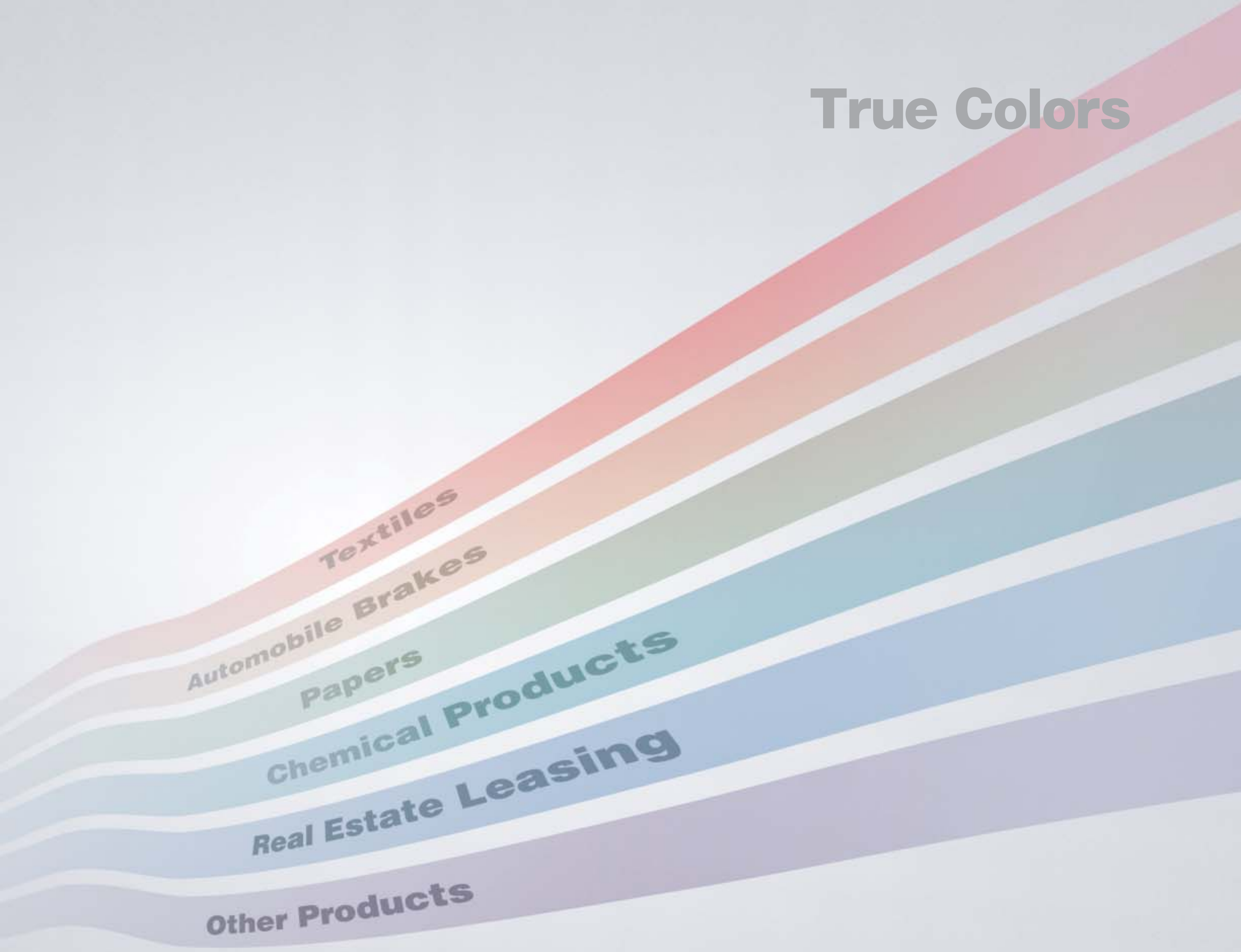
NISSHINBO

Annual Report 2005

(Year ended March 31, 2005)

True Colors



Financial Highlights

(Years ended 31st March)

Consolidated:

	(millions of yen)		(millions of US dollars)
	2005	2004	**2005**
Net Sales	**¥ 243,421**	¥ 226,883	**$ 2,318**
Net Income	**8,199**	3,919	**78**
Shareholders' Equity	**222,771**	214,132	**2,122**

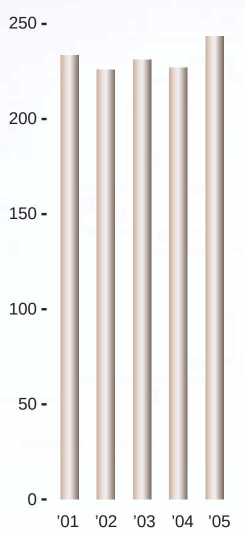
Per Share:

	(yen)		(US dollars)
Net Income	**¥ 39.03**	¥ 17.86	**$ 0.37**
Shareholders' Equity	**1,072.54**	1,030.98	**9.82**
Cash Dividends	**10.00**	7.00	**0.10**

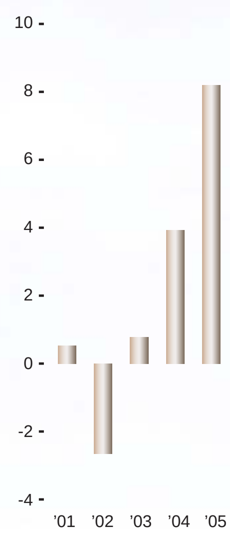
The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥105=US$1.

CONTENTS

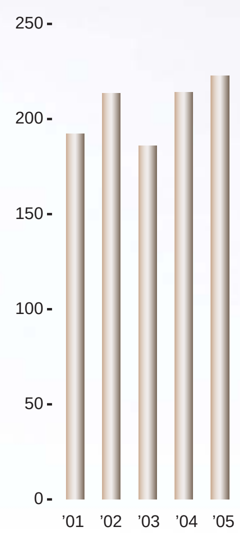
Net Sales
(billions of yen)



Net Income
(billions of yen)



Shareholders' Equity
(billions of yen)



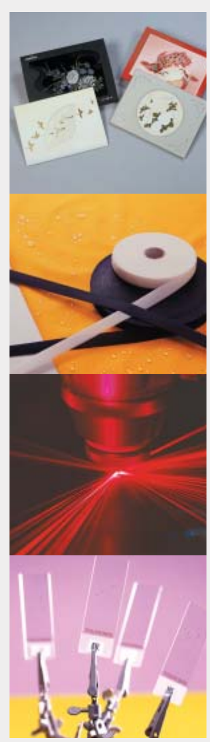
The paper used for this Annual Report is from Nisshinbo's *VENT NOUVEAU* series of fine papers.

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.

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

Through the application in other fields of technologies and expertise originally developed in the textiles area, we have diversified our operations into the manufacture of automobile brakes, papers, chemical products and others. These non-textile lines have grown steadily, and now account for over 66% of consolidated net sales.

We offer a truly diverse range of products tailored to customer needs: high value-added finishing processing and products in the textiles segment, including *SUPER SOFT, Nisshinbo Shirt* and *NON CARE*, as well as new-generation electronic braking systems, high heat-insulation panels, and bipolar plates for fuel cells.



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

Textiles

Textile products have been the mainstay of our business since our foundation. We lead the Japanese textiles industry with our high-quality products, backed up by our accumulated technology, and have gained the trust of customers. In line with efforts to manufacture our products in the most optimal locations worldwide, we are currently strengthening the production structure for our overseas operations, as we supply a diverse range of products in Japan and overseas. With our products having earned the deep trust of users, we have high shares of the domestic market for such principal products as shirts, denim, uniforms and bedding.

We undertake comprehensive operations, including spinning and finishing, and by integrating manufacturing and sales activities we have established a flexible system that enables us to supply original products that overseas manufacturers cannot match for quality. One of our particular strengths is an ability to respond quickly to the precise needs of customers.

We also offer an abundant lineup of innovative high value-added products that include 100% cotton *NON CARE* wrinkle-free shirts, 100% cotton stretch *PURE TWIST*, banana fibers, *GAIA COT*, and the *Nanoscience* series of products. In the shirts industry, working together with subsidiaries, Nisshinbo is producing products with a high-inished ratio using the respective strengths of these subsidiaries in materials, processing and sewing. Nisshinbo is also undertaking dynamic overseas activities ranging from manufacturing to sales. With production bases in China, Indonesia and Brazil, we are cultivating our global competitiveness and working to promote sales of high value-added products. Primarily through our Global Operation Promotion Office, we are involved in supporting the development of our overseas operations. NISSHINBO (SHANGHAI) CO., LTD., in China, is strengthening its sales activities and recording growth in sales.

Non-textiles

AUTOMOBILE BRAKES

We are a leading Japanese manufacturer of friction materials and automobile brakes, and this sector has an important role in our drive toward diversification. In accordance with the principal themes "promoting globalization" and "developing competitive products," we adhere to a policy of overall optimization and strive to carry out unified activities in Japan and overseas.

By obtaining a clear picture of customer needs, we look to the future and undertake technology development and investments in areas related to high coefficient of friction, noise/vibration characteristics, improvements of brake pad life, application of new, eco-friendly technologies, construction methods and materials. Our product development emphasis is on "green" pads using environment-friendly materials.

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

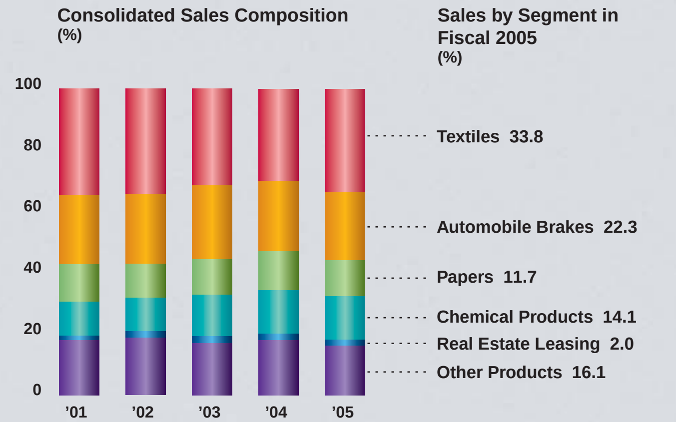
Nisshinbo is progressing with the transfer of its ABS business to an affiliate and is establishing a brand of compact, high-performance and lightweight ABS. The products we offer include a diverse range of control systems such as stability control systems.

PAPERS

We manufacture a wide range of paper and paper-related products, including household papers, such as tissue paper, toilet paper and kitchen-use paper towels; fine papers used for quality printing, publications and packaging and synthetic papers; and labels. Our basic policy is to accurately ascertain market needs and develop and provide stable supplies of high-quality papers that feature originality and that are outstanding in terms of people- and environment-friendliness. Our extensive lineup of value-added products, which have numerous features, include *COTTON FEEL*, a household paper made using our spinning technologies, *VENT NOUVEAU* and *MILT GA*, natural-feel fine papers for high-quality printing, and synthetic papers for fine digital printing.

CHEMICAL PRODUCTS

With a basic policy of selection and concentration as well as globalization and strengthening technology development capabilities, this segment provides such products as various



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

types of polyurethane foams, elastomers, carbon products and newly developed products to a broad range of fields, including industrial fields.

We produce rigid-type polyurethane foam used for heat insulation material, flexible types used for cushion material, and a glass fiber-reinforced polyurethane foam, which is a lightweight, strong, corrosion-resistant material widely used in the water treatment and construction industries. In the civil engineering field, we provide products such as *SET FOAM* and are expanding the scope of our business operations, which includes a subsidiary that acquired a construction materials company. We were also pioneers in the introduction of environment-friendly, non fluorocarbon rigid-type polyurethane foam, which has earned high acclaim from customers. We are also working to develop products made from recycled polyurethane foam waste material. Moreover, we are expanding the applications of our original polyurethane elastomer *Nisshinbo Mobilon*, which has excellent elasticity and water resistant characteristics and is used in a number of industrial products and consumer goods fields. In addition, we provide new carbon products for application mainly in semiconductor production and other electronics sectors. Our *N's VIP* vacuum heat insulation panels have six times the heat insulation capabilities of conventional polyurethane foam. Currently, *N's VIP*s are being used for such applications as household refrigerators and vending machines, and we are working on applications in new fields and overseas. We also produce molded plastic cross flow fans for air conditioners for electric appliance markets, mainly in China and Southeast Asia.

■ REAL ESTATE LEASING

We are engaged in the real estate leasing business that involves efficient utilization of unused land to contribute to earnings. We lease office and residential buildings in Tokyo (our former headquarters), and land previously occupied by factory facilities for use as shopping centers and model homes.

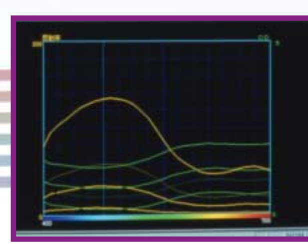
■ OTHER PRODUCTS

• Precision Instrument & Machinery

This division was formed in April 2004 through the merger of the ABS and Mechatronics businesses. This division is expanding its business utilizing the outstanding technologies of the two forerunner divisions. The new division handles production system products for automobile manufacturing facilities and solar module manufacturing facilities as well as precision processed components for automobiles. In sheet metal processing machinery, we developed and introduced specialized turret punch presses specifically for the China market. Global production volume of solar modules increased 60% from the previous year, clear evidence that the scope of solar module production is expanding. To ensure we accurately respond to the needs of customers, we formed a contract for cooperation with an overseas licensor of solar module manufacturing equipment, as we strived to strengthen our product development capabilities and upgrade our lineup. In addition, we supply precision processing products to the automobile and other industries on an OEM basis. We are also cultivating new business using the synergies achieved by fusing technologies for design and manufacture of machinery facilities with precision cutting and processing technologies, which are core technologies.

• Others

We offer a diversity of independently developed products that include newly developed products that will become businesses in the next generation. We also provide bipolar plates for fuel cells, which have high promise in next-generation energy system applications. In functional chemicals fields, we offer *Polycarbodiimide*, a leading-edge material that acts on the properties of substances. We have high hopes that this will find applications in diverse fields. The use of this material is already expanding in environmental fields. Nisshinbo also offers such water quality improvement materials as *APG*® (Aqua Porous Gel) and *BCN*® (Bio Contact N). We develop and supply production systems that integrate the *CHOSHOKU SENKA* fuzzy logic computer color matching (CCM) system, our manufacturing process support system and the enterprise resource planning package. By doing so, we are supporting manufacturing fields from the software side.



Interview with the President

Yoshikazu Sashida, President

Q1. Could you briefly review your consolidated business results for fiscal 2005, ended March 31, 2005, and explain the progress of your three-year plan?

In fiscal 2005, consolidated net sales advanced 7.3% to ¥243,421 million (US$2,318 million), reflecting strong results in our Automobile Brakes, Chemical Products and overseas businesses. Despite such profit-squeezing factors as inventory disposals at a subsidiary in our Textiles business, we achieved a 13.6% increase in operating income to ¥9,651 million (US$92 million). After accounting for a gain on the return of the proxy portion of the employee pension fund and a loss on the early application of fixed asset impairment, net income soared 109.2% to ¥8,199 million (US$78 million). By business segment, sales of the Textiles Segment jumped 20.1% to ¥82,163 million (US$783 million), and sales of Non-textiles edged up 1.8% to ¥161,258 million (US$1,536 million). The ratio of Textiles sales to total sales increased 3.7 percentage points to 33.8%, while the ratio of Non-textiles sales to total sales declined a corresponding 3.7 percentage points to 66.2%.

Net sales reached their highest level since fiscal 1992, while operating income and net income rose to the highest amounts recorded since fiscal years 1988 and 1993, respectively. Looking at the progress of our three-year plan, net sales in fiscal 2005 virtually reached the plan's second-year target of ¥245,000 million. However, operating income did not meet the plan's target of ¥11,000 million. Although we are by no means completely satisfied with this performance, these results give me the strong sense that initiatives aiming at rebuilding our businesses and strengthening our earnings power are now finally beginning to bear fruit.

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

Based on the determination that Nisshinbo's earnings structure is now firmly in place, we will increase cash dividends ¥3.00 per share to ¥10.00 (US$0.10).

Q2. What is the outlook for fiscal 2006, the final year of the three-year plan? Also, could you outline the measures you will implement to achieve the plan's targets?

For fiscal 2006, we are forecasting a 3.1% rise in net sales to ¥251,000 million and an 8.8% increase in operating income to ¥10,500 million. Although we expect net income to decline 14.6% to ¥7,000 million, when excluding the extraordinary gain recorded in fiscal 2005, net income will be virtually the same level as the amount recorded a year earlier.

Let me now discuss the targets for the final year of the three-year plan. We are confident of exceeding our sales target of ¥250,000 million but anticipate that operating income will be less than our target of ¥12,500 million, primarily because a profit recovery in our mainstay Textiles segment is still lagging slightly. Nonetheless, a main emphasis will be attaining our operating income target and we will make unrelenting efforts to achieve this goal.

In accordance with the slogan "achieve the goal of the three-year plan 2006," our basic approach in fiscal 2006 calls for every Nisshinbo Group employee to maintain a constant awareness of all stakeholders, make self-initiated efforts to approach their work with unbridled enthusiasm and combine their efforts to attain the goals of the three-year plan.

The comprehensive theme of our three-year plan is to transition from "stock-type" management, which is Japanese-style management that focuses on the accumulation of various types of assets and other management resources, to flexible "flow-type" management, which stresses short-term profits and dividends. In other words, we will strive to create a cycle whereby we "utilize our so-called stock to increase profits in each fiscal year" and to alter Nisshinbo's DNA to enable the Company to apply its DNA to future businesses. These will be our consistent and ongoing themes in the coming years.

Our basic course of action in the coming year will be to proactively expand the Nisshinbo Group's operations, including promoting globalization, strengthening our business alliances, bolstering our development capabilities and increasing and fortifying facilities in growth businesses. In undertaking these initiatives, we will set strategic targets for each business in accordance with respective markets.

In our Textiles business, we intend to increase business development on four fronts, namely expand downstream product businesses; deploy our base in Shanghai to increase textile shipments within China and exports to the United States and Europe; broaden overseas business on a consolidated basis via strengthened ties with overseas affiliated companies; and expand product development, including development in collaboration with major users.

Principal themes in our Automobile Brakes business are proceeding globalization and developing highly competitive products. We presently operate automobile brake production sites in the United States, Thailand, Korea, and China. This structure provides us with excellent coverage of Japan, Asia, and the U.S. markets. As we have no production base in Europe, we are establishing a sales branch in that region. I believe that competitiveness consists of three elements: quality, costs and new functions. Of these three, the most important and critical is "quality." For this reason, we would like to strengthen our quality-assurance structure. We are also facing exceedingly stringent cost-related demands from our customers and will respond by developing the use of new production methods. In our ABS business, the

Progressing with Application Development and Creating New Technologies

Electrical Double-Layer Capacitor (*N's CAP*)

Features — This electric power storage device uses Nisshinbo's originally developed ion liquid, which is outstanding in terms of environment friendliness. This capacitor boasts the world's highest-class performance capabilities.

Collaboration — Through cooperation with Japan Radio Co., Ltd., Nisshinbo developed a module adapted to large current charge and discharge.

Fields of application — Electric vehicles and others

Electrical double-layer capacitor

Life Sciences (DNA microarray)

Features — The combination of a large spot enabling visual detection and plastic based slide allow for the DNA microarray technology to be much more simply handled and analyzed. This product boasts the world's highest-level functions.

Fields of application — Diagnostics, bio-related research

DNA microarray

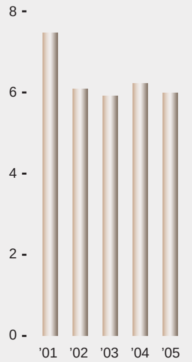
Number of Patents in Fiscal 2005

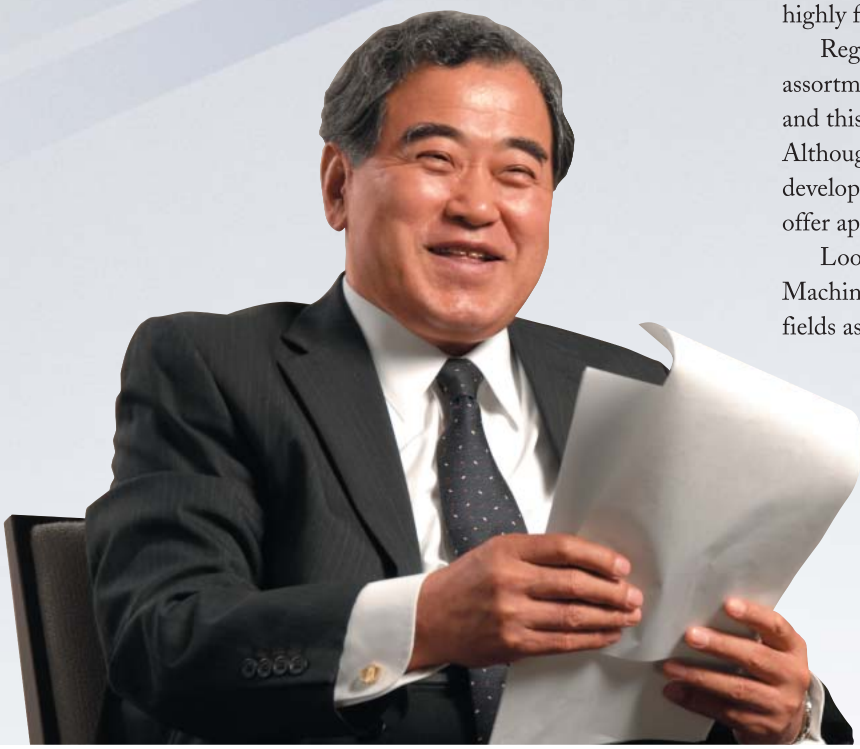
(As of March 31, 2005)

Domestic and overseas	806
Patent applications outstanding	1,323

R&D Expenditure

(billions of yen)





transfer of business to Continental Teves Corporation, an equity-method affiliate, is proceeding smoothly.

In Chemical Products, our lineup of polyurethane foams cover a wide spectrum, ranging from soft-type to rigid-type. Within polyurethane foam, however, there are disparities in earnings among different products, and we therefore plan to reevaluate this business and implement a policy of selection and concentration. In elastomers, we will strengthen our business foundation and fortify our overseas operations. Additionally, we will focus on improving the profitability of our carbon silicon products business. At the same time, we will solidify the foundation of our overseas business for highly functional *N's VIP* vacuum heat insulation panels.

Regarding paper products, our Papers Division offers a diverse assortment of papers that include household papers and fine papers, and this division records brisk business and achieves stable results. Although sharp growth is unlikely, the Papers Division will strive to develop distinctive products, reduce costs, make earnest efforts to offer appealing products to customers and raise profitability.

Looking at other businesses, the Precision Instrument & Machinery Division is accelerating activities targeting such growth fields as solar cells and automobile-related products. This division will also strengthen OEM business and cultivate new businesses by combining its precision cutting processing technologies with its mechatronics technologies.

Turning to R&D, during fiscal 2005, Nisshinbo withdrew from the PDP optical filter business, where prospects for improved profitability were bleak. On a brighter note, we are currently on schedule with the commercialization of such functional chemical products as bipolar plates for fuel cells and *CARBODILITE*, a highly functional polymer resin. We also have high

Four Basic Policies in the Textiles Segment

1. Expand downstream product businesses

- Carry out business in cooperation with Naigai Shirts Co., Ltd. and CHOYA CORP., which market *NON CARE* and *Nisshinbo Shirt*.
- Search for the next M&A target following the acquisition of the two previously mentioned companies.
- Strengthen handling capabilities through the establishment of an Apparel Team in April 2005.

NON CARE

2. Expand consolidated business by improving results of overseas production plants and business sites

- Carry out investment activities to expand overseas production and improve quality.

Ningbo Veken Textile Co., Ltd.

Ningbo Sunrise Textile Dyeing and Finishing Co., Ltd.

3. Expand textile exports

- Establish new business model

High value-added textiles in Japan
(denim, shirt fabric, casual fabric)

↓

Sewing by joint ventures in China

↓

NISSHINBO (SHANGHAI) CO., LTD.
(sales)

↓

Chinese Market
European Market U.S. Market Japanese Market

4. Expand product development, including collaboration with major users

- Develop healthy, comfortable and environment-friendly products. (*NON CARE*, *Nanoscience*, *PURE TWIST*, *GAIA COT* and banana fibers) hopes for the commercialization of two other products now in the R&D process: an electric double layer capacitor that utilizes Nisshinbo's original "ion liquid" as an electrolyte and DNA microarrays, that have applications in the life science field. For the time being, we will concentrate on cultivating our business in these four fields.

Q3. Could you explain the factors underlying your decision to withdraw from the PDP optical filter business? Will this retreat influence your approach to new businesses in the future?

From the very outset, our PDP optical filter business was never an integrated product business whereby Nisshinbo manufactured filters beginning with the production of raw materials. Instead, we purchased necessary raw material glass and film for processing into PDP optical filters. A chief advantage of this approach to the PDP optical filter business was that it required only a small amount of initial capital investment, and we were on track to firmly establish this as a viable business. The situation changed, however, when prices for end products plummeted due to escalating competition in the flat-panel TV market, leading to a collapse of the supply-demand balance. Competition heated further as raw materials manufacturers entered the market. We then faced demands for large cost reductions, which prevented us from realizing any increases in profits. With no prospects for any improvement, we decided to quickly retreat from the PDP optical filter business.

How will this withdrawal from the PDP optical filter business affect our other new businesses and development projects? I can certainly say that our approach will be unlike that of the proverb "a burnt child dreads the fire." In other words, we will not become overly cautious and allow a setback to prevent us from moving forward in other areas. Fortunately, Nisshinbo possesses an abundance of the previously mentioned stock as well as the necessary strength for undertaking new businesses on an experimental basis. Accordingly, we remain determined to assume a proactive approach to R&D and business development in the future as well. Demonstrating this commitment to the future, we will also raise our R&D expenditures.

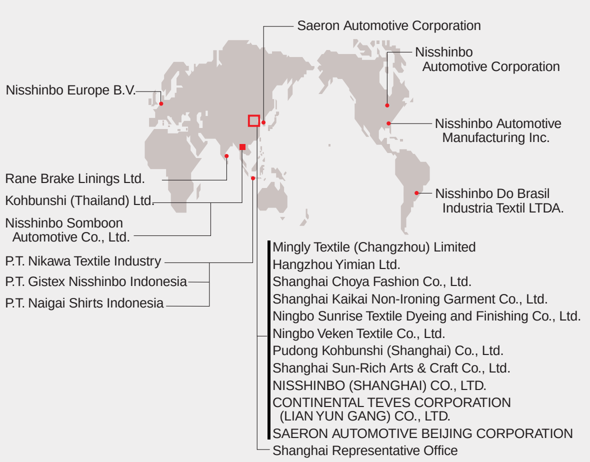
In each of the four targeted product fields I alluded to previously, Nisshinbo is involved from the raw materials stage and is solidly positioned to easily secure profits. Also, the respective markets for all these products still have plentiful untapped potential and offer extremely high growth potential.

Q 4. What is the main focus of the Group's strategy in its consolidated operations?

I believe that a view toward globalization is indispensable. For example, Nisshinbo has already achieved steady progress in globalizing its Textiles and Automobile brakes businesses, and these operations now also make a high contribution to the consolidated sales and profits of overseas production bases. Over the next three or four years, I expect activities carried out under our global structure will become the nexus of our operations. Let me stress, however, that Nisshinbo will still undertake basic development in Japan and will accumulate a wealth of solid technologies. I should also point out that promoting globalization is difficult in some of our businesses such as Papers. While assessing the situation for such businesses, we will march forward with our overall globalization.

Another vital element of our Group strategy is the effective utilization of M&A. As I mentioned before, Nisshinbo has an

Overseas Network



International Technical Agreements

As licensee:

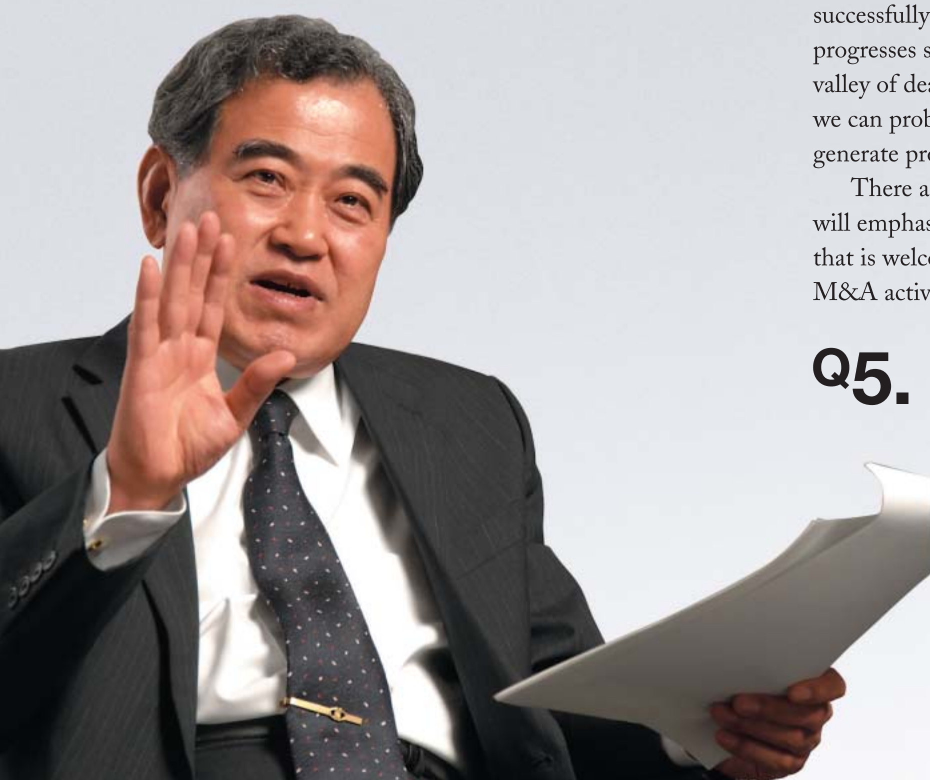
- Taltech Limited of the British Virgin Islands for Pucker Free Seam Technology
- Continental Teves AG & Co. oHG of Germany for MK60 ABS and ESP TCS technologies
- Meritor Heavy Vehicle Systems, LLC of the U.S. for disc brake and drum brake technologies

As licensor:

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

As cross-licensing partners:

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



abundance of accumulated stock. In past years, companies could earn acclaim merely by possessing such stock. Today, even if a company possesses this stock, without the ability to generate profits, there is a risk that a company could become an acquisition target. With this in mind, active and flexible Group management that incorporates M&A activities is imperative. In my view, M&A is tantamount to the concept of "purchasing time." Undoubtedly, there are countless occasions when the seeds of a new business being cultivated will demonstrate tremendous promise but still require significant time before contributing to earnings and never successfully arrive at the commercialization stage even when R&D progresses smoothly. These seeds eventually end up in the so-called valley of death. I believe that by using our stock for M&A activities, we can probably facilitate the establishment of businesses that can generate profits quickly.

There are many types of M&A throughout the world. Nisshinbo will emphasize harmonious M&A that brings mutual benefits and that is welcomed by the company to be acquired. In other words, our M&A activities will place high priority on respect for our partner.

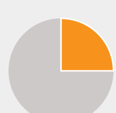
Q5. In this case you describe, would the target of M&A activities be a company with which you have built good relationships such as a current business partner?

In such a case, this would be our basic approach, since certainly we would realize synergies. I should stress that we will not limit our focus to M&A but can also utilize various types of alliances such as joint businesses and OEM arrangements. In any industry, however, just when and in what form a significant opportunity will appear is

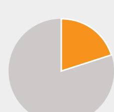
Automobile Brakes Business Q&A

Q 1. What are your shares of principal markets in the Automobile Brakes Business?

We have the number-two share of the domestic market for friction materials, corresponding to a 25% market share.



We have a 20% share for drum brakes, the third highest share.



Overseas, Nisshinbo has secured large market shares in each region where it engages in business. We are currently making our utmost efforts to further expand our market shares for friction materials and brakes. Specifically, while accurately responding to the requirements of Japanese automakers in their overseas operations, Nisshinbo aims to expand sales to the U.S. Big Three as well as to Korean and European automakers. We are targeting our overseas sales at such small truck segments as one-ton pickups, for which there is large demand, as well as focusing on expanding sales in SUV-related fields.

Q 2. What is the strength of your Automobile Brakes Business?

Nisshinbo's core technology is in "friction materials." There are still untapped sectors and we intend to accumulate the outstanding skills of a "master" covering chemistry and mechanical engineering as we strive to offer distinctive products.

Our brake parts

Q 3. Describe your capital investments in the Automobile Brakes Business?

To improve quality and strengthen cost competitiveness, we are currently progressing with a project for transferring operations from our Nagoya Plant to our newly acquired Toyota Plant. We aim to complete the move by December 2006. We will continue to improve stable supplies and quality as well as strengthen price competitiveness at the new plant.

Toyota Plant

always unknown beforehand. Pursuing synergies only within existing businesses could lead to the possibility of missing out on other opportunities. With this in mind, we will maintain a broad perspective without being overly particular about specific types of M&A activities.

Q6. What will be the key focal points of your global strategy?

With the global situation in a constant state of flux, continually fine tuning our short-term strategies is paramount. Particularly important, however, is the continual repetition of earnest business activities over a certain period of time based on a fundamental policy of establishing a global optimal production and sales structure from a long-term perspective.

In terms of specific countries, an especially key country in any global strategy is China, which is becoming the "world's factory" and has an enormous consumer market. Undoubtedly, due to recent events current relations between Japan and China are not at their best. However, I have no doubts about the excellent capabilities of the Chinese people and the strong power of the Chinese economy. I am absolutely convinced that with the passing of time, mutual understanding between Japan and China will advance. From Japan's perspective, China is our neighbor and I value our relationship with that country. In the future as well, Nisshinbo will promote joint business activities with leading local partners in China. I expect that economic interchange among China, Korea, Japan in the East Asia region will become increasingly active, but this will require utmost perseverance.

Q7. In textiles, there is a movement in the United States and Europe to initiate safeguards against cotton products imported from China*. What impact would this have on your business?

(*Safeguards were being considered at the time of this interview.)

In terms of impact on the Japanese market, the penetration rate of mainstay overseas cotton products in Japan is virtually 100% which means there is no further room for such products to flow into Japan from markets in the United States or Europe. China is also seeking a breakthrough in this situation and is adopting flexible measures. Therefore, when considering the principles of free trade and market economies, I believe the situation will eventually be resolved. Nisshinbo's product exports originating in China for shipment to the United States and Europe target high value-added textile market segments. Thus, safeguards are not likely to have any significant effect on our exports from China. There are many customers who acclaim the high quality of these products and make offers.

We have factored in some temporary short-term adverse conditions. From a long-term perspective, we remain strongly committed to our fundamental course of realizing a global optimal production and sales structure and believe that by doing so we are sewing the seeds of future growth.

Q8. Could you tell us about any specific achievements resulting from initiatives to change Nisshinbo's DNA?

Nisshinbo's DNA was molded through corporate activities carried out over the course of 98 years. There are excellent aspects of this DNA that should be kept intact and parts that need changing. Our success as a leading

Developing Distinctive Paper Products

Point 1. We are expanding our shares for household papers by offering distinctive products.

COTTON FEEL, our household paper brand

Point 2. Nisshinbo is expanding sales of fine papers, mainly such high-grade papers printing as *VENT NOUVEAU* and *MILT GA*.

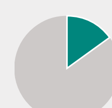
Point 3. In synthetic papers, we are selling Nisshinbo-developed inkjet papers and expanding markets in new fields.

Point 4. Recent promising products are our environment-friendly products. Besides our lineup of household papers and fine papers, we are also developing and selling products that use plant-derived plastics as a basic material.

Peachcoat LR series, our environment-friendly products

Strengthening Our Chemical Products Business

Point 1. We hold a 15% of the market for rigid-type polyurethane foam for the civil engineering and construction industries.



Point 2. We are expanding the scope of applications for *N's VIP*, focusing on domestic electric cooling, as well as on refrigerators, condensers, fuel cells, housing heat insulation and LNG tank pipes.

N's VIP

Point 3. Our watchwords are health and environment. We are moving toward non-CFC and HCFC rigid-type polyurethane foam, expanding sales of *N's VIP* and increasing business for low-reformer polyurethane foam and medical-use electric wheelchairs in health and long-term medical care-related fields.

company in the Japanese spinning industry over many years caused us to develop a sort of conservative thinking and we became somewhat arrogant. Therefore, even though we were operating in an era of rapidly evolving market environments, our DNA made us reluctant to resort to necessary bold internal restructuring measures, even when we were saddled with surplus employees and facilities. I realized that we could not afford to lose any time in reforming our structure and that a delay in doing so could cause us to suddenly fall into difficult circumstances. At this point, I decided to focus on a policy of selection and concentration and to preserve only those businesses capable of increasing their earnings. In Japan we made exhaustive efforts to offer distinctive products and raise high value-added, while overseas we focused on accelerating and expanding our businesses.

I am pleased to report that efforts to reform employee awareness are finally proceeding and we are raising employee motivation to encourage employees to meet challenges utilizing the Company's stock. In fact, we are now in a situation where we must utilize this stock. In Textiles, Nisshinbo must distinguish its production plants, and further rationalization could be necessary depending on the situation. Overseas, the time is approaching when we must be able to offer distinctive textile products to ensure continued growth. In our Automobile Brakes business, a top priority will be establishing bases giving consideration to conditions at various locations. In Chemical Products, Papers and Other Products as well, we must increase and strengthen facilities and develop these businesses overseas with a view to changes in the market environment. We are also committed to making capital investments for functional chemical products, solar cell-related products, bipolar plates for fuel cells and electrical double-layer capacitors.

The increase in our profits gives me the sense that our DNA has

changed slightly. Whenever changing times point to a need for reform, I believe my responsibility as president is to carry through on such reforms.

Q9. From a long-term perspective, what kind of company do you think Nisshinbo should become in the future? Could you please explain your vision?

Although this is a somewhat general vision, I believe that Nisshinbo must become "a company with a social presence." To do so, we must implement corporate social responsibility (CSR) with utmost honesty. I regard the most important elements of CSR to be undertaking business

Fiscal 2006: Strategies for New Growth in Our Real Estate Leasing Business

1. Begin work on a redevelopment plan at our Nagoya Plant.
2. Promote the use of small- and medium-sized idle assets.
3. Expand the franchise business across a broad domain through affiliations with Group company (Nisshinbo Urban Development Co., Ltd.).

Aeon Okazaki Shopping Center

Other Product

1. Promising businesses in precision instruments

- **Growth potential in the market for solar power module manufacturing equipment**

  In fiscal 2005, worldwide volume of solar module production soared 60% from the previous fiscal year to 1.2GW. Japan has remained the world's top producer of solar modules for six consecutive years, with cumulative production volume during this period of 601MW. One of Nisshinbo's customers has been the world's number-one producer of solar modules for five years running.

Solar Simulator, solar battery production equipment properly, increasing sales and profits and creating benefits to society through our products.

Since the inauguration of our operations, the notion that "a company is a public entity" has been firmly woven into our DNA and is also deeply rooted as an unchanging element of our corporate culture. This notion has been extremely valuable in carrying out CSR-based management. I am extremely grateful to my predecessors for adhering to and putting this notion into practice.

Nisshinbo aims to be a company that is indispensable to society. We will do so by ensuring that there is no conflict between the aspects of the Company that cannot be changed, such as engaging in business fairly, and those aspects involving challenge, such as the need to deploy our stock to generate profits. This is the type of company I wish to see Nisshinbo become. Our specific CSR initiatives are introduced on page 12.

Q10. Finally, what message do you have for Nisshinbo's shareholders and investors?

As I have just explained, the notion that "a company is a public entity" is deeply ingrained in the Company. I believe we have a mission to generate profits through proper business activities and contribute to the benefit of all stakeholders, including shareholders, customers, business partners, employees, our management team, local communities, public institutions, national governments and the global community.

To achieve these objectives, building a long-term profit structure as a business that can continue to sustain its existence is of utmost importance. Guided by the theme "co-existence," we will redistribute our profits from the perspective of balance and non-partiality to any particular stakeholder. Accordingly, we will redistribute profits not only to shareholders but also as remuneration to employees who have made their best efforts to promote the development of the Company's business as well as for investments to replace and increase facilities, undertake R&D and engage in M&A activities.

In undertaking this fundamental aspect of our operations, we will strive to build a structure capable of generating increased profits every fiscal year by tapping the Company's stock and reward our shareholders with dividends. I consider annual dividends of ¥10.00 per share, the amount to which we raised dividends in fiscal 2005, the lowest level of future dividends. Together with employees of Nisshinbo, I will push forward to provide an even greater amount of dividends in the future.

Taking into consideration the risk of being the target of a buyout, we are considering various corporate defense measures such as issuing equity warrants and expanding the number of authorized shares. However, any such measures are meaningless unless accompanied by such fundamental activities as making efforts to develop the Company, increase profits and raise corporate value. I would like to re-emphasize that we will work to strengthen our profit structure by undertaking fair business activities.

In closing, I sincerely ask for your understanding of the Company' approach and request your continued support and cooperation in the future as well.

Y. Sashida

Yoshikazu Sashida
President

2. New products under development

- **Bipolar Plates for Fuel Cells**

Features — This product has high strength, flexibility and outstanding formability and is lightweight and highly corrosion-resistant with good conductivity.

Market acclaim — This product has earned high acclaim and Nisshinbo is establishing a position as the world's top bipolar plate manufacturer. We have delivered these plates to almost all the world's manufacturers of fuel cells.

Carbon molded separator (bipolar plate)

Future potential — Companies are currently competing to develop automobile- and household-use fuel cells. Although it will take at least several years for the market to expand, we aim to achieve profitability in fiscal 2008 and are striving to position our bipolar plates as the standard product for the industry.

- **Functional Chemicals**

Establishing a lineup of *CARBODILITE* (Nisshinbo's original functional polymer based on *Carbodiimide*) and water treatment carrier products.

Features — A safe compound that has anti-hydrolysis stability.

Fields of application — Electronic material adhesives and bio-based plastic components (automobiles and others) and water-based paint.

Market evaluation — Earned high acclaim as cross-linking agent that utilizes the strength of the high functions of plastics.

Growth potential — This is a unique material and there are growing expectations for plastics. This has the potential to become a big business. We are aiming for the world's number-one position in this field and striving to achieve profitability in fiscal 2008.

Capital expenditures — In July 2005, a pilot line with a monthly capacity of 100 tons began operation at the Tokushima Plant.

Polycarbodiimideresin "Carbodilite"

Corporate Governance, Risk Management and Environmental Management—Nisshinbo's Approach to CSR

Corporate Governance

Undertaking corporate governance with an emphasis on improving profits for shareholders, Nisshinbo makes efforts to ensure management transparency, strengthen its responsibilities for providing explanations, strictly adhere to corporate ethics and make speedy and accurate management decisions. Nisshinbo operates a surveillance structure that is centered on the Board of Directors, which was composed of 16 directors at the end of March 2005. Although its framework is simple, this surveillance system functions effectively, as it enables mutual deliberations on an array of issues and permits fast and accurate decision-making.

The Board of Directors convenes monthly and deliberates and decides matters related to laws, the Articles of Incorporation and matters prescribed by other internal regulations, while also considering and deliberating matters related to the execution of management duties. Two internal auditors and three external auditors attend the meeting of the Board of Directors throughout the entire duration of the meeting and freely make suggestions, and ascertain and monitor the execution of management duties in a timely manner. At the same time, the auditors perform regular auditing of the Company and its subsidiaries, and further upgrade auditing.

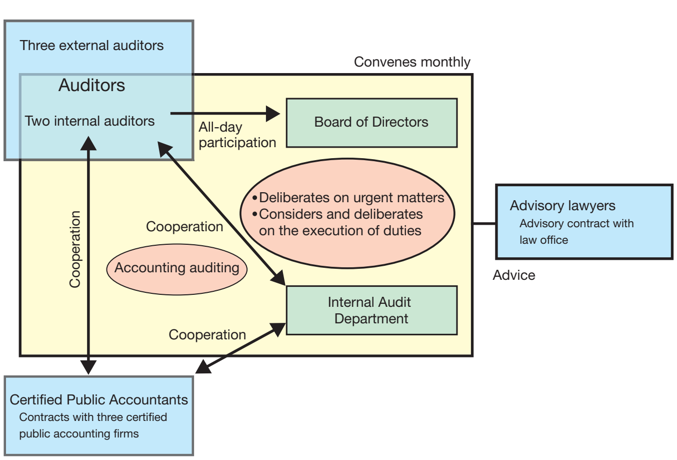
To augment its corporate governance, Nisshinbo also receives management advice from advisory lawyers, has entered into contracts with various certified public accounting offices, and has implemented strict and fair accounting audits as well.

As an internal auditing organization, Nisshinbo has established the Auditing Department, which carries out monitoring of internal governance and cooperates with auditors and certified public accountants in line with efforts to upgrade the effectiveness of operational and accounting audits.

Looking ahead, we also plan to consider types of corporate surveillance that are global standards. These include, for example, the use of external directors and the adoption of a Committee System. However, the introduction of these types of surveillance could also lead to confusion if not compatible with the actual state of Nisshinbo's operations. Therefore, we will give sufficient consideration to and make appropriate judgments about our future surveillance system.

On a different front, we make utmost efforts to disclose information, mainly by providing such IR-related published material as notifications of resolutions and the convening of the Ordinary Meeting of Shareholders, Brief Statement of Financial Results, the Securities Report, Annual Reports and press releases. This information is also available on the Company's home page. At analysts' meetings as well, the Company president makes self-initiated efforts to explain Nisshinbo's results and policies in working to convey information in a smooth manner.

Nisshinbo's Corporate Governance Structure



In line with our commitment to thorough compliance, through our Corporate Conduct Charter, we are working to ensure that corporate ethics permeate and are firmly planted in the Company and strictly prescribe the roles of top management. Moreover, our Compliance Action Guidelines more-specifically express the matters requiring stringent compliance that are essential in the roles of each manager and regular employee. At the same time, we are also working to preserve human rights and ensure thorough compliance with laws through training that utilizes our easy-to-understand compliance guidelines. Additionally, for the early detection, correction and prevention of any reoccurrence of violations of laws and internal regulations, we have inaugurated our Corporate Ethics Reporting System, a hotline for reporting such violations internally or externally to the Corporate Ethics Committee.

Recognizing the crucial social responsibilities of companies involved in the handling of personal information, Nisshinbo has formulated and has put into practice the Personal Information Protection Charter, while establishing the positions of information system managers in each department of the headquarters and office as part of a structure for undertaking monitoring and surveillance of information assets.

Risk Management

Nisshinbo has prescribed its Emergency Situation Response Manual and Crisis Management Policies as its policies for responding to the occurrence of any emergency (earthquakes, fires, etc.) and has established a framework for responding quickly to such emergencies.

Nisshinbo is also carrying out activities to prevent occupational accidents. These include the promotion of safety and hygiene activities and implementing safety and hygiene surveys at all business sites.

Regarding information systems, Nisshinbo is working to build a structure for computer systems that can be restored quickly after malfunctioning and that can operate 24 hours per day. These efforts include storing our mail servers and groupware servers in safe and secure locations.

Nisshinbo also takes a sincere and thorough approach to managing and responding to other risks in accordance with its Corporate Conduct Charter.

Environmental Management

Highly aware that environment management is an extremely crucial management issue, based on the Nisshinbo Environmental Charter, we are promoting activities to help lower the volume of waste material generated, and reduce the environment load. In the fiscal year ended March 31, 2005, we reduced the volume of waste material 0.8% from the previous fiscal year. Nisshinbo has now attained a 33% reduction in waste material since the fiscal year ended March 31, 1991, due in part to the closing of production plants.

We are also making progress in strengthening activities for obtaining certification for ISO 14001, an international environmental management system. In December 2004, our Miai Machinery Plant obtained ISO 14001 certification. As a result, all the Company's business sites, with the exception of a small plant and office (Harisaki Plant and Nagoya Branch), have now secured this certification.

We are also promoting our environment-related business and products in each of our business fields. Examples of these products include banana fibers made from discarded bananas, materials produced from recycled PET bottles and recycled paper.

We also disclose information on these activities on our home page.

Review of Operations and Financial Review

Operating Results

During fiscal 2005, ended March 31, 2005, the Japanese economy moved onto a recovery track, reflecting such factors as a rebound in corporate earnings in addition to an improved employment situation. Nevertheless, in the second half of the year uncertainties emerged regarding the future direction of the economy due to slowing exports caused by a strengthening of the yen and sluggish personal consumption.

Under these conditions, Nisshinbo worked to attain the targets of its three-year medium-term management plan based on the slogan "further strengthening our earnings power and expanding sales."

Despite such revenue-reducing factors as a slump in domestic sales in the Textiles segment and the withdrawal from the PDP optical filter business, consolidated net sales rose 7.3% to ¥243,421 million (US$2,318 million), due in part to the inclusion of newly consolidated subsidiaries.

Cost of sales rose 5.3% to ¥202,752 million (US$1,931 million), but the cost of sales to net sales ratio declined 1.5 percentage points to 83.3%. Selling, general and administrative expenses jumped 19.7% to ¥31,018 million (US$295 million). Costs and expenses increased 7.0% to ¥233,770 million (US$2,226 million). As a result, operating income was up 13.6% to ¥9,651 million (US$92 million).

Thanks to the contribution made by such equity-method affiliates as Continental Teves Corporation, equity in earnings of affiliates rose ¥1,516 million to ¥1,749 million (US$17 million).

During the fiscal year, we recorded a ¥5,279 million (US$50 million) gain on exemption from future pension obligation of the governmental program. Also during the fiscal year, gain on sale of property, plant and equipment jumped ¥1,272 million to ¥1,428 million (US$14 million) due to the sale of land for condominiums and the sale of buildings. Meanwhile, gain on sale of securities declined ¥921 million to ¥1,634 million (US$16 million). We recorded amortization of good-will of ¥1,899 million (US$18 million) as a goodwill expense accompanying the acquisition of CHOYA CORP. Due to the early adoption of impairment accounting, we booked a ¥2,357 million (US$22 million) impairment of long lived-assets that included PDP optical filter production facilities, lease assets at our former Tokyo Plant, welfare facilities at the Shimada and other plants and idle land assets at our former Hamamatsu and other plants.

As a result of the previous developments, we recorded other income of ¥3,212 million (US$31 million), a difference of ¥4,927 million from other expenses recorded in the previous fiscal year. Consequently, income before income taxes and minority interests rose ¥6,082 million to ¥12,863 million (US$123 million). After deducting income taxes of ¥5,038 million (US$48 million) and adding minority interests of ¥374 million (US$4 million), net income in fiscal 2005 soared 109.2% to ¥8,199 million (US$78 million). Net income per share rose ¥21.17 to ¥39.03 (US$0.37). ROE rose 1.8 percentage points to 3.8%.

Based on the judgment that we are making progress in strengthening our profit structure, Nisshinbo increased cash dividends per share ¥3.00 to ¥10.00 (US$0.10). Total cash dividends for the fiscal year amounted to ¥2,076 million (US$20 million). Taking a long-term perspective, Nisshinbo will continue its policy of maintaining stable dividends.

Segment Information

Textiles

Fiscal 2005 Results

- Net sales totaled ¥82,163 million (US$783 million), an increase of 20.1% from the previous fiscal year.
- Operating income amounted to ¥217 million (US$2 million), down 70.0%.
- The ratio of Textiles sales to total sales increased 3.7 percentage points to 33.8%.
- Growth in sales reflected robust results overseas and the conversion of CHOYA CORP. and Naigai Shirts Co., Ltd. into subsidiaries. However, weak results by CHOYA led to a decline in operating income.
- Marking the 30th anniversary of its establishment, Nisshinbo Do Brasil Industria Textil LTDA. achieved record-high net sales and earnings. Also, P.T. Gistex Nisshinbo Indonesia operated at full capacity throughout the year and posted record-high net sales.
- The value of textile exports, centering on denim, shirts and uniforms, rose 11% over the previous fiscal year.

Textile consumption in Japan lacked vigor amid an overall harsh environment throughout the fiscal year stemming from an ongoing preference for low-priced items as well as sluggish apparel sales due to irregular weather. Overseas, the liberalization of textile trade advanced along with the abolition of quota limits under a WTO textile agreement, and international competition further escalated.

Recognizing growing business opportunities in global markets, Nisshinbo's Textiles segment has made significant strides in establishing an environment for strengthening the Company's global competitiveness. In Japan, we took an important step to expand the scope of our business by converting shirt apparel companies CHOYA

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

Nanoscience series

CORP. and Naigai Shirts Co., Ltd. into subsidiaries. Overseas, we moved to expand our business by taking such steps as increasing and strengthening facilities at affiliated companies. These initiatives helped underpin growth in sales of textiles during the fiscal year. At the profit level, although overseas subsidiaries posted higher profits, a slump in profits by domestic subsidiaries inevitably caused a decrease in overall operating income.

We recorded a large increase in sales of our healthy, comfortable and environment-friendly products that include *NON CARE* 100% cotton wrinkle-free, wash-and-wear shirts; *Nanoscience* series of highly functional materials that incorporate a multitude of functions such as waterproof, anti-stain, deodorizing and antibacterial functions; and banana fibers. Additionally, we recorded favorable domestic shipments and exports of denim, but sales of knit products, bedding products and spandex declined.

Despite achieving progress in pruning fixed expenses and a rise in productivity accompanying increased sales of denim, profits were eroded by rising raw material costs accompanying soaring prices for raw cotton and by declining market prices for commercial yarns amid sluggish domestic demand.

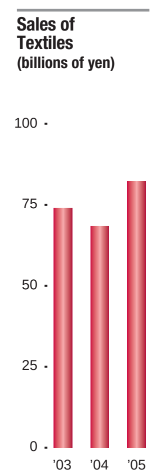
The weak results by CHOYA, which constricted profitability in this segment, stemmed mainly from a disposal of inventories accompanying a reevaluation of that company's brands. By disposing of this inventory, we are confident we have totally eliminated the past burdens inherited from that company.

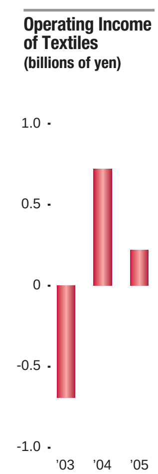
In the international area, Nisshinbo's overseas business recorded growth in both sales and profits. Indonesia-based P.T. Nikawa Textile Industry and P.T. Gistex Nisshinbo Indonesia achieved increases in sales, mainly of high value-added products for Japan, Europe and the United States. Celebrating the 30th anniversary of its establishment, Nisshinbo Do Brasil Industria Textil LTDA. also attained growth in sales and profits.

Looking ahead, the Textiles segment will undertake activities focused on such principal themes as building production bases in optimal locations from a global perspective, developing high-quality, value-added secondary products, progressing with the development of environment-friendly products and cultivating overseas markets.

Nisshinbo Do Brasil Industria Textil LTDA.

An entry at the Annual Nisshinbo Fashion Contest





Non-Textiles

Automobile Brakes

Fiscal 2005 Results

- Net sales of Automobile Brakes amounted to ¥54,306 million (US$517 million), a gain of 4.3% from the previous fiscal year.
- Operating income was ¥6,258 million (US$60 million), a jump of 30.1%.
- The rises in sales and operating income were supported by an increase in sales of OES parts for exports and rises in new orders in Japan and growth in sales of overseas subsidiaries.
- We are making steady headway in a project for shifting operations from our Nagoya Plant to a new plant in Toyota City, with the aim of improving quality and strengthening cost competitiveness.

Defying initial forecasts of a decline, the volume of domestic automobile production rose 3% over the previous fiscal year. Domestic production was supported by exports, overcoming a slight dip in domestic sales volume. In North America, a slump by the U.S. Big Three contrasted sharply with the conspicuously rapid advances of Japanese and Korean automakers, with Japanese automakers' share of the North American market surpassing 30% for the first time.

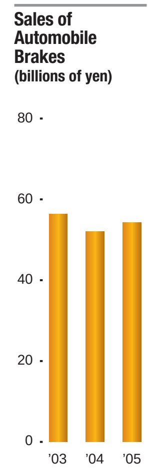
Under these conditions, Nisshinbo developed competitive products by establishing its own high-level technologies and stepping up activities for securing orders globally. Nisshinbo recorded growth in overseas sales mainly to Japanese automakers, as well as sales to the Big Three, European and Korean automakers. In the domestic market, we increased new orders for drum brakes and posted higher orders for spare-part friction materials, mainly for export. Our overseas subsidiaries in the United States, Thailand and Korea also secured increases in new orders. The overall increases in sales and operating income in our overall automobile brakes business were the results of efforts to enhance productivity, secure high-quality assurance and reduce costs.

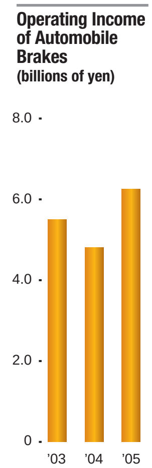
Sales of ABS shrank in parallel with the ongoing transfer of this business to equity-method affiliate Continental Teves Corporation (CTC). However, operating income in the ABS business rose thanks to increased orders for products with high profit margins. The transfer of our sensor business to CTC was completed at the end of March 2005.

Determined to raise quality and profitability in the future and build a solid structure for supplying our products, we decided to vacate our Nagoya Plant after two years and purchased the plant of another company in Toyota City in Aichi Prefecture to be used as our new production base. We are now progressing with a project for transferring production from Nagoya to Toyota City.

In view of the trend toward expansion of overseas production by Japanese automakers, we will continue to promote globalization of our operations as a main theme of our business activities. Operating with such uncertainties as demands for price reductions and fluctuating prices for raw materials, we will work to maintain or expand the scope of our business by continuing to achieve increases in new orders and will promote cost reductions to attain profits.

Our brake parts





Papers

Fiscal 2005 Results

- Net sales of Papers amounted to ¥28, 584 million (US$272 million), a decrease of 1.5%.
- Operating income totaled ¥1,700 million (US$16 million), down 16.0%.
- Favorable sales of household papers and fine papers were unable to compensate for sluggish orders for synthetic papers and labels and card products, which led to the decline in total sales of paper products. The decrease in operating income is attributable to the effects of weak sales prices for household papers.
- We completed installation and began operating additional facilities at the Shimada Plant.

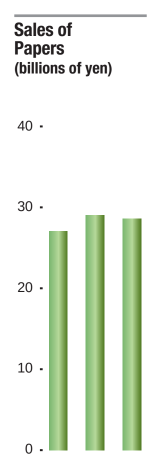
In household papers, soaring raw materials prices accompanying rising crude oil prices, conspired with declining sales prices due to intensifying industry competition to create harsh business conditions. Nonetheless, this division achieved an increase in sales of household papers, as it focused on expanding sales of such distinctive products as *COTTON FEEL* and *SHOWER ROLL*. In contrast, the significant effect of sluggish market prices caused a decline in operating profit in household papers.

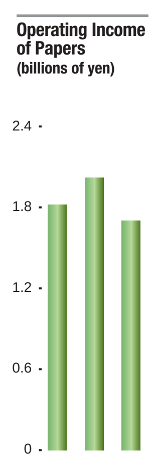
Regarding fine papers, there has been shrinking demand for traditional-type products with colors and patterns. Nevertheless, we focused mainly on expanding sales of such high-quality printing papers as *VENT NOUVEAU*, *MILT GA*, and *ARABEIL*, which fuelled increases in sales and operating income in fine papers. The market for synthetic papers was plagued by overall sluggishness and an ongoing trend toward low sales prices. Facing these challenging conditions, we strived to develop new products and raise productivity. Despite a decline in sales, these efforts supported an increase in operating income in synthetic papers.

Our household paper products

Sales and operating income for process paper products declined due to sluggish sales of telegram pasteboard and languishing orders for labels and card products.

Looking ahead, we will strive to secure profitability in paper products by expanding sales of our best-performing products in each category and by developing new products. Concurrently, we will review our sales and manufacturing structure in household papers and continue with the cultivation of new fields in fine papers and synthetic papers.





Chemical Products

Fiscal 2005 Results

- Net sales of Chemical Products rose 6.5%, to ¥34,199 million (US$326 million).
- Operating income jumped 34.5% to ¥822 million (US$8 million).
- An increase in sales of plastic molded products, including those of overseas subsidiaries, compensated for sluggishness in polyurethane foams and elastomers, and supported the increase in overall sales and operating income.
- Iwao & Co., Ltd. entered the construction materials business and will begin full-fledged operations from fiscal 2006.

Despite some signs of recovery in the civil engineering and construction industries, which are primary sources of demand, we faced continued difficult conditions in polyurethane foam products, as prices for raw materials continued rising throughout the entire fiscal year. We focused on expanding sales of our mainstay polyurethane foam basic liquid and increased sales of rigid-type polyurethane foam. Conversely, we recorded lower sales of soft-type polyurethane foams, including JR seats (seats used in railway cars); *N's VIP* vacuum heat insulation panels, a newly development product; and elastomers, which faced intensifying competition from overseas products.

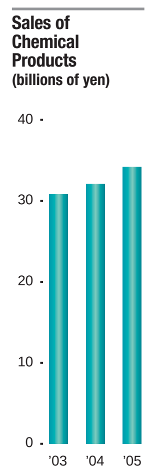
Business results in carbon products improved, reflecting a pickup in conditions in the IT market.

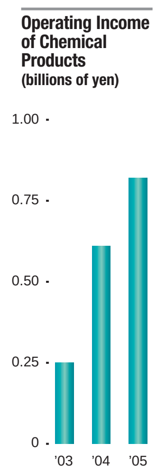
Iwao & Co., Ltd., a subsidiary, worked to expand sales in IT-related fields and recorded increases in sales and operating income. During fiscal 2005, Iwao took over the construction materials business from Kanebo Chemical Industries, Ltd., and in April 2005 was authorized to participate in bidding for public works projects, as this company now begins full-scale business operations.

We recorded sharp growth in sales and operating profit in molded plastic products. A rebound in business results in Japan was supported by hot weather in the first half of the fiscal year. Despite rising prices for raw materials, our subsidiaries posted growth in shipments to Europe and received orders for products for automobile assembly. The solid performance by molded plastic products contributed to the overall increase in sales and operating profit in Chemical Products.

Despite uncertainties about a recovery in market conditions, we will work to develop new applications such as vacuum heat insulation panels, increase sales in our core business of basic liquids and expand our overseas business.


Our polyurethane foams for heat insulation in a large scale project





Real Estate Leasing

Fiscal 2005 Results

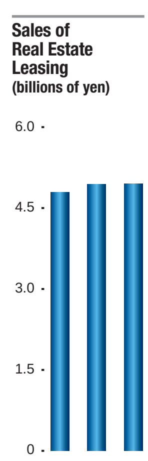
- Net sales in Real Estate Leasing edged up 0.1% to ¥4,945 million (US$47 million).
- Operating income increased 4.7% to ¥2,736 million (US$26 million).
- Despite a decline in a portion of sales due to the selling of some of our condominiums, the addition of new lease properties led to slight growth in sales and the rise in operating income.
- We leased the grounds of our former Notogawa Plant to Kahma Co., Ltd. and opened a franchise outlet at idle land at our Kawagoe Plant.

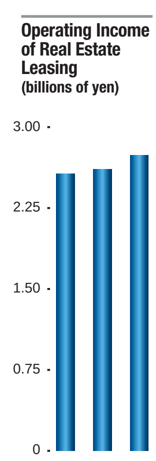
In the real estate market during fiscal 2005, land prices in some central city areas began rising, but overall land prices continued to trend downward.

Thanks to vigorous efforts to secure lease income, we recorded favorable results in business for leasing Company-owned land and commercial facilities, including shopping centers. In new land leasing business, we leased a portion of land at our former Notogawa Plant to a home center and opened a franchise outlet at idle land at our Kawagoe Plant, which helped support an increase in operating profit.

Looking ahead, although we expect a temporary decline in net sales due to the sale of small-scale condominiums for lease and the completion of existing lease contracts accompanying the redevelopment of our former Tokyo Plant, we will steadily progress with the utilization of our idle land and various redevelopment plans, as we effectively utilize Nisshinbo's assets.


Kahma Home Center in Notogawa
(Shiga Prefecture, Japan)





Other Products

Fiscal 2005 Results

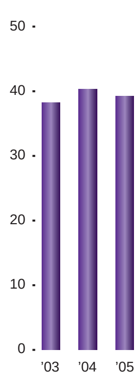
- Net sales of Other Products amounted to ¥39,222 million (US$374 million), a decline of 2.8%.
- An operating loss of ¥865 million (US$8 million) was recorded, ¥292 million less than in the previous year.
- The decline in sales resulted from our withdrawal from the PDP optical filter business. The improvement in the operating loss reflected favorable results in our precision instruments business and the attainment of profitability in our electronic devices business.
- In functional chemicals business, we constructed a new plant for mass production of *CARBODILITE* at our Tokushima Plant.

Precision Instrument Business

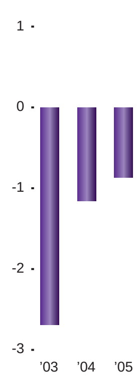
Supported by a recovery in the domestic economy, we recorded increases in sales and operating income in our mechatronics products business owing to increased orders for such mainstay products as precision processed parts for automobiles, various types of machinery for automobile production lines and solar module related facilities. We also developed new products such as new LCD panel production equipment, provided technologies for sheet metal processing facilities to a Chinese company and achieved solid results in developing products and cultivating markets.

Solar Module Laminator, solar battery production equipment

Sales of Other Products
(billions of yen)



Operating Income of Other Products
(billions of yen)



Others

• Bipolar Plates for Fuel Cells

We began supplying bipolar plates for fuel cells along with the commencement of sales of household-use fuel cells by energy companies. However, the full-fledged diffusion of fuel cells in industry appears to be lagging and companies are currently competing to develop automobile-use and household-use fuel cells. Accordingly, fuel cells have yet to contribute to our business results.

In bipolar plates for fuel cells, we are striving to develop a solid position within the industry by focusing on customer responses to our trial products and raising development speed.

• Functional Chemical Products

Our *CARBODILITE* plastic improvement agent and our water treatment carriers are ecology-related products, and we are working toward full-scale commercialization. *CARBODILITE* is experiencing growing demand and has earned high acclaim for its outstanding safety and environmental properties. To establish a structure for mass production, we constructed a new plant at our Tokushima Plant, and we plan to commence full-scale production from 2006. To accelerate commercialization, we will launch the Performance Chemical Department in 2006.

• Electronic Devices

Ueda Japan Radio Co., Ltd., a subsidiary, engages in the electronic device business that includes the manufacture of radio communications equipment. Overcoming falling sales prices, Ueda Japan Radio achieved higher sales in fiscal 2005 thanks to favorable conditions in IT-related industries. Ueda Japan Radio recorded growth in operating income owing to cost reductions.

• Color Systems

We continuously undertake two projects in this business: distinguishing our computer color matching (CCM) systems and packaging our business systems. In fiscal 2005, severe market conditions and mounting competition prevented this business from achieving an improvement in results.

• PDP Optical Filters

Intensifying competition in the flat-panel TV industry sparked increasingly stringent demands for price reductions. At the same time, competition among filter manufacturers also mounted due to the market entry of raw materials manufacturers. Foreseeing no prospects for improved earnings, we ceased production of PDP optical filters at the end of March 2005 and withdrew from this business.

Hyper CHOSHOKU SENKA X Series, computer color matching system

Financial Position

Total assets at the end of fiscal 2005 amounted to ¥370,168 million (US$3,525 million), a 0.5% increase from the previous fiscal year-end. Current assets rose 1.4% to ¥142,586 million (US$1,358 million). Among current assets, cash and cash equivalents rose because of an increase in net income. On the other hand, inventories and receivables declined.

Property, plant and equipment declined 3.1% to ¥99,781 million (US$950 million) due to the early adoption of impairment accounting for long-lived assets. Investments and other assets rose 2.4% to ¥127,801 million (US$1,217 million) due to an upward revaluation of investment securities accompanying buoyant stock markets along with an increase in investments in and advances to unconsolidated subsidiaries and affiliates.

On the liabilities side, current liabilities declined 3.4% to ¥80,323 million (US$765 million). Although short-term bank loans rose as a result of the inclusion of the portion of such loans to CHOYA, current liabilities declined because of a drop in payables and a decrease in employees' savings deposits resulting from the abolition of an employee savings system at Nisshinbo, the parent company. Long-term liabilities declined 6.8% to ¥61,564 million (US$586 million). Although deferred tax liabilities rose along with an increase in an upward revaluation of marketable securities, long-term liabilities decreased because of a decline in accrued severance benefits accompanying the return of the proxy portion of the employee pension fund. Total liabilities declined 4.9% to ¥141,887 million (US$1,351 million).

Shareholders' equity rose 4.0% to ¥222,771 million (US$2,122 million). The shareholders' equity ratio edged up 2.1 percentage points to 60.2%. Shareholders' equity per share rose ¥41.56 to ¥1,072.54 (US$10.21).

Cash Flows

Cash flows from operating activities

In cash flows from operating activities, Nisshinbo recorded such cash inflows as ¥12,863 million (US$123 million) in income before income taxes and minority interests, ¥11,046 million (US$105 million) in depreciation and amortization and ¥2,357 million (US$22 million) in impairment of long lived-assets. On the other hand, cash outflows included ¥5,279 million (US$50 million) in gain on exemption from future pension obligation of the governmental program. As a result, net cash provided by operating activities amounted to ¥14,116 million (US$134 million).

Cash flows from investing activities

Net cash used in investing activities amounted to ¥3,834 million (US$37 million), consisting mainly of such cash outflows as ¥12,213 million (US$116 million) for payment for purchase of property, plant and equipment as well as ¥4,574 million (US$44 million) for payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates as well as cash inflows that included ¥5,105 million (US$49 million) from proceeds from sale of investment securities and investments in advances to unconsolidated subsidiaries and affiliates and ¥4,417 million (US$42 million) in proceeds from sale of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥471 million (US$4 million), mainly reflecting such inflows as ¥5,783 million (US$55 million) in proceeds from issuance of long-term debt and ¥500 million (US$5 million) in proceeds from issuance of new stock as well as such outflows as ¥1,453 million (US$14 million) in cash dividends paid and ¥5,655 million (US$54 million) for repayment of long-term debt).

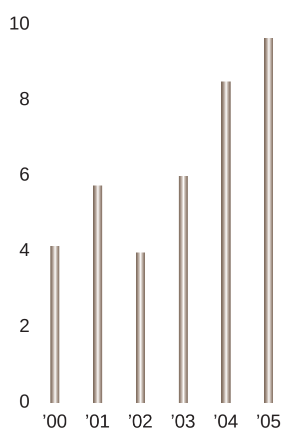
Cash and cash equivalents at end of year rose ¥9,893 million from the end of the previous fiscal year to ¥31,680 million (US$302 million).

Six-year Summary

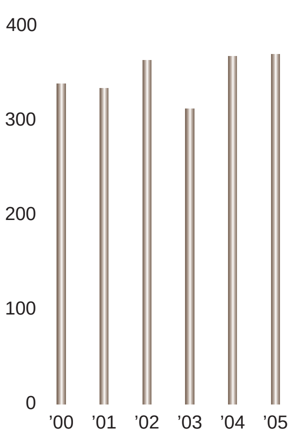
(millions of yen)

	2000	2001	2002	2003	2004	2005
Net Sales	227,452	233,535	225,836	231,193	226,883	**243,421**
Operating Income	4,140	5,751	3,968	5,989	8,496	**9,651**
Net Income	2,648	517	-2,649	777	3,919	**8,199**
Shareholders' Equity	194,685	192,331	213,665	186,028	214,132	**222,771**
Total Assets	339,373	334,460	364,161	312,909	368,444	**370,168**
Shareholders' Equity Ratio (%)	57.4	57.5	58.7	59.5	58.1	**60.2**
Return on Assets (%)	0.8	0.2	-0.8	0.2	1.2	**2.2**
Return on Equity (%)	1.3	0.3	-1.3	0.4	2.0	**3.8**
Capital Investment	23,232	17,093	13,243	9,057	8,989	**12,500**
Depreciation and Amortization	14,228	13,134	13,422	12,758	11,776	**11,000**
Common Shares Issued	227,443,939	221,743,939	216,580,939	216,580,939	216,580,939	**208,198,939**
Per Share (in yen):						
Net Income	11.36	2.32	-12.03	3.18	17.86	**39.03**
Shareholders' Equity	857.05	868.49	988.02	860.52	1,030.98	**1,072.54**
Cash Dividends	7.00	7.00	7.00	7.00	7.00	**10.00**
Number of Employees	8,235	8,104	8,456	8,627	9,875	**9,505**

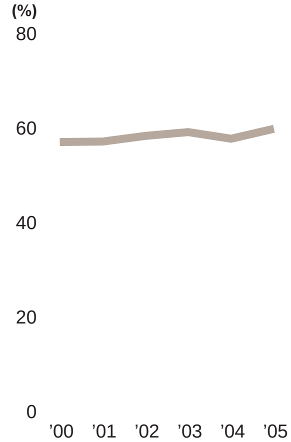
Operating Income
(billions of yen)



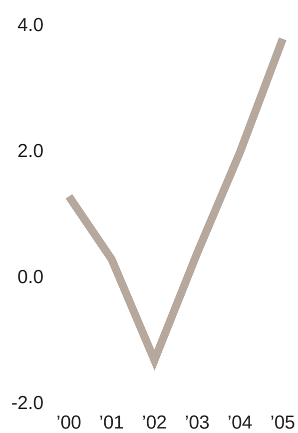
Total Assets
(billions of yen)



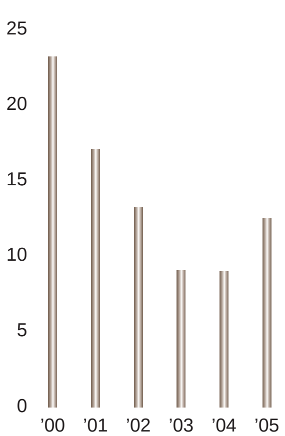
Shareholders' Equity Ratio
(%)



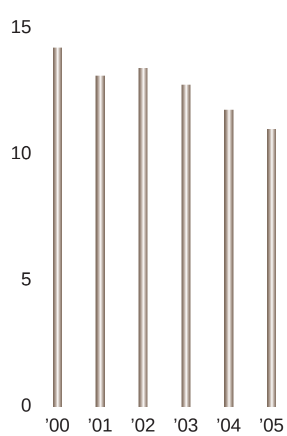
Return on Equity
(%)



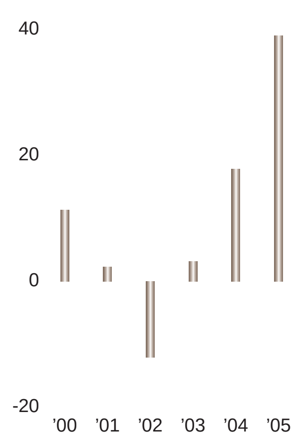
Capital Investment
(billions of yen)



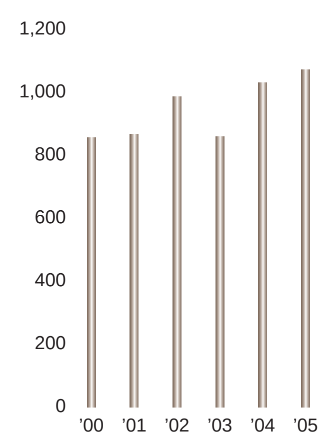
Depreciation and Amortization
(billions of yen)



Net Income per Share
(yen)



Shareholders' Equity per Share
(yen)



Consolidated Balance Sheets

31st March, 2005 and 2004

ASSETS

	(millions of yen) 2005	2004	(thousands of US dollars) (Note 1) 2005
Current assets:			
Cash and cash equivalents	¥ 31,680	¥ 21,787	$ 301,714
Time deposits	3,332	6,012	31,733
Marketable securities (Note 4)	962	656	9,162
Receivables			
Notes receivable, trade	13,169	13,458	125,419
Accounts receivable, trade	43,762	46,465	416,781
Unconsolidated subsidiaries and affiliates	4,980	5,897	47,429
Other	294	695	2,800
	62,205	66,515	592,429
Less allowance for doubtful accounts	(804)	(980)	(7,657)
	61,401	65,535	584,772
Inventories (Note 3)	41,624	43,117	396,419
Deferred tax assets (Note 7)	1,922	1,984	18,305
Other current assets	1,665	1,542	15,857
Total current assets	142,586	140,633	1,357,962
Property, plant and equipment:			
Land	19,805	18,723	188,619
Buildings and structures	99,493	103,247	947,552
Machinery, equipment and tools	190,316	191,140	1,812,533
Construction in progress	1,930	1,727	18,381
	311,544	314,837	2,967,085
Less accumulated depreciation	(211,763)	(211,834)	(2,016,790)
	99,781	103,003	950,295
Investments and other assets:			
Investment securities (Note 4)	117,410	115,162	1,118,191
Investments in and advances to unconsolidated subsidiaries and affiliates	7,601	4,930	72,390
Deferred tax assets (Note 7)	100	254	952
Intangibles	465	1,920	4,429
Other	2,225	2,542	21,191
	127,801	124,808	1,217,153
	¥ 370,168	¥ 368,444	$3,525,410

See Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	(millions of yen) 2005	(millions of yen) 2004	(thousands of US dollars) (Note 1) 2005
Current liabilities:			
Short-term bank loans (Note 5)	¥ 38,195	¥ 37,708	$ 363,762
Current portion of long-term debt (Note 5)	2,291	2,416	21,819
Payables			
Notes and accounts payable, trade	24,744	26,521	235,657
Unconsolidated subsidiaries and affiliates	555	451	5,286
Other	4,883	4,386	46,505
	30,182	31,358	287,448
Employees' savings deposits	267	3,534	2,543
Accrued expenses	3,970	3,753	37,809
Accrued income taxes	3,454	1,697	32,895
Other current liabilities	1,964	2,686	18,705
Total current liabilities	80,323	83,152	764,981
Long-term liabilities:			
Long-term debt (Note 5)	9,909	9,820	94,371
Accrued severance benefits (Note 6)	15,604	22,542	148,610
Deferred tax liabilities (Note 7)	27,519	25,925	262,086
Other long-term liabilities	8,532	7,804	81,257
	61,564	66,091	586,324
Minority interests in consolidated subsidiaries	5,510	5,069	52,476
Commitments and contingencies (Note 12)			
Shareholders' equity (Notes 10 and 13):			
Common stock:			
Authorized			
2005 — 371,755,000 shares			
2004 — 380,137,000 shares			
Issued			
2005 — 208,198,939 shares			
2004 — 216,580,939 shares	27,588	27,588	262,743
Capital surplus	20,447	20,401	194,733
Retained earnings	135,447	133,757	1,289,971
Net unrealized gain on available-for-sale securities	42,691	41,194	406,581
Foreign currency translation adjustments	(3,040)	(3,582)	(28,952)
Less shares in treasury			
2005 — 585,279 shares			
2004 — 8,965,904 shares	(362)	(5,226)	(3,447)
	222,771	214,132	2,121,629
	¥ 370,168	¥ 368,444	$3,525,410

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended 31st March, 2005 and 2004

	(millions of yen) 2005	(millions of yen) 2004	(thousands of US dollars) (Note 1) 2005
Net sales	¥ 243,421	¥ 226,883	$ 2,318,295
Costs and expenses:			
Cost of sales	202,752	192,480	1,930,971
Selling, general and administrative expenses	31,018	25,907	295,410
	233,770	218,387	2,226,381
Operating income	9,651	8,496	91,914
Other income (expenses):			
Interest and dividend income	1,632	1,530	15,543
Interest expenses	(981)	(1,007)	(9,342)
Equity in earnings of affiliates	1,749	233	16,657
Other, net (Note 11)	812	(2,471)	7,733
	3,212	(1,715)	30,591
Income before income taxes and minority interests	12,863	6,781	122,505
Income taxes (Note 7)			
Current	4,060	1,929	38,667
Deferred	978	878	9,314
	5,038	2,807	47,981
Income before minority interests	7,825	3,974	74,524
Minority interests in net income	374	(55)	3,562
Net income	¥ 8,199	¥ 3,919	$ 78,086

	(yen) 2005	(yen) 2004	(US dollars) 2005
Per share:			
Net income	¥ 39.03	¥ 17.86	$ 0.37
Cash dividends	10.00	7.00	0.10

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Years ended 31st March, 2005 and 2004

	(millions of yen)		(thousands of US dollars) (Note 1)
	2005	2004	2005
Common stock:			
Balance at beginning of year (2005 and 2004 — 216,580,939 shares)	¥ 27,588	¥ 27,588	$ 262,743
Balance at end of year (2005 — 208,198,939 shares; 2004 — 216,580,939 shares)	¥ 27,588	¥ 27,588	$ 262,743
Capital surplus:			
Balance at beginning of year	¥ 20,401	¥ 20,401	$ 194,295
Gain on sale of treasury stock	46	—	438
Balance at end of year	¥ 20,447	¥ 20,401	$ 194,733
Retained earnings:			
Balance at beginning of year	¥ 133,757	¥ 131,531	$1,273,876
Adjustments due to decrease in a subsidiary of an affiliate accounted for by the equity method	—	(92)	—
Net income	8,199	3,919	78,086
Cash dividends	(1,453)	(1,512)	(13,838)
Directors' and statutory auditors' bonuses	(94)	(89)	(895)
Retirement of treasury stock	(4,946)	—	(47,105)
Other	(16)	—	(153)
Balance at end of year	¥ 135,447	¥ 133,757	$1,289,971
Net unrealized gain on available-for-sale securities:			
Balance at beginning of year	¥ 41,194	¥ 9,628	$ 392,324
Net changes	1,497	31,566	14,257
Balance at end of year	¥ 42,691	¥ 41,194	$ 406,581
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (3,582)	¥ (2,921)	$ (34,114)
Net changes	542	(661)	5,162
Balance at end of year	¥ (3,040)	¥ (3,582)	$ (28,952)
Treasury stock at cost:			
Balance at beginning of year	¥ (5,226)	¥ (199)	$ (49,771)
Add: acquired	(115)	(5,027)	(1,095)
Deduct: sold and retirement	4,979	—	47,419
Balance at end of year	¥ (362)	¥ (5,226)	$ (3,447)

See Notes to Consolidated Financial Statements.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended 31st March, 2005 and 2004

	(millions of yen)		(thousands of US dollars) (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 12,863	¥ 6,781	$ 122,505
Adjustments to reconcile net income to net cash provided by operating activities:			
Income taxes-paid	(2,309)	(4,091)	(21,990)
Depreciation and amortization	11,046	11,776	105,200
Impairment of long lived-assets	2,357	—	22,448
Amortization of good-will	1,899	7	18,086
Equity in earnings of affiliates	(1,749)	(233)	(16,657)
Provision for doubtful receivables	(756)	399	(7,200)
Provision for accrued pension and severance benefits	2,969	4,422	28,276
Payment of accrued pension and severance benefits	(4,628)	(6,384)	(44,076)
Gain or exemption from future pension obligation of the governmental program	(5,279)	—	(50,276)
Directors' and statutory auditors' bonuses paid	(98)	(96)	(934)
Gain on sale of property, plant and equipment	(1,428)	(156)	(13,600)
Gain on sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	(1,634)	(2,555)	(15,562)
Write-down of investment securities	93	10	886
Loss on plant closures	770	879	7,333
Other	(191)	(425)	(1,819)
Changes in operating assets and liabilities:			
Receivables	4,283	(532)	40,790
Inventories	1,478	(1,277)	14,076
Payables	(1,460)	1,282	(13,905)
Other	(4,110)	(896)	(39,143)
Net cash provided by operating activities	14,116	8,911	134,438
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	4,417	921	42,067
Proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	5,105	5,445	48,619
Payment for purchase of property, plant and equipment	(12,213)	(8,674)	(116,314)
Payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	(4,574)	(2,209)	(43,562)
(Increase) decrease in loans receivable	63	(295)	600
(Increase) decrease in time deposits	2,991	(190)	28,486
Cash acquired from newly consolidated subsidiaries, net of payment for purchase of companies	—	663	—
Other, net	377	261	3,590
Net cash used in investing activities	(3,834)	(4,078)	(36,514)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	5,783	2,106	55,076
Repayment of long-term debt	(5,655)	(2,973)	(53,857)
Proceed frame issuance of new stock	500	—	4,762
Decrease in short-term bank loans	426	(5,043)	4,057
Cash dividends paid	(1,453)	(1,512)	(13,838)
Payment for purchase of treasury stock	(115)	(5,027)	(1,095)
Other	43	(37)	409
Net cash used in financing activities	(471)	(12,486)	(4,486)
Effect of exchange rate changes on cash	82	(83)	781
Net increase (decrease) in cash and cash equivalents	9,893	(7,736)	94,219
Cash and cash equivalents at beginning of year	21,787	29,523	207,495
Cash and cash equivalents at end of year	¥ 31,680	¥ 21,787	$ 301,714

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING FINANCIAL STATEMENTS:

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

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

The United States dollar ($) amounts included herein are given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥105 = $1, the approximate exchange rate at 31st March, 2005. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation

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

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

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

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

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

(b) Foreign currency transactions

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

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

(c) Foreign currency financial statements

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

(d) Cash equivalents

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

(e) Marketable and investment securities

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

(f) Inventories

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

(g) Property, plant and equipment

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

(h) Retirement and pension plans

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

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

(i) Income taxes

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

(j) Derivative financial instruments

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

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

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(k) Adoption of new accounting standard

A new accounting standard for the impairment or disposal of the long-lived assets is effective for the fiscal years beginning after 1st April, 2005. The group elected early adoption of the above accounting standard for the current year.

3. INVENTORIES:

Inventories at 31st March, 2005 and 2004 were as follows:

	(millions of yen)		(thousands of US dollars)
	2005	2004	**2005**
Finished products	**¥ 25,001**	¥ 25,756	**$ 238,105**
Work in process	**7,396**	7,082	**70,438**
Materials and supplies	**9,227**	10,279	**87,876**
	¥ 41,624	¥ 43,117	**$ 396,419**

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, 2005 and 2004 were as follows:

	(millions of yen)		(thousands of US dollars)
	2005	2004	**2005**
Cost	**¥ 36,010**	¥ 37,712	**$ 342,953**
Unrealized gains	**72,397**	70,324	**689,495**
Unrealized losses	**(23)**	(276)	**(219)**
Fair value	**¥ 108,384**	¥ 107,760	**$1,032,229**

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

The annual interest rates applicable to the short-term bank loans at 31st March, 2005 and 2004 were 0.6% to 8.8%.

Long-term debt at 31st March, 2005 and 2004 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2005	2004	**2005**
Long-term debt with collateral:			
Loans from banks maturing serially to 2010, ranging from 1.7% to 4.8%	**¥ 1,399**	¥ 2,669	**$ 13,324**
2.4% bonds due in 2007	**—**	1,000	**—**
Long-term debt without collateral:			
Loans from banks maturing serially to 2016, ranging from 1.2% to 7.0%	**4,251**	3,082	**40,485**
Capital lease obligations, due through 2010	**6,550**	5,485	**62,381**
	12,200	12,236	**116,190**
Less current portion	**(2,291)**	(2,416)	**(21,819)**
	¥ 9,909	¥ 9,820	**$ 94,371**

Annual maturities of long-term debt were as follows:

Year ending 31st March,	(millions of yen)	(thousands of US dollars)
2006	¥ 2,291	$ 21,819
2007	3,656	34,819
2008	3,294	31,371
2009	2,274	21,657
2010 and thereafter	685	6,524
	¥ 12,200	$ 116,190

At 31st March, 2005 and 2004, 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)
	2005	2004	2005
Property, plant and equipment	¥ 7,682	¥ 8,914	$ 73,162
Notes receivable, trade	—	21	—
Inventories	—	2,018	—
	¥ 7,682	¥ 10,953	$ 73,162

6. RETIREMENT AND PENSION PLANS:

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at termination, years of service and certain other factors.

The Company and certain domestic subsidiaries have two types of pension plans for employees; a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on 1st April, 2004.

As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥5,278 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits.

The liability for retirement benefits for directors and corporate auditors at 31st March, 2005 and 2004 were ¥567 million ($5,400 thousand) and ¥698 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, 2005 and 2004 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2005	2004	2005
Projected benefit obligation	¥ 34,971	¥ 65,163	$ 333,057
Fair value of plan assets	(17,158)	(33,040)	(163,409)
	17,813	32,123	169,648
Unrecognized prior service cost	3,211	2,663	30,581
Unrecognized actuarial loss	(5,701)	(12,542)	(54,295)
Unrecognized transitional obligation	(286)	(400)	(2,724)
Net liability	¥ 15,037	¥ 21,844	$ 143,210

The components of net periodic benefit costs for the years ended 31st March, 2005 and 2004 were as follows:

	(millions of yen)		(thousands of US dollars)
	2005	2004	2005
Service cost	¥ 1,827	¥ 1,878	$ 17,400
Interest cost	910	1,653	8,667
Expected return on plan assets	(262)	(531)	(2,495)
Amortization of prior service cost	(230)	(203)	(2,191)
Recognized actuarial loss	515	1,416	4,905
Amortization of transitional obligation	57	57	543
Net periodic benefit costs	¥ 2,817	¥ 4,270	$ 26,829

Assumptions used for the years ended 31st March, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	2.0%~2.5%	2.0%~2.5%
Expected rate of return on plan assets	0.5%~4.0%	0.0%~4.0%
Amortization period of prior service cost	10~15 years	10~15 years
Recognition period of actuarial gain / loss	10~15 years	10~15 years
Amortization period of transitional obligation	10 years	10 years

7. INCOME TAXES:

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at 31st March, 2005 and 2004 were as follows:

	(millions of yen)		(thousands of US dollars)
	2005	2004	2005
Deferred tax assets:			
Inventories	¥ 632	¥ 693	$ 6,019
Tax loss carryforwards	6,094	6,130	58,038
Allowance for doubtful accounts	152	432	1,447
Accrued employees' bonuses	894	928	8,514
Accrued severance benefits	7,498	9,301	71,410
Impairment of long lived-assets	876	—	8,343
Other	1,889	1,877	17,990
Less valuation allowance	(8,259)	(8,655)	(78,657)
	¥ 9,776	¥ 10,706	$ 93,104
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (29,423)	¥ (28,565)	$ (280,219)
Deferred gains on sale of property	(4,536)	(4,245)	(43,200)
Other	(1,314)	(1,583)	(12,514)
	¥ (35,273)	¥ (34,393)	$ (335,933)
Net deferred tax	¥ (25,497)	¥ (23,687)	$ (242,829)

A reconciliation between the normal effective statutory tax rate for the years ended 31st March, 2005 and 2004 and the actual effective tax rates reflected in the accompanying consolidated statement of income was as follows:

	2005	2004
Normal effective statutory tax rate	40.7%	42.0%
Dividend income not taxable	(1.2)	(0.5)
Expenses not deductible for income tax purposes	0.6	1.2
Tax benefits not recognized on operating losses of subsidiaries	4.3	1.2
Equity in earnings of affiliates	(5.5)	(1.4)
Lower income tax rates applicable to income in certain foreign countries	(2.1)	(2.9)
Decrease in deferred tax assets due to effect of tax rate	—	0.8
Other	2.4	1.0
Actual effective tax rate	39.2%	41.4%

8. LEASES:

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

Total rental expenses for the years ended 31st March, 2005 and 2004 were ¥357 million ($3,400 thousand) and ¥387 million, respectively, including ¥357 million ($3,400 thousand) and ¥387 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, 2005 and 2004 was as follows:

	(millions of yen)		(thousands of US dollars)
	2005	2004	2005
Acquisition cost	¥ 1,941	¥ 2,058	$ 18,486
Accumulated depreciation	(1,010)	(1,168)	(9,619)
Net leased property	¥ 931	¥ 890	$ 8,867

Obligations under finance leases:

	(millions of yen)		(thousands of US dollars)
	2005	2004	2005
Due within one year	¥ 326	¥ 310	$ 3,105
Due after one year	605	580	5,762
Total	¥ 931	¥ 890	$ 8,867

Depreciation expense under finance leases:

	(millions of yen)		(thousands of US dollars)
	2005	2004	2005
Depreciation expense	¥ 357	¥ 387	$ 3,400

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, 2005 and 2004 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at 31st March, 2005 and 2004, 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, 2005 and 2004 were as follows:

	(millions of yen)						(thousands of US dollars)		
	2005			2004			2005		
	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss
Interest rate swaps:									
Fixed rate payments, floating rate receipt	¥ 2,936	¥ (3)	¥ (3)	¥ 2,910	¥ (16)	¥ (16)	$27,962	$ (29)	$ (29)
Foreign currency forward contracts	¥ 171	¥ 169	¥ (2)	¥ —	¥ —	¥ —	$ 1,629	$ 1,610	$ (19)

10. SHAREHOLDERS' EQUITY:

The Japanese Commercial Code provides that an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equal 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock 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)
	2005	2004	2005
Gain on sale of property, plant and equipment	¥ 1,428	¥ 156	$ 13,600
Gain on sale of securities	1,634	2,555	15,562
Write-down of securities	(93)	(10)	(886)
Write-off of inventories	(998)	(13)	(9,505)
Impairment of long lived-assets	(2,357)	—	(22,448)
Gain on exemption from future pension obligation of the governmental program	5,279	—	50,276
Loss on plant closures	(770)	(879)	(7,333)
Provision for loss from guarantee of indebtedness of affiliated	—	(506)	—
Retirement benefits paid due to restructuring of business operations	(296)	(2,836)	(2,819)
Amortization of good-will	(1,899)	7	(18,086)
Other, net	(1,116)	(945)	(10,628)
	¥ 812	¥ (2,471)	$ 7,733

12. COMMITMENTS AND CONTINGENCIES:

Contingent liabilities at 31st March, 2004 for trade notes discounted with banks amounted to ¥106 million. Contingent liabilities at 31st March, 2005 and 2004 for loans guaranteed amounted to ¥3,156 million ($30,057 thousand) and ¥3,456 million, respectively.

Commitments for capital expenditures outstanding at 31st March, 2005 and 2004 were in the approximate amounts of ¥4,456 million ($42,438 thousand) and ¥1,949 million, respectively.

13. SUBSEQUENT EVENT:

Appropriation of retained earnings

On 29th June, 2005, Nisshinbo's shareholders authorised the appropriation of retained earnings as follows:

	(millions of yen)	(thousands of US dollars)
Cash dividends (¥6.50 per share)	¥ 1,349	$ 12,848
Directors' bonuses	70	667

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, 2005 and 2004 were as follows:

(1) Industry Segments

(millions of yen) 2005	Textiles	Automobile Brakes	Papers	Chemical Products	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	**¥ 82,164**	**¥ 54,306**	**¥ 28,585**	**¥ 34,199**	**¥ 4,945**	**¥ 39,222**	**¥ —**	**¥ 243,421**
Intersegment sales	**7**	**—**	**9**	**708**	**436**	**1,232**	**(2,392)**	**—**
Total sales	**82,171**	**54,306**	**28,594**	**34,907**	**5,381**	**40,454**	**(2,392)**	**243,421**
Operating expenses	**81,953**	**48,048**	**26,893**	**34,085**	**2,644**	**41,319**	**(1,172)**	**233,770**
Operating income (loss)	**¥ 218**	**¥ 6,258**	**¥ 1,701**	**¥ 822**	**¥ 2,737**	**¥ (865)**	**¥ (1,220)**	**¥ 9,651**
II. Total Assets, Depreciation and Amortization, Impairment of Long lived-assets and Capital Expenditures								
Total assets	**¥ 83,786**	**¥ 61,163**	**¥ 20,193**	**¥ 23,602**	**¥ 16,029**	**¥ 30,489**	**¥ 134,906**	**¥ 370,168**
Depreciation and amortization	**¥ 3,193**	**¥ 3,658**	**¥ 1,451**	**¥ 1,000**	**¥ 793**	**¥ 951**	**¥ —**	**¥ 11,046**
Impairment of long lived-assets	**¥ 911**	**¥ —**	**¥ 71**	**¥ —**	**¥ 527**	**¥ 688**	**¥ 160**	**¥ 2,357**
Capital expenditures	**¥ 1,790**	**¥ 5,290**	**¥ 2,092**	**¥ 920**	**¥ 1,632**	**¥ 780**	**¥ —**	**¥ 12,504**

(millions of yen) 2004	Textiles	Automobile Brakes	Papers	Chemical Products	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	¥ 68,403	¥ 52,076	¥ 29,009	¥ 32,098	¥ 4,941	¥ 40,356	¥ —	¥ 226,883
Intersegment sales	0	—	11	865	320	1,652	(2,848)	—
Total sales	68,403	52,076	29,020	32,963	5,261	42,008	(2,848)	226,883
Operating expenses	67,678	47,264	26,996	32,351	2,647	43,164	(1,713)	218,387
Operating income (loss)	¥ 725	¥ 4,812	¥ 2,024	¥ 612	¥ 2,614	¥ (1,156)	¥ (1,135)	¥ 8,496
II. Total Assets, Depreciation and Amortization and Capital Expenditures								
Total assets	¥ 92,695	¥ 56,375	¥ 20,262	¥ 23,768	¥ 15,879	¥ 33,267	¥ 126,198	¥ 368,444
Depreciation and amortization	¥ 3,586	¥ 3,819	¥ 1,251	¥ 1,052	¥ 852	¥ 1,216	¥ —	¥ 11,776
Capital expenditures	¥ 1,480	¥ 3,489	¥ 1,824	¥ 795	¥ 663	¥ 738	¥ —	¥ 8,989

(thousands of US dollars) 2005	Textiles	Automobile Brakes	Papers	Chemical Products	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income								
Sales to customers	**$782,514**	**$517,200**	**$272,238**	**$325,705**	**$ 47,095**	**$373,543**	**$ —**	**$ 2,318,295**
Intersegment sales	**67**	**—**	**86**	**6,743**	**4,152**	**11,733**	**(22,781)**	**—**
Total sales	**782,581**	**517,200**	**272,324**	**332,448**	**51,247**	**385,276**	**(22,781)**	**2,318,295**
Operating expenses	**780,505**	**457,600**	**256,124**	**324,619**	**25,181**	**393,514**	**(11,162)**	**2,226,381**
Operating income (loss)	**$ 2,076**	**$ 59,600**	**$ 16,200**	**$ 7,829**	**$ 26,066**	**$ (8,238)**	**$ (11,619)**	**$ 91,914**
II. Total Assets, Depreciation and Amortization, Impairment of Long lived-assets and Capital Expenditures								
Total assets	**$797,962**	**$582,505**	**$192,314**	**$224,781**	**$152,657**	**$290,372**	**$ 1,284,819**	**$ 3,525,410**
Depreciation and amortization	**$ 30,410**	**$ 34,838**	**$ 13,819**	**$ 9,524**	**$ 7,552**	**$ 9,057**	**$ —**	**$ 105,200**
Impairment of long lived-assets	**$ 8,676**	**$ —**	**$ 676**	**$ —**	**$ 5,019**	**$ 6,553**	**$ 1,524**	**$ 22,448**
Capital expenditures	**$ 17,047**	**$ 50,381**	**$ 19,924**	**$ 8,762**	**$ 15,543**	**$ 7,429**	**$ —**	**$ 119,086**

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended 31st March, 2005 and 2004 were as follows:

(millions of yen)

	2005				2004			
	Japan	Others	Eliminations/ Corporate	Consolidated	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 212,134	¥ 31,287	¥ —	¥ 243,421	¥201,431	¥ 25,452	¥ —	¥ 226,883
Interarea transfer	4,147	3,607	(7,754)	—	3,683	3,353	(7,036)	—
Total sales	216,281	34,894	(7,754)	243,421	205,114	28,805	(7,036)	226,883
Operating expenses	208,719	31,464	(6,413)	233,770	197,595	26,646	(5,854)	218,387
Operating income (loss)	¥ 7,562	¥ 3,430	¥ (1,341)	¥ 9,651	¥ 7,519	¥ 2,159	¥ (1,182)	¥ 8,496
Total assets	¥ 211,686	¥ 23,576	¥ 134,906	¥ 370,168	¥224,214	¥ 18,031	¥126,199	¥ 368,444

(thousands of US dollars)

	2005			
	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$ 2,020,324	$ 297,971	$ —	$ 2,318,295
Interarea transfer	39,495	34,353	(73,848)	—
Total sales	2,059,819	332,324	(73,848)	2,318,295
Operating expenses	1,987,800	299,658	(61,077)	2,226,381
Operating income (loss)	$ 72,019	$ 32,666	$ (12,771)	$ 91,914
Total assets	$ 2,016,057	$ 224,534	$1,284,819	$ 3,525,410

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended 31st March, 2005 and 2004 amounted to ¥45,448 million ($432,838 thousand) and ¥42,210 million, respectively.

Independent Auditors' Report

To the Board of Directors of
Nisshinbo Industries, Inc.

We have audited the consolidated balance sheets of Nisshinbo Industries, Inc. and consolidated subsidiaries as of 31st March, 2005 and 2004, 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, 2005 and 2004, 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

29th June, 2005
Tokyo, Japan

Nisshinbo History

1907 Nisshin Cotton Spinning Co., Ltd. established.

1908 The former Kameido Head Office Plant began operations.

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

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

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

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

1926 Hamamatsu Plant began operations.

1933 Toyama Plant began operations.

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

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

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

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

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

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

1950 Ueda Japan Radio Co., Ltd. established.

1952 Shimada Plant began operations.

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

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

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

1966 Fujieda Plant began operations.

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

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

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

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

1985 Nisshinbo Industries acquired Nisshin Denim Inc.

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

1987 Hamakita Plant began operations.

1989 Kohbunshi (Thailand) Ltd. established.

1992 Chiba Plant began operations.

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

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

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

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

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

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

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

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

2002 Ningbo Veken Textile Co., Ltd. (China) established as a joint venture.

Nisshinbo Industries acquired all shares of Iwao & Co., Ltd.
NISSHINBO (SHANGHAI) CO., LTD. (China) began operations.

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

2005 Toyota Plant established.

Nisshinbo Group

The Nisshinbo Group consists of Nisshinbo Industries, Inc., its 49 subsidiaries, and 7 affiliates.

Main Group Companies (As of March 31, 2005)

Consolidated Subsidiaries

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

Subsidiary and Affiliates Accounted for by the Equity Method

Company	Location	Capital	Business
Continental Teves Corporation	Tokyo, Japan	¥3,890 million	Automobile Brakes
CONTINENTAL TEVES CORPORATION (LIAN YUN GANG) CO., LTD.	China	US$3.68 million	Automobile Brakes
ASAHI CHEMITECH CO., LTD.	Tokyo, Japan	¥160 million	Chemical Products

Board of Directors and Statutory Auditors

President
Yoshikazu Sashida

Senior Executive Director
Takashi Iwashita

Senior Executive Director
Kunihiro Toda

Executive Director
Yasuo Takeuchi

Executive Director
Hajime Takagiwa

Executive Director
Shizuka Uzawa

Director
Masashi Shinagawa

Director
Yoshihito Onda

Director
Hideo Yakuden

Director
Kinjirou Kawashima

Director
Seiichiro Tomizawa

Director
Yoshihiro Sakaki

Director
Kazuo Manaka

Director
Yoshio Ide

Director
Masaaki Isobe

Standing Statutory Auditor
Shoichi Hayashi

Statutory Auditor
Kenji Tasaki

Statutory Auditor
Tomofumi Akiyama

Statutory Auditor
Yoshikuni Utsunomiya

Statutory Auditor
Takehiko Urushihara

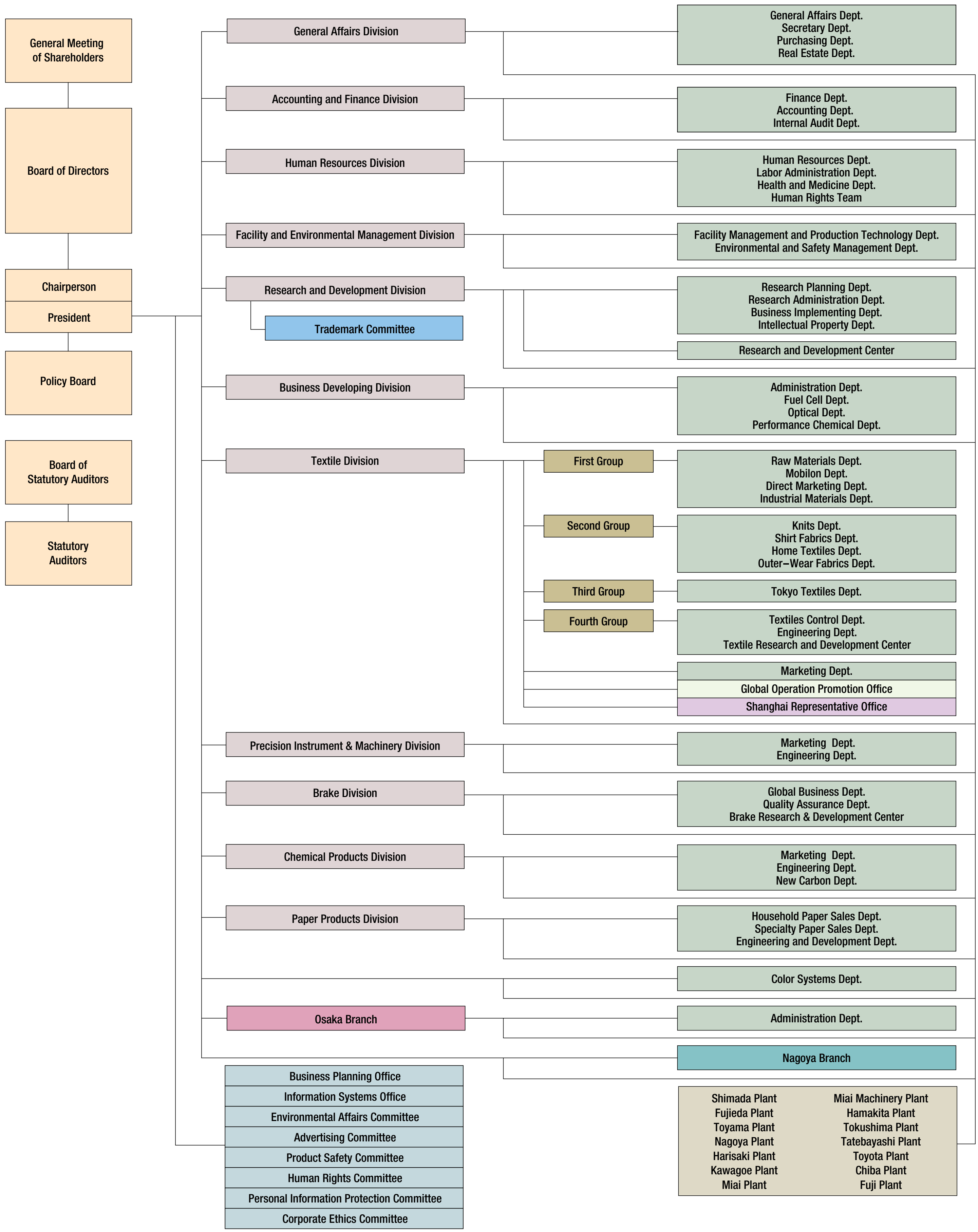
Corporate Data

(As of March 31, 2005)

Founded:	February 5, 1907
Head Office:	2-31-11, Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo 103-8650, Japan Tel: 03-5695-8833 Fax: 03-5695-8970 URL: http://www.nisshinbo.co.jp/
Osaka Branch:	2-4-2, Kitakyuhoji-machi, Chuo-ku, Osaka 541-0057, Japan Tel: 06-6267-5501 Fax: 06-6267-5679
Nagoya Branch:	5-2-38, Sakae, Naka-ku, Nagoya 460-0008, Japan Tel: 052-261-6151 Fax: 052-263-9480
Employees:	Parent Company 3,123 Subsidiaries 6,382 Total 9,505
Common Stock:	
Authorized:	371,755,000 shares
Issued:	208,198,939 shares ¥27,588 million — US$263 million
Shareholders:	12,132
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

(As of April 1, 2005)



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Printed in Japan