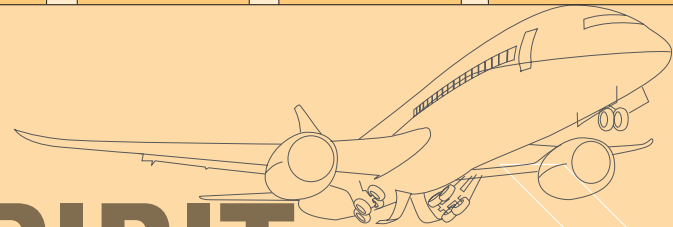


TEIJIN

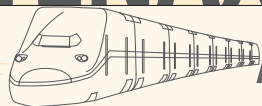
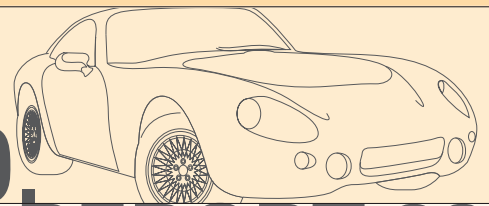
Human Chemistry, Human Solutions



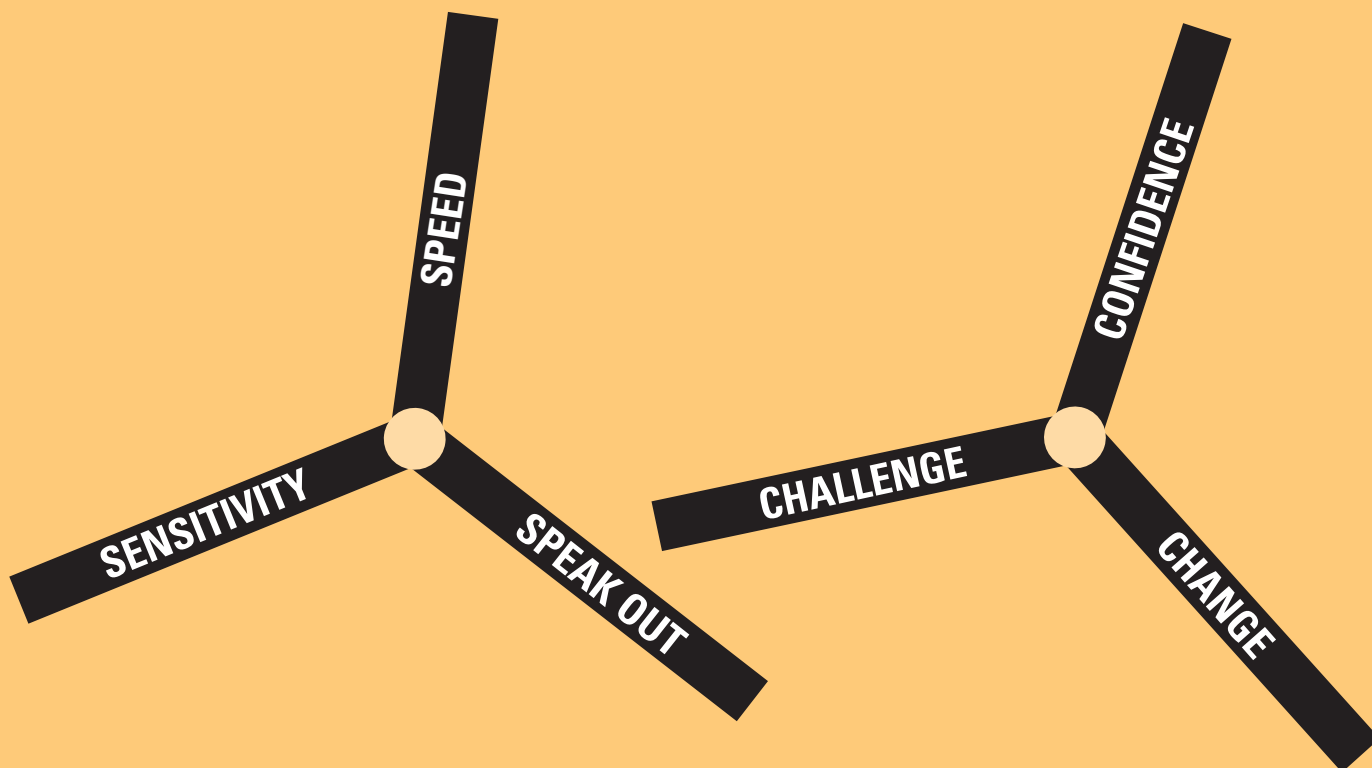
**TENACIOUS SPIRIT
FLEXIBILITY**



TOHO TENAX CO., LTD



ANNUAL REPORT 2004



OUR BUSINESS KEYWORDS FOR PROFITABLE GROWTH

Forward to the Top

To secure a foothold for profitable growth, TOHO TENAX launched a Groupwide reform movement unified under the common theme of "Forward to the Top" from July 2004. The Group is seeking to undertake these reforms with **confidence** by raising its **sensitivity** to such improvement measures, being more proactive in handling reform proposals and encouraging employees to **speak out** on issues that arise within the Group without preconceptions. The first step for achieving progress necessitate that a mindset oriented toward reform take root in each employee and the corporate climate and structure of the Group be transformed into an environment conducive to readily adapting change and continuously promoting reform.

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This annual report contains forward-looking statements that reflect management's current views with respect to certain future events and financial performance. Such statements are provided solely for the reference of the reader and are not promises, commitments, or guarantees to achieve such results. Actual results could differ materially from those projected or implied in any forward-looking statements.

Profile

Since our establishment in 1934, TOHO TENAX CO., LTD. (formerly TOHO RAYON CO., LTD.) has produced a diverse range of epoch-defining fiber products based on our proprietary technologies, including TOVIS[®] rayon staple fibers, BESLON[®] acrylic fibers and GRANMARFIL[®] high-quality, combed cotton yarn.

In 1975, the Company began commercial production of BESFIGHT[®] carbon fibers, developed utilizing our acrylic fiber production technology, to establish our current position as the leading global manufacturer of carbon fibers. Carbon fiber is a state-of-the-art material possessing significant high-growth potential for the future, with applications spanning specialized fields such as aeronautics and aerospace, sports and recreation, and the general industrial sector.

In 1998, we entered a rebirth after shifting from an emphasis on textiles to becoming a specialized producer in the carbon fiber field. We are working to further expand our core business in carbon fiber, while bolstering overall performance of our Group through the development of high value-added products for our textile business.

In February 2000, TEIJIN LTD. acquired a majority stake in the Company, forming an alliance through which we aim to realize the highly competitive strength and growth potential inherent in a corporate group.

Following the change of our corporate name to TOHO TENAX CO., LTD. in July 2001, the Company seeks to concentrate our management resources in the carbon fiber business to further enhance profitability.



Financial Highlights

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

	Millions of Yen		Thousands of U.S. Dollars*
	2004	2003	2004
Net sales	¥ 34,274	¥ 30,712	\$ 324,472
Net income (loss)	(953)	630	(9,022)
Total shareholders' equity	8,561	9,308	81,047
Per share:	Yen		U.S. Dollars
Net income (loss)	¥ (6.73)	¥ (4.45)	\$ (0.1)
Total shareholders' equity	60.4	65.7	0.6

Note: *The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥105.63=US\$1. See Note 1 of Notes to Consolidated Financial Statements.

To Our Shareholders

Overview

In fiscal 2004, ended March 31, 2004, despite the fact that the Japanese economy revealed a shift toward recovery amid improved performance in the private sector, the economy failed to find its footing for a full-fledged recovery on the back of such factors as a sharp appreciation in the yen from the middle of the term.

In the carbon fiber industry, demand took off primarily in Europe for new applications in such industrial materials fields as wind-powered electricity generation, while product prices in the Asian market began to bounce back following dramatic improvement in the supply/demand balance.

Against this backdrop, the TOHO TENAX Group pursued the measures outlined below in each of its businesses in keeping with the core policies of TENACIOUS PLAN 2005, our medium-term management plan for the fiscal years 2004 to 2006.

In the carbon fibers business, we reduced costs via improved productivity and quality, worked to meet

expanded demand in the European industrial materials field and increased profitability arising from the effects of a rebound in product prices in the Asian market. We endeavored to return to profitability in the textiles business through Company efforts to shift toward high value-added fields and reduce costs. We also worked to secure stable profits in both the machinery and engineering and service businesses via efforts to expand sales in such mainstay fields as the environment and elastomer casting devices.

Consequently, consolidated net sales rose 11.6% to ¥34,274 million (US\$324,472 thousand), and operating income improved ¥1,166 million from an operating loss in fiscal 2003 to a profit of ¥240 million (US\$2,272 thousand), marking the first profit in four years. Overseas net sales were ¥10,413 million (US\$98,580 thousand), representing 30.4% of total net sales, or a 5.2 percentage point increase from the previous term.

Conversely, other income of ¥307 million (US\$2,906 thousand) mainly due to a gain on sales of property, plant and equipment was offset by other expenses of ¥1,359 million (US\$12,865 thousand) chiefly on account of restructuring costs and loss on sales of property, plant and equipment. As a result, a consolidated net loss of ¥953 million (US\$9,022 thousand) was recorded. The absence in the fiscal year under review of other income associated with the sale of land, as recorded in the previous term, contributed to a ¥1,583 million decrease in income.

Total assets of ¥33,584 million (US\$317,940 thousand) were roughly on par with fiscal 2003 figures, while shareholders' equity declined 8.0% to ¥8,561 million (US\$81,047 thousand), and the shareholders' equity ratio decreased 2.4 percentage points to 25.5%. Net cash provided by operating activities was ¥1,873 million (US\$17,732 thousand) owing to reduced expenses following restructuring costs and increased operating income. Net cash used in investing activities was ¥1,007 million (US\$9,533 thousand) as expenditures from capital investment outweighed proceeds from sales of property, plant and equipment and sales revenue of investment securities. Net cash used in financing activities was ¥424 million (US\$4,014



Yoshikuni Utsunomiya
President

thousand) chiefly due to capital surplus from operating and investment activities being allocated to the repayment of loans. In aggregate, cash and cash equivalents at end of year rose ¥467 million to ¥867 million (US\$8,208 thousand).

Embracing the Second Year of TENACIOUS PLAN 2005

Fiscal 2005 is the second year of TENACIOUS PLAN 2005. Directed toward becoming a leading global manufacturer in terms of quality and volume, particularly in the carbon fiber business, a dramatic rise in demand for applications for wind-powered electricity generation in the European market in line with this plan has revealed the innate strengths of the TOHO TENAX Group, which has a manufacturing base in Germany. We aim to concentrate on measures to keep pace with rising demand in the future and ensure "Profitable Growth," specifically through the core strategies of:

- 1) enhancing quality and cost competitiveness to maintain our lead in the global carbon fiber market
- 2) expanding the composite business to transform it into our second mainstay field
- 3) securing production bases in North America to establish a tri-regional supply chain spanning Japan, North America and Europe
- 4) bolstering expansion in the Chinese and Asian markets
- 5) expanding such specialized fields as flame-resistant fiber, namely Pyromex®
- 6) developing new applications and innovative processes through aggressive R&D.

Further, as of means of seeking to strengthen our business foundation and improve profitability, we will focus on shifting to high value-added materials in the textiles business and maintaining stable earnings centered around core technologies and products in the machinery and engineering business, while expanding our environmental-related business and concentrating on services intimately tied to regions in the service business.

Prospects

In the carbon fiber industry, although a market recovery will likely be delayed in the commercial aircraft segment in North America, the European market is anticipated to experience a rise in demand for applications for commercial aircraft and industrial materials, along with a rise in demand being forecast in the Asian market. The TOHO TENAX Group is working to improve product quality, cost and development to raise profitability in line with the measures outlined in the medium-term management plan. Through the above-mentioned efforts, we anticipate consolidated net sales to increase 8.0% to ¥37,000 million, operating income to multiply 5.8 times to ¥1,400 million and a dramatic rise in net income to ¥350 million for fiscal 2005.

Corporate Governance

Principal management themes of the Group include raising transparency, ensuring fairness and accelerating decision-making. Along these lines, compliance and risk management committees have been established as a means of strengthening corporate governance. In addition, the Internal Auditing Department has been set up in May 2003 and reports directly to the President. As a member of the TEIJIN Group, we are also working to establish and thoroughly implement corporate ethics based on the corporate ethics practices of that Group.

We sincerely request the continued support and cooperation of our shareholders as we remain steadfast toward achieving management objectives.

June 2004



Yoshikuni Utsunomiya
President

Review of Operations

Carbon Fibers

Within the Carbon Fiber segment, TOHO TENAX CO., LTD. and our German subsidiary, TENAX FIBERS GmbH, manufacture and market carbon fiber, while U.S.-based TOHO CARBON FIBERS INC. pursues sales activities.

Sales and income rose dramatically and an earnings recovery was achieved in operating income, as consolidated net sales rose 24.0% to ¥18,595 million (US\$176,039 thousand) and operating income improved ¥1,348 million to ¥398 million (US\$3,768 thousand) in the fiscal year under review. This segment accounted for 54.3% of total consolidated net sales, up 5.4 percentage points from the previous term.

In the carbon fiber industry, demand rose chiefly in the European market for applications for commercial aircraft and industrial materials, and product prices in the Asian market began to bounce back due to a dramatic improvement in the supply/demand balance. The Group endeavored to reduce costs through increased productivity and quality and concentrated its efforts on expanding sales in Europe of applications for industrial materials through a tie-up with TENAX FIBERS.

Aeronautics/Aerospace

Although the U.S. market remained lackluster in the absence of a recovery in demand for commercial aircraft, the European market witnessed brisk demand as the delivery of Airbus aircraft manufactured in 2003 exceeded that of Boeing for the first time in history.

As European and U.S. commercial aircraft manufacturers achieve progress toward the

development of next-generation airliners, the TOHO TENAX Group has worked to acquire qualification of carbon fiber for use in aircraft structures and concentrated efforts on preparing an organizational framework capable of handling a future rise in demand in this area. Particularly in Europe, acquisition of qualification of the carbon fibers of TOHO TENAX and TENAX FIBERS for use in Airbus' A380 high-capacity, next-generation aircraft is proceeding on schedule, with strong expectations for further growth in demand.

Sports and Recreation

In Asian markets, the supply/demand balance favorably improved for such mainstay applications as golf clubs, fishing rods and tennis rackets, bolstered by a significant rebound in product prices. In the domestic market, progress continued in the shift of manufacturing bases for sports and recreation products to China, while sales of golf clubs and fishing rods remained lackluster.

Industrial-Use Materials

Sales were brisk in the European and U.S. markets amid intensified demand. Demand expanded particularly for blades for wind-powered electricity generators in Europe. Further, new applications for automobile components and environmental- and energy-related fields possessed by TOHO TENAX will likely be in considerable demand in the future. Domestically, sales were predominately strong in polycarbonate resin compound applications in the wake of a recovery in IT-related demand.



In the composite business, demand remained vigorous for printing rollers and robotic arms for liquid crystal manufacturing equipment, and sales grew in aircraft materials and automobile components.

Solid sales were also recorded for Pyromex[®] flame-resistant fiber.

Textiles

TOHO TEXTILE CO., LTD. is responsible for the acrylic fiber BESLON[®] and textile businesses. TOHO TENAX produces acrylic fibers on a consignment basis for TOHO TEXTILE. TOHO DYRAC CO., LTD. is responsible for dye-processing operations.

The challenges facing this segment in securing profits were considerable despite efforts to shift to more development-oriented, value-added materials and reduce costs. Net sales rose 6.1% to ¥9,388 million (US\$88,876 thousand), representing 27.4% of total net sales, or a 1.4 percentage point decrease from the previous term. The operating loss widened by ¥67 million to ¥504 million (US\$4,771 thousand).

Despite signs of a recovery in consumer spending, the textile industry continued to face severe conditions as raw materials and fuel prices remained at high levels and pressure from imports increased.

Machinery and Engineering

In the Machinery and Engineering segment, TOHO CHEMICAL ENGINEERING & CONSTRUCTION CO., LTD. carries out environmental preservation-related plant engineering, construction and environmental analysis,

while TOHO MACHINERY CO., LTD. designs, manufactures and sells various machinery and equipment. These companies worked to expand sales of machines with salient features, such as machines for the environmental-related business as well as elastomer casting devices produced mainly for a dialyzer potting system, respectively.

Despite signs of a recovery in private capital spending in Japan, however, the business environment remained harsh as a self-sustained recovery remained illusive and competition intensified. In the fiscal year under review, sales in this segment declined 13.3% to ¥5,502 million (US\$52,087 thousand), representing 16.1% of consolidated net sales, or a 4.6 percentage point decrease. Operating income fell 34.0% to ¥258 million (US\$2,442 thousand).

Service

In the Service segment, TOHO SALES CO., LTD. is engaged mainly in the supply of linen products to hotels and hospitals, as well as such businesses as petroleum product sales, supply of prepared meals and operation of insurance agencies.

Contracts from hotels and hospitals in the linen supply business, this segment's core operation, were roughly on par with the previous term. Net sales edged down 3.4% to ¥1,907 million (US\$18,054 thousand), while operating income rose 23.5% to ¥88 million (US\$833 thousand). This segment comprised 5.6% of consolidated net sales, down 0.8 percentage points from the previous fiscal year.



Research and Development

The TOHO TENAX Group's core philosophy is to provide value and unique technologies that constantly contribute to the improvement of society.

Research and development costs for fiscal 2004 totaled ¥977 million (US\$9,249 thousand) and represented 2.8% of consolidated net sales. R&D staff totaled 70 members, comprising 6% of total Group employees.

The key breakthroughs achieved during the term in the Carbon Fibers segment are outlined as follows. Full-scale mass-production began for STS-24K industrial-use carbon fibers to address rising demand for applications for wind-powered electricity generation in Europe.

Also, it was informed that TOHO TENAX's prepreg for Airbus' A380 received preliminary approval for supplying composite components through JAMCO Corporation, with official documentation for final approval currently under way.

In the composite business, TOHO TENAX is undertaking a wide array of development ranging from carbon fiber materials for automobile bodies and components to composite materials as a means of meeting the demand for ever-lighter-weight automobiles. Furthermore, development was completed for some of several planned composites for use in robotic arms for liquid crystal manufacturing equipment and supplied to robot manufacturers. Development has been nearly completed for image-processing components for use in next-generation medical x-ray diagnostic equipment, with full-scale marketing scheduled to begin in fiscal 2005. The Company is also gaining a strong reputation from customers for having developed a direct molding process that provides low-cost, large-scale composite construction and subsequently producing a prototype of a large-scale composite for use in general industry applications.

In the energy-related business, TOHO TENAX is further garnering customer confidence through the development of a next-generation electrode material made with carbon fiber for use as a fuel cell material in the promising field of next-generation clean energy.

With the adoption of "Development of Electron Beam Curable Materials for Aircraft Structures" (R&D period from fiscal 2004-2008) by the New Energy and Industrial Technology Development Organization (NEDO) in their contract work, TOHO TENAX is pursuing R&D for the rapid and low-cost production of large-scale composite parts in conjunction with other companies.

In addition, joint development is underway in the recycling of carbon fiber products.

In the fiscal year under review, the Company merged research laboratories with technological development centers and reorganized them into the R&D Institute in an effort to select and concentrate R&D themes and especially to promote development in carbon fibers.

In the Textile segment, we promoted further development of SUNBURNER[®], BESCOT[®], MARFILAIR[®] and SOLISTTHERMO[®], which have been positioned as our core materials. TOHO TEXTILE is also making headway for the overseas sale, primarily in China, of SUNBURNER[®], an acrylic fiber capable of generating heat by absorbing and releasing moisture. The full-scale production of BESCOT[®] is already underway in China as well. Sales targeting women's and children's apparel have also begun for MARFILAIR[®], an acrylic fiber featuring lightweight properties and a soft, bulky feel through the combination of cotton, rayon and polyester. Development is also progressing for SOLISTTHERMO[®], with mass-production scheduled for fiscal 2005.



BOARD OF DIRECTORS AND AUDITORS

(As of June 29, 2004)

<i>President</i>	Yoshikuni Utsunomiya*
<i>Managing Director</i>	Toshihiro Aoyama
<i>Directors</i>	Kazuhiko Ogino Shinichiro Uotani Takashi Mishima
<i>Standing Statutory Auditor</i>	Mutsuhiko Yoshizumi
<i>Auditors</i>	Masaaki Isobe Fumiaki Yogoro

*Representative Director

CONSOLIDATED SUBSIDIARIES

(As of March 31, 2004)

TOHO TEXTILE CO., LTD.
TOHO CHEMICAL ENGINEERING
& CONSTRUCTION CO., LTD.
TOHO MACHINERY CO., LTD.
SINPO TRADING CO., LTD.
TOHO SALES CO., LTD.
TOHO DYRAC CO., LTD.
TOHO CARBON FIBERS INC.
TENAX FIBERS GmbH

CORPORATE DATA

(As of March 31, 2004)

<i>Corporate Name</i>	TOHO TENAX CO., LTD.
<i>Founded</i>	June 15, 1934
<i>Employees</i>	
<i>Parent Company</i>	445
<i>Consolidated Subsidiaries</i>	657
<i>Total</i>	1,102
<i>Common Stock</i>	
<i>Par Value</i>	¥50 (US\$0.47)
<i>Authorized</i>	200,000,000 shares
<i>Issued</i>	141,786,738 shares
<i>Number of Shareholders</i>	12,886
<i>Stock Exchange Listing</i>	First Section of Tokyo Stock Exchange
<i>Transfer Agent</i>	Mizuho Trust & Banking Co., Ltd.
<i>Independent Auditor</i>	KPMG AZSA & Co., Tokyo, Japan

<i>Head Office</i>	Hongo TS Building, 2-38-16, Hongo, Bunkyo-ku, Tokyo 113-8404 Tel: 03-5842-3700 Fax: 03-5842-3709
<i>Osaka Office</i>	2-2-7, Kawara-machi, Chuo-ku, Osaka 541-0048 Tel: 06-6204-6703
<i>Mishima Factory</i>	234, Kamitogari, Nagaizumi-cho, Sunto-gun, Shizuoka-ken 411-8720 Tel: 055-986-1200
<i>Tokushima Factory</i>	37-19, Tadatsu, Yoshinari-aza, Oujin-cho, Tokushima-shi, Tokushima-ken 771-1153 Tel: 088-641-1131
<i>Ibigawa Factory</i>	1801, Godo, Godo-cho, Anpachi-gun, Gifu-ken 503-2305 Tel: 0584-27-3151

FINANCIAL STATEMENTS 2004

TOHO TENAX CO., LTD.

CONSOLIDATED BALANCE SHEETS

As of March 31, 2004 and 2003

ASSETS	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
CURRENT ASSETS:			
Cash and cash equivalents	¥ 867	¥ 400	\$ 8,208
Notes and accounts receivable, trade	8,429	7,839	79,797
Less allowance for doubtful accounts	(197)	(186)	(1,865)
	8,232	7,653	77,932
Inventories (Notes 2)	8,958	9,193	84,805
Deferred tax assets (Note 10)	27	47	256
Other current assets	696	570	6,589
TOTAL CURRENT ASSETS	18,780	17,863	177,790
PROPERTY, PLANT AND EQUIPMENT (Note 3 and 4):			
Land	1,661	1,725	15,725
Buildings and structures	5,324	5,340	50,402
Machinery and equipment	6,369	6,922	60,296
Construction in progress	270	149	2,556
Other	495	518	4,686
PROPERTY, PLANT AND EQUIPMENT	14,119	14,654	133,665
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Note 7)	172	432	1,628
Long-term loans receivable	—	8	—
Other	537	433	5,084
Less allowance for doubtful accounts	(150)	(149)	(1,420)
	387	292	3,664
Deferred tax assets (Note 10)	126	119	1,193
TOTAL INVESTMENTS AND OTHER ASSETS	685	843	6,485
	¥ 33,584	¥ 33,360	\$ 317,940

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

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31,		March 31,
	2004	2003	2004
CURRENT LIABILITIES:	(Millions)		(Thousands) (Note 1)
Short-term bank loans (Note 4)	¥ 3,974	¥ 8,165	\$ 37,622
Current maturities of long-term debt (Note 4).....	70	674	663
Short-term loan from the parent company (Note 11).....	10,415	6,000	98,599
Notes and accounts payable, trade	5,540	4,915	52,447
Income taxes payable	50	36	473
Accrued employees' bonuses	373	384	3,531
Accrued expenses and other current liabilities	2,589	1,769	24,510
TOTAL CURRENT LIABILITIES.....	23,011	21,943	217,845
LONG-TERM DEBT, LESS CURRENT MATURITIES (Note 4)	—	70	—
SEVERANCE AND RETIREMENT BENEFITS			
Employees (Note 5).....	1,626	1,410	15,394
Directors and corporate statutory auditors	58	174	549
OTHER LIABILITIES.....	328	455	3,105
TOTAL LIABILITIES.....	25,023	24,052	236,893
CONTINGENT LIABILITIES (Note 13)			
SHAREHOLDERS' EQUITY:			
Common stock			
Authorized - 200,000,000 shares			
Issued - 141,786,738 shares at March 31, 2004 and 2003	13,065	13,065	123,686
Capital surplus	5,229	5,229	49,503
Accumulated deficit.....	(9,728)	(8,775)	(92,095)
Net unrealized holding losses on investment securities.....	(26)	(1)	(246)
Foreign currency translation adjustments.....	35	(200)	331
Treasury stock, at cost	(14)	(10)	(132)
TOTAL SHAREHOLDERS' EQUITY	8,561	9,308	81,047
	¥ 33,584	¥ 33,360	\$ 317,940

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2004 and 2003

	Year ended March 31,		Year ended
	2004	2003	March 31,
	(Millions)		(Thousands) (Note 1)
NET SALES (Note 12)	¥ 34,274	¥ 30,712	\$ 324,472
COST OF SALES (Note 12).....	28,550	26,457	270,283
Gross profit.....	5,724	4,255	54,189
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 12)	5,484	5,181	51,917
Operating income (loss)	240	(926)	2,272
OTHER INCOME (EXPENSES):			
Interest and dividend income	20	19	189
Interest expense (Note 11).....	(256)	(296)	(2,423)
Gain on sales of property, plant and equipment.....	268	6,133	2,537
Loss on sales of property, plant and equipment.....	(293)	(317)	(2,774)
Restructuring cost (Note 14).....	(473)	(4,251)	(4,478)
Loss on devaluation of investment securities.....	—	(60)	—
Severance and retirement benefit expenses (Note 5)	(72)	(72)	(681)
Gain on compensation of equipment removal	—	1,052	—
Investigation costs related to antitrust law.....	(265)	(278)	(2,509)
Other, net.....	19	(102)	180
	(1,052)	1,828	(9,959)
Income (loss) before income taxes	(812)	902	(7,687)
INCOME TAXES (Note 10):			
Current.....	148	100	1,401
Deferred	(7)	172	(66)
	141	272	1,335
Net income (loss)	¥ (953)	¥ 630	\$ (9,022)
		Yen	U.S. Dollars
NET INCOME (LOSS) PER SHARE:	¥ (6.73)	¥ 4.45	\$ (0.1)

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2004 and 2003

	Year ended March 31,		Year ended
	2004	2003	March 31,
			2004
			(Thousands) (Note 1)
COMMON STOCK:			
Number of shares (Thousands)			
Balance at beginning of year	141,787	141,787	
Balance at end of year	141,787	141,787	
Amount (Millions)			
Balance at beginning of year	¥ 13,065	¥ 13,065	\$ 123,686
Balance at end of year	¥ 13,065	¥ 13,065	\$ 123,686
CAPITAL SURPLUS (Millions):			
Balance at beginning of year	¥ 5,229	¥ 5,229	\$ 49,503
Balance at end of year	¥ 5,229	¥ 5,229	\$ 49,503
ACCUMULATED DEFICIT (Millions):			
Balance at beginning of year	¥ (8,775)	¥ (9,405)	\$ (83,073)
Net income (loss) for the year	(953)	630	(9,022)
Balance at end of year	¥ (9,728)	¥ (8,775)	\$ (92,095)
NET UNREALIZED HOLDING GAINS (LOSSES) ON INVESTMENT SECURITIES (Millions):			
Balance at beginning of year	¥ (1)	¥ 4	\$ (9)
Net decrease for the year	(25)	(5)	(237)
Balance at end of year	¥ (26)	¥ (1)	\$ (246)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS (Millions):			
Balance at beginning of year	¥ (200)	¥ (437)	\$ (1,893)
Adjustments from translation of foreign currency financial statements	235	237	2,224
Balance at end of year	¥ 35	¥ (200)	\$ 331
TREASURY STOCK, AT COST (Millions):			
Balance at beginning of year	¥ (10)	¥ (2)	\$ (95)
Treasury stock	(4)	(8)	(37)
Balance at end of year	¥ (14)	¥ (10)	\$ (132)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2004 and 2003

	Year ended March 31,		Year ended
	2004	2003	March 31,
	(Millions)		(Thousands)
			(Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) before income taxes	¥ (812)	¥ 902	\$ (7,687)
Depreciation and amortization	2,258	2,371	21,377
Provision of allowance for doubtful accounts	1	1	9
Increase (decrease) in severance and retirement benefits	(45)	126	(426)
Interest and dividend income	(20)	(19)	(189)
Interest expense	256	296	2,423
Gain on sales of property and equipment	(268)	(6,133)	(2,537)
Loss on sales of property and equipment	293	317	2,774
Restructuring cost	473	4,251	4,478
Loss on devaluation of investment securities	—	60	—
Gain on sales of equity securities	(121)	0	(1,146)
Investigation costs related to antitrust law	265	278	2,509
Gain on compensation of equipment removal	—	(1,052)	—
Change in operating assets and liabilities			
Decrease in notes and accounts receivable	(555)	795	(5,254)
Increase (decrease) in inventories	277	(274)	2,622
Decrease in other current assets	(150)	132	(1,420)
Increase in notes and accounts payable	661	185	6,258
Increase (decrease) in accrued expenses and other current liabilities	393	342	3,720
Other, net	167	(46)	1,581
Subtotal	3,073	2,532	29,092
Interest and dividend received	23	21	218
Interest expense paid	(240)	(289)	(2,272)
Compensations of equipments removal received	—	1,052	—
Restructuring paid	(583)	(2,976)	(5,519)
Investigation costs related to antitrust laws paid	(265)	(278)	(2,509)
Income taxes paid	(135)	(127)	(1,278)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,873	(65)	17,732
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,486)	(1,966)	(14,068)
Proceeds from sales of property, plant and equipment	236	5,973	2,234
Sales revenue of investment securities	352	4	3,332
Other, net	(109)	71	(1,031)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,007)	4,082	(9,533)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	261	(3,366)	2,471
Repayment of long-term debt	(674)	(1,236)	(6,381)
Other, net	(11)	489	(104)
NET CASH USED IN FINANCING ACTIVITIES	(424)	(4,113)	(4,014)
EFFECT OF TRANSLATION OF CASH AND CASH EQUIVALENTS	25	(13)	236
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	467	(109)	4,421
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	400	509	3,787
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 867	¥ 400	\$ 8,208

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2004 and 2003

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS**

Toho Tenax Co., Ltd. (the “Company”) and its consolidated domestic subsidiaries maintain their accounts and records in Japanese yen in accordance with the provisions set forth in the Japanese Commercial Code (the “Code”), and accounting principles and practices generally accepted in Japan. The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.63 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain other conditions. All significant intercompany balances,

transactions and unrealized intercompany profits have been eliminated in the consolidated financial statements. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The numbers of consolidated subsidiaries at March 31, 2004 and 2003 were as follows:

	2004	2003
Consolidated subsidiaries	8	9

Substantially all of the Company's subsidiaries are included in the consolidated financial statements.

Toho Apparel Co., Ltd., which had been consolidated subsidiary, was dissolved in the year ended March 31, 2004.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

SHAREHOLDERS' EQUITY

Under the Code at least one-half of the issue price of new shares is required to be credited to common stock. The portion which is to be credited to common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock are credited to additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distributions by the resolution of the shareholders' meeting. Legal earnings reserve is included in accumulated deficits in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

TRANSLATION OF FOREIGN CURRENCIES

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for shareholders' equity accounts, which are translated at the historical rates. Statements of operations of consolidated overseas subsidiaries are translated at the annual average rates except for transactions with the Company, which are translated at the rates used by the Company.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful receivables is provided for individual amounts deemed to be uncollectible plus the amount calculated using the ratio of actual losses on collection in the past for the remaining amounts.

SECURITIES

Under the Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999), the Company and its domestic subsidiaries are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Company and its consolidated domestic subsidiaries had no trading securities and held-to-maturity debt securities at March 31, 2004 and 2003.

Available-for-sale securities with available market value are stated at market value and the others without available market value are stated at moving-average cost in accordance with the Japanese accounting standard for financial instruments. Unrealized gains and losses on available for sale securities with available market value are reported, net of applicable income taxes, as a separate of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

If the market value of available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of decline. If the fair market value of equity securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

INVENTORIES

Inventories are stated primarily at the lower of cost or market. The cost of finished goods and work in process is principally determined by the weighted-average method and the cost of raw materials and supplies is principally determined by moving average method.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are carried at cost. Depreciation is computed using primarily the declining-balance method for domestic companies and the straight-line method for overseas subsidiaries. The Company and its domestic subsidiaries depreciate buildings acquired after March 31, 1998 using the straight-line method.

The useful lives are from 10 to 50 years for buildings and structures, and from 4 to 15 years for machinery and equipment.

FINANCE LEASES

Finance leases, except those leases for which the ownership of the leased assets is transferred to the lessees at the end of the lease term, are accounted for in the same manner as operating leases.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to operations when they are incurred.

SEVERANCE AND RETIREMENT BENEFITS

Employees terminating their employment with the Company and consolidated domestic subsidiaries on retirement or otherwise are entitled, in most circumstances, to a lump-sum severance and annuity payments based on current rates of pay, length of service and certain other factors.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The net transition obligation amounting to ¥390 million has been amortized over 5 years. Actuarial gains and losses are amortized over the average of the estimated remaining service lives of 15 years commencing with the succeeding period.

For directors and corporate statutory auditors, the Company and its domestic subsidiaries provide for 100% of the liabilities for the estimated retirement benefits that would be payable at the end of each year in accordance with the internal rules.

ACCRUED EMPLOYEES' BONUSES

The Company and its consolidated domestic subsidiaries accrued the estimated amounts of employees' bonus based on estimated amounts to be paid in the subsequent period.

INCOME TAXES

Income taxes comprise corporate, enterprise and inhabitant taxes. Deferred income taxes are recognized for temporary difference between the financial statement basis and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

EARNINGS PER SHARE

Earnings per share is computed based upon the weighted-average number of shares of common stock outstanding during the year.

DERIVATIVES AND HEDGE ACCOUNTING

The Company and its consolidated domestic subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated domestic subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of operations in the period which includes the inception date, and

b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the presentation of the year ended March 31, 2004. These changes had no impact on previously reported results of operations.

NOTE 2 – INVENTORIES

Inventories consist of the following:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Finished goods	¥ 5,363	¥ 5,784	\$ 50,771
Work in process	2,657	2,486	25,154
Raw materials	545	432	5,160
Supplies	393	491	3,720
Total	¥ 8,958	¥ 9,193	\$ 84,805

NOTE 3 – ACCUMULATED DEPRECIATION

Accumulated depreciation for the year ended March 31, 2004 and 2003 were ¥45,333 million (\$429,168 thousand) and ¥44,006 million, respectively.

NOTE 4 – SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2004 and 2003 represented bank notes at interest rates ranging from 0.6% to 1.5% and 0.6% to 1.4 % per annum, respectively.

Long-term debt consists of the following:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Secured loans, 2.1% - 2.6%	¥ 40	¥ 641	\$ 379
Unsecured loans, 2.2% - 2.3%	30	103	284
	70	744	663
Less current portion	(70)	(674)	(663)
Long-term debt, net	¥ —	¥ 70	\$ —

The annual maturities of long-term debt outstanding at March 31, 2004 were as follows:

	Amount	
	(Millions)	(Thousands) (Note 1)
Year ending March 31, 2005	¥ 70	\$ 663
Long-term debt, net	¥ 70	\$ 663

At March 31, 2004, assets pledged as collateral for long-term debt were as follows:

	Amount	
	(Millions)	(Thousands) (Note 1)
Buildings	¥ 462	\$ 4,374
Land	12	113
TOTAL	¥ 474	\$ 4,487

The liabilities secured by such collateral at March 31, 2004 were as follows:

	Amount	
	(Millions)	(Thousands)
Current maturities of long-term debt	¥ 40	\$ 379
TOTAL	¥ 40	\$ 379

NOTE 5 – EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consist of the following:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Projected benefit obligation	¥ 5,551	¥ 5,336	\$ 52,551
Less fair value of pension assets	(3,383)	(1,991)	(32,027)
Unfunded projected benefit obligation	2,168	3,345	20,524
Less unrecognized actuarial differences	(470)	(1,792)	(4,449)
Less unrecognized net transition obligation	(72)	(143)	(681)
Liability for employees' severance and retirement benefits	¥ 1,626	¥ 1,410	\$ 15,394

Employees' severance and retirement benefit expenses, included in the consolidated statement of operations for the years ended March 31, 2004 and 2003, are comprised of the following:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Service costs – benefits earned during the year	¥ 171	¥ 169	\$ 1,619
Interest cost on projected benefit obligation	141	135	1,335
Expected return on plan assets	(11)	(7)	(104)
Amortization of net transition obligation	72	72	682
Amortization of actuarial differences	127	90	1,202
Employees' severance and retirement benefit expenses	¥ 500	¥ 459	\$ 4,734

The discount rate and the rate of expected return on plan assets used by the Company are 2.8% for the year ended March 31, 2004 and 2003. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Remaining net transition obligation is recognized as an expense in equal amounts over 5 years, and actuarial gains and losses are recognized in expenses in equal amounts over 15 years.

NOTE 6 – LEASES

The Company and subsidiaries lease certain machinery, equipment and tools under non-cancelable finance leases which do not transfer ownership. Assuming that assets used under such finance leases were capitalized, they would be recorded on the consolidated financial statements as of March 31, 2004 and 2003 as follows:

(1) Purchase price equivalents, Accumulated depreciation equivalents, and Book value equivalents

Machinery and equipment:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Purchase price equivalents	¥ 1,116	¥ 900	\$ 10,565
Accumulated depreciation equivalents	(189)	(74)	(1,789)
Book value equivalents	¥ 927	¥ 826	\$ 8,776

Tools:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Purchase price equivalents	¥ 427	¥ 466	\$ 4,043
Accumulated depreciation equivalents	(299)	(299)	(2,831)
Book value equivalents	¥ 128	¥ 167	\$ 1,212

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

(2) Lease commitments

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Due within one year	¥ 210	¥ 203	\$ 1,988
Due after one year	845	818	8,000
Total	¥ 1,055	¥ 1,021	\$ 9,988

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

(3) Lease payments and depreciation equivalents

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Lease payments	¥ 223	¥ 150	\$ 2,111
Depreciation equivalents	¥ 223	¥ 150	\$ 2,111

The depreciation is calculated using the straight-line method over the lease terms assuming no residual value.

NOTE 7 – SECURITIES

The information of securities as of March 31, 2004 and 2003 were as follows:

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2004 and 2003.

(Available-for-sale securities)

(1) Securities with book values exceeding acquisition costs:

March 31, 2004				
Type	(Millions)			Difference
	Acquisition cost	Book value		
Equity securities	¥ 9	¥ 16		¥ 7
Total	¥ 9	¥ 16		¥ 7

March 31, 2003				
Type	(Millions)			Difference
	Acquisition cost	Book value		
Equity securities	¥ 114	¥ 162		¥ 48
Bonds	3	5		2
Total	¥ 117	¥ 167		¥ 50

March 31, 2004				
Type	(Thousands) (Note 1)			Difference
	Acquisition cost	Book value		
Equity securities	\$ 85	\$ 151		\$ 66
Total	\$ 85	\$ 151		\$ 66

(2) Securities with book values not exceeding acquisition costs:

March 31, 2004				
Type	(Millions)			Difference
	Acquisition cost	Book value		
Equity securities	¥ 40	¥ 27		¥ (13)
Total	¥ 40	¥ 27		¥ (13)

March 31, 2003				
Type	(Millions)			Difference
	Acquisition cost	Book value		
Equity securities	¥ 158	¥ 127		¥ (31)
Total	¥ 158	¥ 127		¥ (31)

March 31, 2004				
Type	(Thousands) (Note 1)			Difference
	Acquisition cost	Book value		
Equity securities	\$ 379	\$ 256		\$ (123)
Total	\$ 379	\$ 256		\$ (123)

The Company and subsidiaries recognize impairment loss for the securities, whose available fair values decline more than 50% of the carrying amount.

The amounts of impairment loss for the years ended March 31, 2004 and 2003 were ¥1 million (\$9 thousand) and ¥60 million, respectively.

The following table summarizes book values of securities with no available fair values as of March 31, 2004 and 2003.

(Available-for-sale securities)

Type	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
	Book value		
Non-listed equity securities	¥ 129	¥ 135	\$ 1,221
Others	—	3	—
Total	¥ 129	¥ 138	\$ 1,221

The proceeds from sales of available-for-sale securities were ¥352 million (\$3,332 thousand) and ¥4 million for the years ended March 31, 2004 and 2003, respectively. The gross realized gains on those sales were ¥121 million (\$1,146 thousand) and ¥0 million for the years ended March 31, 2004 and 2003, respectively. The gross realized loss on those sales was ¥0 million for the year ended March 31, 2003.

NOTE 8 – RESEARCH AND DEVELOPMENT COSTS

Research and development costs in the year ended March 31, 2004 and 2003 amounted to ¥977 million (\$9,249 thousand) and ¥788 million, respectively.

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

As explained in Note 1, the Company and its consolidated domestic subsidiaries are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purpose.

The Company and subsidiaries utilize foreign currency forward contracts, interest rate swap contracts and interest rate cap contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and payables and mitigating future risks of interest rate increases and lowering the financing costs with respect to borrowings.

The derivative transactions are executed and managed in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed.

The following summarizes hedging derivative financial instruments used by the Company and subsidiaries and items hedged:

Hedging instruments:	Hedged items:
Foreign currency forward contracts	Foreign currency trade receivables
Interest rate swap contracts	Borrowings
Interest rate cap contracts	Borrowings

The Company and its consolidated subsidiaries evaluate hedge effectiveness semi-annually by comparing the cumulative changes in interest rate of hedged items and the corresponding changes in the hedging derivative instruments.

The Company and subsidiaries' financial instrument counterparties were all prime banks operating domestically in Japan, and credit risk in the event of non-performance by the counterparties is considered minor.

Market value and other information on derivative financial instruments at March 31, 2004 and 2003 was not subject to disclose as the Company and subsidiaries applied hedge accounting to all derivative financial instruments used.

NOTE 10 – INCOME TAXES

The Company and its domestic subsidiaries are subject to taxes based on income, which, in the aggregate, resulted in statutory tax rates in Japan of approximately 42.3% for the years ended March 31, 2004 and 2003.

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Deferred tax assets:			
Severance and retirement benefits	¥ 76	¥ 69	\$ 720
Unrealized gain from intercompany sale of fixed assets	47	47	445
Loss carry-forward	—	26	—
Accrued bonuses	16	16	151
Other	14	11	133
Total deferred tax assets	153	169	1,449
Deferred tax liabilities:			
Allowance for doubtful accounts	—	(1)	—
Unrealized gains on investment securities	—	(2)	—
Total deferred tax liabilities	—	(3)	—
Net deferred income tax assets	¥ 153	¥ 166	\$ 1,449

Valuation allowances deducted in the above deferred tax assets at March 31, 2004 and 2003 were ¥3,475 million (\$32,898 thousand) and ¥3,669 million, respectively.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2003:

	2003
Statutory tax rate:	42.3%
Permanent non-deductible expenses	0.6%
Per capita inhabitant tax	2.3%
Loss carry-forward	(49.8)%
Deficits of some consolidated subsidiaries	13.3%
Reversal of deferred tax assets	18.2%
Reduction of the tax aggregate statutory income	1.4%
Other	1.7%
Actual effective tax rate	30.0%

The information for the year ended March 31, 2004 is not presented, because this information is not required to disclose in the case of net loss.

NOTE 11 – TRANSACTIONS WITH RELATED PARTIES

Transactions with Teijin Ltd., the parent company of the Company, for the years ended March 31, 2004 and 2003 were as follows:

	March 31,		March 31,
	2004	2003	2004
	(Millions)		(Thousands) (Note 1)
Unsecured short-term loans	¥ 10,415	¥ 6,000	\$ 98,599
Interest expense	130	35	1,231

The interest rate applicable to the short-term loans is determined on the basis of market interest rate. The term of the short-term loans is 1 year with a lump sum payment.

NOTE 12 – SEGMENT INFORMATION

The Company and subsidiaries operate primarily in the manufacture and sales of products in four business segments: carbon fiber industry, textile industry, machinery and engineering industry and service.

(1) Business segment information for the years ended March 31, 2004 and 2003 was as follows:

Year ended March 31, 2004							
	Carbon fiber	Textile	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
	(Millions)						
Net sales	¥ 18,595	¥ 9,388	¥ 5,502	¥ 1,907	¥ 35,392	¥ (1,118)	¥ 34,274
Operating expenses	18,197	9,892	5,244	1,819	35,152	(1,118)	34,034
Operating income (loss)	¥ 398	¥ (504)	¥ 258	¥ 88	¥ 240	¥ —	¥ 240
Identifiable assets	¥ 19,528	¥ 7,460	¥ 5,346	¥ 1,516	¥ 33,850	¥ (266)	¥ 33,584
Depreciation and amortization	¥ 1,708	¥ 305	¥ 104	¥ 110	¥ 2,227	¥ 31	¥ 2,258
Capital expenditures	¥ 1,523	¥ 263	¥ 104	¥ 30	¥ 1,920	¥ —	¥ 1,920

Year ended March 31, 2003							
	Carbon fiber	Textile	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
	(Millions)						
Net sales	¥ 15,001	¥ 8,844	¥ 6,347	¥ 1,974	¥ 32,166	¥ (1,454)	¥ 30,712
Operating expenses	15,951	9,281	5,957	1,903	33,092	(1,454)	31,638
Operating income (loss)	¥ (950)	¥ (437)	¥ 390	¥ 71	¥ (926)	¥ —	¥ (926)
Identifiable assets	¥ 18,857	¥ 7,446	¥ 5,129	¥ 1,587	¥ 33,019	¥ 341	¥ 33,360
Depreciation and amortization	¥ 1,791	¥ 331	¥ 97	¥ 118	¥ 2,337	¥ 34	¥ 2,371
Capital expenditures	¥ 1,440	¥ 197	¥ 159	¥ 175	¥ 1,971	¥ —	¥ 1,971

Year ended March 31, 2004							
	Carbon fiber	Textile	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
	(Thousands) (Note 1)						
Net sales	\$ 176,039	\$ 88,876	\$ 52,087	\$ 18,054	\$ 335,056	\$ (10,584)	\$ 324,472
Operating expenses	172,271	93,647	49,645	17,221	332,784	(10,584)	322,200
Operating income (loss)	\$ 3,768	\$ (4,771)	\$ 2,442	\$ 833	\$ 2,272	\$ —	\$ 2,272
Identifiable assets	\$ 184,872	\$ 70,624	\$ 50,610	\$ 14,352	\$ 320,458	\$ (2,518)	\$ 317,940
Depreciation and amortization	\$ 16,170	\$ 2,887	\$ 985	\$ 1,041	\$ 21,083	\$ 294	\$ 21,377
Capital expenditures	\$ 14,418	\$ 2,490	\$ 985	\$ 284	\$ 18,177	\$ —	\$ 18,177

(2) Geographic segment information for the years ended March 31, 2004 and 2003 was as follows:

Year ended March 31, 2004							
	Japan	Europe	Other	Total	Corporate or elimination	Consolidated	
	(Millions)						
Net sales	¥ 30,738	¥ 5,863	¥ 1,559	¥ 38,160	¥ (3,886)	¥ 34,274	
Operating expenses	30,756	5,558	1,579	37,893	(3,859)	34,034	
Operating income (loss)	¥ (18)	¥ 305	¥ (20)	¥ 267	¥ (27)	¥ 240	
Identifiable assets	¥ 30,112	¥ 4,535	¥ 538	¥ 35,185	¥ (1,601)	¥ 33,584	

Year ended March 31, 2003							
	Japan	Europe	Other	Total	Corporate or elimination	Consolidated	
	(Millions)						
Net sales	¥ 27,734	¥ 4,490	¥ 1,813	¥ 34,037	¥ (3,325)	¥ 30,712	
Operating expenses	28,627	4,491	1,792	34,910	(3,272)	31,638	
Operating income (loss)	¥ (893)	¥ (1)	¥ 21	¥ (873)	¥ (53)	¥ (926)	
Identifiable assets	¥ 29,747	¥ 3,663	¥ 611	¥ 34,021	¥ (661)	¥ 33,360	

Year ended March 31, 2004

	Japan	Europe	Other	Total	Corporate or elimination	Consolidated
	(Thousands) (Note 1)					
Net sales	\$ 290,997	\$ 55,505	\$ 14,759	\$ 361,261	\$ (36,789)	\$ 324,472
Operating expenses	291,167	52,618	14,948	358,733	(36,533)	322,200
Operating income (loss)	\$ (170)	\$ 2,887	\$ (189)	\$ 2,528	\$ (256)	\$ 2,272
Identifiable assets	\$ 285,071	\$ 42,933	\$ 5,093	\$ 333,097	\$ (15,157)	\$ 317,940

(3) Overseas sales information by geographic areas for the years ended March 31, 2004 and 2003 was as follows:

Year ended March 31, 2004

	Asia	Europe	Other	Total
	(Millions)			
Overseas sales	¥ 3,000	¥ 5,802	¥ 1,611	¥ 10,413
Percentage of overseas sales to consolidated net sales	8.8%	16.9%	4.7%	30.4%

Year ended March 31, 2003

	Asia	Europe	Other	Total
	(Millions)			
Overseas sales	¥ 1,535	¥ 4,404	¥ 1,808	¥ 7,747
Percentage of overseas sales to consolidated net sales	5.0%	14.3%	5.9%	25.2%

Year ended March 31, 2004

	Asia	Europe	Other	Total
	(Thousands) (Note 1)			
Overseas sales	\$ 28,401	\$ 54,928	\$ 15,251	\$ 98,580

NOTE 13 – CONTINGENT LIABILITIES

At March 31, 2004, the Company and its subsidiaries were contingently liable for repurchase of accounts receivable amounting to ¥412 million (\$3,900 thousand).

NOTE 14 – RESTRUCTURING COST

Restructuring cost for the year ended March 31, 2004 and 2003 were ¥473 million (\$4,478 thousand) and ¥4,251 million, respectively, for the purpose of the withdrawal from the rayon business and clean up of the land.

NOTE 15 – LAND TRANSFERRED TO THE ORGANIZATION FOR PROMOTING URBAN DEVELOPMENT

The Company transferred pieces of land (area of 113,059 square meters), which are located in Ogaki City in Gifu prefecture and had been used for its factory in the past, to the Organization for Promoting Urban Development (the "Organization") with total contract amount of ¥7,906 million in March and June 1996.

According to the sales contract, the Organization is entitled to sell back the land to the Company, in the case where the land is not used for urban development and is not transferred to the government or the local government, etc. within 10 years after the contract date. The Company has been involved in development plans about the land with interested parties, to avoid future economic responsibility.

**To the Shareholders and the Board of Directors of
TOHO TENAX CO., LTD.**

We have audited the accompanying consolidated balance sheets of Toho Tenax Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

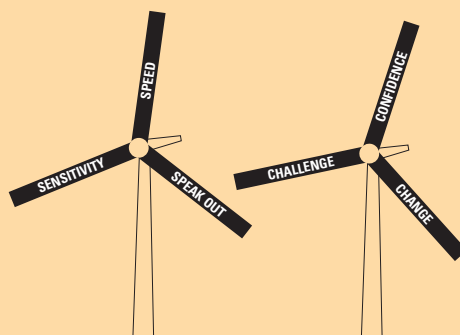
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toho Tenax Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 15 "Land Transferred to the Organization for Promoting Urban Development" to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2004



FORWARD TO THE TOP

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