



SUMINOE TEXTILE CO., LTD.



1. Basic Business Policy

As a leading-edge company in its industry, Suminoe Textile's fundamental corporate mission is to create more pleasant living spaces by constantly offering fresh new colors and designs for interiors. Developing new technologies and product lines is a normal part of what we do at the Company, which is why we lead the industry in the development of environment-friendly products for our customers. The entire Suminoe Textile staff is more committed than ever to enriching the lives of our customers through the development of original and environmentally-sound products and technologies.

We have been undertaking a series of corporate reforms aimed at helping the Company to realize a more stable management base and to advance changes that would result in a more profitable earnings structure. We are now in the second phase of these reforms, where we have taken steps to improve the Company's overall financial position — by streamlining affiliated companies and reducing assets — to ensure the Company is prepared for the application of new accounting standards.

Moving forward as a company destined for growth in the 21st century, we will continue to set forth new medium-term business strategies and strive to ready the Company for the coming challenges of its third phase of vital reforms.

2. Basic Policy on Profit Distribution

The Company's management regards the maintenance of stable dividend payments to its shareholders as a matter of top priority. To this end, we are working to strengthen our business base through corporate reorganization so as to create a corporate structure capable of generating adequate profits.

3. Medium-to-Long-Term Management Plan, and Tasks to be Addressed

The Company's medium-to-long-term management strategy focuses on the following seven issues:

1. The growing of new businesses, centering primarily on recycling
2. Adoption of leading-edge information and network technology
3. Creation of value-added products based on demand-pull and establishment of supply-chain management
4. Establishment of overseas operation bases
5. Improvement of asset management efficiency and cash flow
6. Modernization of the pension system
7. Creation of a crisis management system

By successfully tackling the above issues, we aim to bolster our business foundation and enhance our high-earning corporate structure.

4. Basic Policy on Corporate Governance

The objective of corporate governance is to ensure sound management and operational efficiency. We will make strenuous efforts to continually provide our stakeholders with stable profits and thereby raise corporate value.

To this end, we have appointed external directors and strengthened the functions of our Board of Auditors. We have introduced an executive officer system to improve the decision-making functions of the Board of Directors and clearly separate responsibilities for the supervision of operations from those for the day-to-day conduct of operations. Regarding risk management, we have drafted compliance regulations based on a corporate code of ethics. Through adherence to our regulations, we aim to improve our trustworthiness in the eyes of the public.

5. Target Management Indicators

As its medium-to-long-term management targets, the Company has adopted an ROE of 5% or higher, and to this end is promoting the efficient allocation of management resources in order to achieve a steady increase in cash flow to raise earning power and corporate value.

6. Business Performance for Fiscal 2003

During the term under review, growth in production fueled expectations that the Japanese economy was moving toward recovery at the start of the term. By mid-term, however, this growth had leveled off and the economy remained sluggish due to the uncertainty of world affairs and the SARS epidemic.

Concerning the operating environment faced by Suminoe Textile Group businesses, the field of interior

furnishings was hit by sluggish consumer spending, which resulted from a worsening personal income and employment situation. Furthermore, although the supplementary budget had some positive impact, public investment remained at generally low levels. In automobiles, sales on a volume basis exceeded previous-year levels, due to strong exports at the beginning of the term and the contribution from increased sales of new vehicles, particularly compact models. Nonetheless, the overall number of cars sold during the term remained at a low level.

In light of these conditions, the Company recorded consolidated net sales for the term under review of ¥70,042 million (US\$593,576 thousand), 2.0% lower than the previous year. By product segment, carpet sales amounted to ¥26,306 million, sales of drapery to ¥27,528 million, moquette upholstery sales to ¥4,441 million and sales of other products to ¥11,767 million. In the net income/loss account, the Company posted a loss before income taxes and minority interests of ¥1,002 million (US\$8,492 thousand). Moreover, the Company posted a loss on write-down of marketable and investment securities on stock holdings of ¥1,303 million (US\$11,043 thousand) resulting from stagnant market conditions, and a loss on revaluation of pension assets of ¥575 million (US\$4,873 thousand), required for making up for a pension fund shortfall following the return of the entrusted government portion of the contributory funded plans. As a result, the Company posted a net loss of ¥930 million (US\$7,881 thousand).

The global economy, centering primarily on the economies of the United States and Europe, continues to show faint signs of recovery, with the lack of clarity regarding the future direction of stock prices and foreign exchange rates, among other factors, likely to persist. Thus, a difficult operating environment for the Suminoe Group can be expected.

To realize further expansion, the Suminoe Textile Group, as a comprehensive interior goods manufacturer, is implementing measures targeting the following strategy areas, and in doing so strives to maintain a balance between offensive and defensive initiatives.

The first strategy calls for the development of new products that are environmentally sound and the creation of new businesses. The second strategy targets plant and equipment investment to

strengthen the manufacturing base and continued cost-cutting efforts. The third strategy focuses on efforts to help the Company become a global enterprise.

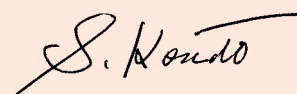
With regard to this third strategy, in particular, in the industrial materials segment we set up the Suminoe Textile of America Corporation as a manufacturing and sales subsidiary in the U.S. in April. We will also be expanding operations in such countries as Indonesia and China as part of efforts to create a global supply network. Regarding interior furnishings, in January, we established the Suzhou Suminoe Brother Textile Co., Ltd. as a production and sales base for the Chinese market to replace our Shanghai Office. In addition, we are aiming to stimulate new demand in the U.S. for environmentally-friendly products, which is our specialty. We have

started exporting odor-killing chemicals to carpet makers in the U.S. and Europe, thus establishing our products in these markets on a profit-making basis.

We aim to strengthen our financial base by improving our asset efficiency, convert our Group Administration Division into an Administration Center, and broaden the application of our new personnel system to include all employees. We are revamping our pension and retirement system with an eye toward defined contribution pension plans (401K). We are also making efforts to disclose the details of management initiatives in a timely manner, and strengthening our risk management system.

Faced with these various strategy issues, in December we welcome the 90th anniversary of our founding.

To further establish our leading position in the industry, we took the opportunity of this occasion to devise a medium-to-long-term management plan for the purpose of identifying our future direction as a Group, reforming existing practices, and devising proactive strategies. In accordance with this plan, we made changes to realize a more profitable earnings structure and boldly advanced into new markets in our effort to create a new Suminoe Textile.



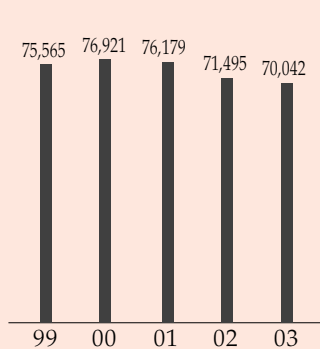
Sadahiko Kondo
President

FINANCIAL HIGHLIGHTS

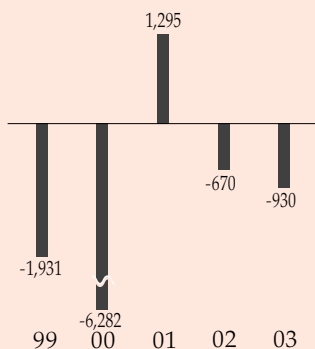
Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31

	Millions of yen					Thousands of U.S. dollars
	2003	2002	2001	2000	1999	2003
Net sales	¥70,042	¥71,495	¥76,179	¥76,921	¥75,565	\$593,576
Income (loss) before income taxes and minority interests	(1,002)	(437)	1,181	(6,687)	(2,069)	(8,492)
Net income (loss)	(930)	(670)	1,295	(6,282)	(1,931)	(7,881)
Total assets	68,322	70,272	77,703	83,874	68,769	579,000
Shareholders' equity	18,886	20,204	21,474	21,160	20,276	160,051
Amounts per share (in yen and U.S. dollars):						
Net income (loss)	¥(12.11)	¥(8.43)	¥15.10	¥(68.79)	¥(20.78)	\$(0.10)
Cash dividends applicable to the year			2.50			

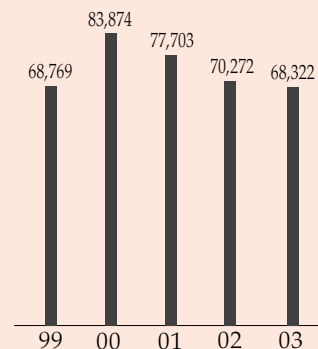
Notes: 1. U.S. dollar amounts are converted from Japanese yen amounts at the rate of U.S.\$1 to ¥118, the approximate rate on May 31, 2003.
2. Net income (loss) per share of common stock is computed based on the weighted average number of shares outstanding.



NET SALES
Millions of yen



NET INCOME (LOSS)
Millions of yen



TOTAL ASSETS
Millions of yen

CONSOLIDATED BALANCE SHEETS

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
May 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 5,998	¥ 5,294	\$ 50,831
Marketable securities (Note 3)	913	681	7,737
Notes and accounts receivable:			
Trade notes	9,014	8,402	76,390
Trade accounts	9,654	10,776	81,813
Other	903	775	7,653
Allowance for doubtful receivables	(175)	(200)	(1,483)
Inventories (Note 4)	7,854	8,315	66,559
Deferred tax assets (Note 9)	317	301	2,686
Other	417	322	3,534
Total current assets	<u>34,895</u>	<u>34,666</u>	<u>295,720</u>
Property, plant and equipment (Notes 2.e and 5):			
Land	17,709	17,707	150,076
Buildings	14,066	14,097	119,204
Machinery and equipment	16,176	16,646	137,085
Construction in progress	66	38	559
Total	<u>48,017</u>	<u>48,488</u>	<u>406,924</u>
Accumulated depreciation	(22,959)	(22,697)	(194,568)
Net property, plant and equipment	<u>25,058</u>	<u>25,791</u>	<u>212,356</u>
Other assets:			
Investment securities (Notes 3 and 5)	5,469	7,129	46,348
Investments in and loans to associated companies	630	608	5,339
Deferred tax assets (Note 9)	316	148	2,678
Other	1,954	1,930	16,559
Total other assets	<u>8,369</u>	<u>9,815</u>	<u>70,924</u>
Total	<u>¥68,322</u>	<u>¥70,272</u>	<u>\$579,000</u>

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 7,700	¥ 7,910	\$ 65,254
Current portion of long-term debt (Note 5)	1,120	5,033	9,492
Notes and accounts payable:			
Trade notes	10,385	10,056	88,008
Trade accounts	8,380	7,338	71,017
Construction	256	112	2,170
Accrued expenses	2,182	1,761	18,492
Income taxes payable	53	44	449
Deferred tax liabilities (Note 9).....		2	
Other	780	838	6,610
Total current liabilities	<u>30,856</u>	<u>33,094</u>	<u>261,492</u>
Long-term liabilities:			
Long-term debt (Note 5)	5,896	4,102	49,966
Liability for retirement benefits (Note 6)	6,730	6,279	57,034
Deferred tax liabilities (Note 9)	9	351	76
Deferred tax liabilities related to land revaluation excess (Note 9) ...	5,374	5,574	45,542
Other	437	543	3,704
Total long-term liabilities	<u>18,446</u>	<u>16,849</u>	<u>156,322</u>
Minority interests	<u>134</u>	<u>125</u>	<u>1,135</u>
Shareholders' equity (Notes 2.e, 5 and 7):			
Common stock—authorized, 322,634,000 shares in 2003 and 327,634,000 shares in 2002; issued 76,821,626 shares in 2003 and 2002	9,554	9,554	80,966
Capital surplus	2,653	2,653	22,483
Accumulated deficit	(977)	(47)	(8,280)
Land revaluation excess	7,897	7,697	66,924
Net unrealized gain (loss) on available-for-sale securities	(181)	377	(1,534)
Foreign currency translation adjustments	(53)	(28)	(449)
Total	<u>18,893</u>	<u>20,206</u>	<u>160,110</u>
Treasury stock—at cost; 55,422 shares in 2003 and 11,562 shares in 2002	(7)	(2)	(59)
Total shareholders' equity	<u>18,886</u>	<u>20,204</u>	<u>160,051</u>
Total	<u>¥68,322</u>	<u>¥70,272</u>	<u>\$579,000</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Net sales	¥70,042	¥71,495	\$593,576
Cost and operating expenses:			
Cost of sales	53,548	55,439	453,797
Selling, general and administrative (Note 10)	15,720	15,375	133,220
Total cost and operating expenses	69,268	70,814	587,017
Operating income	774	681	6,559
Other income (expenses):			
Interest and dividend income	94	155	797
Rental income	231	244	1,958
Interest expense	(266)	(352)	(2,254)
Rental expense	(69)	(112)	(585)
Loss on write-down of marketable and investment securities	(1,303)	(3,132)	(11,043)
Gain from relinquishment of entrusted government portion of the benefits provided by welfare pension funds (Notes 2.f and 6)		1,827	
Loss on revaluation of pension assets (Note 6)	(575)		(4,873)
Other-net (Note 8)	112	252	949
Other expenses-net	(1,776)	(1,118)	(15,051)
Loss before income taxes and minority interests	(1,002)	(437)	(8,492)
Income taxes (Note 9):			
Current	(114)	(76)	(966)
Deferred	210	(178)	1,780
Total	96	(254)	814
Minority interests	(24)	21	(203)
Net loss	¥ (930)	¥ (670)	\$ (7,881)
		Yen	U.S. dollars
Per share of common stock (Note 2.m):			
Net loss	¥(12.11)	¥(8.43)	\$(0.10)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2003 and 2002

	Millions of yen							
	Number of common shares issued	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Land revaluation excess	Net unrealized gain (loss) on available-for- sale securities	Foreign currency translation adjustments	Treasury stock
Balance at June 1, 2001	82,663,626	¥9,554	¥3,517	¥ 828	¥7,698	¥ (58)	¥(65)	¥(0)
Net loss for the year.....				(670)				
Cash dividends, ¥2.5 per share.....				(206)				
Purchase of treasury stock for retirement (Note 7).....	(5,842,000)		(864)					
Reversal of land revaluation excess, net of income taxes (Note 2.e).....				1	(1)			
Net change in unrealized gain (loss) on available-for-sale securities.....						435		
Net change in foreign currency translation adjustments.....							37	
Increase in treasury stock (10,599 shares) (Note 7).....								(2)
Balance at May 31, 2002	<u>76,821,626</u>	<u>9,554</u>	<u>2,653</u>	<u>(47)</u>	<u>7,697</u>	<u>377</u>	<u>(28)</u>	<u>(2)</u>
Net loss for the year.....				(930)				
Increase in land revaluation excess, due to change in tax rates ...					200			
Net change in unrealized gain (loss) on available-for-sale securities.....						(558)		
Net change in foreign currency translation adjustments.....							(25)	
Increase in treasury stock (43,860 shares) (Note 7).....								(5)
Balance at May 31, 2003	<u>76,821,626</u>	<u>¥9,554</u>	<u>¥2,653</u>	<u>¥(977)</u>	<u>¥7,897</u>	<u>¥(181)</u>	<u>¥(53)</u>	<u>¥(7)</u>

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Land revaluation excess	Net unrealized gain (loss) on available-for- sale securities	Foreign currency translation adjustments	Treasury stock	
Balance at May 31, 2002	\$80,966	\$22,483	\$ (399)	\$65,229	\$ 3,195	\$(237)	\$(17)	
Net loss for the year.....			(7,881)					
Increase in land revaluation excess, due to change in tax rates ...				1,695				
Net change in unrealized gain (loss) on available-for-sale securities.....					(4,729)			
Net change in foreign currency translation adjustments.....						(212)		
Increase in treasury stock (43,860 shares) (Note 7).....							(42)	
Balance at May 31, 2003	<u>\$80,966</u>	<u>\$22,483</u>	<u>\$(8,280)</u>	<u>\$66,924</u>	<u>\$(1,534)</u>	<u>\$(449)</u>	<u>\$(59)</u>	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Operating activities:			
Loss before income taxes and minority interests	¥(1,002)	¥ (437)	\$ (8,492)
Adjustments for:			
Income taxes–paid	(105)	(81)	(890)
Depreciation and amortization	1,056	1,206	8,949
Increase in provision for doubtful receivables	63	30	534
Net loss on sales of marketable and investment securities	67	8	568
Loss on write-down of marketable and investment securities	1,303	3,132	11,043
Loss on sales and disposals of property, plant and equipment	87	74	737
Gain on sales of property, plant and equipment		(53)	
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	510	2,852	4,322
Decrease in inventories	461	432	3,907
Increase (decrease) in notes and accounts payable–trade	1,371	(2,435)	11,619
Decrease in accrued bonus	(186)	(23)	(1,576)
Increase (decrease) in liability for retirement benefits	451	(1,787)	3,822
Other–net	65	(412)	550
Total adjustments	<u>5,143</u>	<u>2,943</u>	<u>43,585</u>
Net cash provided by operating activities	<u>4,141</u>	<u>2,506</u>	<u>35,093</u>
Investing activities:			
Proceeds from sales of property, plant and equipment	2	105	17
Purchases of property, plant and equipment	(145)	(656)	(1,229)
Proceeds from sales and redemption of marketable and investment securities	7,609	9,506	64,483
Purchases of marketable and investment securities	(8,429)	(6,923)	(71,432)
Decrease (increase) in other assets	(108)	41	(915)
Net cash (used in) provided by investing activities	<u>(1,071)</u>	<u>2,073</u>	<u>(9,076)</u>
Financing activities:			
Net decrease in short-term bank loans	(210)	(490)	(1,780)
Proceeds from long-term debt	2,884	3,968	24,440
Repayments of long-term debt	(5,033)	(4,677)	(42,653)
Purchase of treasury stock for retirement	(5)	(867)	(42)
Dividends paid	(1)	(204)	(8)
Other	(1)	(1)	(8)
Net cash used in financing activities	<u>(2,366)</u>	<u>(2,271)</u>	<u>(20,051)</u>
Net increase in cash and cash equivalents	704	2,308	5,966
Cash and cash equivalents, beginning of year	5,294	2,986	44,865
Cash and cash equivalents, end of year	<u>¥ 5,998</u>	<u>¥5,294</u>	<u>\$50,831</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2003 and 2002

1. Basis of presenting consolidated financial statements

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

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Suminoe Textile Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118 to \$1, the approximate rate of exchange at May 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together, the "Companies"). The accounts of an unconsolidated subsidiary would not have a material effect on the accompanying consolidated financial statements.

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

Costs in excess of net assets of subsidiaries at the date of acquisition that cannot be specifically assigned to individual assets are charged to income as incurred.

All significant intercompany transactions and balances have been eliminated. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

The Companies' investments in significant associated companies (companies in which the Companies have the ability to exercise significant influence) are stated at cost plus equity in undistributed earnings since acquisition or formation. Costs in excess of equity at the date of acquisition that cannot be specifically assigned to individual assets are charged to income as incurred.

In current year, certain domestic consolidated subsidiaries changed their fiscal periods ends to conform to the Company's fiscal period end. As a result, the statements of operations of these subsidiaries for the fourteen months or fifteen months periods are included in the consolidated statement of operations for the year ended May 31, 2003. The effect of this change is to increase net sales by ¥2,931 million (\$24,839 thousand), cost of sales by ¥1,406 million (\$11,915 thousand), and selling, general and administrative expenses by ¥1,503 million (\$12,737 thousand), for the year ended May 31, 2003. This effect on loss before income taxes and minority interests is not material.

b. Cash and cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits that represent short-term investments, all of which mature within three months of the date of acquisition.

c. Inventories

Inventories are stated at cost determined by the average method.

d. Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost, and iii) available-for-sale securities, which are those securities not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

e. Property, plant and equipment

Property, plant and equipment except land are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the useful lives of the assets. The range of estimated useful lives is principally from 3 to 50 years for buildings and from 4 to 17 years for machinery and equipment.

Under the "Law of Land Revaluation," promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of May 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the consolidated statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities. The details of the one-time revaluation as of May 31, 2000 were as follows:

Land before revaluation:	¥ 3,436 million
Land after revaluation:	¥16,713 million
Land revaluation excess:	¥ 7,700 million
	(net of income taxes of ¥5,576 million)

As of May 31, 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥3,919 million (\$33,212 thousand).

f. Retirement benefits

The Companies account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

On April 23, 2002, the Company obtained government approval to relinquish the entrusted government portion of the contributory funded plans according to enforcement of the defined benefit enterprise pension law on April 1, 2002.

The differences between the liability to be relinquished and the related pension fund assets were credited to income on the date when government approval was obtained according to "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" issued by the Japanese Institute of Certified Public Accountants.

Gain from relinquishment of entrusted government portion of the contributory funded plans, which is credited to income, is ¥1,827 million, net of the related unrecognized actuarial loss of ¥1,173 million for the year ended May 31, 2002. The pension fund assets to be relinquished measured at May 31, 2003 and 2002 were ¥4,075 million (\$34,534 thousand) and ¥3,984 million, respectively.

Actuarial gain/loss is being recognized for 10 years.

In addition, the Company provides for the liability for directors and corporate auditors' retirement benefits at the amounts which would be required to be paid if all directors and corporate auditors retired at the balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

g. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

h. Income taxes

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

i. Foreign currency transactions

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

j. Foreign currency financial statements

The balance sheet accounts of foreign associated companies are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rates. Revenue and expense accounts of the foreign associated companies are translated into Japanese yen at the average annual exchange rates.

Differences arising from such translation are shown as "Foreign currency translation adjustments" as a separate component of shareholders' equity.

k. Derivatives and hedging activities

The Company uses foreign exchange forward contracts, interest rate caps and interest rate swaps to manage its exposures to fluctuations in foreign exchange and interest rates. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and the resulting gains or losses be recognized in the consolidated statements of operations and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

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

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

l. Bond issue costs

Bond issue costs are charged to income as incurred.

m. Per share information

Effective June 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income/loss per share is computed by dividing net income/loss available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. There was no impact from the adoption of this standard.

The computations of net income/loss per share of common stock are based on the weighted average number of shares outstanding during each period of 76,784,676 shares for the year ended May 31, 2003 and 79,547,312 shares for the year ended May 31, 2002.

Diluted net income per share is not disclosed because the Companies have not issued dilutive securities.

n. Segment information

The Companies are predominantly engaged in one industry, the manufacture and sale of interior fabric, including carpets, drapery and moquettes. Sales are made throughout Japan primarily to wholesalers, retailers and car manufacturers through sewing companies. The Companies have no industry segments or foreign operations to be reported.

o. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Marketable and investment securities

Marketable and investment securities as of May 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current:			
Government and corporate bonds.....	¥ 634	¥ 305	\$ 5,372
Others.....	279	376	2,365
Total	<u>¥ 913</u>	<u>¥ 681</u>	<u>\$ 7,737</u>
Non-current:			
Equity securities	¥5,259	¥6,756	\$44,568
Government and corporate bonds.....	94	208	797
Others.....	116	165	983
Total	<u>¥5,469</u>	<u>¥7,129</u>	<u>\$46,348</u>

The carrying amounts and aggregate fair values of marketable and investment securities at May 31, 2003 and 2002 were as follows:

	Millions of yen			
	2003			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as Available-for-sale:				
Equity securities.....	¥4,196	¥	¥ 79	¥4,117
Government and corporate bonds.....	735		7	728
Others.....	196		80	116
Total.....	<u>¥5,127</u>	<u>¥</u>	<u>¥166</u>	<u>¥4,961</u>

	Millions of yen			
	2002			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as Available-for-sale:				
Equity securities.....	¥5,801	¥759		¥6,560
Government and corporate bonds.....	520		¥ 7	513
Others.....	201		39	162
Total.....	<u>¥6,522</u>	<u>¥759</u>	<u>¥46</u>	<u>¥7,235</u>

	Thousands of U.S. dollars			
	2003			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as Available-for-sale:				
Equity securities.....	\$35,559	\$	\$ 669	\$34,890
Government and corporate bonds.....	6,229		60	6,169
Others.....	1,661		678	983
Total.....	<u>\$43,449</u>	<u>\$</u>	<u>\$1,407</u>	<u>\$42,042</u>

Available-for-sale securities included in marketable and investment securities whose fair value is not readily determinable as of May 31, 2003 and 2002 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Available-for-sale:			
Equity securities.....	¥1,142	¥196	\$ 9,678
Others.....	279	379	2,365
Total.....	<u>¥1,421</u>	<u>¥575</u>	<u>\$12,043</u>

Proceeds from sales of available-for-sale securities for the years ended May 31, 2003 and 2002 were ¥1,052 million (\$8,915 thousand) and ¥992 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥42 million (\$356 thousand) and ¥109 million (\$924 thousand), respectively for the year ended May 31, 2003 and ¥36 million and ¥44 million, respectively, for the year ended May 31, 2002.

The carrying values of debt securities and investment funds in trust by contractual maturities for securities classified as available-for-sale at May 31, 2003 are as follows:

	Thousands of U.S. dollars	
	Millions of yen	U.S. dollars
Due in one year or less	¥ 913	\$7,737
Due after one year through five years ...	142	1,204
Total.....	<u>¥1,055</u>	<u>\$8,941</u>

4. Inventories

Inventories at May 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished products and purchased merchandise	¥5,626	¥5,910	\$47,678
Work-in-process	1,359	1,449	11,517
Materials and supplies.....	869	956	7,364
Total.....	<u>¥7,854</u>	<u>¥8,315</u>	<u>\$66,559</u>

5. Short-term bank loans and long-term debt

Short-term bank loans are principally comprised of bank overdrafts. As is customary in Japan, the Company obtains financing by discounting trade notes receivable with banks. Such discounted notes and the related contingent liabilities are not included in the consolidated balance sheets but are disclosed as contingent liabilities (see Note 13). The weighted average annual interest rates for short-term bank loans and notes discounted at May 31, 2003 and 2002 were 0.88% and 0.86%, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unsecured bonds:			
3.2%, due December 2002		¥2,550	
1.46%, due January 2007.....	¥2,000	2,000	\$16,949
0.47%, due September 2007 ...	1,000		8,475
Collateralized loans from banks and other financial institutions, due through 2008 with interest ranging from 1.15% to 2.60%	4,016	4,585	34,034
Total.....	7,016	9,135	59,458
Less current portion	1,120	5,033	9,492
Long-term debt, less current portion	<u>¥5,896</u>	<u>¥4,102</u>	<u>\$49,966</u>

At May 31, 2003, annual maturities of long-term debt, less current portion were as follows:

	Thousands of U.S. dollars	
	Millions of yen	U.S. dollars
Year ending May 31:		
2005	¥1,276	\$10,814
2006	964	8,169
2007	2,497	21,161
2008	1,159	9,822
Total.....	<u>¥5,896</u>	<u>\$49,966</u>

At May 31, 2003, assets pledged as collateral for short-term bank loans of ¥1 million (\$8 thousand) and long-term debt (including current portion) of ¥1,954 million (\$16,559 thousand) were as follows:

	Thousands of U.S. dollars	
	Millions of yen	U.S. dollars
Property, plant and equipment, less accumulated depreciation	¥9,707	\$82,263
Investment securities	2,836	24,034

Bank overdrafts are generally covered under basic written agreements which provide that additional collateral (including sums on deposit with such banks) or guarantors will be furnished at the banks' request and that any collateral furnished will be applicable to all indebtedness due to such banks. Certain long-term loan agreements provide that lenders may request the Company to submit proposals to pay dividends for approval. The Company has never received such a request from any of its lenders.

6. Retirement benefits

The Company and certain subsidiaries have unfunded retirement plans, a non-contributory funded retirement plan and contributory funded retirement plans covering substantially all of their employees.

Under the unfunded retirement plans, employees terminating their employment are entitled, in most circumstances, to lump-sum severance payments determined by reference to the rate of pay at time of termination, years of service and certain other factors.

The liability for retirement benefits for 2003 and 2002 included ¥348 million, (\$2,949 thousand) and ¥333 million, respectively, for retirement benefits of directors and corporate auditors.

The liability (asset) for employees' retirement benefits at May 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥8,273	¥7,690	\$70,110
Fair value of plan assets.....	(982)	(1,602)	(8,322)
Unrecognized actuarial loss.....	(909)	(142)	(7,703)
Net liability	<u>¥6,382</u>	<u>¥5,946</u>	<u>\$54,085</u>

On April 23, 2002, the Company obtained government approval to relinquish the entrusted government portion of the contributory funded plans according to enforcement of the defined benefit enterprise pension law on April 1, 2002.

The components of net periodic benefit costs for the years ended May 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost.....	¥ 438	¥ 698	\$ 3,712
Interest cost	222	443	1,881
Expected return on plan assets ...	(48)	(175)	(407)
Recognized actuarial loss	18	1,343	153
Loss on revaluation of pension assets	575		4,873
Net periodic benefit costs...	<u>¥1,205</u>	<u>¥2,309</u>	<u>\$10,212</u>

For the year ended May 31, 2003, the loss on revaluation of pension assets was recognized due to a significant decline in the fair value of the pension assets to be relinquished, which was originally measured when the Company obtained the government's approval.

Assumptions used for the years ended May 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	2.5%	3.0%
Expected rate of return on plan assets	3.0%	3.0%
Recognition period of actuarial gain/loss	10 years	10 years

7. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds

as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was nil as of May 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

8. Other income (expenses): Other-net

"Other income (expenses): Other-net" for the years ended May 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net loss on sales of marketable and investment securities	¥(67)	¥ (8)	\$ (568)
Gain on sales of property, plant and equipment.....		53	
Loss on sales and disposals of property, plant and equipment....	(87)	(74)	(737)
Retirement benefits for directors and corporate auditors	(31)	(52)	(263)
Equity in earnings of associated companies	51	38	432
Other-net	246	295	2,085
Total.....	<u>¥112</u>	<u>¥252</u>	<u>\$ 949</u>

9. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended May 31, 2003 and 2002, respectively.

On March 31, 2003, a tax reform law was issued. The new tax rate will be effective to the Company for the fiscal year beginning June 1, 2004. The effect of alteration of tax rates was to decrease deferred tax assets by ¥8 million (\$67 thousand), deferred tax

liabilities related to land revaluation excess by ¥200 million (\$1,695 thousand), and to increase land revaluation excess by ¥200 million (\$1,695 thousand) at May 31, 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at May 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Deferred tax assets:			2003
Allowance for			
doubtful receivables.....	¥ 467	¥ 409	\$ 3,958
Pension and severance costs.....	2,514	2,326	21,305
Tax loss carryforwards.....	1,636	1,915	13,864
Investment securities.....	765	412	6,483
Others.....	605	562	5,127
Less valuation allowance.....	(5,335)	(5,175)	(45,212)
Total deferred tax assets.....	¥ 652	¥ 449	\$ 5,525
Deferred tax liabilities:			
Land revaluation excess.....	¥5,374	¥5,574	\$45,542
Retained earnings appropriated			
for tax allowable reserves.....	19	24	161
Others.....	10	329	85
Total deferred tax liabilities.....	¥5,403	¥5,927	\$45,788
Net deferred tax assets.....	¥ 633	¥ 449	\$ 5,364
Net deferred tax liabilities.....	¥5,383	¥5,927	\$45,618

At May 31, 2003 the Company and a certain subsidiary have tax loss carryforwards aggregating approximately ¥2,746 million (\$23,271 thousand) which are available to be offset against taxable income of the companies in future years. These tax loss carryforwards, if not utilized, will expire as follows:

	Millions of yen	Thousands of
		U.S. dollars
Year ending May 31:		
2004.....	¥ 183	\$ 1,551
2005.....	483	4,093
2007.....	2,080	17,627
Total.....	¥2,746	\$23,271

As the Company has recorded loss before income taxes and minority interests for the year ended May 31, 2003 and 2002, a reconciliation has not been disclosed.

10. Research and development costs

Research and development costs charged to income were ¥287 million (\$2,432 thousand) and ¥303 million for the years ended May 31, 2003 and 2002, respectively.

11. Leases

The Company leases certain machinery and equipment. Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee are ¥53 million (\$449 thousand) and ¥52 million for the years ended May 31, 2003 and 2002, respectively.

Pro forma information on an "as if capitalized" basis for leased property under finance leases that do not transfer ownership of the leased property to the lessee as of May 31, 2003 and 2002 was as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Machinery and Equipment:			2003
Acquisition cost.....	¥307	¥205	\$2,602
Accumulated depreciation....	(104)	(111)	(882)
Net leased property.....	¥203	¥ 94	\$1,720

Obligations under finance leases as of May 31, 2003 and 2002:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Due within one year.....	¥ 68	¥35	\$ 576
Due after one year.....	135	59	1,144
Total.....	¥203	¥94	\$1,720

The amounts of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, computed by the straight-line method was ¥53 million (\$449 thousand) and ¥52 million for the years ended May 31, 2003 and 2002, respectively.

12. Derivatives

The Company enters into derivatives fiscal instrument contracts, in the normal course of business, to reduce the exposure to fluctuations in interest rates and foreign exchange rates. The Company has utilized interest rate caps and interest rate swaps to decrease interest expense on long-term debt. The Company also enters into foreign exchange forward contracts to hedge market risk from changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Company does not hold or issue derivatives for trading purposes. Subsidiaries do not enter into derivatives.

Because the counterparties to these derivatives are limited to major financial institutions, the Company does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors and the execution and control of derivatives are controlled by the Finance Processing Section of the Finance Accounting Department. Each derivative transaction is reported to the Accountant Section of the Finance Accounting Department.

The Company had the following derivative contracts outstanding at May 31, 2002:

	Millions of yen	
	Contract or notional amount	Fair value
Interest Rate Caps:		
Selling.....	¥200	¥1

There was no derivative contracts outstanding at May 31, 2003.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

Derivative financial instruments which qualify for hedge accounting for the year ended May 31, 2002, are not subject to the disclosure of market value information.

13. Contingent liabilities

Contingent liabilities at May 31, 2003 were as follows:

	Millions of yen	Thousands of
		U.S. dollars
Trade notes discounted.....	¥2,497	\$21,161
Employees' housing loans guaranteed ...	39	331
Guarantee for leased assets.....	199	1,686



To the Board of Directors of
Suminoe Textile Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Suminoe Textile Co., Ltd. and consolidated subsidiaries as of May 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suminoe Textile Co., Ltd. and consolidated subsidiaries as of May 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu".

August 28, 2003
Kyoto, Japan

BOARD OF DIRECTORS AND CORPORATE AUDITORS

as of August 28, 2003

President

Sadahiko Kondo
(Representative Director)

Senior Managing Director

Kan-ichiro Kishigami
(Representative Director)

Managing Directors

Shinzo Takumi
(Representative Director)
Masahiko Takebayashi
Toshio Kawasaki
Yasuo Omae

Directors

Makoto Odajima
Ichizo Yoshikawa
Ichiro Masukura

Corporate Auditors

Kazuo Yamada
Kenichi Nishida
Hiroshi Matano

INVESTOR INFORMATION

as of May 31, 2003

Year of Establishment:	1883	Issued and Outstanding Shares:	76,821,626 shares
Paid-in Capital Stock:	¥9,554,173,950	Shareholders:	7,516
Authorized Shares:	322,634,000 shares	Employees:	712

Major Shareholders:

Takashimaya Company, Limited
Nippon Life Insurance Company
Mizuho Corporate Bank, Limited
Marubeni Corporation
Toyota Motor Corporation
Suminoe Textile's
Employees' Association

Suminoe Textile's Kyoekai Association*
The Master Trust Bank of Japan, Limited
The Bank of Ikeda, Limited
Sompo Japan Insurance Incorporated

* Shareholders' Association of Business Partners

CORPORATE DATA

as of May 31, 2003

Subsidiaries

Suminoe Co., Ltd.
Runon Co., Ltd.
Marunaka Souei Co., Ltd.
Circumindustry Co., Ltd.
Suminoe Works Co., Ltd.
Suminoe Logistics Co., Ltd.
Suminoe Interior Plaza Co., Ltd.
Sewing Hyogo Co., Ltd.
Tango Textile Co., Ltd.
Suminoe Koka Co., Ltd.
Sumix Co., Ltd.
S-H-O Co., Ltd.
Suminoe Textile of America Corp.
Kansai Techno Service Co., Ltd.
Kansai Laboratory Co., Ltd.
Takatexs Co., Ltd.
Suminoe Seahorse Co., Ltd.
Degora Trading Co., Ltd.

Associated Companies

Wave Co., Ltd.
T.C.H. Suminoe Co., Ltd.
Suzhou Suminoe Brother Textile
Co., Ltd.

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Fax: 06-6251-0862

Tokyo Branch & Tokyo Showroom

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Nishi-Gotanda 2-Chome,
Shinagawa-ku, Tokyo 141-8534
Phone: 03-5434-2860
Fax: 03-5434-6542

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Sapporo, Sendai, Kita-kanto, Chiba,
Yokohama, Shizuoka, Kanazawa,
Nagoya, Kyoto, Kobe, Okayama,
Hiroshima, Fukuoka, Kagoshima

Factories

Nara, Osaka, Shiga, Kyoto

R&D Center

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Osaka 580-0006
Phone: 072-330-5745
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This report was printed using soy ink
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Situated in the middle of Tokyo's famous Marunouchi business district, the Nihon Kogyo Club (The Industry Club of Japan) Building is a listed historical structure that was first built in 1920 and was recently completely rebuilt according to the original plans and designs, including furnishings. To recreate the magnificent entrance hall carpet, in the Tango Dantsu style, the staff of Suminoe Textile carefully studied photographs of the original carpet taken when the building was still newly built, allowing them to faithfully copy the design.