

The Technology and Intelligence Oriented Company  
That Turns Wisdom into Business

# **A n n u a l R e p o r t**

*For the year ended March 31, 2001*

# **2 0 0 1**

**NAGASE & CO, LTD.**



► **A Cautionary Note on Forward-Looking Statements:**

This annual report contains statements regarding Nagase's corporate views of future developments that are forward-looking in nature and are not simply reiterations of historical facts.

These statements are presented to inform shareholders of the views of Nagase's management but should not be relied on solely in making investment and other decisions. You should be aware that a number of important risk factors could lead to outcomes that differ materially from those presented in such forward-looking statements.

These include, but are not limited to, (i) change in economic conditions that may lead to unforeseen developments in markets for products handled by Nagase, (ii) fluctuations in currency exchange rates that may cause unexpected deterioration in the value of transactions, (iii) adverse political developments that may create unavoidable delays or postponement of transactions and projects, (iv) changes in laws, regulations, or policies in any of the countries where Nagase conducts its operations that may affect Nagase's ability to fulfill its commitments, and (v) significant changes in the competitive environment. In the course of its operations, Nagase adopts measures to control these and other types of risks, but this does not constitute a guarantee that such measures will be effective.

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## The Nagase Group Continues to Create New Businesses Together with its Customers around the World

Today, the Nagase Group provides its customers with trading, marketing, R&D, manufacturing and processing functions in four key business areas: Chemicals, Plastics, Electronics and Health Care.

Nagase & Co., Ltd., the nucleus of our group, was established as a dyestuffs wholesaler in Kyoto in 1832. In 1900, it started importing synthetic dyestuffs from Chemical Industry of Basel. In the ensuing years, it has accumulated considerable know-how in its role as a “technology and intelligence oriented trading company.” While developing new markets around the world together with its customers, Nagase has worked on acquiring processing and manufacturing functions, and R&D functions for the development of new technologies and products.

At the Nagase Research and Development Center, we conduct research into basic technologies such as organic synthesis and biotechnology, while at the same time working on the development of pharmaceutical raw materials with fewer side effects and natural extracts that will enhance the bioactivity of the human body. Nagase group manufacturing companies are involved in producing and processing pharmaceutical intermediates, functional polymers, raw materials for electronics applications and plastic products.

Currently, the Nagase Group comprises 97 member companies at home and overseas. One of the Group's features is that it can call on these companies to combine their trading, marketing, R&D, manufacturing and processing functions as necessary to provide high levels of customer satisfaction.

Looking ahead, the Nagase Group will, along with its customers worldwide, continue to seize business opportunities and provide business solutions.

### The Nagase Group's Four Businesses

Contributing to numerous manufacturing sectors through the creation of businesses that exploit its vast knowledge concerning all kinds of chemicals.

Chemicals

Responding promptly to all market needs, from the procurement and processing of raw materials to the manufacture of final products.

Plastics

Electronics

Supporting technological innovation in the semiconductor, display and telecommunications industries.

Health Care

Helping to enhance the overall quality of life in everything from beauty and health care to high-level medical treatment services.

## Management Philosophy and Vision

### **Management Philosophy**

Based on our awareness of our role as members of society, we shall endeavor to enhance the welfare of employees and contribute to society by developing the company through good and fair business practices aimed at providing the products and services society seeks.

### **Management Vision**

**“The technology and intelligence oriented company  
that turns wisdom into business.”**

With the abovementioned management philosophy in mind, Nagase has adopted “The technology and intelligence oriented company that turns wisdom into business” as its management vision in the 21st century.

Rooted in a thoroughgoing customer-oriented concept that insists “the market provides all the answers,” this vision expresses our determination to exploit our “technology,” “information” and “wisdom,” enhanced by experience, to build up businesses that transcend the intermediary role of the trading company.

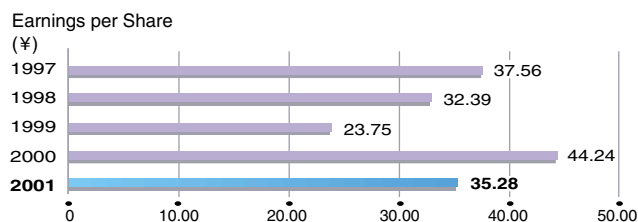
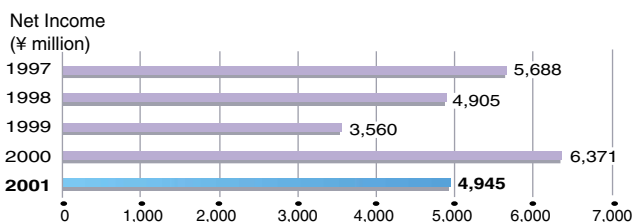
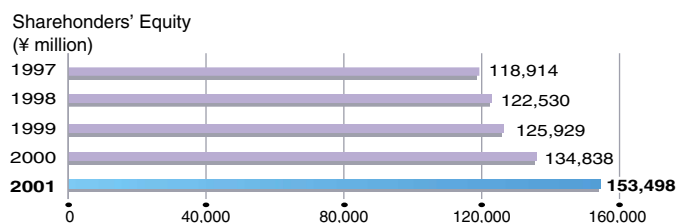
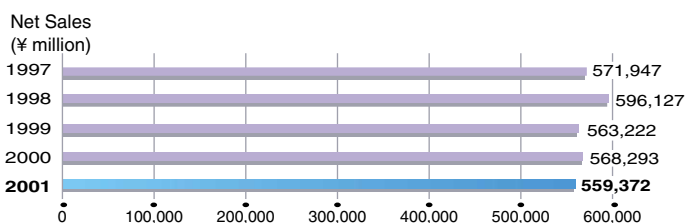
Customer demands are becoming more diverse, more complex and more sophisticated. The straightforward intermediary business approach is no longer enough to satisfy these demands. At the same time, we are aware that regardless of the industrial sectors to which customers may belong, the era in which a single company can meet market needs alone is long gone. To help customers create new value, therefore, we shall continue to propose and develop new businesses while strengthening our functions as appropriate for a reliable business partner.

# Financial Highlights

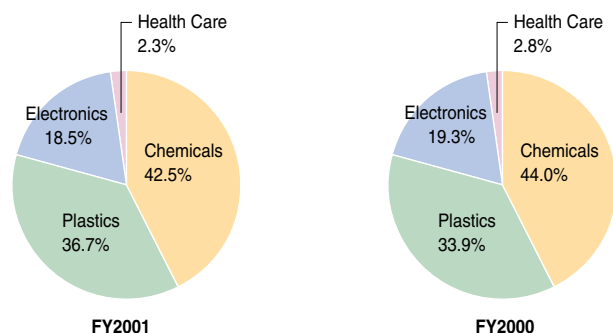
NAGASE & COMPANY, LTD. and Consolidated Subsidiaries  
Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars (Note)	
	2001	2000	1999	1998	1997	2001	
<b>For the Year:</b>							
Net Sales	<b>¥559,373</b>	¥568,294	¥563,222	¥596,128	¥571,948	<b>\$4,514,713</b>	
Chemicals	<b>237,872</b>	249,977	244,068	258,294	264,206	<b>1,919,870</b>	
Plastics	<b>205,460</b>	192,711	199,189	204,718	197,401	<b>1,658,273</b>	
Electronics	<b>103,383</b>	109,770	104,455	115,556	92,464	<b>834,407</b>	
Health Care	<b>12,658</b>	15,836	15,510	17,560	17,877	<b>102,163</b>	
Operating Income	<b>7,752</b>	8,147	7,791	8,208	8,469	<b>62,567</b>	
Net Income	<b>4,946</b>	6,371	3,561	4,905	5,689	<b>39,919</b>	
<b>At the Year-End:</b>							
Total Assets	<b>¥353,777</b>	¥316,657	¥298,525	¥300,781	¥330,686	<b>\$2,855,343</b>	
Shareholders' Equity	<b>153,499</b>	134,838	125,930	122,531	118,915	<b>1,238,894</b>	
<b>Per Share Data:</b>							
		Yen					U.S. Dollars
Earnings per Share	<b>¥ 35.28</b>	¥ 44.25	¥ 23.76	¥ 32.39	¥ 37.57	<b>\$ 0.28</b>	
Book Value per Share	<b>1,104.80</b>	952.67	862.06	809.17	785.29	<b>8.92</b>	
Cash Dividends	<b>8.00</b>	8.00	8.00	8.00	8.00	<b>0.06</b>	

Note: Yen amounts have been translated for convenience only, at the rate of 123.9 yen to 1 U.S. dollar, the approximate exchange date on March 31, 2001.



## Composition of Net Sales



## A Message from Management



**Hideo Nagase, Chairman** (left)  
**Hiroshi Nagase, President** (right)

Drawing on the technology, intelligence and wisdom of our 97 Group companies around the world, we are engaged in undertakings that contribute to our customers by adopting a practical approach to selecting the right locations for production and sales on a global basis.

—Indeed, this is where the true identity of the Nagase Group lies.

In the current term, which ended March 2001, we have endeavored to adopt an even more rigorous customer-oriented approach and strengthen the Group's overall competitiveness as a means of enhancing this identity.

The following paragraphs look at our results for the term and report on our progress in implementing the "WIT2000" Medium-term Management Plan during its first year of operation ("WIT" stands for "Wisdom," "Intelligence" and "Technology.") We also hope they will enhance your understanding of our management's vision for the future.

### **Fiscal 2001 Results**

Once again, Group sales followed the pattern seen in recent years, whereby weak performance in the domestic market was countered by continuing solid progress overseas, especially in Asia.

While domestic sales fell by 2.9% year-on-year to ¥392.55 billion, overseas sales rose by 1.6% to ¥166.81 billion. As a result, total sales fell by 1.6% year-on-year to ¥559.37 billion.

Operating income also fell by 4.9% year-on-year to ¥7.75 billion due to declining sales and falling sales prices. Income before income taxes and minority interests was 9.5% below the previous year's level at ¥9.35 billion. Factors influencing this result included a ¥1.27 billion reduction in revaluation losses on investment in securities following the introduction of Accounting Standards for Financial Instruments\*, and a ¥6.98 billion amortization of net retirement benefit obligations at transition due to the introduction of Accounting Standards for Retirement Benefits\*\*. The amortization of net retirement benefit obligations at transition has been fully charged to income for the year ended March 31, 2001, using funds derived mainly from contributions to employees' retirement benefit trusts and proceeds from sales of investments in securities.

As a result, net income fell by 22.4% year-on-year to ¥4.94 billion. Return on equity (ROE) was 3.4%.

Cash flows from operating activities during the term came to ¥8.16 billion, largely as operating income.

Cash flows from investment activities resulted in an outlay of ¥4.16 billion as a result of aggressive increases in investments in subsidiaries. Cash flows from financing activities showed an outlay of ¥8.3 billion, made up of repayments of bank loans and commercial paper borrowings, dividend payments, and the redemption by purchase of treasury stock as a means of returning profits to shareholders.

After adjustments for exchange differences and the net increase (decrease) in cash and cash equivalents arising from the merger of subsidiaries, the balance of cash and cash equivalents at term-end fell by ¥2.55 billion year-on-year to ¥18.46 billion.

\*Please refer to page 36 for details of Accounting Standards for Financial Instruments.

\*\*Please refer to page 37 for details of Accounting Standards for Retirement Benefits.

### **Dividends and Retirement of Common Stock**

As in the preceding term, management proposed an ¥8.0 dividend per share of common stock. As a result, the dividend payout ratio was 37.3% and dividends as a percentage of shareholders' equity were 0.9%.

With a view to returning profits to shareholders, the company continued the previous year's policy of redeeming treasury stock by purchase, buying back and retiring 2.6 million shares worth ¥1.256 billion during the current term.

## Progress in Implementing the WIT2000 Medium-term Management Plan

Distribution of most commodities these days is marked by less use of intermediaries and lower margins, making it virtually impossible for simple intermediation businesses to survive. On the other hand, customers' needs are diversifying and becoming more sophisticated. Ever sensitive to these changes, we shall work together with customers to create the businesses they are looking for while aiming to improve our earning power. The following section looks at progress in achieving these objectives, which constitute the main aim of our WIT2000 Medium-term Management Plan.

### ● Outline of the WIT2000 Medium-term Management Plan

To achieve earnings in excess of capital costs and promote business growth, we have adopted the Nagase ROE model (N-ROE), which we developed as a new yardstick for measuring management performance. Consolidated N-ROE during the current term came to 5.0%, and we expect it to rise to 7.0% in fiscal 2003. In implementing the program, we are moving ahead with the following strategies designed to improve the overall profitability of the Group and strengthen its management.

- |   |  |
|---|--|
| <b>1. Challenge Strategy</b>              | <b>Promote business investment and develop new businesses.</b>                           |
| <b>2. Dynamic Strategy</b>                | <b>Adopt a selective, focused approach to business</b>                                   |
| <b>3. Group Strategy</b>                  | <b>Reinforce manufacturing companies and boost marketing strength of sales branches.</b> |
| <b>4. Human Resources Strategy</b>        | <b>Train professionals.</b>  |
| <b>5. Functional Development Strategy</b> | <b>Increase marketing strength by extracting and developing business models.</b>         |

( N-ROE = Nagase profit ÷ Equity capital at the beginning of the term )  
 Nagase profit = Net profit after tax +  
 ( Depreciation ± Appraisal profit or loss ) x ( 1 - Effective tax rate )

"Nagase profit" refers to the profit generated through operating activities, and is also referred to as "operating cash flow."

## Challenge Strategy: Promote Business Investment and Nurture New Business

To strengthen our operating position and competitiveness, we concentrated our resources and invested strategically in promising growth markets and in businesses that can make the most of the Group's strengths. The following sections cover the principal activities.

In the Electronics sector, we converted Nagase-Ciba Ltd., our joint venture with Ciba Specialty Chemicals (Switzerland) into a wholly-owned subsidiary called Nagase ChemteX Corp. (NCX). This should enable us to develop the new company's operations independently at home and overseas, and we have high expectations that its mainstay business — the next-generation of semiconductor liquid encapsulations— will make a substantial contribution in terms of strengthening the Group's electronics business. We already have a well-established production setup for chemicals used in LCD

manufacture in the world's LCD manufacturing centers of Japan, Korea, and Taiwan, and now it intends to boost its production functions in the world's electronic component and materials manufacturing centers of Southeast Asia and China.

We have introduced new semiconductor wafer technology from Pac Tech GmbH and have established Alpha Bumping Technology Co., Ltd. jointly with Kiyokawa Plating Industry Co., Ltd. The new company will strengthen its wafer bumping business and, in cooperation with NCX and Nagase Electronic Equipment Service Co., Ltd., Idea System Co., Ltd. will devote considerable efforts to businesses supporting post-manufacture processing of future-model semiconductors.

Nagase has also been building up its telecommunications-oriented businesses in recent years, strengthening its capabilities in power amp modules and transmit/receive sub-systems for mobile phone base stations, semiconductors for communications and optical communications components and materials.

In the Health Care sector, we concluded a capital and business tie-up with Japan Medical Bank System Co., Ltd. to strengthen and nurture our business, becoming a new entrant into the promising total hospital information system business.

We also established Herbal Care Co., Ltd. and commenced Internet, mail order and in-store sales of several newly-launched health foods. Further plans include full-scale entry into the home nursing care product-related business.

In the Plastics sector, we established a business and capital tie-up with Kasai Kogyo Co., Ltd., an automotive parts manufacturer. Our target is to increase our sales in the automobile industry by contributing to the design of molds, materials procurement and the rationalization of distribution for Kasai, which produces parts in Japan, the United States, Europe and Asia.

Meanwhile, responding to demand from the food products industry, our consolidated sheet thermo-forming manufacturer Kotobuki Kasei Kogyo Co., Ltd. completed a new factory for the production of HACCP-compliant (Hazard Analysis and Critical Control Point) thermo-formed food containers.

Currently, overseas business accounts for approximately 30% of Group sales, but we intend to strengthen still further our overseas operations in all sectors from now on, especially in the Asian market. In particular, we will make even more aggressive business investments in promising sectors such as textile-related chemicals and electronics in China. To date, we have been operating seven sales centers and three production centers in China, working hard to expand our plastics and electronics businesses in particular. From now on, however, we will focus more on our core businesses – the synthetic dyestuffs side of our chemicals business and pharmaceutical raw materials.

(Please refer to page 24 for details of our business in China.)

## Dynamic Strategy: Adopt a Selective, Focused Approach to Business

During the term, we took an active, strategic approach to spinning off and withdrawing from certain businesses.

First, we spun off our livestock-related equipment business, transferring operations to DeLaval Holding BV. and changing the company name to DeLaval Nagase KK. We also set up Nagase Agritech KK by separating off our farming and agricultural chemicals businesses. In Mexico, we dissolved our television components manufacturer Nagase Kisho Electronics Inc. following major environmental changes that included a fall in street prices in North America and the influx of inexpensive imports from China.

In April 2001, we returned to General Electric Co. the rights to sell its engineering plastics in Japan, which we had held for thirty years.

Looking ahead, we are resolved to review and rationalize businesses that no longer suit our strategies and take the necessary decisions dynamically and quickly.

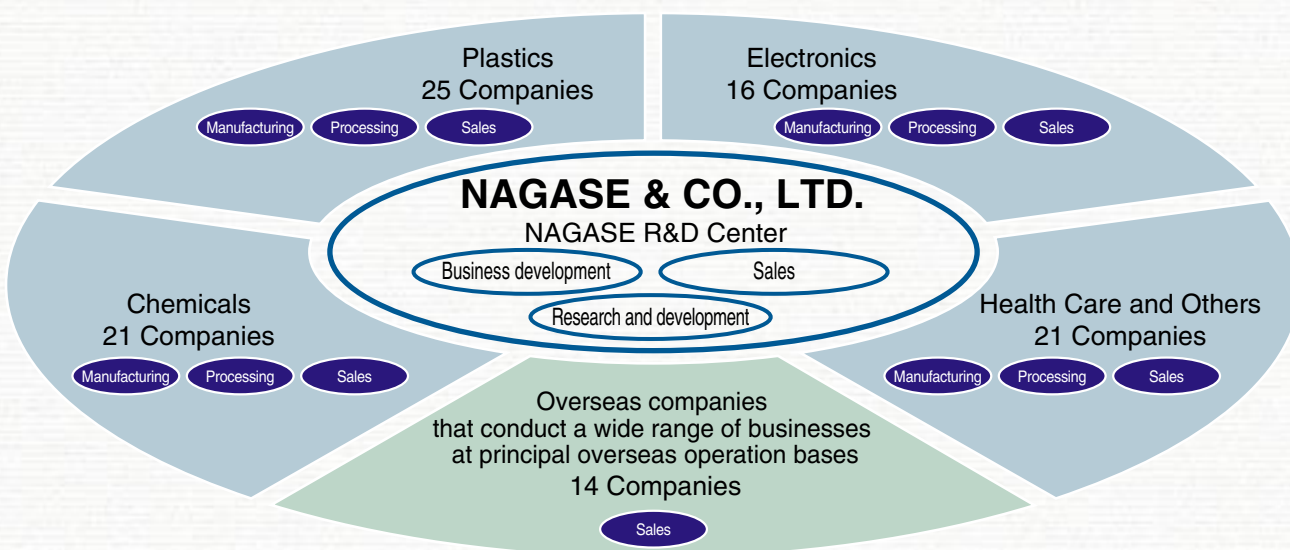
Meanwhile, we established Nagase Business Support Corp. to take charge of accounting, payroll work and welfare programs with a view to improving efficiency and enhancing group management in the administration department. We also established Nagase Trade Management Co., Ltd. to manage distribution, import/export, and credits and debts. In the future, these two companies will work on reducing overall costs and boosting profitability with a view to undertaking back-office work on behalf of other companies.

## Group Strategy: Reinforce Manufacturing Companies and Boost Marketing Strength of Sales Branches

In addition to transforming the above-mentioned NCX into a wholly-owned subsidiary, we integrated four key chemical manufacturing subsidiaries into NCX. Our intention is to ensure that the investments in R&D and facilities that were formerly the province of the four former companies will now be implemented in such a way that we can obtain maximum synergy from them in line with market requirements. In the field of health care, we will work together with the Nagase R&D Center to strengthen our pharmaceutical raw materials business by fusing our biotech and organic synthesis technologies. In the field of electronics, we plan to promote our original electronic chemical products aggressively in Japan and overseas.

The primary manufacturer within the Nagase Group, NCX's strength is bolstered through cooperation with the Company's sales force. (For more on the founding of the new Nagase ChemteX in connection with the integration of manufacturing companies, please see the section "Detailed Information by Topic" on page 22.)

We also strengthened our marketing capabilities by integrating our four dyestuff sales companies into Nagase Colors & Chemicals Co., Ltd. Against a background of continuing shrinkage in the domestic textile dyestuffs industry, Nagase Colors & Chemicals Co., Ltd. intends to increase its market share by leveraging the technical support functions that



There are a total of 97 related companies (65 subsidiaries, 32 affiliated companies). Of the total, consolidated companies number 28 and those applying the equity method number eight. Each of the above four business segments includes overseas companies that specialize in its respective area of business. This information is current as of March 31, 2001.



it built up over a long period as a top dealer in the industry. It is also due to establish a technology support center in China, which is experiencing remarkable growth.

### Introduction of an Executive Officer System

In June 2001, Nagase introduced an executive officer system. By clarifying the role of the Board of Directors as the organization responsible for formulating management policy, strategic decision-making, and operational supervision, we separated management (the Board of Directors) from execution (the executive officer system) with a view to speeding up the decision-making process and strengthening operation. In this way, we aim to accelerate implementation of the WIT2000 Medium-term Management Plan and ensure that its objectives are achieved as a means of creating a corporate structure that can cope with the ever-changing times.

### Outlook for the Coming Business Year

We believe the economic environment will remain severe against a background of weaker domestic plant and equipment investment, economic slowdown in the United States, and stagnant domestic personal consumption. In light of the situation, our outlook for our individual businesses in the coming term is as follows.

We expect the Chemicals business to achieve sales of ¥239 billion, an increase of 0.5% year-on-year. We forecast that the relatively strong performance of recording material-related products, pigments and paints will continue during the coming term, and will strive to expand sales of dyestuffs, agricultural and lifestyle-related products by energizing the activities of our sales companies. With regard to our Chemicals business overall, we will also make even greater efforts overseas, starting with China.

We expect sales of the Plastics business to reach ¥174 billion, a decline of 15.3% year-on-year. Owing to the transfer of our business as sole domestic agent for GE products, sales are likely to fall below the current term's levels. To counter this, we will not only strengthen our efforts to maintain our existing business, but will also put more energy into our own original product businesses and take further steps to promote our business in the automotive sector at the global level.

We expect the Electronics business to achieve sales of ¥105 billion, an increase of 1.6% year-on-year. We will redouble our efforts to reinforce our all-round strengths in the display, communications and recording sectors. In the area of displays, we will put more emphasis on sales of materials and equipment systems for LCD manufacturing while working at the global level to promote various devices that support the next-generation of communications equipment. In the

recording sector, we will also promote sales of materials for magnetic and opto devices.

We forecast the Health Care business will register sales of ¥14 billion, an increase of 10.6% year-on-year. We introduced new products in June with a view to increasing our health food-related sales. In the medical treatment-related business, our participation in the management of Japan Medical Bank System Co., Ltd. has given us full-scale access to the total hospital information system business, while in the nursing care-related business, we started sales of adult diaper disposal systems in May 2001.

Based on the above forecasts, we expect net sales of ¥532 billion and net income of ¥5.2 billion in the coming term. We also plan to pay a dividend of ¥8.0 per share of common stock.

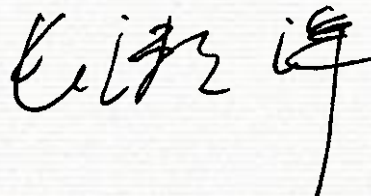
In the midst of the massive groundswell of globalization, the acceleration in communications fueled by the rapid evolution of IT and other powerful environmental changes, we are determined to make the most of our extensive network of group companies, customers and suppliers to enhance the value-added of the products, functions and information we supply. Far from resting on our laurels and remaining content with our traditional business, our officers and employees are united in their commitment to proposing and nurturing new businesses as we strive to achieve the target laid down by our WIT2000 Medium-term Management Plan: consolidated N-ROE of 7.0% in fiscal 2003.

We look forward to your continuing support in these endeavors.

July 1, 2001



Hideo Nagase, Chairman



Hiroshi Nagase, President

# Introduction to Business Information

This section explains the current status and outlook for individual Groups and Division from the viewpoint of how they intend to implement the WIT2000 Medium-term Management Plan.

## Chemicals

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**Yoshizo Shibata,**  
Executive Officer

▶ This Group provides industries like pigments, inks, resins and synthetic fiber with pigments and pigment products, as well as items ranging from the main raw materials of plastics to additives. Centered on petrochemicals products, the Group handles a wide range of products from commodity to performance chemicals, but in light of the ongoing globalization and digitization of its markets, is searching for new business directions.

**[Main Products Handled]**

Petrochemicals products, plastics raw materials and additives, pigments

## Creating Next-Generation Businesses in its Role as “Nagase—The Color Company”

Of all the operations in the Chemicals Business Group, the plastics raw materials and additives business has the largest sales and the highest export ratio. In addition to putting considerable effort into developing performance products that add substantial value to plastics products, this Group provides active support for customers and manufacturers who have production centers in Asia, especially in the Greater China zone (which includes Hong Kong and Taiwan).

The ripple effects of the global trend towards corporate integrations and alliances in this sector are being felt in Japan too. Under the circumstances, we believe that drawing on our own expertise to put forward business proposals to customers and suppliers is one of the most important roles we can fulfill.

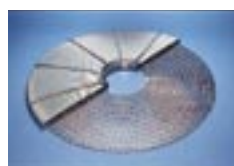
On the other hand, the company, including its Coating and Imaging Materials Group and Dyestuffs Division, has long been involved in the “colorings” business. Drawing on its accumulated intellectual assets, the Performance Chemicals Group is seeking to build new businesses by discovering opportunities in the electronics market, which is targeted by our

customers in color material manufacturing. We live in an age where the fusion between color materials and electronics is playing an increasingly important role in the display sector, with its ever-increasing array of techniques and methods, and in the printer sector, where demand for higher image definitions is constantly increasing. For this reason, the Group is eager to play the role of partner in developing new color materials and new functions in these areas.

Until now, the Nagase R&D Center’s plastics laboratory has tended to conduct tests on plastics additives only, but it now plans to extend its coverage to coloration so that it can offer customers all-round solutions. We are also paying increasing attention to the polymer filter business developed by Nagase, where growing demand for film in a wide range of applications is leading to the creation of higher performance.

In this way, we are working to pioneer various new businesses through activities that make use of our intellectual property to propose innovations in colors and performance.

## ▶ Product Highlights and Topics



### Polymer Filters (Denafilters)

In July 2001, we set up the Denafilter Project Team to promote and expand the business. Denafilters have a lower pressure drop and a longer lifespan than conventional products because they are made of stainless steel using a special structure originally developed by Nagase to remove impurities and gels from polymer solutions in the plastic film manufacturing process.



### Technical Support for the Polymer Business

Thermoplastic resins use various additives and pigments according to the applications in question. The Nagase R&D Center prepares master batches consisting of plastics mixed with additives and pigments, and conducts practical evaluation tests to ascertain the most effective combinations. It assists Nagase & Co., Ltd. by providing manufacturers and users in Japan and overseas with technical support concerning the polymer business. The technical database we have built up through these activities is one of our greatest assets.



**Eiji Asami,**  
Executive Officer

▶ In line with the theme of “creating growth businesses based on functional pigments and dyes,” we are promoting convergence between electronics and chemicals as we explore new avenues for imaging and recording materials applications. We are also bringing together our service know-how and networks to strengthen and expand our core business in the coatings sector, where we have a solid record extending over many years.

#### [Main Products Handled]

Products for recording information, chemicals for papermaking, raw materials for paints and inks

### Main Theme: Creating Growth Businesses based on Functional Pigments and Dyes

In the imaging materials sector, we have adopted a philosophy of creating growth businesses based on functional pigments and dyes as we strengthen our long-standing core businesses in pressure- and thermal-sensitive paper applications, non-impact printing materials and raw materials for papermaking. We are also tackling the issue of developing new businesses by exploiting the expertise we have accumulated in functional pigments and dyes and networking with leading chemicals manufacturers.

In recent years, there has been notable growth in activity in the area of chemicals applications for electronics products. The Group provides developmental support for optical recording media such as CD-Rs and DVD-Rs, and has entered new businesses providing additional card security functions for IC cards and the like. In cooperation with the Nagase R&D Center, its subsidiary NCX, and several major chemicals manufacturers, the Group is supporting new initiatives in product development and sales strategies in the electronics industry.

In the coatings sector, on the other hand, it is engaged in undertakings specializing in sales of raw materials for inks and paints. Based on the vast pool of expertise it has built up over many years, it is strengthening its consulting capabilities concerning product development in areas like environmentally-friendly paints, while building up a sales system that can provide tailor-made after-services for customers in concert with its subsidiary Delta Fine Chemical Co., Ltd. In this way, it offers customer-oriented services based on its strengths in information, product procurement and ability to put forward proposals.

The Group has been created by the fusion of the Imaging and Recording Materials Division and the Coatings Materials Divisions, allowing it to pursue the potential of new markets.

### ▶ Product Highlights and Topics



Sofix Corp.

#### Color Former Business

Color formers are pressure- and thermal-sensitive recording materials used in Shinkansen Superexpress tickets and convenience store receipts.

The Group commenced sales of this mainstay product in 1969. Today, its share of the market is approximately 37%. It established Sofix Corp. in 1990 as a joint production venture in Tennessee, USA, to produce color formers.



#### Coating Materials Business

We have been involved in the construction and automobile coating materials business for a considerable time. We are also responding quickly to the need for environmentally-conscious water-based coatings. Our inks and coatings are gaining market share. The theme of the inks and coatings business is “Beauty and Preservation.”



**Takeo Kaneko,**  
Executive Officer

▶ This Group coordinates functional products and services that are closely connected with human life and human lifestyles, such as pharmaceuticals, agrochemicals and household insecticides. It provides comprehensive support for all aspects of the drug innovation business, supporting pharmaceutical and life-science industries from discovery to market. In doing so, it makes the most of the Company's technological resources, including the Nagase R&D Center's and the manufacturing subsidiary Nagase ChemteX's technical expertise in biotechnology and organic

#### [Main Products Handled]

Pharmaceuticals (raw materials, intermediates, bulks, formulations, additives), agricultural chemicals (intermediates, bulks, formulations, submaterials), household insecticides (intermediates, bulks), biocides (bulks, formulations), high reactivity chemicals, intermediates, catalysts, diagnostic reagents materials

### Main Theme: Rationalizing and Accelerating the Drug Innovation Process

In line with its theme of "rationalizing and accelerating the drug innovation process", the Fine Chemicals Group offers a wide range of useful information and technology pertaining to the development of pharmaceuticals and agrochemicals, together with facilities, raw materials and products.

In the pharmaceuticals sector, it offers a product line-up that is second to none among domestic trading companies, ranging from basic raw materials to intermediates, active ingredients and formulations. Moreover, staff members with backgrounds in organic synthesis, pharmacology and biochemistry serve as direct contacts, answering customers' needs quickly by providing consultation on raw materials and formulation methods, market analyses and information on production costs.

One of the company's features is its ability to tie up with its R&D Center, which is known for its biotechnology and organic synthesis technology, and its subsidiaries NCX and Nagase Medicals Co., Ltd., with their production facilities. This enables it to support efforts to improve product processing, sampling, and manufacturing under contract and in conformance with GMP-I

(Good Manufacturing Practices–Imported Drugs) regulations.

In the area of agrochemicals and household insecticides, its engagement in all aspects of agribusiness enables it to offer a broad product line-up ranging from intermediates to active ingredients, formulations and auxiliary materials. It is also establishing a user-oriented sales system centered on Nagase Agritech KK, which was set up last year.

In recent years, moreover, it has deployed representatives throughout the world to create a global information network. Exploiting the latest information, it acts as an intermediary in licensing and alliance agreements, and is actively engaged in business tie-ups with overseas firms, equity fusions into overseas venture capital companies, and other efforts to enhance the value-added of its businesses.

### ▶ Product Highlights and Topics



#### Investment in Overseas Venture Businesses

We invest in venture businesses overseas. As just one example, Nagase has invested in a U.S. venture company that conducts research in immunotherapy, and is conducting joint projects. There are also plans to market the medical equipment necessary for this kind of therapy.



#### Pharmaceutical Analysis / GMP-I

Imports and sales of pharmaceuticals manufactured overseas are only allowed if they have passed stringent quality inspections by Japanese authorities. Nagase's R&D Center supports the timely supply of inexpensive, high-quality pharmaceuticals into the domestic market by carrying out analytical tests conforming to the regulations governing the quality and imports/sales of imported pharmaceuticals (commonly known as the GMP-I) stipulated by the Ministry of Health, Labor and Welfare (MHLW).



**Shingo Bamba,**  
Executive Officer

▶ The mission of the Specialty Chemicals Group is to identify needs and find solutions in the area of the environment by exploiting our know-how and accumulated information concerning chemicals. In addition to environment-related businesses such as lubricants, detergents, cosmetics, foods and electronic chemicals, we are engaged in active developmental activities that should lead to new businesses.

**[Main Products Handled]**

Enzymes, bio-related products, raw materials for toiletries, chemicals for electronic materials

## Supporting Cross-fertilization between Chemicals and Other Business Sectors

To fulfill its mission, this Group is engaged in marketing activities aimed at a wide range of industries, not allowing issues such as market size or target area to become limiting factors.

At present, it handles many products, including mainstays like surfactants for lubricants, detergents and cosmetics, and in food-related products, enzymes manufactured by NCX.

It also handles a number of natural products and bio-related products such as fish and animal feeds, health foods, and sanitation-related products.

In the area of electronic chemical-related products, it handles metal surface finishing agents for use with wafers and hard disks, but in the future it plans to deepen its involvement in the electronics sector through products such as display panels and fluororesins. It also handles silicones and catalysts to back up customers in developing products that help preserve the environment. However, this means more than supplying products, it means we have contributed to our customers and have earned their solid support because our services are enhanced by our strengths in information concerning natural

extracts and biochemicals, raw materials procurement and product proposals.

In order to offer services that are more closely involved in customers' business strategies, including measures to reinforce product development and production capacity as a means of coping with shorter product cycles, we are participating in joint development work with customers and expanding our network in the Asian region.

Looking ahead, we intend to establish a flexible SBU (small business unit) organization with a concrete approach. As we move ahead in this area, we also plan to support the development of products that will tie into new businesses by offering our chemicals know-how to a wider range of business sectors.

## ▶ Product Highlights and Topics



### Development of the Enzyme Business

Enzymes manufactured by NCX are used in industries like textile finishing, pharmaceuticals and foodstuffs as biocatalysts derived from microorganisms. More recently, they have been used in environmental protection applications such as wastewater treatment.



### Commercial Launch of a NOx-gas Remove-Recover Device

This device dramatically raises the rate of absorption and elimination of nitrogen oxides within metal contaminated waste gas without the use of chemical agents or catalysts, thereby enabling an almost perfect degree of elimination. We have obtained sales rights to this device, which was developed jointly by Mitsubishi Materials Co., Ltd. and the Pollution Prevention Apparatus Laboratory Co., Ltd., and are now concentrating especially on business activities relating to environmental matters.



**Yasuhiro Yamazaki,**  
Manager, Dyestuffs Division  
President, Nagase Colors &  
Chemicals Co., Ltd.

▶ In the domestic arena, this Division markets dyestuffs, chemical products, machinery and equipment for use in processing textiles and related products covering all of Japan through the companies Nagase Colors & Chemicals Co., Ltd. (NCC), Delta Fine Chemical Co., Ltd., Fukuyama Nagase Co., Ltd. and Kyushu Nagase, Co., Ltd. On the other hand, it is responsible for strategy in Asia and projects in China, and supports overseas customers in procuring materials associated with dyeing and finishing processes in general.

#### [Main Products Handled]

Dyestuffs, dyeing auxiliaries, industrial chemicals, finishing agents, textile processing resins, fiber adhesives functionality-added finishing agents including antibacterial agents, deodorizing agents, and shape memory agents

## Making the Most of World-class Technologies in the Global Market

While the Division holds a top share of the domestic dyestuffs market with approximately 20% of sales, the market itself is shrinking, from ¥100 billion in 1990 to ¥30 billion in 2000. On the other hand, Japanese companies are said to be involved in approximately 30% of textile production in Asia, which is currently estimated at 35 million tons or over 70% of the world total. The dyestuffs market in Asia is believed to be worth around ¥300 billion, approximately half the world's total. This is roughly divided between China and the other countries of Asia.

Currently, the Division has set its sights on Japanese companies advancing into Asia and is strengthening its business in this area. In July 2001, it deployed a sales representative specializing in dyestuffs in Shanghai with a view to securing a 20% share of the Chinese market. It also plans to establish a branch office of the Techno Center in the same location to carry out color test evaluations overseas.

In April 2001, it became the first in the industry in Japan to introduce a CTI system as part of its CRM (customer relationship management) program, and has commenced test operations.

May 2001 also marked the inauguration of a technical data search system to provide customers with knowledge

accumulated by the Company. We expect to establish a similar system for the non-apparel sector of the textile processing business within three years.

We are also engaged in activities that focus on the environment, safety and health, developing techniques for recovering active elements from waste dyestuff fluids, wool-dyeing techniques that do not involve metallic substances, and anhydrous dyeing techniques.

To create an organization that is even more technology- and information-oriented, we have set up the NCC "Wise Men's Group," which is made up of experts from inside and outside the company. This organization operates in concert with the Techno Center, establishing dyeing techniques using new materials, finding technical solutions to improve the fastness of dyed products, developing dyestuffs, agents and finishes that better satisfy requirements in the field, and putting forward proposals for manufacturing and preparing compound dyestuffs using original Nagase technology.

In this way, the Division will work to create a vertically integrated system that makes the most of its world-class technical strengths, and take a global approach that extends as far as exploring proposals to be made to consumers.

## ▶ Product Highlights and Topics



### Techno Center

The Center develops original products and distributes technical information. It is working to develop various technologies, including those for metal-free dyestuffs, and for applications to special clothing to improve light fastness, durability, and texture.



### Technical Data Search System

Some 3000 items on troubleshooting and over ten years' worth of technical materials and news from magazines and other sources have been brought together into a database. We provide customers with the best possible solutions by making the most of IT.

### CTI (Computer Telephony Integration)

Introduced to strengthen relations with important customers and expand a niche market. This key information system for small volumes of multiple products started operations in April 2001. The computer automatically forecasts demand based on customer order data, and from this operators manage well over 1000 delivery locations. In the future there are tentative plans calling for all order operations to be consolidated in a single location.



# Plastics Group



**Kazuaki Kobayashi,**  
Director and Executive Officer

➤ We believe a “trading company of choice” is a company that provides a clear-cut approach to the needs of the market. The Plastics Group was originally active primarily as a marketing agent for materials manufacturers, but the environment in which we are now situated is continuing to change dramatically. Having completed organizational restructuring in response to these drastic changes, we are currently engaged in establishing new business structures rooted in the market and aimed at providing our customers with even greater levels of satisfaction.

**[Main Products Handled]**

Thermoplastic resins, thermosetting resins, synthetic rubbers, inorganics, auxiliaries, plastic products, plastics related equipment, devices and dies

## Organizational Reform a Prerequisite for Making Customer-Oriented a Reality

Adopt a thoroughly customer-oriented approach and actively invest when necessary: The Plastics Group dramatically changed its organizational structure and way of doing business in line with the Company’s management vision and on the basis of the idea that “the answer to everything lies in the market.”

Decision-making based on conventional vertical organizational structures is not fast enough to cope with the dramatic changes taking place in the market and leads to lost opportunities. We speeded up our decision-making processes by abolishing the traditional “department” and “section” system, making our organization horizontal, and delegating authority.

We adopted a personnel system that involves putting the proper person in the proper position, and in June 2001 we started a system of SBU (strategic business units) that will help us face both the market and our customers head on. We have started to take up specific initiatives to provide our customers with the seeds for new business. We are now

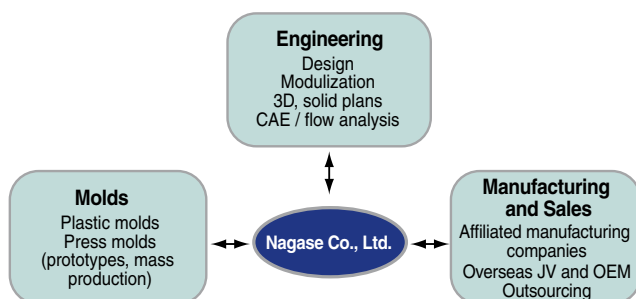
formulating and implementing a number of business models — region-oriented, user-oriented, manufacturer-oriented and product-oriented— in response to the needs of individual customers, needs that are growing more diverse, complex and sophisticated with each passing day.

At the same time, we formed a specialist legal and taxation unit consisting of staff with expert knowledge of investment and risk assessment to support the SBUs. We also set up a specialist e-business unit that aims to bolster use of e-business applications and information technology. Through these organizational reforms, we have strengthened our capabilities so that customers might be more likely to select us as their partners.

## Creating New Functions for Marketing through “Selection and Concentration”

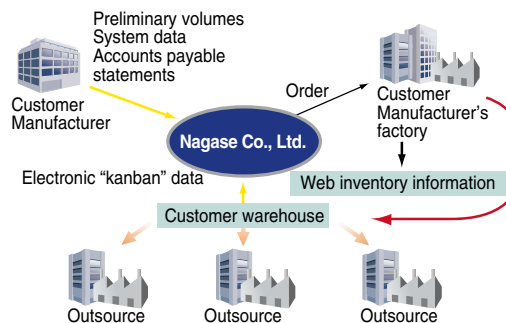
Having reformed our organizational structure, we are implementing a policy of selection and concentration towards our existing businesses. More specifically, we invest actively in our strategic businesses while withdrawing from deficit-ridden businesses.

### ➤ Product Highlights and Topics



#### Services Provided to the Automobile Industry

We provide total solutions involving die design, development support through to the engineering stage of product prototypes, manufacturing through affiliated manufacturing companies and joint ventures, and the supply of raw materials to such companies.



#### Electronic “Kanban” System and Just-in-Time Ordering

Preliminary information on production involving a particular customer is received and then analyzed by our company’s order control system, which determines which parts are needed and in what quantities and when. The system then places orders with suppliers and delivers the minimum quantities of parts needed from each distribution warehouse to the customer’s production area precisely when they are needed. We are constructing a supply chain management system based on the control of preliminary production data, electronic signboard supply data, and warehousing data.



For example, we have identified the provision of international procurement services, or SCM (supply chain management), as our main theme for the automobile business, which is a strategic sector. However, this business was not built up overnight. It became possible because we predicted over a decade ago that the market would change in this way, and started working on building a structure that could deliver total concept services (design, molds, dies and processing). In fact, it was precisely at that time that we established Canada Mold Technology, Inc., a company that manufactures dies for automobiles in Canada. Generally, preparations are begun for automobile model changes three years in advance. Participation in die manufacture therefore enables us to obtain a clear picture of future developments in the automobile business well in advance. As it happens, the Group subsequently started receiving orders from auto manufacturers to design and even engineering parts, not just handle dies as it had in the past.

In a similar manner, we provide global procurement and distribution services to manufacturers of OA equipment and consumer electronics. In light of the trend toward the recycling of materials, we are also commercializing new business models based on compound development including the reuse of plastics.

Our regional strategies involve strengthening our service capacity in Japan, including distribution, by making alliances with sales companies of the Nagase Group that have strong regional ties. Looking to the near future, we are in the process of building a new tripolar organizational and business model linking Japan, ASEAN and China.

The Group also launched new activities in the housing

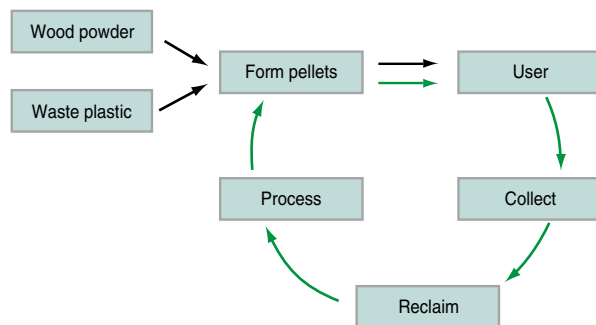
equipment sector in June 2000. Centering on our product Pluswood, this market involves not only the sale of products but also the development of a new recycling system for building materials.

While working to boost profits by promoting sales of original in-house products like Pluswood, we are analyzing and systematizing information derived from the Group's customer lists covering over 10,000 companies. At the same time, we are strengthening ties between Nagase Group companies and cooperation with business partners from different sectors both inside and outside the Group to develop speedy response capabilities and provide new functions to the market.



**Pluswood Business**

Pluswood is a plastic compound building material containing more than 51% by weight of wooden material. To make effective use of lumber from thinning and off-cuts, it is ground into wood powder which is then mixed with halogen-free resins to form pellets for profile extrusion molding into unusual shapes. The result is a new construction material for the 21st century that is environmentally-friendly and can be recycled without emitting formalins or dioxins. Currently, products related to handrails, floorings and wall materials are on sale. We are making special efforts to develop applications that can be incorporated into the designs of special nursing homes, health facilities for the elderly, hospitals and commercial facilities.



# Electronics First Group



**Kyoichi Zushi,**  
Executive Officer

▶ In close cooperation with production and sales companies within the Nagase Group, the Electronics First Group is engaged in providing the electronics component, semiconductor and liquid crystal sectors with materials and systems solutions. While the Japanese market in this sector is already mature, the Asian markets are in the midst of rapid growth. At a time when product pot-lives are shortening and unflagging technological innovation is required, the industry is restructuring as it strives to cope with the need for massive investments and the increasing risks they involve. Against this background, it is our firm intention to position ourselves as a trading company with manufacturing functions that boasts of the ability to create original products.

#### [Main Products Handled]

Semiconductor manufacturing equipment, CMS, photolithography chemicals  
semiconductor packaging materials, semiconductor packaging systems, insulating  
materials and equipment, fluoroplastic-related products and epoxy resin-related  
products

## Boosting Investment to Strengthen Manufacturing Capabilities

Under Company-wide policies, the Electronics First Group has six policy initiatives.

Based on policies to

1. "Strengthen orientation towards manufacture"
2. "Focus on profitability"
3. "Expand investment"
4. "Expand overseas sales and manufacturing networks"
5. "Build alliances" (This involves searching for new alliances, especially among overseas manufacturers.)
6. "Organize and create an organic fusion between related manufacturing and sales companies."

While maintaining dynamic links between these policies, our aim is to implement them strategically in order to develop profit-generating businesses. We have already initiated steps to organize related manufacturing and sales companies with a view to delivering results as soon as possible.

Likewise, we intend to expand investment quickly, since its objective is to create foundations for the growth of the Group and thus for the Company. During the period from the current

through the next fiscal year, we are planning or already implementing several major investments, the most important of which are outlined below.

In May 2000, we converted Nagase-Ciba Ltd. into a wholly-owned subsidiary called Nagase ChemteX Corp., which should enable us to develop the new company's operations at home and overseas. NCX is currently hiring personnel to take charge of marketing throughout the world and build up a network for sales of the next generation of sealants, known as LSEs (liquid-epoxy semiconductor encapsulation agents). LSEs are epoxy resin sealants that have been adapted to the increasingly complex package structures resulting from the accelerating evolution toward larger capacity semiconductors. We have high expectations that demand growth will be substantial, not just in the United States and Europe but also in South East Asia.

In June 2000, we established a new subsidiary called Alpha Bumping Technology Co., Ltd. Once the new company succeeds in the wafer bumping business in Japan, we intend to ensure it goes on to succeed in Taiwan as well. This "wafer bumping" technology was introduced from Pac Tech GmbH of Germany, and Alpha Bumping Technology is a joint venture

## ▶ Product Highlights and Topics



Clean Room (Alpha Bumping Technology Co., Ltd.)

### Establishment of Alpha Bumping Technology Co., Ltd.

In June 2000, we established a joint venture with Kiyokawa Plating Industry Co., Ltd., Japan's leading plating company, following the conclusion of a technical tie-up with Pac Tech GmbH, a German venture firm. The company's specialty is wafer bumping processing for flipchips, the next generation of semiconductors.

between Nagase and Kiyokawa Plating Industry Co., Ltd. The new technology will help deliver more compact, slim-type semiconductor packages at lower cost.

Also in 2000, our subsidiary NCX completed construction of a plant to supply chemical products for the manufacture of liquid crystal in Taiwan, starting production in September. During the term, we also concluded a tie-up with Korea Kumho Petrochemical Co., Ltd., and plan to advance into the business of licensing technology for removers for liquid crystal. At the same time, we will also start joint development of advanced photoresists.

### Contributing to Environmental Preservation

The founding of Nagase CMS Technology Co., Ltd. in July 2001 puts us in a position to provide engineering services based on a CMS (chemical management system) we have developed.

Our CMS helps protect the environment by reducing the volumes of chemicals used in manufacturing processes for semiconductors and liquid crystal. Using various kinds of sensors, it allows chemical concentrations and performance to be maintained at constantly optimal levels by adding only the amounts of ingredients required, rather than following the conventional procedure of supplying the full amounts for each process at fixed time intervals.

To promote sales of the CMS, we aim to take advantage of demand in the global markets for semiconductors and liquid crystal, which is expected to expand two- or three-fold over the next five years.

Currently, the key liquid crystal manufacturing centers are Japan, Korea and Taiwan, but Singapore has adopted a state policy of attracting liquid crystal manufacturers. The first Japanese company is expected to start local manufacturing

operations there in 2002, and Nagase is establishing plants to manufacture and recycle the chemicals we supply with a view to putting them into operation within the same time frame. The new plants look set to make a promising start because the Singaporean government has granted Nagase "Pioneer Status," which means the company is exempted from taxes for six years and the government bears study and training costs. In the near future, we also expect to offer chemical and recycling services to liquid crystal and semiconductor manufacturers in ASEAN.

The Electronics First Group stands committed to providing customers with wide-ranging services that keep the environmental issue very much in mind.



### Alliance with Korea Kumho Petrochemical Co., Ltd.

We have concluded a tie-up with Korea Kumho Petrochemical Co., Ltd. for the manufacture of removers for liquid crystal. From 2002, we plan to carry out joint development work on next-generation photoresists.

# Electronics Second Group



**Kazuo Nagashima,**  
Executive Officer

▶ Because of its involvement in the electronic devices sector, where it handles key IT devices and systems like displays, communications components, network equipment and imaging systems, the performance of the Electronics Second Group is highly vulnerable to cyclical business trends in the industry. It is also at risk from the fierce “death match” price competition typical of the industry, and from shorter product life cycles. The Electronics Second Group puts a great deal of effort into creating original business operations that minimize its susceptibility to the vagaries of the business sector and contribute to higher profits on an ongoing basis.

#### [Main Products Handled]

Display units, materials for LCDs and organic electroluminescent devices (ELs), precision abrasive materials, network equipment, wireless communications modules and sub-systems, ICs for communications, parts and materials for optical communications, surface defect inspection systems (manufacture), vacuum pumps, refrigerators, laboratory equipment (development and manufacture)

### Creating Original Businesses Rapidly in Cooperation with Group Companies

Leveraging the knowledge and expertise accumulated over the years is of course important for creating original businesses, but cooperation with the Group companies in the various sectors responsible for manufacturing and processing is also necessary. The Electronics Second Group is actively engaged in such cooperation to take maximum advantage of these companies, sharing resources and roles whenever possible.

Based on an awareness that acquiring information quickly and accurately provides opportunities for business creation, we take a thoroughgoing approach to working closely with customers to identify new business needs faster than our rivals, and to ensuring that this information is quickly shared among our employees. There is always a danger that if we try to avoid risk and insist on perfecting a specific business model, we might find

ourselves lagging behind other companies by the time our model is ready. It is therefore essential to initiate action on new businesses as soon as we conclude that they will benefit customers and yield profits. The Group's management policy is thus to take up new business challenges fearlessly. In fact, several businesses have already emerged from this approach.

### Seizing Business Opportunities by Reading Trends in Semiconductors, Liquid Crystal Displays and Telecommunications

One of these businesses is “device production” whereby parts and materials necessary for the production of display units are procured and assembled in cost-competitive China. Polarizing film processing is an example of success we have had in establishing such a system that can promptly respond to users' needs.

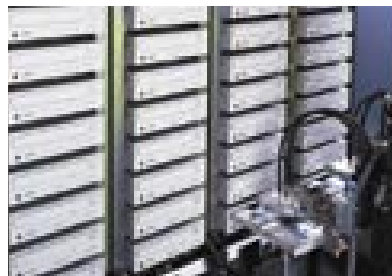
Another of these businesses is surface inspection

### ▶ Product Highlights and Topics



#### Device Production Line in Shenzhen, China

This is one example of our business investments in China. We plan to expand our processing business with emphasis on assembly.



#### Fully Automated CD-ROM Duplicator, GigaCUBE

In July 2001 the Nagase Group began marketing the new fully automated CD-ROM duplicator GigaCUBE, a product developed by the Group subsidiary Hoei Sangyo Co., LTD. GigaCUBE is equipped with a powerful CD-ROM drive controller unit, DSR-3000, 32 16X CD-ROM drives, and an automatic disk transport unit. It allows large volume duplications for business applications, including professional CD duplication services. Large volumes of CD-ROMs can be duplicated over a short period of time in-house, eliminating the need to outsource.

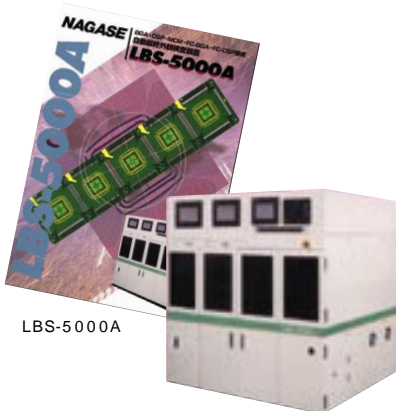
systems based on Nagase's original image processing technology and used for checking the surfaces of optical films and steel plates for automobiles. A third is semiconductor inspection systems, an application of surface inspection systems that are used for the next generation of semiconductor CSP and FC packages.

For the future, we are determined to continue our work on detecting new sectoral trends quickly and using this information to develop these businesses. Among other original businesses, noteworthy is the development of power amplifier modules and transmitting / receiving subsystems for wireless communications base stations including mobile phones based on the communication technology of Gigatech, one of our Group companies. The power amplifier is probably the most important device from among all the base stations required to build wireless communications networks. We develop and offer a number of custom products to meet customer requirements by arranging power amplifiers in modules, units, and sub-systems. We have available a wide range of products to match trends in the mobile phone market including those for PHS, the current domestic mobile phone format PDC, the international format CDMA, and the world standard for next-generation mobile phones W-CDMA. As of the summer of 2001, production of mobile phones appears to be overheating somewhat, but we will nevertheless build a system to ensure we do not miss the business opportunities expected to emerge when the arrival of the next generation of mobile phones ushers in another era of

expanding demand.

During the current term, the semiconductor and communications sectors remain sluggish, but most leading companies in all the key sectors are already preparing for the arrival of the next wave. Ever-sensitive to such trends, Nagase is also making preparations.

One sector in which we will make special efforts in the future is overseas device production. In particular, we will work to expand the Group's business in Greater China in response to the advance of Japanese and Taiwanese semiconductor and liquid crystal display businesses into that country.



### Automatic Finished Appearance Surface Inspection System for Next-generation High-density Package Boards

Technical innovation in the field of package boards serving as interfaces for electronic devices is moving ahead at a rapid pace under the influence of the increasingly high density and capacity of semiconductor devices. Boards of various types are currently being developed. Competition is particularly acute in the development of plastic BGA/CSP, and it is no longer possible to respond adequately to the demands of quality and production quantities by means of visual inspections alone. There is thus a growing need for the automation of surface inspections. LBS-4000/5000A is a fully automated inspection system for electrolytic and non-electrolytic plating circuit board, and it has proved especially successful in recent years in the field of applications to FC connector boards.



### Power Amplifier Systems for W-CDMA Stations

W-CDMA is currently receiving significant attention because it allows mobile phones to be used anywhere in the world. This format is set to go on line in October 2001 in Japan and sometime in 2002 in Europe. In anticipation of this market, Gigatech Co., Ltd is rapidly developing new leading-edge technologies, and is in the process of commercializing power amplifiers for W-CDMA stations as highly functional subsystems.

# Health Care Group



**Makoto Ono,**  
Executive Officer

▶ As society ages, lifestyle-related diseases are becoming more common and the cost of medical treatment and nursing care for older people is expected to grow. At the same time, people are becoming more health-conscious and there is growing demand for high-level medical treatment services that are optimized for individuals. The Health Care Business Group contributes to increasing quality of life and helping individuals improve their overall lifetime health through products and services that match individual health requirements.

#### [Main Products Handled]

Cosmetics, health food, beauty foods, bacteria test devices and reagents, diagnostic systems, infectious disease control systems, reagents for research, x-ray-related equipment, automotive gene extraction devices, electronic medical chart system, home nursing care products, home therapy devices

## Creating New Businesses in an Era that Gives Us Greater Choice in QOL

The Health Care Group has established the following five sectors in order to provide products and services that match individual health requirements.

1. Cosmetics and health foods that help maintain health and beauty
2. Health food supplements and health care services that help prevent lifestyle-related diseases
3. Nursing care supplies that contribute to more comfortable care
4. Home therapies that minimize the burden on individuals
5. Electronic medical chart system (displays information on patients) that is essential for quality medical treatment services

The individual is the target of the health and beauty, preventative medicine and medical treatment services offered by the Group. In an era characterized by the fusion of the human genome and IT, the question of how to approach the individual is an important one. We believe our mission is to

help individuals improve their lifetime health plans and QOL by providing them with products and services that match their personal health condition.

For people with healthy skin and bodies, we presently offer foods that help maintain health and cosmetics that help prevent aging through our nationwide network of 40,000 door-to-door salespersons. In fact, “anti-aging” is the basic theme behind our development of health foods and cosmetics. Natural extracts such as those from herbs are one of the most promising and effective approaches to removing oxygen radicals, which is essential for preventing cellular aging. In cooperation with the research institutions of several universities and the Nagase R&D Center, we are conducting research into the effects of these natural extracts, and the reports we have submitted at a series of academic conferences have been well received. The Group is also planning to introduce IT to reinforce the marketing capabilities of its sales organization. Meanwhile, many firms are taking a new look at face-to-face contact. To transform the strength of this into a corporate asset, we are exploiting IT, strengthening our sales organization, and offering support to customers

## ▶ Product Highlights and Topics



### Development of Cosmetics and Functional Foods Based on Research into Herbs

The Nagase R&D Center tests natural herb extracts in its own testing room. The Center regularly publishes the results of its research at academic conferences.



### “Omutsu-poi” for Processing Paper Diapers Used by Adults

Used paper diapers are placed in the pack bag, the pack equipment extracts the air and heat-seals the pack to seal in the odor of human waste. At present, the used diapers generated by households involved in nursing care are disposed of as general (burnable) trash, but odors can be a problem in apartment blocks during the period until garbage collection day. This new product was born out of the need to deal with a problem arising from three key issues of the day: the aging society (nursing care), the environment (garbage) and housing conditions (communal housing such as condominiums).

through counseling services by our sales staff.

In the area of preventative medicine, we are involved in the development and sales of health food supplements that help prevent lifestyle-related diseases, specifically hypertension, hyperlipemia and diabetes. In order to develop mail order and over-the-counter sales routes for these products, we established a new company called Herbal Care, Co., Ltd. in October 2000. Herbal Care is developing a health care system whereby individual members will be given IC cards, which allow weight, body fat, blood pressure, blood sugar and other health indicators to be monitored over the Internet. Herbal Care will then use this information to provide members with advice that is tailored to their lifestyles. Full-scale services are scheduled to start in the spring of 2002.

The Group is also fully involved in improving the QOL by providing home nursing care-related products. The first such product, the “Omutsu-poi” vacuum pack processing device for paper diapers used by adults, went on sale in May 2001. By solving the obstinate problem of suppressing odors and by making it possible to separate paper diapers as burnable trash, this product has met a market need, and has sold steadily since it was launched. In the spring of 2002, we also intend to launch a home therapy equipment business, which is based on the fruits of many years of research.

The medical treatment sector has been marked by rising demands for high-level medicine and a growing desire on the part of individual patients to select the optimum treatment for their needs. In response to these new needs, the Group is working to strengthen and expand its medical information business, which is an essential element in managing personal medical data. We have already gained experience in the medical information business, including infectious disease control systems. We have installed them in university

hospitals and other medical institutions throughout Japan. Now, our policy is to strengthen our electronic medical chart system business, which involves the compilation of vast amounts of personal medical data. The electronic medical chart system that lies at the heart of this business integrates all the necessary information for diagnoses and treatments. As such, it not only boosts efficiency and ensures the quality of treatment, but it promises to become used widely because it respects the patient’s right to know and to select the treatments he or she will undergo. In November 2000, we entered a capital and business tie-up with Japan Medical Bank System Co., Ltd., a medical software company, and have started sales to medium-sized hospitals and surgeries.

Against the background of progress in IT, the Health Care Group is committed to improving QOL through health and beauty preservation, preventative medicine, the realization of high-level medical treatment and the provision of products and services tailored to the various stages of health experienced by individuals.



**Internet-based Health Management System**

The collected data is transferred to a server via the Internet from home-based personal computers or portable terminals, providing the individuals in question with the up-to-date information they need to manage their health. The system uses IC cards to eliminate errors and guarantee security.



**Electronic Medical Chart System**

This system allows medical treatment and therapy to be carried out efficiently, effectively and systematically by centralizing management of data on all patients and making it commonly available to medical staff. It uses image compression technology originally developed by Nagase for instantaneous searches of visual data that is essential for medical treatment, including CAT (computerized axial tomography) scans, X-rays, endoscopic images and electrocardiograms. Establishing information networks that extend beyond individual hospitals to regional medical institutions should also make it possible to provide comprehensive medical services that are closely connected to local communities through links with clinics.

# Detailed Information by Topic

## 1. The Founding of the New Nagase ChemteX in Connection with the Integration of Manufacturing Companies



**Reiji Nagase**

President, Nagase ChemteX Corporation (NCX)  
Managing Director and Executive Officer, Nagase & Co., Ltd.

On April 1, 2001, the new Nagase ChemteX (NCX) was inaugurated by the merger of the four chemical manufacturing subsidiaries belonging to the Nagase Group: Nagase ChemteX Corp., Nagase Chemicals, Ltd. (NKK), Teikoku Chemical Industries Co., Ltd. (TKS) and Nagase Biochemicals, Ltd. (NBL).

The new company boasts a number of technologies that are unique for the sector, including formulated epoxy resins, epichlorohydrin derivatives, electronics chemicals, enzymes and pharmaceutical raw materials. It now intends to pursue business covering two leading-edge areas: electronics, where major technological innovations are expected in the future, and health care centered on pharmaceuticals and biotechnology. Because of their high-quality products, the four predecessor companies received high ratings from customers. NCX has inherited both their reputation and the characteristics that made it. In addition to providing high-function, high value-added services, it aims to exploit the production experience and know-how accumulated in the electronics and health care sectors to develop new markets, either through their integration or in inter-disciplinary areas.



### **Nagase ChemteX Corporation (NCX)**

Capital: 2.42 billion yen  
Sales: Approximately 25 billion yen  
No. of employees: Approximately 500

### **The Objectives of the Integration of the Four Companies**

The Nagase Group has taken the first step towards establishing a group that can respond to market changes quickly and at any time by adopting a smooth, flexible and agile approach to business realignments and recombinations. We believe this is the most significant aspect of the consolidation of the four companies.

The consolidation has three objectives:

- \* Make effective use of management resources such as technology and facilities.
- \* Achieve desirable economies of scale.
- \* Combine and realign its business segments dynamically.

Making optimal, effective use of management resources enhances operational efficiency and enables the Company to offer products that are highly cost-competitive and therefore capable of becoming “winners” in the global market.

Achieving economies of scale by expanding the Company energizes human interchange, encourages joint purchasing and distribution of raw materials, and permits planned and focused investment into key sectors. It is also expected that increasing the Company’s size will enhance its standing in society and therefore make it easier to recruit superior personnel.

Combining and realigning its business segments should yield numerous synergies. For example, we expect the introduction of individual company technologies into other sectors will lead to necessary improvements in production while maintaining the quality levels for which the four companies were known prior to the merger. Likewise, we believe we can look forward to the development of products incorporating new concepts that unite the R&D functions and production techniques of different sectors like electronics, industrial materials, pharmaceuticals and health care to create hitherto unknown market value.

### **The New Company’s Goals**

The new company’s management philosophy is to “Contribute to the realization of a better society by delivering higher levels of satisfaction to customers through high-performance chemical products and technologies.” By bringing this philosophy to fruition, it aims to become “a value-generating enterprise using chemicals to create a more prosperous future.” The two



pillars of its operations are the Chemicals Business, which focuses on electronics and functional resins for adhesives and other industrial uses, and the Fine Business centered on pharmaceuticals and biotechnology.

Rationalization is an important prerequisite for realizing the full benefits of the merger. In fact, so long as the company is involved in production in high-cost Japan, it can be called indispensable. For this reason, the company is moving to promote rationalization by utilizing IT to the maximum extent possible and setting up a seamless system for responding to customers quickly.

Another condition is higher quality. The Company's mainstay businesses have already acquired ISO9001 and ISO9002 certification, and conform to the code of good manufacturing practice (GMP) for pharmaceuticals. Preservation of the environment is also considered essential, and in addition to tackling the issues involved in developing and producing environmentally-friendly products, we are now working towards acquiring ISO14000 series certification as a means of ensuring that all our corporate activities are in harmony with the environment.



### ■ Growing the Two Businesses

In the Chemicals Business, consolidating the former NCX and NKK has greatly reduced the time that used to be consumed between the two companies from development through to supplying raw materials, production and delivery. It has also accelerated the setting up of joint research projects for the development of new applications for the former NCX's mainstay formulated epoxy resin products, and reduced development times through joint use of facilities. We are also looking into applying to our Health Care sector the know-how we have accumulated in developing production techniques for electronics, where micro-level processing and design are essential.

In our Fine Business, on the other hand, our key strategic development theme is to establish methods for formulating chiral compounds, and we are working to fuse TKS's organic synthetic



technology with NBL's biotechnology, especially its enzyme catalytic technology. In this area, there has been a rapid acceleration in our activities developing new technologies that will differentiate us from our competitors. We hope, too, that pursuing the characteristics of chiral compounds will facilitate their application in fields relating to electronics and new industrial materials, eventually leading to further expansion of the sectors in which we are active.

In this way, we are endeavoring to enhance our competitiveness by drawing on our own resources to reinforce our technological development capabilities and strengthening our ties with domestic and overseas companies and research institutions with technological capabilities.

### ■ Ties with the Nagase Group

Our role as a production company is to provide the Nagase Group with unique manufacturing functions. We devise various means of adding value to the wide range of products, technologies and services handled by Nagase. We believe that we can energize the Group and enhance its value by receiving direct information about market needs through Nagase, which acts as a technology and information source. We can then use this information to develop products that closely match these needs, and manufacture them using high-level production technology. We will thus use the Company's development and manufacturing technologies to convert customer needs into products, and provide carefully tailored services along with low cost, high performance products.

Nagase's approach to business involves positioning NCX products as one of the pillars of its operations, but it does not stop there. It will also offer a wide range of products and technologies from other companies as a means of satisfying customers' requirements and helping them solve their problems.

Globally, our policy is not only to take over those OEM production activities that NKK undertook in Taiwan and Korea, but also to expand product manufacture.

We are also strengthening our ties with the Nagase R&D Center in Kobe. These efforts involve exchanges of research staff, joint R&D projects, and using NCX to scale-up the results obtained at the Research Center, and are designed to deepen our cooperative relationship more than ever.

## 2. Current Status and Outlook for Business in China



It is essential for any company to focus appropriate levels of business investment and manpower in markets that promise growth. We have followed this approach in expanding our business by concentrating our business investment and manpower not only in Japan but also throughout Asia, with emphasis on key markets for the chemical industry.

The Nagase Group already operates seven sales centers and three manufacturing centers in China. Once China joins the WTO, we expect further growth in the textiles industry, which is a major contributor to foreign export earnings, and believe this will lead in turn to growth in industries like chemicals, electronics and household electronics. In fact, there is already a shift in production of OA- and IT-related components from Taiwan and other Asian countries to China, and many of our customers and suppliers are looking at advancing into China themselves.

Against this background, we act as a business partner to companies that have entered China, providing quick-response business support and investment from Japan. This takes the form of training and assigning the personnel necessary for handling accounting and other aspects of business management and plant operations at the local level, as

well as providing on-the-spot support for sales and distribution. Looking ahead, we aim to increase the number of operational centers by performing functions that customers need quickly and reliably.

In the coming term, we plan to establish a center to sell dyestuffs and dyeing agents and provide technical support, expand our manufacturing and processing center for LCD components and other electronic materials, strengthen our production and sales of automobile parts and other plastic products, and initiate outsourcing activities for chemical products such as pharmaceutical raw materials.



## Detailed Information by Topic

### 3. The IT Challenge

#### Fusing IT and Technical Information Networks

The main purpose of using IT is to create new “wisdom.” For a company whose main asset is people, one of the most important management issues is strengthening the information-gathering ability of individual employees and upgrading organizational knowledge. Looking ahead, our goal is to energize our creation of new “wisdom” by paying special attention to complete customer-orientation and backing up the technology and information we have gained through IT with our expertise.

To give a concrete example of how we exploit IT, we are boosting our organizational marketing strength by utilizing a centralized database that brings together the technical information, market information and technical proposal know-how that exists between our R&D Center and production subsidiaries. We have also started using the Internet to distribute the technical information we have accumulated over several decades to important customers in the dyestuffs business at home and overseas. For the electronics industry, we are in the process of planning a network that links development and design centers, production plants, materials suppliers and customers in the semiconductor and communications parts sectors using high-speed digital communications circuits and advanced automatic electronic design software from the United States.

#### Customer-oriented SCM (supply-chain management)

To optimize our overall supply chain, we are using IT to strengthen our logistical functions at home and overseas. In Japan, we are taking active steps to promote networking with strategic partners as a means of responding to customers' electronic procurement needs. We are also building a logistical information system that Group companies and partners can use for optimal co-distribution and local deliveries.

A good concrete example of our efforts in the import business is the creation of an SCM system that incorporates a demand forecasting system and a CTI (computer telephony integration) system for handling orders utilizing the know-how pertaining to logistics from production planning through imports and sales that we have built up through importing synthetic dyestuffs. In

the ASEAN region, we operate a unique SCM system that combines the knowledge we have acquired through the import business with the know-how we have accumulated using JIT (just-in-time) systems together with our customers and partners.

Furthermore, our local subsidiaries throughout the world are establishing organizations for rationalizing distribution and customer services in order to improve the quality of customer services and reduce distribution costs.

#### New Businesses Using E-commerce

In the EC sector, we are moving into business with a special focus on “images.” We have been involved in sales of DVD software for some time, but we are now involved in sales of DVD drivers and conversion of home videos into DVDs. In the area of health-related businesses, we operate a membership-based health management service via the Internet, and sell diet foods by mail order.

In the environmental sector, we have started business as an application service provider (ASP) in the areas of material safety data management, pollution release and transfer registers management (PRTR), and environmental regulation searches. We have also started offering “Nagase Manager” services covering the management of schedules, drawings and production to plastics molders on an ASP basis.

All these ventures represent our attempts to find methods whereby the Nagase Group can fulfill its role in society through EC.



The New Business Development Office's Transtechnology Team develops new businesses centered on digital images and DVD. The Team plans to offer the general consumer contents such as DVD movies and videos, software such as that for producing DVDs, hardware including DVD drivers for personal computers, media like DVD-R, and services including DVD conversion.

## Detailed Information by Topic

### 4. Tackling Environmental Issues

#### Acquiring ISO14001 Certification

On April 28, 2000, we received ISO14001 certification (No. 772685) from Lloyd's Register Quality Assurance Limited, which is authorized by the Japan Accreditation Board for Conformity Assessment (JAB) and the United Kingdom Accreditation Service (UKAS). The certification applies to the entire company – our Tokyo and Osaka headquarters, the Nagoya branch, the Nagase R&D Center, and the Sendai, Hiroshima and Fukuoka offices.



ISO14001 Certification

#### Environmentally-friendly Approach to Business

Our policy is to adopt an environmentally-friendly approach to business. Our activities in the area of environmental preservation are characterized by their contribution to the environment through the expansion and creation of “eco-businesses.”

We make a particular effort to utilize our strengths as a technology and information company, actively offering information pertaining to the safety of chemical products (ASP services conforming to the PRTR Law, sales of environment-related applications, etc.), information for achieving zero emissions (chemical recovery and regenerating systems, waste solvent recovery systems, etc.), and eco-materials, equipment and systems that will

reduce the burden on the environment.

From the point of view of providing opportunities for finding solutions to various needs, we are promoting interchange between different sectors (large chemicals manufacturers, major construction companies, geological survey companies and the like) in a search for solutions to environmental issues.

#### Participation in Regional R&D Consortia

The New Energy and Industrial Technology Development Organization (NEDO) is engaged in forming regional consortia of companies, universities and research institutions to carry out technological development work. It then makes use of the results in aid of projects to strengthen the foundations of industrial competitiveness and contribute to the creation of new industries.

The environment-related consortia projects in which the Company and the Group have participated include a new “solation and gelation” color coating technology that allows colored glass recycling, and an enzyme method that uses “intelligent” yeast to produce “bio-diesel fuel” from waste cooking oil.

In this way, we are taking a completely different approach to environmental issues based on new concepts in chemistry. As a trading company we are unique in that we have an R&D Center that develops and evaluates new technologies and serves as the nexus for joint research and development in cooperation with universities.

### 5. Contributing to Society: Nagase Science and Technology Foundation

The Nagase Science and Technology Foundation was set up in April 1989 to aid progress in science and technology in the fields of biochemistry and organic chemistry. It also contributes to socio-economic development by subsidizing R&D and international interchanges. To date, it has supported 206 research projects and 168 international interchange projects with grants totaling 570 million yen. Recognized as a specific juridical person for the promotion of the public interest, it falls under the jurisdiction of the Ministry of Education, Culture, Sports, Science and Technology.



# Financial Review

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## Overall Results

In the consolidated fiscal year ending March 31, 2001 private capital investment followed a firm trend led by increases in both manufacturing and non-manufacturing sectors. With unemployment remaining high and personal income stagnating, however, consumer spending has yet to make a full-fledged recovery. This is contributing to a continued moderate deflationary trend in domestic prices and the outlook remains unclear.

Abroad, the European economy continued strong but the pace of expansion in the Asia economies remains sluggish and this, together

with the marked slowdown in America, is cause for concern.

Against this backdrop, total sales for the year ended March 31, 2001 amounted to ¥559,373 million, a decrease of ¥8,921 million, or 1.6%, from the previous year.

Domestic sales stood at ¥392,556 million, down ¥11,600 million, or 2.9%, from the previous year. Overseas sales totaled ¥166,817 million, an increase of ¥2,679 million, or 1.6%, compared with the previous year.

## Results by Business Segments

### Chemicals

Sales of pigments and paints as well as recording materials improved despite a flat domestic chemicals market. Poor performance in pharmaceuticals and the divestiture and transfer of certain businesses, however, pulled results for chemicals overall below the previous year.

Teikoku Chemical Industries Co., Ltd., Nagase (Europe) Ltd., and Nagase America Corp. posted results below the previous year's level due to the expiration of commercial rights for certain lines of pharmaceuticals. Nagase Biochemicals, Ltd.'s sales of enzymes were strong with catalase leading the way. Nagase Chemicals, Ltd. witnessed a drop off in exports of chemical products, pushing results below the level established the previous year.

Overall, sales of chemicals were down ¥12,105 million, or 4.8%, for the year ended March 31, 2000 at ¥237,872 million. Operating income amounted to ¥3,080 million, down by ¥1,057 million, or 25.6%.

### Plastics

Plastics benefited from a significant unanticipated surge in domestic raw materials sales that spurred sales of products and environment-related materials. Sales, mainly in Asia, of industrial plastics for use in IT-related devices saw a significant increase. This was due to many of Nagase's customers moving production abroad and to expanding demand for computers.

Totaku Industries, Inc. recorded improved revenues on the strength of expanded demand for its new products including De-PVC hoses and emission circular hose for cleaners. Kotobuki Industries Co., Ltd.'s sales fell due to poor results in a portion of its product lines and Setsunan Kasei Co., Ltd. saw sales drop resulting from the restructuring of unprofitable businesses.

Nagase Singapore (Pte) Ltd., Nagase (Hong Kong) Ltd., Nagase (Thailand) Co., Ltd. and other Asian companies enjoyed a significant increase in sales of industrial plastics due to transfers

of production from Japan to Asia and growth in demand for OA equipment. Nagase America Corp. recorded increased sales in industrial plastics and plants and machinery for the automotive field. However, Nagase (Europe) Ltd. posted results below the previous year's level in its molds and parts businesses.

Overall, total sales amounted to ¥205,460 million, an increase of ¥12,749 million, or 6.6%, over the previous year. Operating income stood at ¥2,989 million, up ¥1,189 million, or 66.1%, compared with the previous year.

### Electronics

In electronics, chemical supply systems for LCD production, resins for semiconductor manufacturing equipment, encapsulation materials, and communications-related IC chips all followed growth trends. However, hard disk circuit board sales suffered due to innovations in recording density that reduced the amount required for media use. Further, LCD prices fell, tugging sales down significantly. Both contributed to overall results that fell short of the previous year.

Nagase ChemteX Ltd. enjoyed strong results thanks to an expanded market for electronics parts. Nagase Electronic Equipment Service Co, Ltd. saw sales increase due to the strong performance of its vacuum pumps for the LCD and semiconductor industry and its chemical supply systems. Nagase (Taiwan) Co., Ltd. and Nagase (Hong Kong) Ltd. witnessed increases in the production of LCDs and peripheral devices that led to improved sales of chemicals for LCD manufacture and the improved performance of device production businesses in China. Sales of materials for hard disk components by Nagase California Corp. fell significantly though, pushing results below last year's level.

Total sales amounted to ¥103,383 million, down ¥6,387 million, or 5.8%, compared with the previous fiscal year. Operating income totaled ¥1,552 million, a decrease of ¥231 million, or 13.0%, from the previous fiscal year.

## Health Care and Others

In health care, door-to-door sales of cosmetics and health foods for the year ended March 31, 2001 failed to make ground compared with the previous year. Medical care sales also suffered a significant drop due to a partial transfer of operations. These factors put overall performance considerably below the previous year.

In October 2000, Herbal Care Co., Ltd. was established and began operations in order to develop a new area of business. Based on the know-how accumulated over the years in door-to-

door sales, this new business involves selling health foods for the prevention of lifestyle-related diseases by mail order, in-store, and through the Internet. In the field of medical care, the Company made significant investment in Japan Medical Bank System Co., Ltd. and will be devoting substantial effort to developing the electronic diagnostic charts business.

Total sales stood at ¥12,658 million, off ¥3,178 million, or 20.1%, from the previous year. Operating income was ¥131 million, a decrease of ¥297 million, or 69.4%.

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## Results by Geographical Segment

### Japan

Sales of plastics, cosmetics and health foods were firm. In addition to feeling the impact of economic stagnation in Japan, however, they were affected by transfers and losses of commercial rights to chemicals, and fell by ¥13,709 million, or 2.9%, compared with the preceding consolidated fiscal year to ¥466,539 million. Consolidated operating income fell by ¥1,115 million, or 21.4%, year-on-year to ¥4,104 million.

### Asia

Sales increased by ¥13,650 million, or 22.3%, year-on-year to ¥74,948 million thanks to several factors, including transfers of office automation machine production from Japan, a boom in IT-related components, and the start of full-scale overseas production of LCDs in Taiwan. Consolidated operating income

increased by ¥814 million, or 30.6%, year-on-year to ¥3,477 million.

### North America

Although the US economy remained firm, sales fell by ¥7,457 million, or 41.2%, year-on-year to ¥10,630 million owing to the loss of commercial rights to pharmaceuticals and sluggish sales of hard disk-related materials. Consolidated operating income fell by ¥35 million, or 31.9%, year-on-year to ¥74 million.

### Other Regions

Sales fell by ¥1,405 million, or 16.2%, year-on-year to ¥7,256 million. Consolidated operating income went into the red to the tune of ¥91 million, increasing the deficit of the preceding fiscal year by ¥79 million.

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## Cash Flows

For the year ended March 31, 2001 cash and cash equivalents (“funds” hereinafter) swelled with an increase in cash flow from operations, and from the merger of consolidated subsidiaries with unconsolidated subsidiaries. However, purchase of investment securities and vigorous repayment of debt resulted in a reduction of ¥2,551 million, leaving funds of ¥18,465 million for the year ended March 31, 2001.

### Cash Flow from Operating Activities

The increase of funds from operations amounted to ¥8,165 million, a year-on-year increase of 126.0%. The rise in funds was due to the appropriation of ¥4,946 million to net income and an increase in notes and accounts payable on account of term-end holidays amounting to ¥7,118 million. Funds were drawn down by increases to inventory totaling ¥5,781 million.

### Cash Flow from Investing Activities

Investing activities for the year ended March 31, 2001 reduced funds by ¥4,162 million, or 59.6%, from the previous year. This was primarily because revenue from the sale of investment in securities amounted to ¥6,119 million, while expenditures related to the purchase of investments in securities totaled ¥5,185 million.

### Cash Flow from Financing Activities

The reduction in funds from financing activities totaled ¥8,307 million for the year ended March 31, 2001. Net reduction in indebtedness accounted for ¥5,915 million, while purchases of treasury stocks for the appropriation of earnings totaled ¥1,257 million. ¥1,883 million was paid in dividends.

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## Research and Development

Nagase Group (the Company and its consolidated subsidiaries) has undertaken research and development activities in order to pool group resources for the development of new products and the dissemination of technical knowledge.

In addition to the Company's research and development facility, Nagase R&D Center, research is also currently being carried out at research and development departments located in our

manufacturing subsidiaries. Trading company activities in the areas of chemicals and plastics are being pursued along with technical evaluations and the development of new products and technologies in the fields of organic chemistry and biotechnology based on the respective visions of the future held by our manufacturing affiliates. Research and development expenditures for the year ended March 31, 2001 totaled ¥2,845 million.

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## Assets

Total assets amounted to ¥353,777 million at March 31, 2001, an increase of ¥37,120 million, or 11.7%, over the previous year.

Current assets stood at ¥246,268 million, an increase of ¥9,875 million, or 4.2%, compared to the end of the previous year. This was due to an increase in inventories as well as bills and receivables. Long-term assets at March 31, 2001 amounted to

¥107,509 million. Long-term assets grew ¥27,245 million, or 33.9% due to the following factors: an adjustment in the scope of affiliation due to increased holdings which resulted in including the assets of additional affiliates in the total; an increase in investment in securities due to the application of new accounting standards for financial instruments requiring market value accounting for securities; and a reduction in deferred income taxes.

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## Liabilities

Total liabilities were ¥196,395 million at March 31, 2001, up ¥20,970 million, or 12.0%, from the end of the previous year.

Current liabilities increased ¥8,326 million, or 5.2%, to ¥168,142 million due to an increase in notes and accounts payable and the repayment of short-term debt. As for fixed liabilities, an increase

in deferred income taxes liabilities and the increase in accrued retirement benefits for employees by the application of new retirement benefit accounting standards raised the term-end total to ¥28,253 million, an increase of ¥12,644 million, or 81.0%, compared to the previous term.

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## Shareholder's equity

Shareholder's equity stood at ¥153,499 million at March 31, 2001. Dividends were paid and shares of treasury stock were retired. However, appropriations to current-term net profit and the

valuation gain resulting from valuing investment securities at current market prices resulted in an increase in shareholder's equity of ¥18,661 million, or 13.8%.

# Consolidated Balance Sheets

Nagase & Co., Ltd. and Consolidated Subsidiaries  
March 31, 2001 and 2000

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Current assets:</b>			
Cash and cash equivalents	¥ 18,465	¥ 21,016	\$ 149,031
Short-term investments (Note 6)	2,939	2,434	23,721
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	8,288	10,071	66,893
Trade	176,330	169,154	1,423,163
Other	1,473	1,100	11,889
Less allowance for doubtful receivables	(1,179)	(1,163)	(9,516)
	184,912	179,162	1,492,429
Inventories	34,180	27,824	275,868
Deferred income taxes (Note 9)	1,886	1,407	15,222
Other current assets	3,886	4,550	31,364
Total current assets	246,268	236,393	1,987,635
<b>Property, plant and equipment:</b>			
Land (Note 6)	7,968	7,075	64,310
Buildings and structures (Note 6)	24,875	22,527	200,767
Machinery and equipment	28,047	24,083	226,368
Construction in progress	211	476	1,703
	61,101	54,161	493,148
Less accumulated depreciation	(36,370)	(32,051)	(293,543)
Property, plant and equipment, net	24,731	22,110	199,605
<b>Investments and other assets:</b>			
Investments in securities (Notes 4 and 6):			
Unconsolidated subsidiaries and affiliates	11,172	10,434	90,170
Other	65,252	38,656	526,650
	76,424	49,090	616,820
Long-term loans receivable	315	331	2,542
Deferred income taxes (Note 9)	749	2,890	6,045
Other assets	5,802	6,005	46,828
Less allowance for doubtful accounts	(512)	(162)	(4,132)
Total investments and other assets	82,778	58,154	668,103
	¥ 353,777	¥ 316,657	\$ 2,855,343



**Liabilities and shareholders' equity**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Current liabilities:</b>			
Short-term loans (Note 5) .....	¥ 13,275	¥ 19,442	\$ 107,143
Current portion of long-term debt (Note 5) .....	727	739	5,868
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates .....	2,192	2,834	17,691
Trade .....	132,146	120,696	1,066,554
	134,338	123,530	1,084,245
Accrued income taxes (Note 9) .....	4,615	1,519	37,248
Accrued expenses .....	6,062	6,159	48,927
Other current liabilities .....	9,125	8,427	73,647
Total current liabilities .....	168,142	159,816	1,357,078
<b>Long-term liabilities:</b>			
Long-term debt (Note 5) .....	9,876	9,500	79,709
Deferred income taxes (Note 9) .....	7,847	—	63,333
Accrued retirement benefits for employees (Note 8) .....	9,232	4,427	74,512
Accrued retirement benefits for officers .....	1,261	1,163	10,178
Other liabilities .....	37	519	299
Total long-term liabilities .....	28,253	15,609	228,031
<b>Minority interests</b> .....	3,883	6,394	31,340
<b>Contingent liabilities</b> (Note 12)			
<b>Shareholders' equity:</b>			
Common stock, ¥50 par value:			
Authorized:			
347,509,000 shares and 350,109,000 shares at March 31, 2001 and 2000, respectively			
Issued:			
2001 — 138,937,285 shares .....	9,700	—	78,289
2000 — 141,537,285 shares .....	—	9,700	—
Additional paid-in capital .....	9,635	9,635	77,764
Retained earnings (Note 7) .....	118,337	115,504	955,101
Unrealized holding gain on securities .....	16,211	—	130,839
Translation adjustments .....	(383)	—	(3,091)
Less treasury stock, at cost .....	(1)	(1)	(8)
Total shareholders' equity .....	153,499	134,838	1,238,894
	¥ 353,777	¥ 316,657	\$ 2,855,343

See notes to consolidated financial statements.

# Consolidated Statements of Income

Nagase & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Net sales (Note 13) .....	¥ 559,373	¥ 568,294	\$ 4,514,713
Cost of sales (Note 10) .....	504,233	513,007	4,069,677
Gross profit .....	55,140	55,287	445,036
Selling, general and administrative expenses (Note 10) .....	47,388	47,140	382,469
Operating income (Note 13) .....	7,752	8,147	62,567
<b>Other income (expenses):</b>			
Interest and dividend income .....	1,959	2,091	15,811
Interest expense .....	(815)	(758)	(6,578)
Equity in earnings of affiliates .....	375	771	3,026
Gain on sales of investments in securities .....	3,972	334	32,058
Gain on marketable securities contributed to employees' retirement benefit trust .....	1,870	—	15,093
Loss on revaluation of marketable securities .....	—	(1,449)	—
Gain on sales of property and equipment .....	1,519	61	12,260
Amortization of net retirement benefit obligation at transition .....	(6,984)	—	(56,368)
Other, net .....	(295)	1,141	(2,381)
Income before income taxes and minority interests .....	9,353	10,338	75,488
<b>Income taxes (Note 9):</b>			
Current .....	6,527	3,486	52,679
Deferred .....	(2,506)	144	(20,226)
Income before minority interests .....	5,332	6,708	43,035
Minority interests .....	386	337	3,116
Net income .....	¥ 4,946	¥ 6,371	\$ 39,919
		Yen	U.S. Dollars (Note 1)
<b>Amounts per share of common stock:</b>			
Net income .....	¥ 35.28	¥ 44.25	\$ 0.28
Cash dividends .....	8.00	8.00	0.06

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Nagase & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2001 and 2000

	Millions of yen							
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Treasury stock	
<b>Balance at March 31, 1999</b> .....	146,079,285	¥ 9,700	¥ 9,635	¥ 106,595	¥ —	¥ —	¥ (1)	
Prior years' tax effect .....	—	—	—	4,467	—	—	—	
Net income for the year .....	—	—	—	6,371	—	—	—	
Increase in retained earnings resulting from addition of consolidated subsidiaries .....	—	—	—	260	—	—	—	
Increase in retained earnings resulting from addition of companies accounted for by the equity method .....	—	—	—	885	—	—	—	
Increase in retained earnings resulting from merger of unconsolidated subsidiaries .....	—	—	—	272	—	—	—	
Cash dividends .....	—	—	—	(1,169)	—	—	—	
Bonuses to officers .....	—	—	—	(59)	—	—	—	
Retirement of treasury stock .....	(4,542,000)	—	—	(2,118)	—	—	—	
<b>Balance at March 31, 2000</b> .....	141,537,285	9,700	9,635	115,504	—	—	(1)	
Net income for the year .....	—	—	—	4,946	—	—	—	
Increase in retained earnings resulting from merger of unconsolidated subsidiaries .....	—	—	—	338	—	—	—	
Cash dividends .....	—	—	—	(1,132)	—	—	—	
Bonuses to officers .....	—	—	—	(62)	—	—	—	
Unrealized holding gain on securities .....	—	—	—	—	16,211	—	—	
Translation adjustments .....	—	—	—	—	—	(383)	—	
Retirement of treasury stock .....	(2,600,000)	—	—	(1,257)	—	—	—	
<b>Balance at March 31, 2001</b> .....	138,937,285	¥ 9,700	¥ 9,635	¥ 118,337	¥ 16,211	¥ (383)	¥ (1)	

Thousands of U.S.dollars (Note 1)

	Thousands of U.S.dollars (Note 1)						
	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Treasury stock	
<b>Balance at March 31, 2000</b> .....	\$ 78,289	\$ 77,764	\$ 932,236	\$ —	\$ —	\$ (8)	
Net income for the year .....	—	—	39,919	—	—	—	
Increase in retained earnings resulting from merger of unconsolidated subsidiaries .....	—	—	2,728	—	—	—	
Cash dividends .....	—	—	(9,136)	—	—	—	
Bonuses to officers .....	—	—	(501)	—	—	—	
Unrealized holding gain on securities .....	—	—	—	130,839	—	—	
Translation adjustments .....	—	—	—	—	(3,091)	—	
Retirement of treasury stock .....	—	—	(10,145)	—	—	—	
<b>Balance at March 31, 2001</b> .....	\$ 78,289	\$ 77,764	\$ 955,101	\$ 130,839	\$ (3,091)	\$ (8)	

# Consolidated Statement of Cash Flows

Nagase & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Operating activities</b>			
Net income	¥ 4,946	¥ 6,371	\$ 39,919
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,966	2,144	23,939
Provision for (reversal of) retirement benefits	4,541	(874)	36,651
Gain on sales of property and equipment	(1,478)	(13)	(11,929)
Equity in earnings of affiliates	(375)	(771)	(3,026)
Gain on sales of investments in securities	(3,802)	(305)	(30,686)
Gain on marketable securities contributed to employees' retirement benefit trust	(1,870)	—	(15,093)
Loss on devaluation of investments in securities	124	1,449	1,001
Other, net	874	80	7,053
Changes in operating assets and liabilities:			
Notes and accounts receivable	(2,342)	(2,657)	(18,902)
Inventories	(5,781)	(635)	(46,659)
Other current assets	401	(897)	3,236
Notes and accounts payable	7,118	2,929	57,450
Accrued income taxes	2,894	(3,282)	23,358
Accrued expenses	(97)	636	(783)
Other current liabilities	46	(562)	371
Net cash provided by operating activities	8,165	3,613	65,900
<b>Investing activities</b>			
Purchases of property and equipment	¥ (3,593)	¥ (2,929)	\$ (28,999)
Proceeds from sales of property and equipment	2,046	1,273	16,513
Purchases of investments in securities	(5,185)	(3,168)	(41,848)
Proceeds from sales of investments in securities	6,119	1,602	49,387
Purchases of shares of subsidiaries	(2,896)	—	(23,374)
Other, net	(653)	615	(5,271)
Net cash used in investing activities	(4,162)	(2,607)	(33,592)
<b>Financing activities</b>			
Decrease in short-term loans, net	(6,830)	(3,298)	(55,125)
Proceeds from long-term debt	1,186	—	9,572
Proceeds from issuance of bond	—	7,000	—
Repayment of long-term debt	(271)	(879)	(2,187)
Cash dividends paid	(1,883)	(1,366)	(15,198)
Purchases of treasury stock	(1,257)	(2,118)	(10,145)
Other, net	748	633	6,037
Net cash used in financing activities	(8,307)	(28)	(67,046)
Effect of exchange rate changes on cash and cash equivalents	1,073	(419)	8,660
Net (decrease) increase in cash and cash equivalents	(3,231)	559	(26,078)
Cash and cash equivalents at beginning of the year	21,016	19,735	169,621
Increase in cash and cash equivalents arising from merger of unconsolidated subsidiaries	680	—	5,488
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	—	722	—
Cash and cash equivalents at end of the year	¥ 18,465	¥ 21,016	\$ 149,031
<b>Supplemental information on cash flows</b>			
Cash paid during the year for:			
Interest	¥ 822	¥ 721	\$ 6,634
Income taxes	3,634	6,768	29,330

# Notes to Consolidated Financial Statements

Nagase & Co., Ltd. and Consolidated Subsidiaries  
March 31, 2001

## 1. Basis of Preparation

Nagase & Co., Ltd. (the “Company”) and its domestic consolidated subsidiaries maintain their books of account and records in accordance with the provisions set forth in the Commercial Code of Japan and in conformity with accounting principles and practices generally accepted and applied in Japan. Its foreign consolidated subsidiaries maintain their books in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared for domestic reporting purposes, and have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to

the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader and, as a matter of arithmetic computation only, at the rate of ¥123.9 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2001. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2000 to the 2001 presentation. Such reclassifications had no effect on consolidated net income or shareholders’ equity.

## 2. Summary of Significant Accounting Policies

### (a) Principles of Consolidation

In accordance with the revised accounting standard for consolidation which became effective April 1, 1999, the accompanying consolidated financial statements for the years ended March 31, 2001 and 2000 include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The foreign consolidated subsidiaries have a December 31 year-end date and certain domestic consolidated subsidiaries have their year end at the end of February, closing dates which differ from the balance-sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these subsidiaries and the year end of the Company.

Unrealized intercompany gains and losses among the Company and consolidated subsidiaries have been entirely eliminated and the portion attributable to minority interests has been charged to minority interests.

The difference between the cost of an investment in a subsidiary and the amount of the underlying equity in the net assets of the subsidiary is treated as an asset or a liability as the case may be, and is amortized over a period of five years on a straight-line basis.

The difference between the cost of an investment in an affiliate and the amount of the Company’s underlying equity in the net assets of the affiliate is amortized over a period of five years on a straight-line basis.

### (b) Foreign Currency Translation

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which such gain and loss is recognized for financial reporting purposes.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of shareholders’ equity are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments resulting from translating foreign currency financial statements are not included in the determination of net income but are reported as “Translation adjustments” in a component of shareholder’s equity and minority interests (instead of as a component of assets or liabilities as in prior years) in the consolidated financial statements for the year ended March 31, 2001.

Effective April 1, 2000, the Company and the consolidated subsidiaries adopted a revised “Accounting Standard for Foreign Currency Translation” issued by the Business Accounting Deliberation Council of Japan. Under this standard, all monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward exchange contracts rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to income. The effect of the adoption of the revised standard on the consolidated financial statements for the year ended March 31, 2001 was immaterial.

### (c) Inventories

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

### (d) Investment in Securities

Through March 31, 2000, marketable securities were stated principally at the lower of cost or market, cost being determined by the moving average method, and investments in securities other than marketable securities were stated at cost determined by the moving average method.

Effective April 1, 2000, the Company and the domestic consolidated subsidiaries adopted “Accounting Standards for Financial Instruments” issued by the Business Accounting

# Notes to Consolidated Financial Statements

Deliberation Council of Japan. This standard requires that securities be classified into three categories: trading securities, held-to-maturity debt securities or other securities.

In accordance with the new standard, trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

As of April 1, 2000, the Company and its consolidated subsidiaries assessed their intent in holding their investments in securities, classified their investments at March 31, 2001 as "other securities," and accounted for the securities in accordance with the standard referred to above.

## *Golf club memberships*

This new accounting standard for financial instruments also applies to golf club memberships. A loss on impairment of deposits for golf club memberships is required to be recognized.

The effect of the adoption of this standard on the consolidated statement of income was to increase income before income taxes and minority interests by ¥1,274 million (\$10,282 thousand) for the year ended March 31, 2001.

## **(e) Property, Plant and Equipment and Depreciation**

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the respective assets as prescribed by the Corporation Tax Law, except that the straight-line method is applied to buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998. Property, plant and equipment owned by certain consolidated subsidiaries is depreciated by the straight-line method.

## **(f) Leases**

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessees are accounted for as operating leases.

## **(g) Income Taxes**

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. Effective April 1, 1999, the Company and the domestic consolidated subsidiaries adopted "Financial Accounting Standards on Accounting for the Effects of Income Taxes" issued by the Business Accounting Deliberation Council of Japan. This standard requires that income taxes be accounted for by the assets and liability method. The cumulative effect up to the beginning of the prior year was reported as "prior years' tax effect" in the consolidated statement of shareholders' equity for the year ended March 31, 2000.

## **(h) Retirement Benefits**

The Company and the domestic consolidated subsidiaries have defined benefit pension plans and retirement benefit plans. Certain foreign consolidated subsidiaries also have defined benefit plans.

The employees' retirement benefit plans provide for a lump-sum payment determined by reference to the current rate of pay, length of service and conditions under which the termination occurs.

For the year ended March 31, 2000, the liability for retirement allowances was stated at the amount which would be required to be paid if all employees covered by the plan involuntarily terminated their employment at the Company's request as of the balance sheet date, less the amount covered by the pension plan.

Effective April 1, 2000, the Company and the domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council of Japan. In accordance with this standard, accrued retirement benefits have been provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the year. The net retirement benefit obligation at transition of ¥6,984 million (\$56,368 thousand) has been fully charged to income for the year ended March 31, 2001.

In connection with the adoption of this standard, the Company contributed its own securities to an employees' retirement benefit trust. In forming the trust and contributing its marketable securities, the Company recognized gain of ¥1,870 million (\$15,039 thousand) arising from the valuation of the marketable securities contributed. This has been reported in the consolidated statement of income for the year ended March 31, 2001 as "Gain on marketable securities contributed to employees' retirement benefit trust."

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over ten years, which is within the estimated average remaining years of service of the eligible employees.

Prior service cost is being amortized as incurred by the straight-line method over three years, which is within the estimated average remaining years of service of the eligible employees.

The effect of the adoption of this standard for retirement benefits was to decrease income before income taxes and minority interests for the year ended March 31, 2001 by ¥5,186 million (\$41,856 thousand) from the amount which would have been recorded under the method applied in the previous year.

Directors and statutory auditors ("officers") of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under unfunded retirement benefit plans. Provision for retirement benefits for these officers has been made at estimated amounts based on the applicable internal rules.

## **(i) Derivatives and Hedging Activities**

Derivative financial instruments are utilized by the Company and consolidated subsidiaries principally in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment in accordance with the Company's rules for

in-company foreign exchange transactions. Under these rules, the Company conducts transactions within a certain range and places limits on the applicable assets and liabilities based on the actual demand. In addition, the Company also assesses the effectiveness of the hedging by verifying the approval, reporting and monitoring of all transactions involving derivatives. The Company and consolidated subsidiaries do not hold or issue derivative financial instruments for speculative trading purposes.

The Company and consolidated subsidiaries are exposed to certain market risks arising from their forward foreign exchange contracts. The Company and consolidated subsidiaries are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest-rate contracts; however, the Company and consolidated subsidiaries do not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

In accordance with a new accounting standard for financial instruments which became effective April 1, 2000, derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an assets or liabilities.

**(j) Amounts Per Share**

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

### 3. Changes in Accounting Policy

**(a) Foreign Currency Translation**

Through March 31, 1999, current monetary assets and liabilities denominated in foreign currencies were translated into yen at their historical rates. Effective April 1, 1999, the Company and the consolidated subsidiaries changed their method of translation of current monetary assets and liabilities denominated in foreign currencies from the historical rates to the rates of exchange in effect at the balance sheet date. The effect of this change was to increase income before income taxes and minority interests for the year ended March 31, 2000 by ¥15 million over the amount which would have been recorded under the method applied in the previous year.

**(b) Employees' Retirement Benefits**

Through March 31, 1999, accrued retirement benefits for employees of certain consolidated subsidiaries were stated at the amount which would be required to be paid if all eligible

employees voluntarily terminated their employment at the balance sheet date, less the amounts covered by the pension plans.

Effective April 1, 1999, certain consolidated subsidiaries changed their accounting for retirement benefits to record the liabilities at the amount which would be required to be paid if all eligible employees involuntarily terminated their employment at the request of the consolidated subsidiaries at the balance sheet date, less the amounts to be covered by the pension plans. This change was made to conform the accounting policy of the Company with those of the consolidated subsidiaries and to enhance the financial status of the consolidated subsidiaries.

The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2000 by ¥364 million from the amount which would have been recorded under the method applied in the previous year.

### 4. Investments in Securities

**(a) Information regarding marketable securities classified as other securities at March 31, 2001 is as follows:**

Millions of yen				
2001				
Other securities				
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
<b>Market value available:</b>				
Equity securities .....	¥ 32,061	¥ 29,110	¥ (1,144)	¥ 60,027

Thousands of U.S. dollars				
2001				
Other securities				
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
<b>Market value available:</b>				
Equity securities .....	\$ 258,765	\$ 234,948	\$ (9,234)	\$ 484,479

# Notes to Consolidated Financial Statements

(b) Information regarding securities (whose market value is not available) classified as other securities at March 31, 2001 is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001		2001	
	Carrying value		Carrying value	
<b>Market value not available:</b>				
Equity securities .....	¥	3,225	\$	26,029
Bonds and debentures .....		2,000		16,142
	¥	5,225	\$	42,171

(c) Information with respect to the book and market value of the marketable securities included in investments in securities at March 31, 2000 is summarized as follows:

	Millions of yen		
	2000		
	Carrying amount	Market value	Unrealized gain
<b>Investments in securities:</b>			
Equity securities .....	¥ 33,317	¥ 74,616	¥ 41,299
Bonds and debentures .....	17	127	110
	¥ 33,334	¥ 74,743	¥ 41,409

## 5. Short-Term Loans and Long-Term Debt

Short-term loans at March 31, 2001 and 2000 principally represent notes, in the form of deeds and overdrafts due within one year, at average annual interest rates of 3.76% and 2.49% per annum, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Secured loans from banks and an insurance company, payable in yen, due through 2007 at rates from 1.52% to 1.95% .....	¥ 1,710	¥ 2,267	\$ 13,802
Unsecured loans from banks and an insurance company, payable in yen, due through 2011 at rates from 0.92% to 6.86% .....	1,893	972	15,278
1.53% unsecured bond, payable in yen, due 2004 .....	7,000	7,000	56,497
	10,603	10,239	85,577
	(727)	(739)	(5,868)
Less current portion .....	¥ 9,876	¥ 9,500	\$ 79,709

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars
	2001		2001
2002 .....	¥ 727	\$ 5,868	
2003 .....	1,211	9,774	
2004 .....	183	1,477	
2005 .....	7,133	57,571	
2006 .....	133	1,073	
2007 and thereafter .....	1,216	9,814	
	¥ 10,603	\$ 85,577	



## 6. Pledged Assets

Assets pledged as collateral for short-term loans and long-term debt, including the current portion of long-term debt, at March 31, 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001		2001	
Short-term investment .....	¥	700	\$	5,650
Land .....		561		4,528
Buildings and structures, at net book value .....		415		3,349
Investments in securities .....		491		3,963
	¥	2,167	\$	17,490

Assets pledged as collateral at March 31, 2001 to guarantee all transactions with certain customers are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001		2001	
Short-term investment .....	¥	600	\$	4,843
Investments in securities .....		3,819		30,823
	¥	4,419	\$	35,666

## 7. Retained Earnings

The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and corporate auditors and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until such reserve equals 25% of stated capital. The Commercial Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be

transferred to stated capital by resolution of the Board of Directors.

Retained earnings include the legal reserve provided in accordance with the Commercial Code. The legal reserve of the Company included in retained earnings at March 31, 2001 and 2000 amounted to ¥2,425 million (\$19,572 thousand).

## 8. Retirement Benefits

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars	
	2001		2001	
Retirement benefit obligation .....	¥	(33,619)	\$	(271,340)
Plan assets at fair value .....		21,255		171,550
Unfunded retirement benefit obligation .....		(12,364)		(99,790)
Unrecognized prior service cost .....		13		104
Unrecognized actuarial loss .....		3,119		25,174
Accrued retirement benefits recognized in the consolidation balance sheets .....	¥	(9,232)	\$	(74,512)

The components of retirement benefit expenses of the Company and consolidated subsidiaries for the year ended March 31, 2001 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001		2001	
Service cost .....	¥	1,617	\$	13,051
Interest cost .....		803		6,481
Expected return on plan assets .....		(481)		(3,882)
Amortization of net retirement benefit obligation at transition .....		6,984		56,368
Amortization of prior service cost .....		(45)		(363)
Retirement benefit expenses .....	¥	8,878	\$	71,655

# Notes to Consolidated Financial Statements

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2001 were as follows:

Discount rate .....	<b>3.0%</b>
Expected rate of return on plan assets .....	<b>2.61%</b>

## 9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 42.1% for the years ended March 31, 2001 and 2000.

A reconciliation of the statutory rate and the effective tax rate for the year ended March 31, 2001 as a percentage of income before income taxes and minority interests has not been presented as the difference was immaterial.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2000 as a percentage of income before income taxes and minority interests is as follows:

	2000
Statutory tax rate .....	42.1 %
Non-deductible entertainment expenses and other .....	4.2
Non-taxable dividend income and other .....	(8.7)
Net adjustment resulting from intercompany elimination of dividend income .....	1.8
Per capita portion of inhabitants' taxes and other .....	0.3
Different tax rates applied to foreign subsidiaries .....	(5.4)
Other .....	0.8
Effective tax rate .....	<u>35.1 %</u>

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2001 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Deferred tax assets:</b>			
Unrealized gain on inventories .....	¥ 333	¥ 241	\$ 2,688
Investments in securities .....	1,450	1,273	11,703
Long-term prepaid expenses .....	277	272	2,236
Accrued enterprise tax .....	384	136	3,099
Accrued bonuses .....	501	386	4,043
Retirement benefits for employees .....	3,054	780	24,649
Retirement benefits for officers .....	516	478	4,165
Other .....	1,010	801	8,152
<b>Total deferred tax assets</b> .....	<u>7,525</u>	<u>4,367</u>	<u>60,735</u>
<b>Deferred tax liabilities:</b>			
Revaluation of land .....	(384)	—	(3,099)
Deferred capital gain on property .....	(514)	(11)	(4,149)
Special reserve for depreciation .....	(80)	(51)	(646)
Unrealized holding gain on securities .....	(11,649)	—	(94,019)
Other .....	(110)	(8)	(888)
<b>Total deferred tax liabilities</b> .....	<u>(12,737)</u>	<u>(70)</u>	<u>(102,801)</u>
<b>Net deferred tax (liabilities) assets</b> .....	<u>¥ (5,212)</u>	<u>¥ 4,297</u>	<u>\$ (42,066)</u>

## 10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the years

ended March 31, 2001 and 2000 totaled ¥2,845 million (\$22,962 thousand) and ¥2,053 million, respectively.

## 11. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2001 and 2000, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property of the Companies (which are currently accounted for as operating leases) were capitalized:

	Millions of yen			Millions of yen		
	2001			2000		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment ....	¥ 2,769	¥ 1,180	¥ 1,589	¥ 3,167	¥ 1,292	¥ 1,875
Furniture and fixtures .....	2,023	1,097	926	1,924	937	987
	<u>¥ 4,792</u>	<u>¥ 2,277</u>	<u>¥ 2,515</u>	<u>¥ 5,091</u>	<u>¥ 2,229</u>	<u>¥ 2,862</u>

	Thousands of U.S. dollars		
	2001		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment ....	\$ 22,349	\$ 9,524	\$ 12,825
Furniture and fixtures .....	16,327	8,853	7,474
	<u>\$ 38,676</u>	<u>\$ 18,377</u>	<u>\$ 20,299</u>

The related lease payments and depreciation for the years ended December 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Lease payments .....	¥ 1,317	¥ 1,315	\$ 10,630
Depreciation expense .....	1,002	1,099	8,087
Interest expense .....	<u>133</u>	<u>159</u>	<u>1,073</u>

Depreciation is calculated by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2001 under finance leases other than those which transfer the ownership of the leased property to the Companies are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002 .....	¥ 909	\$ 7,336
2003 and thereafter .....	1,698	13,705
	<u>¥ 2,607</u>	<u>\$ 21,041</u>

## 12. Contingent Liabilities

At March 31, 2001, the Company and consolidated subsidiaries were contingently liable as guarantors of loans of unconsolidated subsidiaries and other in the aggregate amount of ¥1,700 million (\$13,721 thousand) and as guarantors of housing loans of employees in the aggregate amount of ¥421 million (\$3,398 thousand).

In addition, at March 31, 2001, the Company and consolidated subsidiaries had contingent liabilities arising from notes discounted by banks and notes endorsed and delivered for payment to vendors in the total amount of ¥681 million (\$5,496 thousand).

# Notes to Consolidated Financial Statements

## 13. Segment Information

The Company and consolidated subsidiaries are primarily engaged in the manufacture, purchase and sale of products in Japan and overseas in four major segments: chemicals which mainly include coating materials, color materials, monomers, urethane raw materials, resin additives, dyestuffs, organic fine chemicals, specialty chemicals, and agricultural and ecological materials, plastics which include synthetic resin, synthetic rubber and

building materials shaped processed goods, electronics which include semiconductor water processing, semiconductor assembly processing, liquid crystal display components, communications devices and other electronic devices, and health care products which include medical devices, cosmetics and health food, as well as health care services.

The business and geographical segments of the Company and consolidated subsidiaries for the years ended March 31, 2001 and 2000 are outlined as follows:

### Business Segments

Millions of yen							
2001							
	Chemicals	Plastics	Electronics	Health care and others	Total	Intercompany eliminations	Consolidated sales
Sales to customers	¥ 237,872	¥ 205,460	¥ 103,383	¥ 12,658	¥ 559,373	¥ —	¥ 559,373
Intersegment sales	0	64	4	1,777	1,845	(1,845)	—
Total sales	237,872	205,524	103,387	14,435	561,218	(1,845)	559,373
Operating expenses	234,792	202,535	101,835	14,304	553,466	(1,845)	551,621
Operating income	¥ 3,080	¥ 2,989	¥ 1,552	¥ 131	¥ 7,752	¥ 0	¥ 7,752
Assets	¥ 130,489	¥ 103,605	¥ 53,774	¥ 9,228	¥ 297,096	¥ 56,681	¥ 353,777
Depreciation and amortization	1,362	732	679	193	2,966	0	2,966
Capital expenditures	1,557	1,380	760	72	3,769	0	3,769

Millions of yen							
2000							
	Chemicals	Plastics	Electronics	Health care and others	Total	Intercompany eliminations	Consolidated sales
Sales to customers	¥ 249,977	¥ 192,711	¥ 109,770	¥ 15,836	¥ 568,294	¥ —	¥ 568,294
Intersegment sales	10	43	3	1,693	1,749	(1,749)	—
Total sales	249,987	192,754	109,773	17,529	570,043	(1,749)	568,294
Operating expenses	245,850	190,954	107,990	17,101	561,895	(1,748)	560,147
Operating income	¥ 4,137	¥ 1,800	¥ 1,783	¥ 428	¥ 8,148	¥ (1)	¥ 8,147
Assets	¥ 130,186	¥ 97,272	¥ 47,353	¥ 11,662	¥ 286,473	¥ 30,184	¥ 316,657

Thousands of U.S. dollars							
2001							
	Chemicals	Plastics	Electronics	Health care and others	Total	Intercompany eliminations	Consolidated sales
Sales to customers	\$ 1,919,870	\$ 1,658,273	\$ 834,407	\$ 102,163	\$ 4,514,713	\$ —	\$ 4,514,713
Intersegment sales	0	517	33	14,342	14,892	(14,892)	—
Total sales	1,919,870	1,658,790	834,440	116,505	4,529,605	(14,892)	4,514,713
Operating expenses	1,895,012	1,634,665	821,913	115,448	4,467,038	(14,892)	4,452,146
Operating income	\$ 24,858	\$ 24,125	\$ 12,527	\$ 1,057	\$ 62,567	\$ 0	\$ 62,567
Assets	\$ 1,053,180	\$ 836,199	\$ 434,011	\$ 74,479	\$ 2,397,869	\$ 457,474	\$ 2,855,343
Depreciation and amortization	10,993	5,908	5,480	1,558	23,939	0	23,939
Capital expenditures	12,567	11,138	6,134	581	30,420	0	30,420

## Geographical Segments

Millions of yen								
2001								
	Japan	Asia	North America	Others	Total	Intercompany eliminations	Consolidated sales	
Sales to customers	¥ 466,539	¥ 74,948	¥ 10,630	¥ 7,256	¥ 559,373	¥ —	¥ 559,373	
Intersegment sales	57,492	4,142	3,077	1,580	66,291	(66,291)	—	
Total sales	524,031	79,090	13,707	8,836	625,664	(66,291)	559,373	
Operating expenses	519,927	75,613	13,633	8,927	618,100	(66,479)	551,621	
Operating income (loss)	¥ 4,104	¥ 3,477	¥ 74	¥ (91)	¥ 7,564	¥ 188	¥ 7,752	
Assets	¥ 272,778	¥ 28,923	¥ 5,358	¥ 2,801	¥ 309,860	¥ 43,917	¥ 353,777	

Millions of yen								
2000								
	Japan	Asia	North America	Others	Total	Intercompany eliminations	Consolidated sales	
Sales to customers	¥ 480,248	¥ 61,298	¥ 18,087	¥ 8,661	¥ 568,294	¥ —	¥ 568,294	
Intersegment sales	53,340	3,858	4,370	3,297	64,865	(64,865)	—	
Total sales	533,588	65,156	22,457	11,958	633,159	(64,865)	568,294	
Operating expenses	528,369	62,493	22,348	11,970	625,180	(65,033)	560,147	
Operating income (loss)	¥ 5,219	¥ 2,663	¥ 109	¥ (12)	¥ 7,979	¥ 168	¥ 8,147	
Assets	¥ 295,661	¥ 23,896	¥ 5,810	¥ 2,483	¥ 327,850	¥ (11,193)	¥ 316,657	

Thousands of U.S. dollars								
2001								
	Japan	Asia	North America	Others	Total	Intercompany eliminations	Consolidated sales	
Sales to customers	\$ 3,765,448	\$ 604,907	\$ 85,795	\$ 58,563	\$ 4,514,713	\$ —	\$ 4,514,713	
Intersegment sales	464,019	33,430	24,835	12,753	535,037	(535,037)	—	
Total sales	4,229,467	638,337	110,630	71,316	5,049,750	(535,037)	4,514,713	
Operating expenses	4,196,344	610,274	110,032	72,050	4,988,700	(536,554)	4,452,146	
Operating income (loss)	\$ 33,123	\$ 28,063	\$ 598	\$ (734)	\$ 61,050	\$ 1,517	\$ 62,567	
Assets	\$ 2,201,598	\$ 233,438	\$ 43,245	\$ 22,607	\$ 2,500,888	\$ 354,455	\$ 2,855,343	

As mentioned in Note 3(b), certain consolidated subsidiaries have changed their accounting for retirement benefits. The effect of this change decreased operating income in the Japan segment for the year ended March 31, 2000 by ¥364 million from the amount which would have been recorded under the standard followed in the previous year.

# Notes to Consolidated Financial Statements

## Sales to Foreign Customers

	Millions of yen			
	2001			
	Asia	North America	Other	Total
Overseas sales .....	¥ 145,375	¥ 12,305	¥ 9,137	¥ 166,817
Consolidated net sales .....				¥ 559,373
Overseas sales as a percentage of consolidated net sales .....	26.0%	2.2%	1.6%	29.8%

	Millions of yen			
	2000			
	Asia	North America	Other	Total
Overseas sales .....	¥ 133,048	¥ 21,296	¥ 9,794	¥ 164,138
Consolidated net sales .....				¥ 568,294
Overseas sales as a percentage of consolidated net sales .....	23.4%	3.8%	1.7%	28.9%

	Thousands of U.S. dollars			
	2001			
	Asia	North America	Other	Total
Overseas sales .....	\$ 1,173,325	\$ 99,314	\$ 73,745	\$ 1,346,384
Consolidated net sales .....				\$ 4,514,713

## 14. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2001, were approved at a shareholders' meeting of the Company held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥8.00 = \$0.06 per share) .....	¥ 1,111	\$ 8,967
Bonuses to directors .....	50	404

# Report of Independent Certified Public Accountants

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## **The Board of Directors and the Shareholders Nagase & Co., Ltd.**

We have audited the consolidated balance sheets of Nagase & Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the financial position of Nagase & Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, 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 consistently applied during the period except for the changes, with which we concur, in the methods of accounting for foreign currency translation and employees' retirement benefits as described in Note 3.

As described in Note 2, Nagase & Co., Ltd. and consolidated subsidiaries adopted new accounting standards for foreign currency translation, financial instruments and retirement benefits effective April 1, 2000, and new accounting standards for consolidation and tax-effect accounting effective April 1, 1999 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 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.

Osaka, Japan  
June 28, 2001

*Century Ota Showa & Co.*

*See Note 1 which explains the basis of preparation of the consolidated financial statements of Nagase & Co., Ltd., under Japanese accounting principles and practices*

# Nagase in Japan

## Our Major Consolidated Subsidiaries and Associated Companies

### Manufacturing

Nagase ChemteX Ltd. *	Manufacture of epoxy resins, enzymes, and industrial chemical products
Totaku Industries, Inc. *	Manufacture and sales of plastics products
Kyusyu Totaku Industries, Inc.	Manufacture and sales of plastics products
Idea System Co., Ltd.	Design and manufacture of electronic parts and instruments
Nagase Alphametrics Co., Ltd.	Manufacture of cosmetics and medical care products
Nagase Cosmetics Co., Ltd.	Manufacture of cosmetics and health foods
Grelan Pharmaceutical Co., Ltd.	Manufacture and sales of pharmaceuticals
Nagase Pharmaceutical Co., Ltd.	Manufacture of pharmaceuticals

### Processing

Setsunan Kasei Co., Ltd. *	Processing and sales of plastic coloring compounds
Cluster Technology Co.	Manufacture, processing and sales of precision molded parts
Kyoraku Co., Ltd. **	Manufacture, processing, and sales of plastics products
Kotobuki Industries Co., Ltd. *	Molding, processing, and sales of plastics products
Alpha Bumping Technology Co., Ltd.	Contract processing for wafer bumping using Ni/Au electroless plating

### Servicing

Nagase Electronic Equipment Service Co., Ltd. *	Manufacture, sales, and maintenance of low temperature vacuum equipment, etc.
Hoei Techno Service Co., Ltd.	Software duplication, warehousing and distribution
Delta 21 Corp.	Marketing activities, management and consulting for plastics production
Nagase Medical Soft Co., Ltd.	Software development for medical systems
Nagase Trade Management, Ltd.	Business agent for foreign trade documentation
Nagase Storage & Distribution Co., Ltd. *	Warehousing and distribution
Nagase General Service Co., Ltd.	Sales of sundry goods, lease and real estate management
NCC Engineering Co., Ltd.	Maintenance and manufacture of medical equipment
Choko Co., Ltd.	Insurance agency
Gigatech Co., Ltd.	Design, manufacture and sales of high frequency power amplifiers
Nagase Landauer Ltd. **	Radiation measuring services
Nagase Information Development, Ltd.	Software development and maintenance
Nagase Business Support Corporation	Consulting
Nagase CMS Technology Co., Ltd.	Development, design, manufacture, sales and maintenance of CMS devices

\* Consolidated subsidiary \*\* Company accounted for under the equity method



## Sales

Nagase Color & Chemicals., Ltd. *	Purchasing and sales of dyestuffs, industrial chemicals, etc. and related information provision.
Nagase Biochemical Sales Co., Ltd. *	Sales of enzymes and additives for food and feed
Kyushu Nagase Co., Ltd.	Sales of dyestuffs, pigments, and industrial chemicals
Nagase Beauty Care Co., Ltd.	Sales promotion services for cosmetics and health foods
Fukuyama Nagase Co. Ltd.	Sales of dyestuffs, industrial chemicals, and plastics
Nagase Barrel Finishing Systems Co., Ltd. *	Sales of abrasives and grinding materials
Hoei Sangyo Co., Ltd. *	Sales of film materials, magnetic products, information imaging materials, etc.
Delta Fine Chemical Co., Ltd. *	Sales of dyestuffs, industrial chemicals, plastics, and machinery.
Nagase Elex Co., Ltd. *	Sales of raw materials for plastics and plastics products
Nagase Medix Co., Ltd.	Manufacture and sales of pharmaceuticals and pharmaceuticals for animals
Nagase Polymer Co. Ltd.	Sales of plastics materials and products
Nagase Chemspec Co., Ltd.	Sales and technological servicing of chemicals, etc.
Shizuoka Nagase Co., Ltd. *	Sales of pigments and chemicals for paper manufacturing
Shinshu Nagase Co., Ltd.	Manufacture and sales of electronics parts and plastics raw materials
Nagase Plastics Co., Ltd. *	Sales of plastics raw materials and products
Nagase Agritech KK	Sales of agricultural products including chemicals and materials
Griffin Nagase KK	Sales of industrial chemicals and agricultural chemicals
Herbal Care Co., Ltd.	Internet, mail-order, and store sales of cosmetics and health foods
Japan Medical Bank System Co., Ltd.	Development and sales of computer systems for hospitals

# Nagase Worldwide

Our Major Consolidated Subsidiaries and Associated Companies, Offices

## Europe

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\* Consolidated subsidiary \*\* Company accounted for under the equity method

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Sofix Corp. \*\*  
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# Board of Directors and Auditors, Executive Officers

(as of July 1, 2001)

## BORD OF DIRECTORS

REPRESENTATIVE DIRECTOR AND CHAIRMAN  
**HIDEO NAGASE**

REPRESENTATIVE DIRECTOR AND PRESIDENT  
(EXECUTIVE OFFICER)  
**HIROSHI NAGASE**

REPRESENTATIVE DIRECTOR AND  
EXECUTIVE MANAGING DIRECTOR  
**MICHIYUKI INUKAI**  
BOARD SUPERVISOR, CHEMICALS BUSINESS GROUP;  
BOARD SUPERVISOR, RESEARCH&DEVELOPMENT CENTER

REPRESENTATIVE DIRECTOR AND  
EXECUTIVE MANAGING DIRECTOR (EXECUTIVE OFFICER)  
**AKIRA NAITOH**  
BOARD SUPERVISOR, ADMINISTRATIVE DIVISIONS;  
COO, CORPORATE PLANNING OFFICE; COO, NEW BUSINESS DEVELOPMENT OFFICE

MANAGING DIRECTOR  
**KAZUNORI ANDO**  
BOARD SUPERVISOR, HEALTH CARE BUSINESS GROUP

MANAGING DIRECTOR  
**TAKESHI IWAI**  
BOARD SUPERVISOR, CHEMICALS BUSINESS GROUP

MANAGING DIRECTOR (EXECUTIVE OFFICER)  
**REIJI NAGASE**  
PRESIDENT OF NAGASE CHEMTEX CORPORATION

DIRECTOR (EXECUTIVE OFFICER)  
**YASUHIRO KASHIWADA**  
BOARD SUPERVISOR, AUDIT OFFICE; BOARD SUPERVISOR,  
BUSINESS PROCESS COORDINATE & MANAGEMENT DIVISION;  
COO, LEGAL & CREDIT DIVISION

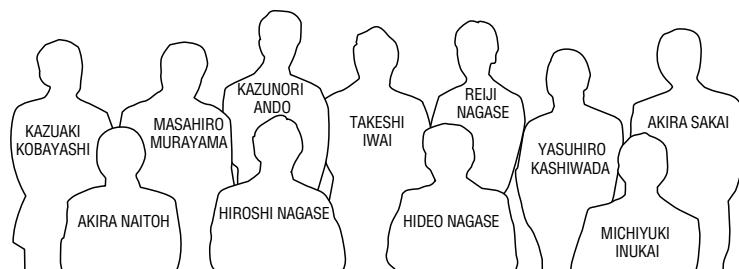
DIRECTOR (EXECUTIVE OFFICER)  
**MASAHIRO MURAYAMA**  
BOARD SUPERVISOR, PERSONNEL DIVISION; BOARD SUPERVISOR,  
OSAKA ADMINISTRATIVE DIVISION; COO, GENERAL AFFAIRS DIVISION

DIRECTOR  
**AKIRA SAKAI**  
BOARD SUPERVISOR, ELECTRONICS BUSINESS GROUP

DIRECTOR (EXECUTIVE OFFICER)  
**KAZUAKI KOBAYASHI**  
COO, PLASTICS BUSINESS GROUP

## CORPORATE AUDITORS

**KOJI SAWADA**  
**KEISUKE IAI**  
**SOUJI OKADA**  
**EISAKU KIMURA**



## EXECUTIVE OFFICERS

**RYOICHI OKUNO**  
COO, NAGOYA BRANCH OFFICE

**KANJI TAKAHASHI**  
MANAGING DIRECTOR OF  
NAGASE CHEMTEX CORPORATION

**NORIO KURAKAKE**  
COO, PERSONNEL DIVISION

**TAKEO KANEKO**  
COO, FINE CHEMICALS GROUP;  
COO, CHEMICALS DEVELOPMENT OFFICE

**TAKASHI MATSUYAMA**  
PLASTICS BUSINESS GROUP

**YOSHIZO SHIBATA**  
COO, PERFORMANCE CHEMICALS GROUP;  
COO, CHEMICALS PLANNING OFFICE

**SHUNSUKE OKABE**  
PLASTICS BUSINESS GROUP

**MAKOTO ONO**  
COO, HEALTH CARE BUSINESS GROUP

**SHINGO BAMBA**  
COO, SPECIALITY CHEMICALS GROUP

**EIJI ASAMI**  
COO, COATING & IMAGING MATERIALS GROUP

**KYOICHI ZUSHI**  
COO, ELECTRONICS 1ST GROUP

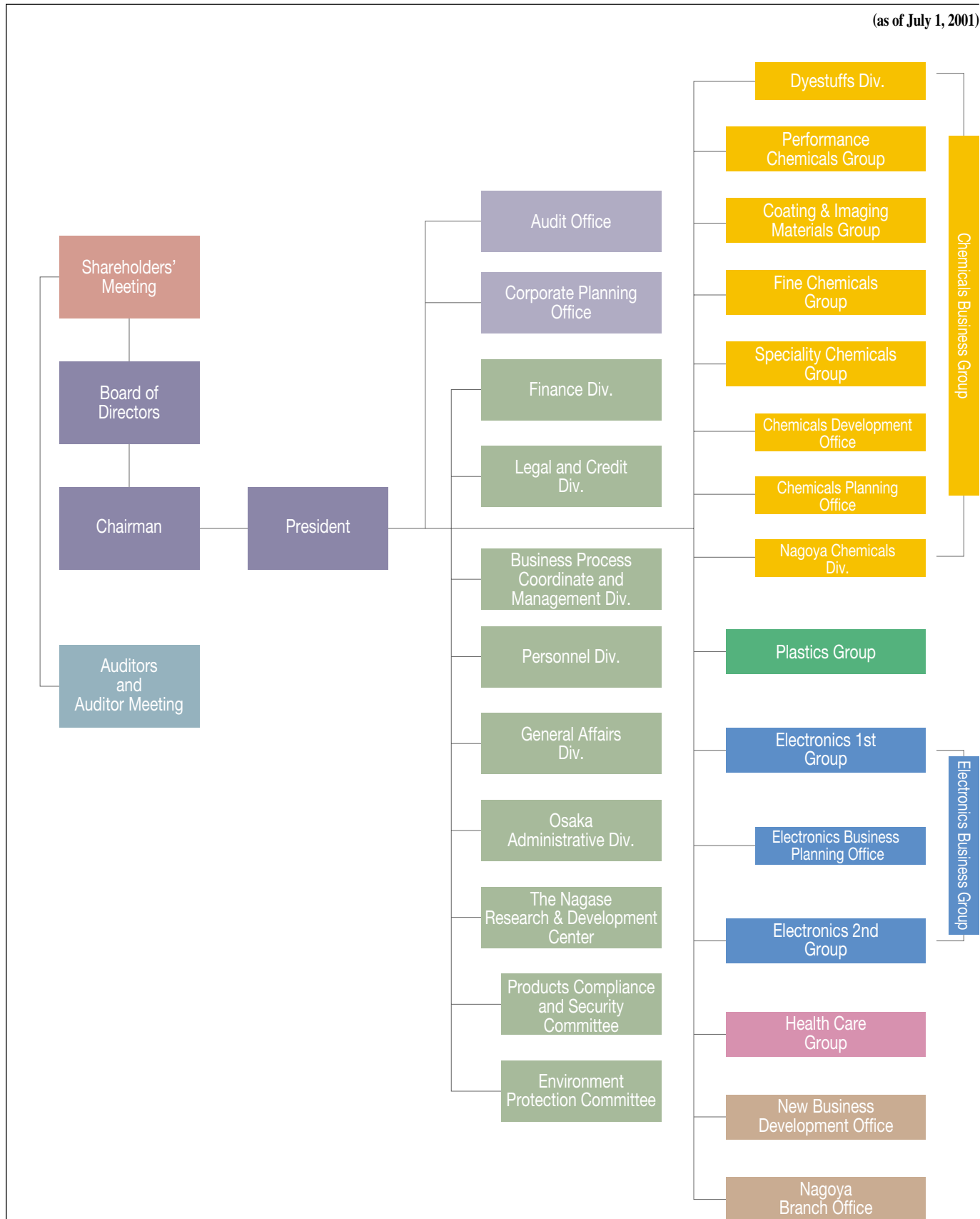
**KAZUO NAGASHIMA**  
COO, ELECTRONICS 2ND GROUP;  
COO, ELECTRONICS PLANNING OFFICE

**MAKOTO TSURUOKA**  
CHIEF FINANCIAL OFFICER

**KOJI KURAMITSU**  
COO, BUSINESS PROCESS COORDINATE &  
MANAGEMENT DIVISION

# Organizational Structure

(as of July 1, 2001)



# Investor Information

(as of March 31, 2001)

## Head Office

**Osaka: 1-17, Shinmachi 1-chome  
Nishi-ku, Osaka**  
**Tokyo: 5-1, Kobunacho Nihonbashi  
Chuo-ku, Tokyo**

## Branch Office

**Nagoya: 14-18, Marunouchi 3-chome  
Naka-ku, Nagoya**

## Foundation

**December 1917**

## For More Information Contact

**General Affairs Division**  
**Tel: (81) 3-3665-3028**  
**Fax: (81) 3-3665-3030**

## Share Transfer Agent

**Sumitomo Trust & Banking Co., Ltd.**  
**5-33, Kitahama 4-Chome Chuo-ku, Osaka**

## Stock Listed

**First Section of the Tokyo Stock Exchange  
and Osaka Securities Exchange**  
**(since August 1970)**

## Common Stock

**Number of shares to be issued by the company: 347,509,000**  
**Number of issued shares: 138,937,285**

## Number of Shareholders

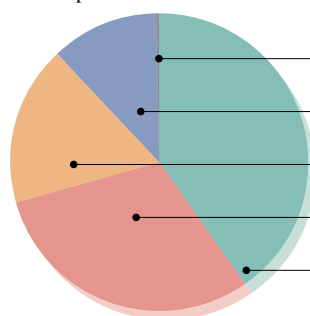
**9,997**

## Principal Shareholders (% of total shares held)

	Investment in the Company		Investment by the Company	
	No. of shares held	Special rate	No. of shares held	Special rate
	M shares	%	M shares	%
<b>1. Sumitomo Bank</b>	<b>6,424</b>	<b>4.62</b>	<b>6,770</b>	<b>0.22</b>
<b>2. Sumitomo Trust Bank</b>	<b>5,841</b>	<b>4.20</b>	<b>4,060</b>	<b>0.28</b>
<b>3. Tokyo Mitsubishi Bank</b>	<b>5,651</b>	<b>4.07</b>	<b>5,230</b>	<b>0.11</b>
<b>4. Tokai Bank</b>	<b>4,603</b>	<b>3.31</b>	<b>5,041</b>	<b>0.22</b>
<b>5. Nippon Life Ins. Co.</b>	<b>4,228</b>	<b>3.04</b>	—	—
<b>6. Hiroshi Nagase</b>	<b>4,121</b>	<b>2.97</b>	—	—
<b>7. Fuji Bank</b>	<b>4,107</b>	<b>2.93</b>	—	—

## Share Distribution

Composition of Shareholders



	Number	Shares held (thousand stocks)	% of total shares held
<b>Securities Companies:</b>	<b>35</b>	<b>498</b>	<b>0.36</b>
<b>Non-Japanese Corporations, etc.:</b>	<b>64</b>	<b>16,202</b>	<b>11.66</b>
<b>Other Corporations:</b>	<b>342</b>	<b>24,103</b>	<b>17.35</b>
<b>Private and Others:</b>	<b>9,471</b>	<b>42,204</b>	<b>30.38</b>
<b>Financial Institutions:</b>	<b>85</b>	<b>55,928</b>	<b>40.25</b>



Osaka Head Office



Tokyo Head Office



Nagoya Branch Office

# NAGASE & CO, LTD.

*HEAD OFFICE*

**Osaka: 1-17, Shinmachi 1-chome  
Nishi-ku, Osaka**

**Tokyo: 5-1, Kobunacho Nihonbashi  
Chuo-ku, Tokyo**

**<http://www.nagase.co.jp/english/>**