands of US dollars)
	2003	2002	2003
Property, plant and equipment	¥ 6,443	¥ 6,743	$ 53,692
Notes receivable, trade	—	200	—
	¥ 6,443	¥ 6,943	$ 53,692

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, 2003 and 2002 were ¥847 million ($7,058 thousand) and ¥862 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, 2003 and 2002 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2003	2002	2003
Projected benefit obligation	¥ 65,064	¥ 61,849	$ 542,200
Fair value of plan assets	(25,594)	(32,222)	(213,283)
	39,470	29,627	328,917
Unrecognized prior service cost	3,043	—	25,358
Unrecognized actuarial loss	(19,786)	(7,596)	(164,883)
Net liability	¥ 22,727	¥ 22,031	$ 189,392

The components of net periodic benefit costs for the years ended 31st March, 2003 and 2002 were as follows:

	(millions of yen)		(thousands of US dollars)
	2003	2002	2003
Service cost	¥ 1,660	¥ 2,513	$ 13,833
Interest cost	1,802	1,841	15,017
Expected return on plan assets	(1,220)	(1,300)	(10,166)
Amortization of prior service cost	(195)	—	(1,625)
Recognized actuarial loss	712	279	5,933
Net periodic benefit costs	¥ 2,759	¥ 3,333	$ 22,992

Assumptions used for the years ended 31st March, 2003 and 2002 were set forth as follows:

	2003	2002
Discount rate	2.5%~3.0%	3.0%
Expected rate of return on plan assets	3.5%~4.0%	3.5~4.0%
Amortization period of prior service cost	15 years	—
Recognition period of actuarial gain / loss	15 years	15 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, 2003 and 2002 were as follows:

	(millions of yen)		(thousands of US dollars)
	2003	2002	2003
Deferred tax assets:			
Property, plant and equipment	¥ 231	¥ 149	$ 1,925
Tax loss carryforwards	666	1,824	5,550
Allowance for doubtful accounts	597	343	4,975
Accrued employees' bonuses	912	722	7,600
Accrued severance benefits	9,110	8,470	75,916
Other	1,659	1,206	13,825
Less valuation allowance	(1,744)	(2,740)	(14,533)
	¥ 11,431	¥ 9,974	$ 95,258
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(¥ 6,778)	(¥ 18,758)	($ 56,483)
Deferred gains on sale of property	(4,469)	(5,110)	(37,242)
Other	(817)	(88)	(6,808)
	(¥ 12,064)	(¥ 23,956)	($ 100,533)
Net deferred tax assets (liabilities)	(¥ 633)	(¥ 13,982)	($ 5,275)

A reconciliation between the normal effective statutory tax rate for the years ended 31st March, 2003 and 2002 and the actual effective tax rates reflected in the accompanying consolidated statement of income was as follows:

	2003	2002
Normal effective statutory tax rate	42.0%	42.0%
Dividend income not taxable	(2.0)	(46.9)
Expenses not deductible for income tax purposes	2.2	226.7
Tax benefits not recognized on operating losses of subsidiaries	7.2	1,102.5
Equity in losses of affiliates	3.7	4,736.3
Lower income tax rates applicable to income in certain foreign countries	(4.1)	(279.8)
Consolidation adjustment of gain on 20%-50% owned affiliate securities sold	18.9	—
Decrease in non-current deferred tax assets due to effect of tax rate	4.1	—
Other	11.6	10.5
Actual effective tax rate	83.6%	5,791.3%

8. LEASES:

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

Total rental expenses for the years ended 31st March, 2003 and 2002 were ¥447 million ($3,725 thousand) and ¥565 million, respectively, including ¥432 million ($3,600 thousand) and ¥530 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, 2003 and 2002 was as follows:

	(millions of yen) 2003	(millions of yen) 2002	(thousands of US dollars) 2003
Acquisition cost	¥ 2,229	¥ 2,809	$ 18,575
Accumulated depreciation	(1,595)	(1,887)	(13,292)
Net leased property	¥ 634	¥ 922	$ 5,283

Obligations under finance leases:

	(millions of yen) 2003	(millions of yen) 2002	(thousands of US dollars) 2003
Due within one year	¥ 253	¥ 432	$ 2,108
Due after one year	381	490	3,175
Total	¥ 634	¥ 922	$ 5,283

Depreciation expense under finance leases:

	(millions of yen) 2003	(millions of yen) 2002	(thousands of US dollars) 2003
Depreciation expense	¥ 432	¥ 530	$ 3,600

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, 2003 and 2002 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at 31st March, 2003 and 2002, 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, 2003 and 2002 were as follows:

	(millions of yen) 2003			(millions of yen) 2002			(thousands of US dollars) 2003		
	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain
Interest rate swaps:									
Fixed rate payments, floating rate receipt	¥ 1,495	¥ 9	¥ 9	¥ 413	(¥ 11)	(¥ 11)	$12,458	$ 75	$ 75
Fixed rate receipt, floating rate payment	—	—	—	1,057	36	36	—	—	—
	¥ 1,495	¥ 9	¥ 9	¥ 1,470	¥ 25	¥ 25	$12,458	$ 75	$ 75

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 until such reserve and additional paid-in capital equal 25% of stated value of capital 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)
	2003	2002	2003
Gain (loss) on sale of property, plant and equipment	(¥ 421)	¥ 1,751	($ 3,508)
Gain (loss) on sale of securities	(449)	3,061	(3,742)
Write-down of securities	(473)	(1,343)	(3,942)
Write-off of inventories	(239)	(825)	(1,992)
Loss on plant closures	(709)	(775)	(5,908)
Retirement benefits paid due to restructuring of business operations	(58)	(752)	(483)
Other, net	(269)	(188)	(2,242)
	(¥ 2,618)	¥ 929	($ 21,817)

12. COMMITMENTS AND CONTINGENCIES:

Contingent liabilities at 31st March, 2003 and 2002 for trade notes discounted with banks and trade notes delivered with endorsements for payments amounted to ¥318 million ($2,650 thousand) and ¥403 million, respectively. Contingent liabilities at 31st March, 2003 and 2002 for loans guaranteed amounted to ¥2,208 million ($18,400 thousand) and ¥2,477 million, respectively.

Commitments for capital expenditures outstanding at 31st March, 2003 and 2002 were in the approximate amounts of ¥1,113 million ($9,275 thousand) and ¥3,655 million, respectively.

13. SUBSEQUENT EVENT:

Appropriation of retained earnings

On 27th June, 2003, Nisshinbo's shareholders authorised the appropriation of retained earnings as follows:

	(millions of yen)	(thousands of US dollars)
Cash dividends (¥3.50 per share)	¥ 757	$ 6,308
Directors' bonuses	50	417

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, 2003 and 2002 were as follows:

(1) Industry Segments

	(millions of yen) 2003							
	Industry Textiles	Industry Automobile Brakes	Industry Papers	Industry Chemical Products	Industry Real Estate Leasing	Industry 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	51,274	25,427	31,513	2,520	42,370	(2,621)	225,204
Operating income (loss)	(¥ 687)	¥ 5,078	¥ 1,611	¥ 152	¥ 2,569	(¥ 2,764)	¥ 30	¥ 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

	(millions of yen) 2002							
	Industry Textiles	Industry Automobile Brakes	Industry Papers	Industry Chemical Products	Industry Real Estate Leasing	Industry Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	¥ 78,203	¥ 51,926	¥ 25,497	¥ 24,110	¥ 4,404	¥ 41,696	¥ —	¥ 225,836
Intersegment sales	0	1	11	718	260	942	(1,932)	—
Total sales	78,203	51,927	25,508	24,828	4,664	42,638	(1,932)	225,836
Operating expenses	77,981	49,570	24,404	25,033	2,417	44,458	(1,995)	221,868
Operating income (loss)	¥ 222	¥ 2,357	¥ 1,104	(¥ 205)	¥ 2,247	(¥ 1,820)	¥ 63	¥ 3,968
II. Total Assets, Depreciation and Capital Expenditures								
Total assets	¥ 89,071	¥ 67,538	¥ 19,887	¥ 19,435	¥ 15,910	¥ 31,710	¥ 120,610	¥ 364,161
Depreciation	¥ 4,393	¥ 4,723	¥ 1,275	¥ 1,217	¥ 845	¥ 969	¥ —	¥ 13,422
Capital expenditures	¥ 6,677	¥ 3,524	¥ 928	¥ 1,118	¥ 353	¥ 643	¥ —	¥ 13,243

	(thousands of US dollars) 2003							
	Industry Textiles	Industry Automobile Brakes	Industry Papers	Industry Chemical Products	Industry Real Estate Leasing	Industry Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	$ 616,950	$ 469,600	$ 225,200	$ 256,483	$ 39,875	$ 318,500	$ —	$1,926,608
Intersegment sales	0	—	117	7,392	2,533	11,550	(21,592)	—
Total sales	616,950	469,600	225,317	263,875	42,408	330,050	(21,592)	1,926,608
Operating expenses	622,675	427,283	211,892	262,608	21,000	353,084	(21,842)	1,876,700
Operating income (loss)	($ 5,725)	$ 42,317	$ 13,425	$ 1,267	$ 21,408	($ 23,034)	$ 250	$ 49,908
II. Total Assets, Depreciation and Capital Expenditures								
Total assets	$ 668,525	$ 513,550	$ 165,983	$ 178,633	$ 140,417	$ 248,625	$ 691,842	$2,607,575
Depreciation	$ 35,017	$ 36,067	$ 10,417	$ 9,050	$ 7,183	$ 8,583	$ —	$ 106,317
Capital expenditures	$ 23,683	$ 18,842	$ 11,092	$ 5,125	$ 4,883	$ 11,850	$ —	$ 75,475

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended 31st March, 2003 and 2002 were as follows:

	(millions of yen)							
	2003				2002			
	Japan	Others	Eliminations/ Corporate	Consolidated	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 208,448	¥ 22,745	¥ —	¥ 231,193	¥ 203,709	¥ 22,127	¥ —	¥ 225,836
Interarea transfer	2,569	3,116	(5,685)	—	2,276	2,962	(5,238)	—
Total sales	211,017	25,861	(5,685)	231,193	205,985	25,089	(5,238)	225,836
Operating expenses	206,827	24,133	(5,756)	225,204	202,825	24,205	(5,162)	221,868
Operating income (loss)	¥ 4,190	¥ 1,728	¥ 71	¥ 5,989	¥ 3,160	¥ 884	(¥ 76)	¥ 3,968
Total assets	¥ 209,793	¥ 20,095	¥ 83,021	¥ 312,909	¥ 220,466	¥ 23,085	¥ 120,610	¥ 364,161

	(thousands of US dollars)			
	2003			
	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$1,737,067	$ 189,541	$ —	$1,926,608
Interarea transfer	21,408	25,967	(47,375)	—
Total sales	1,758,475	215,508	(47,375)	1,926,608
Operating expenses	1,723,558	201,108	(47,966)	1,876,700
Operating income (loss)	$ 34,917	$ 14,400	$ 591	$ 49,908
Total assets	$1,748,275	$ 167,458	$ 691,842	$2,607,575

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended 31st March, 2003 and 2002 amounted to ¥41,210 million ($343,417 thousand) and ¥37,037 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, 2003 and 2002, 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, 2003 and 2002, 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

E. Nagashima

Masami Tsukeshiba
Certified Public Accountant

Etsuko Nagashima
Certified Public Accountant

27th June, 2003
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. (the present Tokyo Plant).

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.

NISSHINBO GROUP

The Nisshinbo Group consists of Nisshinbo Industries, Inc., its 38 subsidiaries, and 9 affiliates.

Main Group Companies (As of March 31, 2003)

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 Mobix Co., Ltd.	Wakayama, Japan	¥80 millon	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
Nisshinbo do Brasil Industria Textil Ltda.	Brazil	R$20.075 million	Textiles
P.T. Gistex Nisshinbo Indonesia	Indonesia	US$10 million	Textiles
P.T. Nikawa Textile Industry	Indonesia	US$75 million	Textiles
Nisshinbo Brake Sales Co., Ltd.	Tokyo, Japan	¥150 million	Automobile Brakes
Nisshinbo Techno Vehicle Inc.	Yokohama, Japan	¥50 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 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
Ueda Japan Radio Co., Ltd.	Nagano, Japan	¥700 million	Electronics
Nippon Kohbunshi Co., Ltd.	Tokyo, Japan	¥310 million	Plastic Molded Products
Nisshinbo Kikai Hanbai Co., Ltd.	Tokyo, Japan	¥30 million	Machine Tools
Nisshinbo Engineering Co., Ltd.	Tokyo, Japan	¥10 million	Chemical 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

Subsidiary and Affiliates Accounted for by the Equity Method

Company	Location	Capital	Business
Naigai Shirts Co., Ltd.	Osaka, Japan	¥90 million	Textiles
Continental Teves Corporation	Tokyo, Japan	¥1,390 million	Automobile Brakes

BOARD OF DIRECTORS AND STATUTORY AUDITORS

President
Yoshikazu Sashida

Senior Executive Director
Kohshi Fujino
Senior Executive Director
Tadashi Nakai

Executive Director
Takashi Iwashita
Executive Director
Kunihiro Toda
Executive Director
Yasuo Takeuchi
Executive Director
Masao Kinoshita
Executive Director
Hajime Takagiwa

Director
Hideyuki Tanaka
Director
Takeo Shimura
Director
Shizuka Uzawa
Director
Masashi Shinagawa
Director
Yoshihito Onda
Director
Hideo Yakuden
Director
Kinjirou Kawashima
Director
Seiichiro Tomizawa

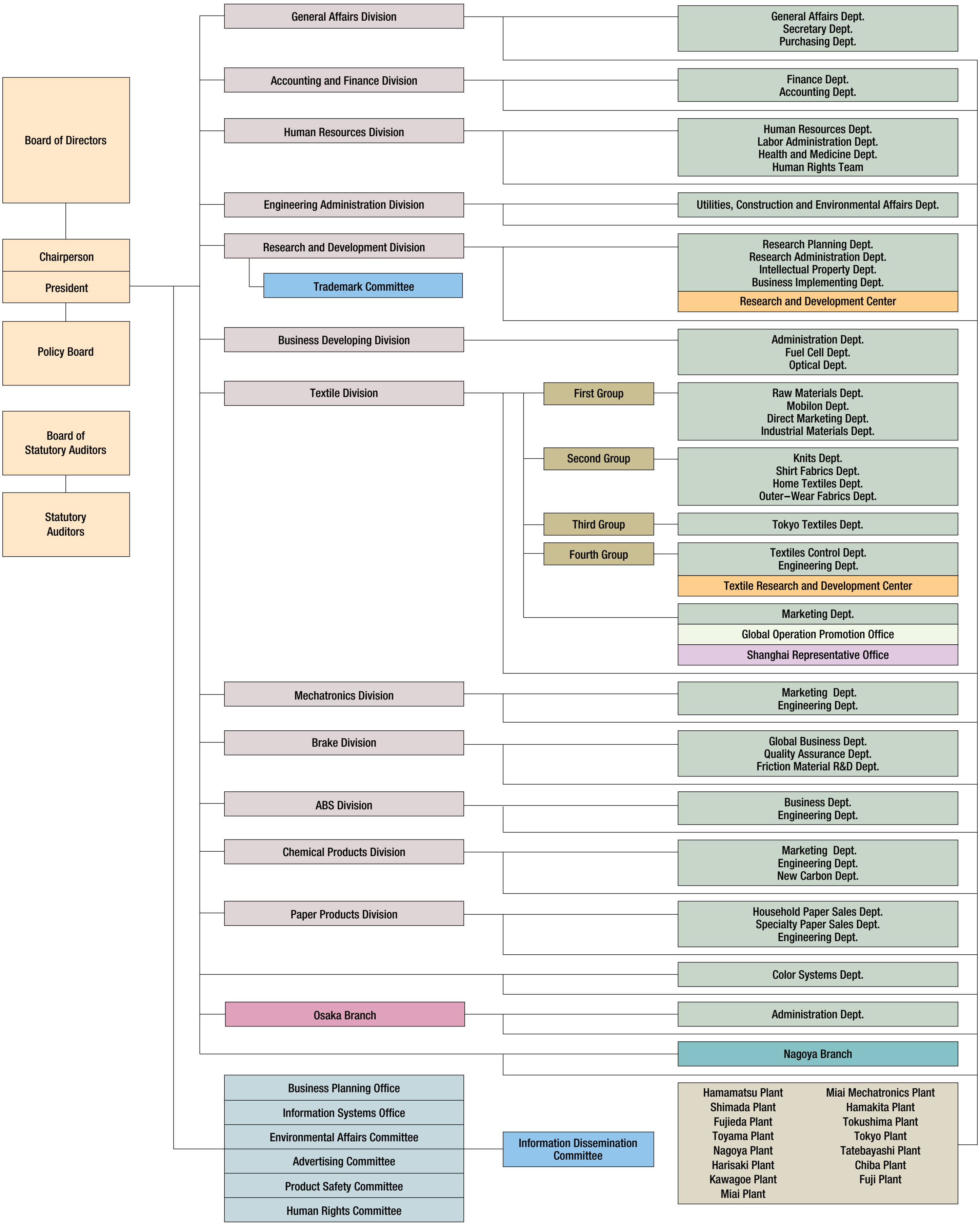
Standing Statutory Auditor
Kenji Tasaki
Statutory Auditor
Shoichi Hayashi
Statutory Auditor
Tomofumi Akiyama
Statutory Auditor
Yoshikuni Utsunomiya
Statutory Auditor
Takehiko Urushihara

CORPORATE DATA

(As of March 31, 2003)

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 Subsidiaries Total	3,525 5,102 8,627
Common Stock:		
Authorized:	380,137,000 shares	
Issued:	216,580,939 shares ¥27,588 million — US$230 million	
Shareholders:	13,541	
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



NISSHINBO

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