

**TEIJIN**

*Human Chemistry, Human Solutions*

ANNUAL REPORT 2005  
TOHO TENAX CO., LTD.

**Tenacious Spirit  
Flexibility**

# OUR BUSINESS KEYWORDS FOR PROFITABLE GROWTH

**Speed**

Toho Tenax's prepreg is used on the body of the Intelligent Multi-mode Transport System (IMTS), which operated at the 2005 World Exposition, Aichi, Japan



**Change**

**Confidence**

**Speak Out**

**Sensitivity**

**Challenge**



## Change of Corporate Logo

TOHO TENAX unified its corporate logo as of April 1, 2005 in order to have an integrated worldwide corporate logo for the TOHO TENAX Group that promotes greater global awareness of the Group and contributes to the expansion of the carbon fiber business.

The new corporate logo expresses dynamism as well as flexibility. "Challenging red," the brand color of the TEIJIN Group, places emphasis on the capital "Ts" of the Company name to exemplify TOHO TENAX's determination to share the spirit of the TEIJIN Group and boldly expand its businesses.

The six gray bars, indicated by five on the left and one on the right, represent the six core areas of TOHO TENAX's mainstay carbon fiber business: continuous fibers, prepreps, chopped fibers, oxidized PAN fibers, activated carbon fibers and composites.

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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.

## 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.

## 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<sup>®</sup> rayon staple fibers, BESLON<sup>®</sup> acrylic fibers and GRANMARFIL<sup>®</sup> high-quality, combed cotton yarn.

In 1975, the Company began commercial production of BESFIGHT<sup>®</sup> 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*
	2005	2004	2005
Net sales	¥ 40,077	¥ 34,274	\$ 373,121
Operating income	2,262	240	21,059
Net loss	(1,890)	(953)	(17,596)
Total shareholders' equity	6,749	8,561	62,834
Per share:	Yen		U.S. Dollars
Net loss	¥ (13.34)	¥ (6.73)	\$ (0.1)
Total shareholders' equity	47.7	60.4	0.4

Note: \*The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥107.41 =US\$1. See Note 1 of Notes to Consolidated Financial Statements.

# To Our Shareholders

## Overview

### ***Dramatic Growth in Consolidated Net Sales and Operating Income***

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In fiscal 2005, ended March 31, 2005, an increasing number of companies posted improved performance to sustain the Japanese economy's mild recovery, despite such troubling developments as a steep rise in crude oil prices.

In the carbon fiber industry, product prices recovered steadily on the back of improved supply/demand balance.

Against this backdrop, we, the TOHO TENAX Group, pursued the measures outlined below in each of our 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 fiber business, we reduced costs via improving productivity and quality and worked to improve profitability by meeting expanding demand in the European industrial materials field. Moreover, in order to establish supply structures in Japan, the United States and Europe as outlined in TENACIOUS PLAN 2005, we secured a production base in the United States through the acquisition of the carbon fiber business of Fortafil Fibers, Inc. via TOHO TENAX AMERICA, INC. (name changed from TOHO CARBON FIBERS, INC. on April 1, 2005). Concurrently in Germany, we began expanding carbon fiber production facilities at TOHO TENAX EUROPE GmbH (name changed from TENAX FIBERS GmbH on April 1, 2005). In the textile business, we endeavored to improve profitability by shifting toward high value-added fields and reducing costs. In the machinery and engineering, and service businesses, we worked to secure stable profits via efforts to expand sales in such mainstay fields as the environment-related field and elastomer casting devices.

Consequently, significant growth was recorded for both sales and income, as consolidated net sales increased ¥5,803 million to ¥40,077 million (US\$373,121 thousand) and consolidated operating income increased ¥2,022 million to ¥2,262 million (US\$21,059 thousand). Overseas net sales were ¥13,621 million (US\$126,813 thousand), representing 34.0% of total net sales, a 3.6 percentage point increase from the previous term.

An extraordinary gain of ¥111 million (US\$1,042 thousand) was recorded from gain on sales of property, plant and equipment and other fixed assets. However, an extraordinary loss of ¥2,296 million (US\$21,385 thousand) for settlement of civil cases associated with a U.S. federal class action lawsuit, combined with restructuring costs and losses on sales and disposal of property, plant and equipment, resulted in a consolidated net loss of ¥1,890 million (US\$17,596 thousand), down ¥936 million compared with the previous year.

Total assets were ¥36,571 million (US\$340,480 thousand), shareholders' equity was ¥6,749 million (US\$62,834 thousand) and the shareholders' equity ratio was 18.5%, down 7.0 percentage points from the previous fiscal year.

Net cash provided by operating activities amounted to ¥3,019 million (US\$28,116 thousand) on account of improved operating income. Net cash used in investing activities was ¥4,397 million (US\$40,927 thousand) arising from capital investment and business acquisitions. Net cash provided by financing activities totaled ¥1,199 million (US\$11,153 thousand) as a result of covering funds for business acquisition using long-term loans from the parent company. In aggregate, cash and cash equivalents at end of year totaled ¥713 million (US\$6,647 thousand), down ¥154 million from the previous fiscal year.

### ***TENACIOUS PLAN 2005***

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Fiscal 2006 is the final year of TENACIOUS PLAN 2005, our medium-term management plan which started in fiscal 2004. This plan calls for return on assets (ROA) in fiscal 2006 of 8.0%, as well as profitable growth in the carbon fiber business and stable earnings in the textile, machinery and engineering and service businesses.

The mainstay carbon fiber business is achieving steady global expansion in demand. In Europe and the United States, development is proceeding for next-generation commercial aircraft and production is being ramped up in preparation for Airbus' A380 entering service in 2006, with our carbon fiber materials currently undergoing an approval process. In addition, demand continues to expand for such general industrial applications as wind-powered electricity generation. With demand in carbon fibers expected to

expand by 10% annually, the carbon fiber industry is on the verge of a major turning point.

The TOHO TENAX Group aims to establish a tri-polar production network spanning Japan, North America and Europe and improve global marketing in order to accurately meet growing demand, as well as further ramp up operations. To that end, as previously mentioned, we acquired the carbon fiber business of U.S.-based Fortafil Fibers, which was owned by Acordis, a leading Netherlands-based fiber manufacturer. We also decided to add a production line in Germany at TOHO TENAX EUROPE in October 2004 to boost annual productive capacity from the current 1,900 tons to 3,400 tons in order to meet expanding carbon fiber demand in Europe for aircraft and general industrial applications, with construction scheduled for completion in October 2006.

Further, in the current fiscal year, we will focus all of our efforts to ensure profitable growth as outlined in our medium-term management plan by promptly augmenting capabilities at North American production bases and steadily expanding factory facilities in Europe. In the composite business, we are also pursuing larger-scale demand in such growing fields as automobile components.

## Prospects

In the carbon fiber industry, overall demand is anticipated to grow steadily on the back of expanding demand in the North American commercial aircraft segment and rising demand for applications for the commercial aircraft segment and industrial materials in the European market, as well as an improvement in demand in the Asian market. The TOHO TENAX Group is working to improve product quality, costs and development activities to raise profitability in line with measures outlined in the medium-term management plan. Considering the above factors, projections for fiscal 2006 call for a significant rise in sales and income, with consolidated net sales expected to rise 9.8% to ¥44,000 million, operating income to jump 50.3% to ¥3,400 million and net income to total ¥1,100 million.



## 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 and risk measures. In addition, the Internal Auditing Department has been set up since 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, including a corporate code of conduct and compliance standards.

In preparation of the enactment of the Personal Information Protection Act, we formulated the TOHO TENAX Group Personal Information Protection Regulations and established a basic policy and management structure regarding the handling of personal information.

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

August 2005

A handwritten signature in black ink, which appears to read 'Yoshikuni Utsunomiya'. The signature is written in a cursive, flowing style.

**Yoshikuni Utsunomiya**  
President

# Review of Operations

## Carbon Fibers

In the Carbon Fiber segment, TOHO TENAX is chiefly responsible for the manufacture and marketing of carbon fibers on a global basis. Overseas, manufacturing and marketing is conducted by U.S.-based TOHO TENAX AMERICA and by TOHO TENAX EUROPE in Germany.

Sales and income increased dramatically as net sales rose 27.0% to ¥23,624 million (US\$219,942 thousand) and operating income jumped 402.5% to ¥2,001 million (US\$18,629 thousand). This segment accounted for 58.9% of total consolidated net sales, up 4.6 percentage points from the previous term.

In the carbon fiber industry, demand is rapidly expanding in such industrial fields as wind-powered electricity generation chiefly in Europe, and together with a significant recovery in the U.S. commercial aircraft market, is accelerating improvement in the supply/demand balance. Moreover, a steady recovery in product prices is underway in the Asian market.

TOHO TENAX endeavored to reduce costs through increased productivity and quality and concentrated its efforts on expanding sales in Europe for applications for industrial fields through a tie-up with TOHO TENAX EUROPE. In order to meet expanding demand in Europe for carbon fibers for use in general industrial applications, TOHO TENAX EUROPE decided to add a carbon fiber production line in Germany in October 2004 and subsequently launched construction. TOHO TENAX also secured a production base in the United States through TOHO TENAX AMERICA's acquisition of the carbon fiber business of Fortafil Fibers.



TOHO TENAX AMERICA, INC.

## Aeronautics/Aerospace

The U.S. commercial aircraft market, which had been languishing, entered into a rapid recovery due to the effects of stimulated demand for small- and middle-sized aircraft and the recovery of Boeing, and as the European market remained robust, the aircraft industry finally embarked upon a growth track.

As European and U.S. commercial aircraft manufacturers achieve progress toward the development of next-generation airliners, TOHO TENAX has worked to acquire qualifications of carbon fiber for use in structural materials for aircraft and concentrated efforts on preparing an organizational framework capable of handling a future rise in demand in this area. In Europe, acquiring qualifications for the carbon fibers of TOHO TENAX and TOHO TENAX EUROPE for use in Airbus' A380 high-capacity, next-generation aircraft is achieving further progress and shipment is well underway. In view of these achievements, a further growth in demand is expected.



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## Sports and Recreation

In Asian markets, a favorable improvement in the supply/demand balance for such mainstay applications as golf clubs, fishing rods and tennis rackets, contributed to a steady rebound in product prices. Supported by such conditions, TOHO TENAX will continue to undertake efforts to further improve prices.

In the domestic market, sales of golf clubs and fishing rods remained lackluster due to the ongoing shift of manufacturing bases to China.

## Industrial-Use Materials

Sales were brisk in the European and U.S. markets amid intensified demand in promising fields such as blades for wind-powered electricity generators especially in Europe. Further, new applications for automobile components and environmental- and energy-related fields will likely be in considerable

demand in the future. Domestically, sales were predominately strong in resin compound applications in the wake of a recovery in IT-related demand.

In the composite business, sales grew steadily as rapid expansion in the global liquid crystal-related markets fueled robust demand for robotic arms for liquid crystal manufacturing equipment. Sales were also brisk for printing rollers, aircraft materials and automobile components. Solid sales were also recorded for Pyromex® flame-resistant fiber.



## Textiles

TOHO TEXTILE CO., LTD. plays a central role in the operation of this segment. TOHO TENAX produces acrylic fibers on a consignment basis for TOHO TEXTILE. TOHO DYRAC CO., LTD. is responsible for dyeing and finishing operations.

Net sales edged down 1.9% to ¥9,208 million (US\$85,728 thousand), representing 23.0% of total net sales, a 4.4 percentage point decline from the previous term. Efforts in factories to reduce costs and shift to higher value-added products through production of distinctive high-performance materials resulted in a ¥278 million improvement in operating losses to ¥226 million (US\$2,104 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 intensified.

## Machinery and Engineering

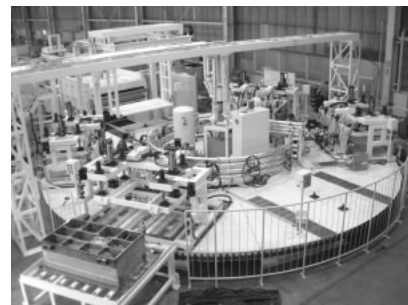
In the Machinery and Engineering segment, TOHO CHEMICAL ENGINEERING & CONSTRUCTION carries out environmental analysis and environmental consulting as well as such engineering as production of pollution prevention and environmental preservation equipment, design, management and construction of facilities in addition to construction of TOHO TENAX factories and equipment.

TOHO MACHINERY CO., LTD. designs, manufactures and sells various machinery and equipment related to thermoplastic resin forming.

While working to secure orders in such fortes as environmental-related and analysis businesses, the companies in this segment endeavored to expand sales of machines with salient features, such as polyurethane foaming machines and elastomer casting machines. Specifically, we took efforts to expand sales for a molding system for automotive interior equipment and a dialyzer potting system, including expanding sales into such overseas markets as China and Thailand. In dialyzer potting systems, in particular, an increase in demand for equipment from leading Japanese corporate customers contributed dramatically to sales and income.

Net sales rose 14.4% to ¥6,295 million (US\$58,607 thousand), representing 15.7% of consolidated net sales, a 0.4 percentage point decrease from the previous term.

Operating income jumped 51.0% to ¥389 million (US\$3,622 thousand).



## Service

In the Service segment, TOHO SALES CO., LTD. is engaged within the Tokushima area in the supply of linen products as well as such businesses as petroleum product purchase and sales.

Contracts from hotels and hospitals in the linen supply business, this segment's core operation, were roughly on par with the previous term. In our business concerning the supply of prepared meals and sales of specialty items, the acquisition of new customers and expansion of sales contributed to an increase in income. However, the petroleum product

business recorded reduced income from its inability to sufficiently offset rising crude oil prices.

In this segment, net sales edged down 0.6% to ¥1,895 million (US\$17,643 thousand), and represented 4.7% of consolidated net sales, down 0.9 percentage point from the previous term. Operating income rose 7.1% to ¥94 million (US\$876 thousand).



# Research and Development

The TOHO TENAX Group's fundamental philosophy is to provide valued and unique technologies that constantly contribute to the betterment of society.

Research and development costs for fiscal 2005 were ¥1,064 million (US\$9,906 thousand) and represented 2.7% of consolidated net sales.

TOHO TENAX is partnering with the R&D divisions of affiliates and the TEIJIN Group to integrate its technologies in core competency fields and efficiently and aggressively pursue R&D. Specifically, TOHO TENAX is reinforcing its core technologies, developing higher value-added products, launching new products in fields with growth potential and developing technologies that will contribute to reduced costs and improved quality.

In the Carbon Fiber segment, development is being focused on such technologies as carbon fibers

for industrial applications, molding technologies with superb mechanical attributes such as high tensile strength and high modulus properties, materials that employ electrical conduction and corrosive resistance as well as such composite applications as automobile components and robotic components.

The Group is also concentrating on environmental businesses through joint development in such areas as carbon fiber applications in the energy-related field and recycling of carbon fiber products.

In the Textile segment, TOHO TEXTILE is focusing development on high-value-added products and commercialization is moving full speed ahead.

In the Machinery and Engineering segment, TOHO MACHINERY developed products that would replace its urethane foaming machines.



TOHO TENAX EUROPE GmbH



## Board of Directors and Auditors

(As of June 29, 2005)

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

\*Representative Director

## Consolidated Subsidiaries

(As of April 1, 2005)

TOHO TENAX AMERICA, INC.  
TOHO TENAX EUROPE GmbH  
TOHO TEXTILE CO., LTD.  
TOHO DYRAC CO., LTD.  
TOHO CHEMICAL ENGINEERING  
& CONSTRUCTION CO., LTD.  
TOHO MACHINERY CO., LTD.  
TOHO SALES CO., LTD.

## Corporate Data

(As of March 31, 2005)

<i>Corporate Name</i>	<b>TOHO TENAX CO., LTD.</b>
<i>Founded</i>	<b>June 15, 1934</b>
<i>Employees</i>	
<i>Parent Company</i>	<b>461</b>
<i>Consolidated Subsidiaries</i>	<b>777</b>
<i>Total</i>	<b>1,238</b>
<i>Common Stock</i>	
<i>Par Value</i>	<b>¥50 (US\$0.47)</b>
<i>Authorized</i>	<b>200,000,000 shares</b>
<i>Issued</i>	<b>141,786,738 shares</b>
<i>Number of Shareholders</i>	<b>12,025</b>
<i>Stock Exchange Listing</i>	<b>First Section of Tokyo Stock Exchange</b>
<i>Transfer Agent</i>	<b>Mizuho Trust &amp; Banking Co., Ltd.</b>
<i>Independent Auditor</i>	<b>KPMG AZSA &amp; Co., Tokyo, Japan</b>

<i>Head Office</i>	<b>Hongo TS Building, 2-38-16, Hongo, Bunkyo-ku, Tokyo 113-8404 Tel: 03-5842-3700 Fax: 03-5842-3701</b>
<i>Osaka Office</i>	<b>2-2-7, Kawara-machi, Chuo-ku, Osaka 541-0048 Tel: 06-6204-6701</b>
<i>Mishima Factory</i>	<b>234, Kamitogari, Nagaizumi-cho, Sunto-gun, Shizuoka-ken 411-8720 Tel: 055-986-1200</b>
<i>Tokushima Factory</i>	<b>37-19, Tadatsu, Yoshinari-aza, Oujin-cho, Tokushima-shi, Tokushima-ken 771-1153 Tel: 088-641-1131</b>
<i>Ibigawa Factory</i>	<b>1801, Godo, Godo-cho, Anpachi-gun, Gifu-ken 503-2305 Tel: 0584-27-3151</b>

# FINANCIAL STATEMENTS 2005

TOHO TENAX CO., LTD.

## CONSOLIDATED BALANCE SHEETS

As of March 31, 2005 and 2004

ASSETS	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents.....	¥ 713	¥ 867	\$ 6,638
Notes and accounts receivable, trade.....	9,046	8,429	84,219
Less allowance for doubtful accounts.....	(20)	(197)	(186)
	<b>9,026</b>	8,232	<b>84,033</b>
Inventories (Notes 2).....	9,263	8,958	86,240
Deferred tax assets (Note 10).....	23	27	214
Other.....	813	696	7,569
<b>TOTAL CURRENT ASSETS.....</b>	<b>19,838</b>	18,780	<b>184,694</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 3):</b>			
Land.....	1,696	1,661	15,790
Buildings and structures.....	5,428	5,324	50,535
Machinery and equipment.....	7,010	6,369	65,264
Construction in progress.....	1,303	270	12,131
Other.....	527	495	4,906
<b>PROPERTY, PLANT AND EQUIPMENT.....</b>	<b>15,964</b>	14,119	<b>148,626</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investments in securities (Note 7).....	447	172	4,162
Other.....	204	537	1,908
Less allowance for doubtful accounts.....	(14)	(150)	(130)
	<b>190</b>	387	<b>1,778</b>
Deferred tax assets (Note 10).....	132	126	1,220
<b>TOTAL INVESTMENTS AND OTHER ASSETS.....</b>	<b>769</b>	685	<b>7,160</b>
	<b>¥ 36,571</b>	¥ 33,584	<b>\$ 340,480</b>

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

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31,		March 31,
	2005	2004	2005
<b>CURRENT LIABILITIES:</b>	(Millions)		(Thousands) (Note 1)
Short-term bank loans (Note 4) .....	¥ 1,840	¥ 3,974	\$ 17,130
Current maturities of long-term debt (Note 4) .....	—	70	—
Short-term loan from the parent company (Note 11) .....	12,750	10,415	118,704
Notes and accounts payable, trade .....	6,347	5,540	59,091
Income taxes payable .....	297	50	2,765
Accrued employees' bonuses.....	458	373	4,264
Accrued expenses .....	1,925	655	17,922
Other .....	2,821	1,934	26,264
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>26,438</b>	<b>23,011</b>	<b>246,140</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term loan from the parent company (Note 11) .....	1,300	—	12,103
Severance and retirement benefits			
Employees (Note 5) .....	1,725	1,626	16,060
Directors and corporate statutory auditors.....	54	58	503
Other .....	305	328	2,840
<b>TOTAL LIABILITIES .....</b>	<b>29,822</b>	<b>25,023</b>	<b>277,646</b>
<b>CONTINGENT LIABILITIES (Note 14)</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock			
Authorized - 200,000,000 shares			
Issued-141,786,738 shares at March 31, 2005 and 2004.....	13,065	13,065	121,637
Capital surplus .....	5,229	5,229	48,682
Accumulated deficit.....	(11,618)	(9,728)	(108,165)
Net unrealized holding losses on investment securities.....	(29)	(26)	(270)
Foreign currency translation adjustments.....	131	35	1,220
Treasury stock, at cost.....	(29)	(14)	(270)
<b>TOTAL SHAREHOLDERS' EQUITY .....</b>	<b>6,749</b>	<b>8,561</b>	<b>62,834</b>
	<b>¥ 36,571</b>	<b>¥ 33,584</b>	<b>\$ 340,480</b>

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years ended March 31, 2005 and 2004

	Year ended March 31,		Year ended March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
<b>NET SALES</b> (Note 13) .....	¥ 40,077	¥ 34,274	\$ 373,121
<b>COST OF SALES</b> (Note 13) .....	31,917	28,550	297,151
Gross profit .....	8,160	5,724	75,970
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Notes 8 and 13) .....	5,898	5,484	54,911
Operating income .....	2,262	240	21,059
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income .....	30	20	279
Interest expense (Note 11) .....	(253)	(256)	(2,356)
Gain on sales of property, plant and equipment .....	88	268	820
Loss on sales and disposal of property, plant and equipment .....	(288)	(293)	(2,681)
Restructuring cost (Note 15) .....	(778)	(473)	(7,243)
Severance and retirement benefit expenses (Note 5) .....	(72)	(72)	(670)
Foreign currency exchange gain (loss), net .....	51	(64)	475
Investigation costs related to antitrust law .....	(164)	(265)	(1,527)
U.S. class action suit settlement package .....	(855)	—	(7,960)
U.S. civil action suit-related expenses .....	(1,442)	—	(13,425)
Other, net .....	(114)	83	(1,062)
	(3,797)	(1,052)	(35,350)
Loss before income taxes .....	(1,535)	(812)	(14,291)
<b>INCOME TAXES</b> (Note 10):			
Current .....	357	148	3,324
Deferred .....	(2)	(7)	(19)
	355	141	3,305
<b>Net loss</b> .....	¥ (1,890)	¥ (953)	\$ (17,596)
		Yen	U.S. Dollars
<b>NET LOSS PER SHARE:</b> .....	¥ (13.34)	¥ (6.73)	\$ (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, 2005 and 2004

	Year ended March 31,		Year ended
	2005	2004	March 31,
			(Thousands) (Note 1)
<b>COMMON STOCK:</b>			
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	\$ 121,637
Balance at end of year .....	¥ 13,065	¥ 13,065	\$ 121,637
<b>CAPITAL SURPLUS (Millions):</b>			
Balance at beginning of year .....	¥ 5,229	¥ 5,229	\$ 48,682
Balance at end of year .....	¥ 5,229	¥ 5,229	\$ 48,682
<b>ACCUMULATED DEFICIT (Millions):</b>			
Balance at beginning of year .....	¥ (9,728)	¥ (8,775)	\$ (90,569)
Net loss for the year .....	(1,890)	(953)	(17,596)
Balance at end of year .....	¥ (11,618)	¥ (9,728)	\$ (108,165)
<b>NET UNREALIZED HOLDING LOSSES ON INVESTMENT SECURITIES (Millions):</b>			
Balance at beginning of year .....	¥ (26)	¥ (1)	\$ (242)
Net decrease for the year .....	(3)	(25)	(28)
Balance at end of year .....	¥ (29)	¥ (26)	\$ (270)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS (Millions):</b>			
Balance at beginning of year .....	¥ 35	¥ (200)	\$ 326
Adjustments from translation of foreign currency financial statements .....	96	235	894
Balance at end of year .....	¥ 131	¥ 35	\$ 1,220
<b>TREASURY STOCK, AT COST (Millions):</b>			
Balance at beginning of year .....	¥ (14)	¥ (10)	\$ (130)
Treasury stock .....	(15)	(4)	(140)
Balance at end of year .....	¥ (29)	¥ (14)	\$ (270)

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended March 31, 2005 and 2004

	Year ended March 31,		Year ended
	2005	2004	March 31,
	(Millions)		(Thousands)
			(Note 1)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Loss before income taxes .....	¥ (1,535)	¥ (812)	\$ (14,291)
Depreciation and amortization .....	2,042	2,258	19,011
Provision of allowance for doubtful accounts .....	(151)	1	(1,406)
Increase (decrease) in severance and retirement benefits .....	60	(45)	559
Interest and dividend income .....	(30)	(20)	(279)
Interest expense .....	253	256	2,355
Gain on sales of property and equipment .....	(88)	(268)	(819)
Loss on sales of property and equipment .....	288	293	2,681
Restructuring cost .....	778	473	7,243
Gain on sales of equity securities .....	(7)	(121)	(65)
Investigation costs related to antitrust law .....	164	265	1,527
Change in operating assets and liabilities			
Increase in notes and accounts receivable .....	(262)	(555)	(2,439)
Decrease in inventories .....	478	277	4,450
Increase in other current assets .....	(79)	(150)	(735)
Increase in notes and accounts payable .....	575	661	5,353
Increase in accrued expenses and other current liabilities .....	94	393	875
Settlement package of U.S. class action suit .....	855	—	7,960
U.S. civil action suit-related expenses .....	1,441	—	13,416
Other, net .....	478	167	4,450
Subtotal .....	5,354	3,073	49,846
Interest and dividend received .....	30	23	279
Interest expense paid .....	(271)	(240)	(2,523)
Restructuring cost paid .....	(739)	(583)	(6,880)
Investigation costs related to antitrust laws paid .....	(164)	(265)	(1,527)
Settlement package U.S. class action suit paid .....	(855)	—	(7,960)
U.S. civil action suit-related expenses paid .....	(99)	—	(912)
Income taxes paid .....	(237)	(135)	(2,207)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>	<b>3,019</b>	<b>1,873</b>	<b>28,116</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment .....	(2,975)	(1,486)	(27,698)
Proceeds from sales of property, plant and equipment .....	5	236	47
Sales revenue of investment securities .....	287	352	2,672
Purchases of investment securities .....	(539)	0	(5,009)
Payments for acquisition of assets by business transfer (Note 12) .....	(1,319)	—	(12,280)
Other, net .....	144	(109)	1,341
<b>NET CASH USED IN INVESTING ACTIVITIES .....</b>	<b>(4,397)</b>	<b>(1,007)</b>	<b>(40,927)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in short-term bank loans .....	223	261	2,067
Proceeds from long-term loans payable .....	1,300	—	12,103
Repayment of long-term debt .....	(70)	(674)	(652)
Other, net .....	(254)	(11)	(2,365)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES .....</b>	<b>1,199</b>	<b>(424)</b>	<b>11,153</b>
<b>EFFECT OF TRANSLATION OF CASH AND CASH EQUIVALENTS .....</b>	<b>25</b>	<b>25</b>	<b>233</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>(154)</b>	<b>467</b>	<b>(1,425)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....</b>	<b>867</b>	<b>400</b>	<b>8,072</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b>¥ 713</b>	<b>¥ 867</b>	<b>\$ 6,647</b>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2005 and 2004

### 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.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective April 1, 2005.

The Company does not believe that adoption of this new accounting standard will have a material impact on its 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, 2005, which was ¥107.41 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, 2005 and 2004 were as follows:

	2005	2004
Consolidated subsidiaries	7	8

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

Sinpo Trading Co., Ltd., which had been consolidated subsidiary, was dissolved in the year ended March 31, 2005.

### 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, 2005 and 2004.

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 value. 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.

Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

### 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, 2005. These changes had no impact on previously reported results of operations.

### NOTE 2 – INVENTORIES

Inventories consist of the following:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Finished goods	¥ 5,548	¥ 5,363	\$ 51,653
Work in process	2,419	2,657	22,521
Raw materials	951	545	8,854
Supplies	345	393	3,212
Total	¥ 9,263	¥ 8,958	\$ 86,240

### NOTE 3 – ACCUMULATED DEPRECIATION

Accumulated depreciation for the year ended March 31, 2005 and 2004 were ¥46,482 million (\$432,753 thousand) and ¥45,333 million, respectively.

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

Short-term loans at March 31, 2005 and 2004 represented mainly bank notes at interest rates ranging from 0.7% to 0.8% and 0.6% to 1.5% per annum, respectively.

Long-term debt consists of the following:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Secured loans, 2.3% - 2.6%	¥ —	¥ 40	\$ —
Unsecured loans, 2.1%	—	30	—
	¥ —	70	\$ —
Less current portion	—	(70)	—
Long-term debt, net	¥ —	¥ —	\$ —

## 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, 2005 and 2004 consist of the following:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Projected benefit obligation	¥ 6,170	¥ 5,551	\$ 57,444
Less fair value of pension assets	(3,617)	(3,383)	(33,675)
Unfunded projected benefit obligation	2,553	2,168	23,769
Less unrecognized actuarial differences	(828)	(470)	(7,709)
Less unrecognized net transition obligation	(—)	(72)	(—)
Liability for employees' severance and retirement benefits	¥ 1,725	¥ 1,626	\$ 16,060

Employees' severance and retirement benefit expenses, included in the consolidated statement of operations for the years ended March 31, 2005 and 2004, are comprised of the following:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Service costs – benefits earned during the year	¥ 220	¥ 171	\$ 2,048
Interest cost on projected benefit obligation	144	141	1,341
Expected return on plan assets	(11)	(11)	(102)
Amortization of net transition obligation	72	72	670
Amortization of actuarial differences	48	127	447
Employees' severance and retirement benefit expenses	¥ 473	¥ 500	\$ 4,404

The discount rate and the rate of expected return on plan assets used by the Company are 2.0% for the year ended March 31, 2005 and 2.8% for the year ended March 31, 2004. 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, 2005 and 2004 as follows:

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

Machinery and equipment:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Purchase price equivalents	¥ 1,364	¥ 1,116	\$ 12,699
Accumulated depreciation equivalents	(375)	(189)	(3,491)
Book value equivalents	¥ 989	¥ 927	\$ 9,208

Tools:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Purchase price equivalents	¥ 364	¥ 427	\$ 3,389
Accumulated depreciation equivalents	(229)	(299)	(2,132)
Book value equivalents	¥ 135	¥ 128	\$ 1,257

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

(2)Lease commitments

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Due within one year	¥ 238	¥ 210	\$ 2,216
Due after one year	886	845	8,249
Total	¥ 1,124	¥ 1,055	\$ 10,465

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

## (3) Lease payments and depreciation equivalents

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Lease payments	¥ 249	¥ 223	\$ 2,318
Depreciation equivalents	¥ 249	¥ 223	\$ 2,318

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, 2005 and 2004 were as follows:

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2005 and 2004.

(Available-for-sale securities)

## (1) Securities with book values exceeding acquisition costs:

March 31, 2005			
Type	(Millions)		
	Acquisition cost	Book value	Difference
Equity securities	¥ 4	¥ 7	¥ 3
Total	¥ 4	¥ 7	¥ 3

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

March 31, 2005			
Type	(Thousands) (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$ 37	\$ 65	\$ 28
Total	\$ 37	\$ 65	\$ 28

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

March 31, 2005			
Type	(Millions)		
	Acquisition cost	Book value	Difference
Equity securities	¥ 40	¥ 27	¥ (13)
Total	¥ 40	¥ 27	¥ (13)

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

March 31, 2005			
Type	(Thousands) (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$ 372	\$ 251	\$ (121)
Total	\$ 372	\$ 251	\$ (121)

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, 2005 and 2004 were ¥28 million (\$261 thousand) and ¥1 million, respectively.

The following table summarizes book values of securities with no available fair values as of March 31, 2005 and 2004.

Type	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Non-listed equity securities	¥ 130	¥ 129	\$ 1,210
Others	283	—	2,635
Total	¥ 413	¥ 129	\$ 3,845

The proceeds from sales of available-for-sale securities were ¥287 million (\$2,672 thousand) and ¥352 million for the years ended March 31, 2005 and 2004, respectively. The gross realized gains on those sales were ¥7 million (\$65 thousand) and ¥121 million for the years ended March 31, 2005 and 2004, respectively.

## NOTE 8 – RESEARCH AND DEVELOPMENT COSTS

Research and development costs in the year ended March 31, 2005 and 2004 amounted to ¥1,064 million (\$9,906 thousand) and ¥977 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 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.

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: Foreign currency forward contracts

Hedged items: Foreign currency trade receivables and payable

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 counter-parties were all prime banks operating domestically in Japan, and credit risk in the event of non-performance by the counter-parties is considered minor.

Market value and other information on derivative financial instruments at March 31, 2005 and 2004 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 39.5% for the years ended March 31, 2005 and 2004.

Significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Deferred tax assets:			
Severance and retirement benefits	¥ 80	¥ 76	\$ 745
Unrealized gain from intercompany sale of fixed assets	47	47	438
Loss carry-forward	—	—	—
Accrued bonuses	17	16	158
Other	11	14	102
Total deferred tax assets	155	153	1,443
Net deferred tax assets	¥ 155	¥ 153	\$ 1,443

Valuation allowances deducted in the above deferred tax assets at March 31, 2005 and 2004 were ¥6,469 million (\$60,227 thousand) and ¥3,475 million, respectively.

The information of the significant differences between the statutory tax rate and the effective tax rate for financial statement purpose for the year ended March 31, 2005 and 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, 2005 and 2004 were as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions)		(Thousands) (Note 1)
Unsecured short-term loans	¥ 12,750	¥ 10,415	\$ 118,704
Unsecured long-term loans	1,300	—	12,103
Interest expense	184	130	1,713

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 – CASH FLOW INFORMATION

Toho Carbon Fibers, a subsidiary of the Company acquired the carbon fiber business operated by Fortafil Fibers, Inc. on August 31, 2004. The following tables summarize acquisition costs.

	(Millions)	(Thousands)
Current assets	¥1,089	\$10,139
Fixed assets	564	5,251
Current liabilities	334	3,110
Acquisition costs	1,319	12,280

**NOTE 13 – 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, 2005 and 2004 was as follows:

Year ended March 31, 2005							
	Carbon fiber	Textile	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
(Millions)							
Net sales	¥ 23,624	¥ 9,208	¥ 6,295	¥ 1,895	¥ 41,022	¥ (945)	¥ 40,077
Operating expenses	21,623	9,434	5,906	1,801	38,764	(949)	37,815
Operating income (loss)	¥ 2,001	¥ (226)	¥ 389	¥ 94	¥ 2,258	¥ 4	¥ 2,262
Identifiable assets	¥ 23,700	¥ 6,058	¥ 5,426	¥ 1,453	¥ 36,637	¥ (66)	¥ 36,571
Depreciation and amortization	¥ 1,582	¥ 228	¥ 104	¥ 99	¥ 2,013	¥ 29	¥ 2,042
Capital expenditures	¥ 3,263	¥ 103	¥ 44	¥ 58	¥ 3,468	¥ 9	¥ 3,477

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, 2005							
	Carbon fiber	Textile	Machinery and Engineering	Service	Total	Corporate or elimination	Consolidated
(Thousands) (Note 1)							
Net sales	\$ 219,942	\$ 85,728	\$ 58,607	\$ 17,643	\$ 381,920	\$ (8,798)	\$ 373,122
Operating expenses	201,313	87,832	54,985	16,767	360,897	(8,835)	352,062
Operating income (loss)	\$ 18,629	\$ (2,104)	\$ 3,622	\$ 876	\$ 21,023	\$ 37	\$ 21,060
Identifiable assets	\$ 220,650	\$ 56,401	\$ 50,517	\$ 13,527	\$ 341,095	\$ (614)	\$ 340,481
Depreciation and amortization	\$ 14,728	\$ 2,123	\$ 968	\$ 922	\$ 18,741	\$ 270	\$ 19,011
Capital expenditures	\$ 30,379	\$ 959	\$ 409	\$ 540	\$ 32,287	\$ 84	\$ 32,371

(2) Geographic segment information for the years ended March 31, 2005 and 2004 was as follows:

Year ended March 31, 2005							
	Japan	Europe	Other	Total	Corporate or elimination	Consolidated	
(Millions)							
Net sales	¥ 35,761	¥ 7,420	¥ 3,206	¥ 46,387	¥ (6,310)	¥ 40,077	
Operating expenses	34,020	6,766	3,274	44,060	(6,245)	37,815	
Operating income (loss)	¥ 1,741	¥ 654	¥ (68)	¥ 2,327	¥ (65)	¥ 2,262	
Identifiable assets	¥ 30,228	¥ 5,786	¥ 2,280	¥ 38,294	¥ (1,723)	¥ 36,571	

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, 2005**

	Japan	Europe	Other	Total	Corporate or elimination	Consolidated
	(Thousands) (Note 1)					
Net sales	\$ 332,939	\$ 69,081	\$ 29,848	\$ 431,868	\$ (58,747)	\$ 373,121
Operating expenses	316,730	62,992	30,481	410,203	(58,142)	352,061
Operating income (loss)	\$ 16,209	\$ 6,089	\$ (633)	\$ 21,665	\$ (605)	\$ 21,060
Identifiable assets	\$ 281,426	\$ 53,868	\$ 21,227	\$ 356,521	\$ (16,041)	\$ 340,480

(3) Overseas sales information by geographic areas for the years ended March 31, 2005 and 2004 was as follows:

**Year ended March 31, 2005**

	Asia	Europe	Other	Total
	(Millions)			
Overseas sales	¥ 3,744	¥ 7,315	¥ 2,562	¥ 13,621
Percentage of overseas sales to consolidated net sales	9.3%	18.3%	6.4%	34.0%

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, 2005**

	Asia	Europe	Other	Total
	(Thousands) (Note 1)			
Overseas sales	\$ 34,857	\$ 68,104	\$ 23,852	\$ 126,813

#### **NOTE 14 – CONTINGENT LIABILITIES**

At March 31, 2005, the Company and its subsidiaries were contingently liable for repurchase of accounts receivable amounting to ¥325 million (\$3,026 thousand).

#### **NOTE 15 – RESTRUCTURING COST**

Restructuring cost for the year ended March 31, 2005 and 2004 were ¥778 million (\$7,243 thousand) and ¥473 million, respectively, for the purpose of the withdrawal from the rayon business and clean up of the land.

#### **NOTE 16 – 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 at the contract price plus interest, tax and overhead costs, in the case where the land is not used for urban development and is not transferred to the 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 consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended March 31, 2005, 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, 2005 and 2004, 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.

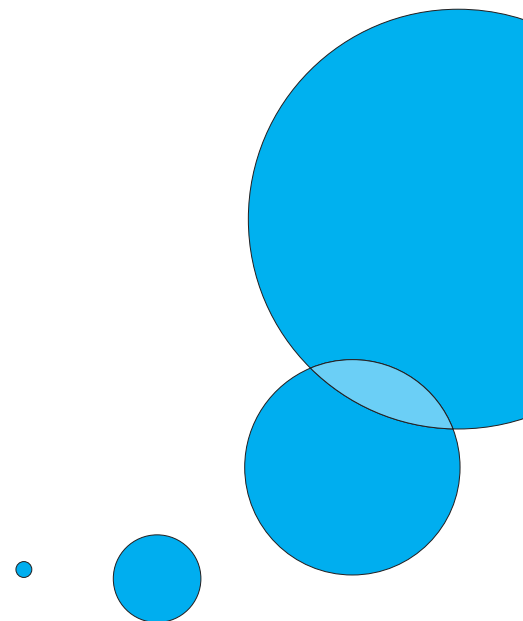
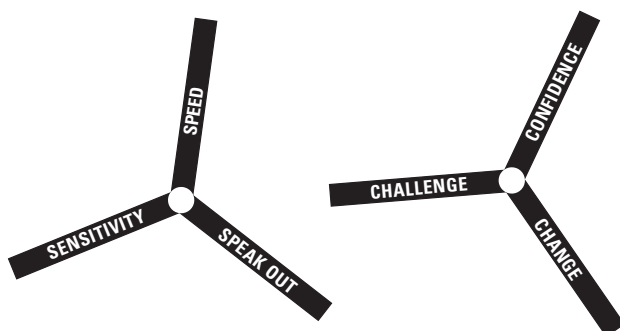
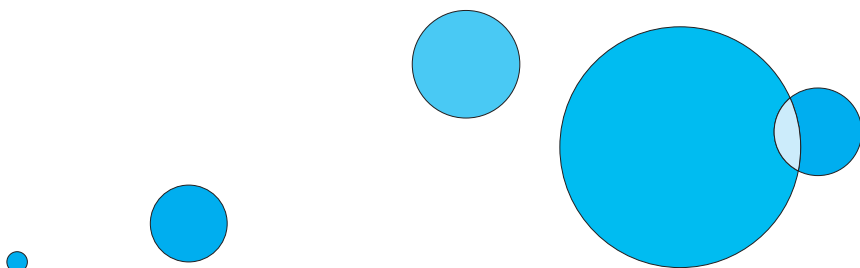
Without qualifying our opinion, we draw attention to Note 16 "Land Transferred to the Organization for Promoting Urban Development" to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.



Tokyo, Japan  
June 29, 2005

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**TEIJIN**

|||| **Toho Tenax** |  
**Toho Tenax Co., Ltd.**

Hongo TS Building, 2-38-16, Hongo,  
Bunkyo-ku, Tokyo 113-8404, Japan  
Tel: 03-5842-3700 Fax: 03-5842-3701  
<http://www.tohotenax.com>

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