



SHOWA
ANNUAL REPORT 2000
YEAR ENDED MARCH 31, 2000

Showa

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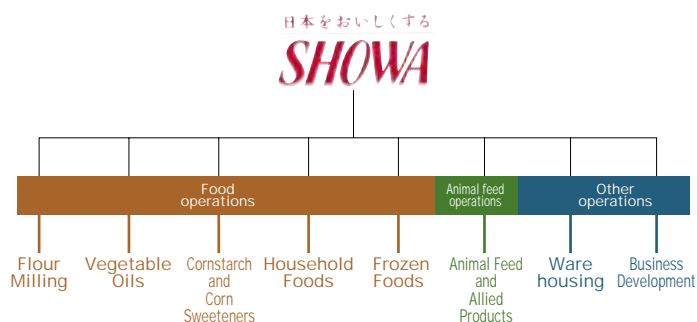
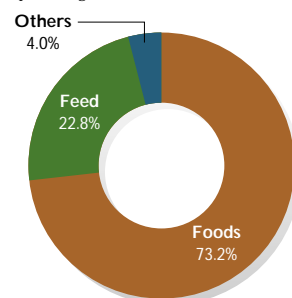
PROFILE

Since its founding in 1936, Showa Sangyo has continually diversified its operations to meet with the changing demands of the times. Today, the Company's operations are categorized into Food, Animal Feed, and Other operations. Food Operations consist of Flour Milling, Vegetable Oils, Cornstarch and Corn Sweeteners, Household Foods, and Frozen Foods divisions, while Animal Feed Operations consist solely of Animal Feed and Allied Products Division. Other Operations include Warehousing, as well as Business Development division. In particular, the Company's Food Operations are showing sound growth. Showa Sangyo is creating a secure position for itself in the industry as a comprehensive food processor, dealing in food ingredients and processed foods not only for commercial use but also for home use.

Showa Sangyo, whose basic goal is to contribute to people's rich and healthful diet, will draw on its wide-ranging strength to present foods in a variety of stages.

As a comprehensive food processor, Showa Sangyo combines sales, technology and research and development divisions along with the strengths of its group units. Through its superior technology and know-how, the Company aims to meet the food-related needs of its customers more quickly and positively by providing them with all-encompassing proposals and solutions.

Net Sales by Segment
(in percentages)



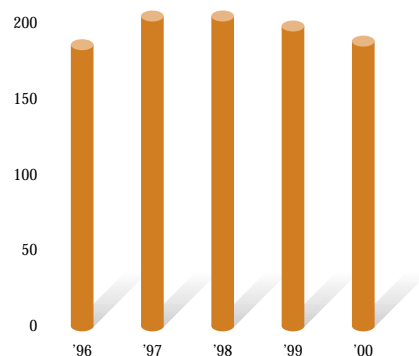
FINANCIAL HIGHLIGHTS

| | Millions of Yen (except per share data) | | | | | Thousands of U.S.dollars Note 1-a (except per share data) | |
|--|--|-----------|-----------|-----------|-----------|---|--|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2000 | |
| RESULT OF OPERATION: | | | | | | | |
| Net sales | ¥ 185,901 | ¥ 204,847 | ¥ 204,855 | ¥ 198,250 | ¥ 188,251 | \$ 1,773,442 | |
| Gross profit | 34,431 | 35,194 | 36,214 | 36,950 | 38,237 | 360,218 | |
| Operating income | 2,874 | 2,447 | 2,512 | 3,284 | 5,677 | 53,478 | |
| Income tax | 2,975 | 1,338 | 751 | 1,307 | 1,578 | 14,864 | |
| Net income(loss) | 436 | (405) | (1,765) | (164) | 1,321 | 12,444 | |
| FINANCIAL POSITION: | | | | | | | |
| Total assets | ¥ 185,042 | ¥ 180,474 | ¥ 177,960 | ¥ 167,959 | ¥ 157,338 | \$ 1,482,224 | |
| Properties, plant and equipment | 97,951 | 94,765 | 93,645 | 89,444 | 85,363 | 804,171 | |
| Interest-bearing debts | 80,424 | 81,235 | 81,302 | 77,461 | 67,025 | 631,417 | |
| Shareholders' equity | 60,700 | 58,719 | 53,568 | 46,124 | 45,495 | 428,591 | |
| PER SHARE DATA: | | | | | | | |
| Net income(loss) | ¥ 2.26 | ¥ (2.10) | ¥ (9.13) | ¥ (0.85) | ¥ 6.85 | \$ 0.065 | |
| Cash dividends | 6.00 | 6.00 | 6.00 | 5.00 | 6.00 | 0.057 | |
| Shareholders' equity | 313.93 | 303.68 | 277.04 | 239.16 | 235.90 | 2.222 | |
| COMMON STOCK: | | | | | | | |
| Numbers of shares-issued (Unit:thousand shares) | 193,359 | 193,359 | 193,359 | 192,859 | 192,859 | - | |
| COMPOSITION OF SALES BY BUSINESS | | | | | | | |
| Foods | ¥ 133,909 | ¥ 146,443 | ¥ 147,905 | ¥ 145,319 | ¥ 137,872 | \$ 1,298,837 | |
| Feed | 44,068 | 50,184 | 48,864 | 45,368 | 42,856 | 403,733 | |
| Other | 7,924 | 8,220 | 8,086 | 7,563 | 7,523 | 70,872 | |
| Consolidated total | 185,901 | 204,847 | 204,855 | 198,250 | 188,251 | 1,773,442 | |

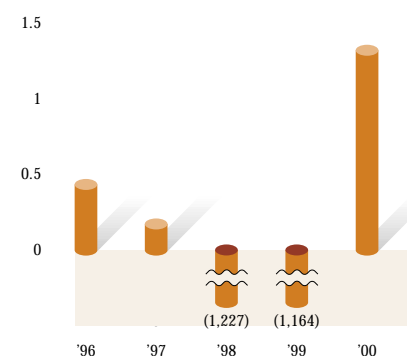
Note 1-a: The U.S. dollar amounts above and elsewhere in this report are translated from yen, for convenience only, at the rate of ¥106.15 = US \$1.

Note 2-i: The computation of net income and shareholders' equity per share is based on the average number of common stock during each year.

Net Sales
(¥ Billion)



Net Income (loss)
(¥ Billion)



PRESIDENT'S MESSAGE



The fiscal year ended March 31, 2000 was the final year of Phase II of our medium-to-long-term Re-Born plan, which we set forth three years ago. The figures on our balance sheet at the end of this year demonstrate that we were able to achieve significant results: We ran a profitable operation and bolstered our finances.

Sales in this fiscal year came to 188.25 billion yen, a decline of 5 percent compared to the year-earlier result on a decline in the grain market and the effects of the high yen. Nevertheless, our consolidated operating income grew by 52.7 percent to 5.68 billion yen. In addition, our net income rose to 1.32 billion yen, a vast improvement over the year-earlier net loss of 164 million yen.

However, we are still not satisfied with the results. To further revamp our operations and improve our earnings, we have formulated a new three-year plan, Step21. In Plan Step 21, our guiding principle is to serve as the best possible partner for our customers while keeping a watchful eye on the market.

Operating Environment and Performance

In the second half of this fiscal year, the Japanese economy began to show some signs of a recovery in areas such as capital spending on the part of private companies. However, on the whole, Japan's employment problems remained severe and consumer spending failed to rebound. Thus our operations faced a difficult market.

Consolidated sales sank by 5 percent from the year-earlier result. Prices fell overall in the grain markets that we deal in as is represented by the 25-year low in prices on the Chicago Board of Trade. In addition, on average, the yen was stronger against the dollar by about 18 yen from the previous term. These factors resulted in lower costs for raw materials and, consequently, a lowering of prices for products in the domestic market.

Nevertheless, we increased sales volume through aggressive marketing efforts and steadfastly implemented various measures outlined in Re-Born Plan Phase II. As a result, our consolidated operating income rose by 52.7 percent to 5.68 billion yen. In addition, our ratio of operating income to sales improved from 1.9 percent to 3.0 percent.

In addition, we withdrew from unprofitable operations, selling off our U.S. subsidiary GranPac Foods Inc., which was a

long-standing issue for our company.

Re-Born Phase II: Three-Year Summary

This fiscal year was the last year of our Re-Born Plan Phase II, a three-year plan for Showa Sangyo's parent operations formulated to improve quality in various areas including development, manufacturing and sales. In comparison with the fiscal year ended March 31, 1997, the year when the plan was launched, sales prices fell due to declines in raw-material markets for vegetable oil products, cornstarch and corn sweetener products and mixed feed. In addition, sales prices also declined for flour products on a revision in wheat prices in 1999. As a result, parent sales in the fiscal year ended March 31, 2000 were about 130.2 billion yen, 89.9 percent of sales for the fiscal year ended March 31, 1997, which came to about 144.84 billion yen. However, partly due to an increase in the sales volume, parent operating income rose from 1.7 billion yen to 4.79 billion yen, an increase of 281.3 percent and an improvement in profitability.

In addition, we made progress on the plan's basic policies: 1. strengthening development and sales of high-value-added products; 2. revamping our organization and systems to facilitate strategic corporate activities; 3. making more efficient use of assets; 4. continually lowering costs; and 5. responding to the needs and demands of society and the environment in general.

1. Strengthening development and sales of high-value-added products

We increased our development and sale of mixes, frozen dough and corn syrup for use in low-malt beer. Thus in the fiscal year ended March 31, 2000, sales of wheat flour, tempura flour and mixes rose by 105 percent compared to the fiscal year ended March 31, 1997. Likewise, sales of dextrose products, such as corn syrup for use in low-malt beer, rose by 111 percent.

2. Revamping our organization and systems to facilitate strategic corporate activities

We established a new comprehensive sales department that cuts horizontally across divisions as a way of dealing with the needs of specific users. Presenting our materials such as

wheat flour, mixes and vegetable oils in this integrated manner is helping to boost sales volumes to specific users.

3. Making more efficient use of assets

We made efforts to reduce total assets by, for example, selling off idle land and securities as well as reducing inventories, and worked to reduce interest-bearing liabilities. In the fiscal year ended March 31, 1997, total assets came to 143.1 billion yen. In the fiscal year ended March 31, 1999, this amount came to 125.4 billion yen, down by 17.7 billion yen or 12.4 percent. We reduced interest-bearing liabilities of 58 billion yen by about 12 billion yen, or 20.7 percent. As a result, our financial account balance improved. In addition, our interest coverage ratio improved from 2 to 7.9.

4. Continually lowering costs

We worked to create a low-cost operation by increasing yield, reducing energy consumption and reducing labor. As a result, our cost-to-sales ratio was 78 percent for the fiscal year ended March 31, 2000, an improvement of 4.1 percentage points from the result for the fiscal year ended March 31, 1997 of 82.1 percent.

5. Responding to the needs and demands of society and the environment in general

We introduced an annual salary system for our top-level managers with the aim of generating creative and strong managers as well as improving our corporate health. In addition, we introduced a corporate-officer system, in which corporate officers focus on the management of day-to-day operations. The goal was to speed up the decision-making process and heighten the efficiency of business.

By implementing these basic policies, we have achieved significant results in ensuring profits and improving our finances.

Medium-to-Long-Term Plan

Our management goal is to improve shareholder value. To this end, we are focusing in the long term on our corporate philosophy of contributing to people's rich and healthful diet. However, while society is in the midst of great change, we too

need to continue evolving in order to continue creating new value for our new era.

In the past three years, we have implemented a variety of changes under our Re-Born Phase II plan and have been able to achieve many significant results. Now we have formulated our Step 21 three-year business plan to achieve further goals guided by the vision of serving as the best possible partner for our customers while keeping a watchful eye on the market.

This plan is built around the four key pillars noted below.

1. Concentrating on and expanding into areas of growth and strength

We plan to improve our development capabilities and the quality of information supply and sales services for the clients of the Showa Sangyo group, which deals in a diverse range of foodstuffs. At the same time, we plan to expand the Showa Sangyo group as a whole in a single direction. To that end, we will carry out the following.

- a. Strengthen our operations in products for use in the food industry, a specialty of the Showa Sangyo group.
- b. Identify growth fields including both products and services that will enjoy market demand, and create systems to offer them.
- c. Rebuild unprofitable operations by concentrating on and expanding into areas in which we have a competitive edge.
- d. Improve distribution services. We will concentrate on revamping our shipping and distribution sites and improving efficiency.

2. Promotion of a high-performance operation

Our goal is to develop a thinking organization. To this end, we will concentrate on defining roles and effective conduct for our personnel, not merely on the machinery and equipment that is typically the focus of improving performance.

We will look at the creation of products – the very purpose of manufacturers – by starting where it ends: the customer. We will then look tracing back our products from distribution to sales, and from sales to production and research and development. By gathering original plans and ideas from each of our employees, we will move beyond the

concept of a low-cost operation and promote the goal of a high-performance operation, in which investment results will be a paramount concern.

3. Promotion of group management that responds to changes in stockholders and investors

We will promote group management that will increase earnings for the Showa Sangyo group as a whole and increase our corporate value, or stock price. To move in that direction, we will create an internal system that gives priority to the consolidated outlook of our company.

4. Responding to environmental changes


Meeting with ecological demands: company-wide efforts in response to environmental issues.

Use of information technology: aggressive use of such technology to promote, in particular, the first and second objectives noted above.

Modifications in personnel systems: introduction of new personnel systems that will invigorate our group.

Thorough implementation of our corporate action guidelines: reviving our awareness as a corporate citizen.

These reforms represent our commitment to the future. We believe we are forming a system we need to continue to create value in the 21st century. Through these changes, we are certain that we will become a corporate group that has the power, human resources, organization and integrated strengths to improve shareholder and corporate value in the new era and to promote vigorous growth.



Mutsuo Kanehara
President

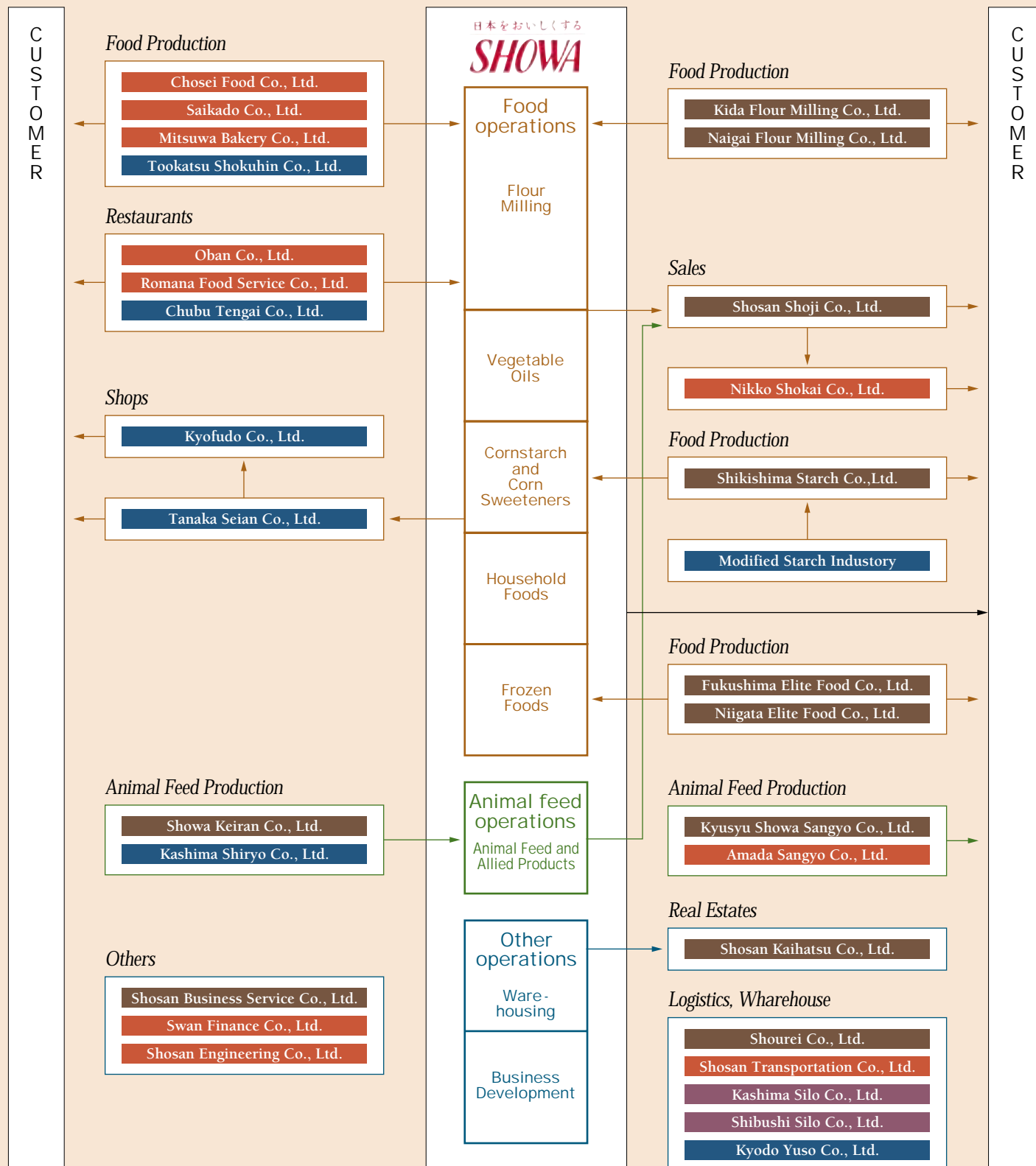
SHOWA SANGYO'S GROUP NETWORK

Consolidated subsidiaries

Non-consolidated subsidiaries

Companies accounted for by equity accounting method

Affiliates



PRODUCTIVE PRESENTATION

The Showa Sangyo group's primary operation is food, which consists of divisions for flour milling, vegetable oils, cornstarch and corn sweeteners, household foods, and frozen foods. The food operations involve producing and selling a wide range of products for commercial and household use. The products, made from grains such as wheat, soybeans and corn, are a part of people's diet in a variety of forms.

The Showa Sangyo group also makes good use of the by-products generated in the processing of these grains by producing and selling mixed animal feed. The animal feed operation also includes producing and selling eggs.

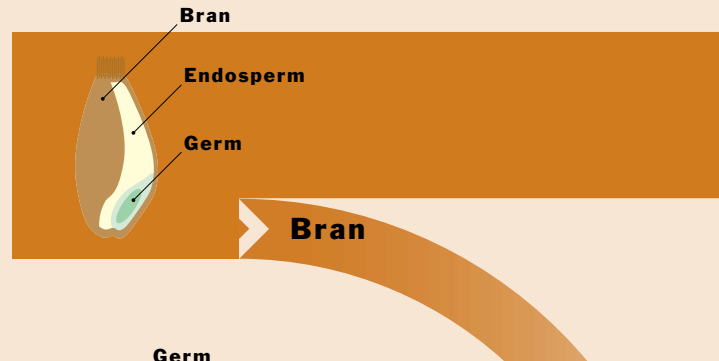
Other operations include warehousing business for grains and real-estate leasing business for effective use of real estates.

BUSINESS DEVELOPMENT

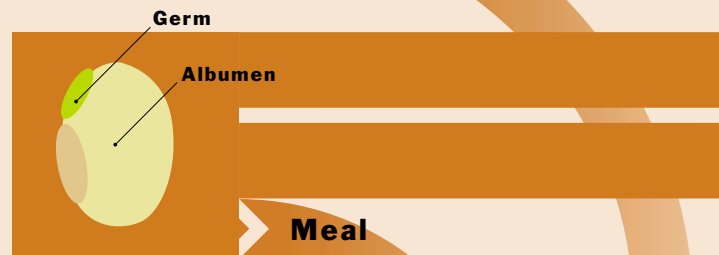


Showa Sangyo **Others**

WHEAT



SOY



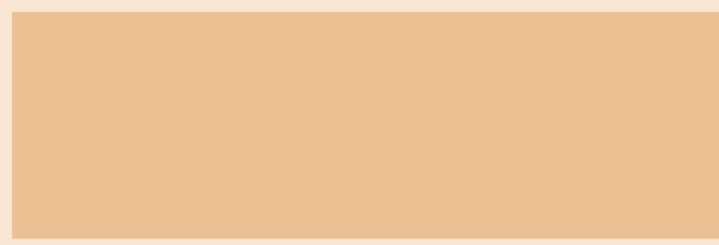
CORN



FEED



SILO





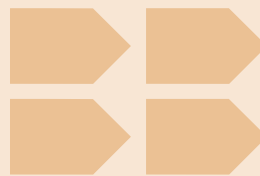
BREAD, NOODLE
CAKE
TEMPURA
DOUGHNUT, CAKE



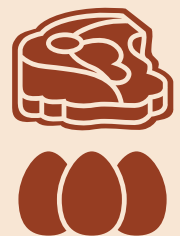
SOY OIL
TEMPURA
PROCESSED MEAT
AND FISH-PASTE
PRODUCTS



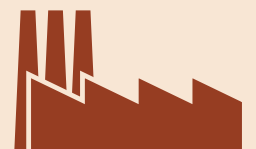
BEER
SOFT DRINK
LOW-MALT BEER



MEAT
EGG



FACTORY





FOOD OPERATIONS

FLOUR MILLING DIVISION

Wheat flour is the key product of our flour milling division. In addition, we also manufacture processed products made from flour including various premixes, breads and frozen dough products. These products are made at our Kashima Plant, Kobe Plant and Funabashi Plant, as well as at three subsidiaries: Naigai Flour Milling Co. (Mie Prefecture), Kida Flour Milling Co. (Hokkaido) and Niigata Elite Food Co. (Niigata Prefecture, frozen dough). The products are sold for industrial use to various makers of bread and noodles as well as supermarkets.

Wheat flour is one of the most widely used foodstuffs throughout the world. It is an ingredient in a variety of foods such as bread, cake, udon noodles, ramen noodles and tempura. It is an important food that has become integral to our diet. The Showa Sangyo group conducts thorough research and development to create wheat flour products that offer improved quality, functions and reliability to meet the increasingly varied needs of our users.

Premixes are convenient processed flour products that combine sugar, salt, oils and spices in just the right blend. They allow for easy, reliable and speedy preparation of foods such as tempura, fried dishes and bread. Users simply add water. Showa Sangyo pioneered the premix industry in Japan with its blend for tempura, a classic Japanese dish. Our company has many years of experience and many accomplishments in premix research and development.

We sell our frozen dough products primarily to bakeries. By freezing bread dough, we make it possible for bakeries to cut down on labor and streamline operations. The frozen dough also contributes to enhance the bakers' product lineup.

TOPICS

We developed and began marketing two mushroom growing kits, Nameko no Sato and Shiitake no Sato, that make use of wheat bran. The products are part of our efforts to develop diverse uses for wheat bran.

We increased our sales of frozen dough by about 25.6% from the year-earlier result thanks to an expansion of capacities at our manufacturing plant for frozen dough, operated by our subsidiary Niigata Elite Food Co.





VEGETABLE OILS DIVISION

Showa Sangyo's vegetable oils division manufactures a variety of vegetable oils, defatted soybeans and soybean proteins made from raw ingredients such as soybeans and rapeseed.

These products are made - from raw material to finished goods - at our Kashima and Kobe plants where there are docking facilities for the world's largest grain ships. Our products are sold for industrial purposes as raw ingredients for margarine and mayonnaise. In addition, they are sold to the restaurant and take-out food industries as well. All are the result of Showa Sangyo's own research and technology. The products are widely recognized for their high quality and for their convenience.

The vegetable oil section also sells its customers industrial-use premixes made from top-quality flour and blended with seasoning to bring out the best of each food material. It also sells pasta that acquired a reputation for its reliable quality.

Showa Sangyo uses carefully selected soybeans and rapeseed to produce a varied lineup of vegetable oils ranging from the common white soybean oil and salad oil to frying oils that are exceptionally stable. Defatted soybeans are made from the substance that remains after oil extraction. Highly reputable, they are used for a wide variety of goods, including fermented products such as miso and shoyu, as well as in livestock feed.

Our soybean protein is prized for qualities including its ability to absorb and retain water, emulsification properties and elasticity. It is used in a variety of processed foods such as meat products and marine products to improve quality, taste and nutritional value. Showa Sangyo holds a top share in the industry for these proteins.

TOPICS

Our oil production facilities at our Kashima Plant obtained ISO 9002 certification. The facilities produce edible vegetable oils, carrying out pressing, refining, bottling and related services.

We adopted a remote monitoring system that allows us to keep track of the remaining volume of oil in mini vegetable-oil storage tanks that are set up on client premises. The system simplifies the management of the mini tanks and improves the efficiency of our shipping and distribution overall.





FOOD OPERATIONS

CORNSTARCH AND CORN SWEETENERS DIVISION

This division produces cornstarch as well as starch sweeteners such as glucose syrup, dextrose, high-fructose corn syrup and oligosaccharides. The products are made at our Kashima Plant and at our Shikishima Starch Co. under strict quality control standards. The goods are used in a variety of products such as soft drinks, beer (low-malt beer) and bread.

Cornstarch is made by drying out starch derived from corn. It is used in beverages and foods such as beer and processed seafood. It is also used in industrial products such as paper, corrugated cardboard and fibers to add viscosity and adhesive properties.

Corn sweeteners (glucose syrup, dextrose, high-fructose corn syrup, oligosaccharides)

Glucose syrup is fermentable and viscous, absorbs and retains water, has adhesive properties and browns well. The syrup is used in confectioneries, bread, milk products, bean paste and jams.

Dextrose is used in beverages, confectioneries and bakery products. The substance also has medical applications. Further, it is used in seasonings such as mirin sake.

High-fructose corn syrup is used mainly by the beverage industry for use in products such as soft drinks and lactic drinks.

Oligosaccharides are receiving attention for their ability to promote bifidus bacteria growth and their ability to prevent tooth decay. Through its own research, Showa Sangyo developed its isomalto-oligosaccharides. The products are superior in their health-promoting qualities and are valued for their ease of processing. They are designated by Japan's Ministry of Health and Welfare as a food for specified health use.

TOPICS

Our dextrose production facilities at our Kashima Plant earned ISO 9002 certification.

Our subsidiary Shikishima Starch Co. obtained ISO 9002 certification.





FOOD OPERATIONS

HOUSEHOLD FOODS DIVISION

Showa Sangyo's household foods division makes and sells a broad range of processed foods for household use to suit diverse food styles and individual tastes. These include wheat flour, premixes, macaroni, spaghetti, vegetable oils, gift sets as well as health food products. The products are made chiefly at our Kashima Plant, Kobe Plant and Funabashi Plant.

Wheat flour: A variety of wheat flours made from high-quality wheat.

Premixes: A selection of premixes including Tempura Flour Ogon and Karaage Meat Tenderizing Flour.

Pasta: Products such as 100% durum semolina spaghetti.

Vegetable oils: A lineup of vegetable oils including functional oils rich in oleic acid.

Gift sets: An array of gift packages containing various food products of the Showa Sangyo group, such as flours and oils.

Taiyo no Ristorante: A brand of Italian foods that makes it easy to enjoy Italian cuisine at home. Products include pasta, pasta sauces and ingredients for Italian cooking.

Health foods: A lineup including Okama ni Pon, a capsule containing wheat germ oil, that fortifies rice with 10 times the vitamin E as brown rice; Sonomama Ajiwau Wheat Germ; and Oligo Time, an isomalto-oligosaccharide, designated a food for specified health use by Japan's Ministry of Health and Welfare in recognition of its beneficial effects on the digestive system.

TOPICS

Our household foods division at our Kobe Plant obtained ISO 9002 certification.

Our Funabashi Plant earned ISO 9002 certification for pasta goods production and related services.

We introduced an oleic-rich natural, healthful high-quality sunflower oil Olein Rich. The oil contains more oleic acid than olive oil or safflower oil. Introduced at a time when such premium oils are gaining in popularity, the oil also capitalizes on increased demand for natural and healthful foods.





FOOD OPERATIONS

FROZEN FOODS DIVISION

Frozen foods are becoming an integral part of our everyday life because of the simplicity and convenience they offer.

Our frozen foods operations involve the production and sale of goods including snack foods, everyday dishes, Italian foods, and tempura. Our subsidiaries Niigata Elite Food Co. and Fukushima Elite Food Co. manufacture the foods, making use of Showa Sangyo's own selection of ingredients, such as flour, premixes, and vegetable oils, as well as processing technologies. These high-quality products are widely used as commercial frozen foods because of their taste, nutritional value, and safety. The products allow smaller establishments, such as bars and karaoke lounges, to serve a varied menu.

Snack foods: We offer an assortment of products such as taiyaki, takoyaki, imagawayaki and okonomiyaki. Our snack foods, in their pleasing flavor and high quality, reflect the technology and experience we have acquired as a comprehensive food manufacturer.

Everyday dishes: We boast a varied selection of products including delicatessen meats, such as chicken cutlets, fried liver and fried chicken, and foods such as wontons.

Italian foods: Our Italian dishes, such as ravioli and cannelloni, make it possible to easily serve authentic Italian cuisine.

Tempura: For our tempura, we carefully select the freshest ingredients and then add our own renowned tempura flour and salad oil. Our tempura maintains its crispy texture and appealing flavor even after restaurant preparation and has a strong reputation for consistent high quality.

TOPICS

We introduced a selection of prepared bases for making kakiage fried foods. Because the base is pre-made, anyone can easily and uniformly prepare kakiage fried food that also gives the impression of handmade and skillfully prepared cuisine.





ANIMAL FEED OPERATIONS

ANIMAL FEED AND ALLIED PRODUCTS DIVISION

Showa Sangyo's mixed feeds use our own ingredients, which are strictly quality-controlled. These ingredients include wheat bran, defatted soybeans and corn gluten meal. We also use imported ingredients such as corn, milo and fish meal that meet the same exacting safety standards as our own. The feeds are produced by our Kobe Plant, Kashima Shiryo Co. and Kyushu Showa Sangyo Co.

We manufacture a wide variety of mixed feeds, including mixes for chickens (both egg-laying hens and broilers), pigs, dairy cattle, beef cattle and fish. In addition, we produce mixture materials that contain isomalto-oligosaccharides, which have beneficial effects on the intestinal tracts of animals.

Showa Sangyo group contributes to the stable supply of chicken eggs. A comprehensive management system, which makes use of the most advanced production technology and a concentration of resources, ensures the quality of eggs produced by the Showa Sangyo group. We guarantee high quality in the entire process, including chicken feed, farm facilities, grading and packaging center, distribution, and delivery to the consumer. Through group companies including Showa Keiran Co., we provide a reliable source of eggs based on the three concepts of safety, freshness and stable supply.

TOPICS

We have begun producing isomalto-oligosaccharide mixed feeds for livestock at our own facilities. The feeds are a high-profit product.

We revamped the grading and packaging center of our subsidiary Showa Keiran Co. to prevent bacterial contamination of chicken eggs and to ensure stable product quality.





OTHER OPERATIONS

WAREHOUSING DIVISION

WAREHOUSING DIVISION

Our plants in Kashima, Kobe and Funabashi are ideally located in large-scale, oceanfront industrial regions. Each of the sites carries out efficient unloading and storing of imported grains. Each factory is outfitted with a large silo, offering a combined storage capacity of 340,000 tons of grain. In addition, the Kashima and Kobe plants have berths that allow large grain ships to dock. The grain is taken from the ships via unloading equipment, fumigated, stored in the silos and then sent to individual plants as need dictates. In addition, the plants also supply raw materials to animal-feed makers such as Kashima Silo Co. and Shibushi Silo Co.

Further, as part of our effort to diversify our warehousing operations, Showa Sangyo is also entering the refrigerated storage field. Making use of a prime location near to Tokyo, we constructed a warehouse complex and linked refrigerated warehouse within our Funabashi plant compound. The warehouse complex is an ordinary warehouse for both business and private use. It is also, however, a multi-function and multi-purpose operation that includes a food processing plant. The refrigerated warehouse can be used for the storage of products processed at the warehouse complex. The site is thus being used as a distribution point for the expanding frozen foods market. Shourei Co., a subsidiary, manages the refrigerated warehouse.



OTHER OPERATIONS

BUSINESS DEVELOPMENT DIVISION

BUSINESS DEVELOPMENT DIVISION

Showa Sangyo has been taking bold steps to make effective use of unused real estate assets such as former plant sites. We are working to diversify our operations by developing commercial facilities and initiating leasing operations in tenant buildings. Our projects include the development of the Shosan Plaza shopping center in Ageo, Saitama and the construction of tenant buildings in Ichikawa, Chiba, and Ota, Gunma, as part of leasing operations.

In addition, Showa Sangyo is also entering the restaurant business, making use of its know-how as a comprehensive food company. We have opened Romana, a restaurant specializing in spaghetti, and Tamagoya San, a restaurant specializing in omelets. With our innovative menus, we are expanding on the joy of eating.



RESEARCH AND DEVELOPMENT



The most important aspect of developing and expanding our operations as a general manufacturer of processed foods is research and development (R&D) aimed at creating new technologies and products. At Showa Sangyo's General Research Institute, Food Development Center, and Animal Feed Technology Center, numerous diverse technology groups are engaged in a broad range of efforts. The efforts include everything from applied research, which includes developing products that meet clients' needs as well as improving existing products and production processes, to basic research, in which researchers develop new products and new technologies from a mid to long-term perspective.

Our mid to long-term development of new products revolves around the milling, extraction, refining, and fermentation technologies that we have cultivated as our main lines of business. We also aim to develop high value-added foodstuffs through the application of biotechnology.

Showa Sangyo views such societal issues as environmental problems and the more sophisticated use of biological resources as its own concerns. Our environmental measures include waste reduction through new, unconventional technologies such as fermentation and membrane technology, and explorations of technologies with eyes for the next generation. We are also working on effective use of the by-products and waste products that are produced during factory manufacturing processes, such as developing zein, a protein component of corn, and nutrients for cultivating mushrooms. We have also turned our attention to the problem of food allergies, and are cooperating in the development of processed foods using hypo-allergenic wheat

flour.

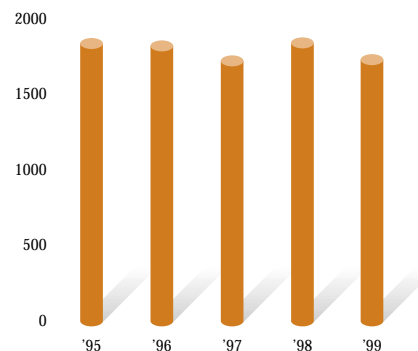
By forging wide-ranging links with university and public research institutions in our areas of research and taking advantage of exchanges with other industries in our areas of applied research, we are striving to enhance our R&D capabilities in these fields and our ability to commercialize the results.

Furthermore, our R&D teams, which maintain close links with the business departments, develop products while remaining in communication with our customers so that they can respond rapidly and flexibly to their needs. We are making efforts to provide high value-added products and technological information in a timely manner.

This year, we have developed a variety of products: La Seine and other types of wheat flour, bakery mixes such as high-rutin bread mix, oils for cooking rice and frying, a glucide for use as an ingredient in processed foods, flour for tempura coatings, flour for karaage coatings, batter mix, frozen bread dough and prepared foods. These are being provided mainly to food processing manufacturers or convenience stores for commercial use. For the household market, on the other hand, we have introduced a variety of new and reformulated or repackaged products, including vegetable oils, such as Olein Rich, the Taiyo no Ristorante series of pastas and sauces, pancake mix, and gift packs for wedding guests. In the area of animal feeds, we began selling compound feeds with isomalt-oligo-saccharides as the main component, produced at our own production facilities, and also developed poultry feed incorporating measures against salmonella contamination.

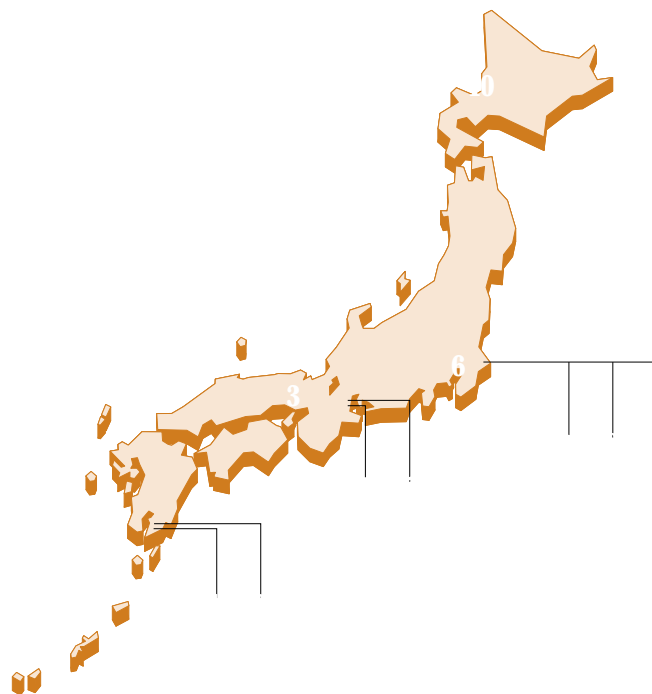
Furthermore, our company-wide R&D efforts have involved obtaining ISO 9000 certification (in four divisions), studying the introduction of HACCP and mastering GMO (genetically modified organisms) analysis technology. We also worked to make further improvements in our products, reduce costs and guarantee safety. Our R&D expenses for this fiscal year were 1,727 million yen.

R&D Expenses
(Million ¥)

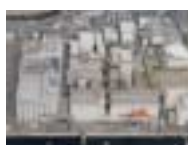


PRODUCTION AND DISTRIBUTION

All of Showa Sangyo Group's production bases are located on oceanfront properties that make procuring raw materials easily. What's more, the plants are fully equipped to manage the entire production process, from processing raw materials to packaging the finished products. This means that the plants can be versatile in meeting consumer needs. They also are conveniently located for distribution, being near the products' marketing areas where timely delivery is possible. Such solid production and distribution systems allow Showa Sangyo Group to efficiently perform business and to live up to consumers' expectations in all aspects.



Kashima Plant



Kobe Plant



Funabashi Plant

| | Kyushu Showa Sangyo Co., Ltd. | Shibushi Silo Co., Ltd. | Kobe Plant | Shikishima Starch Co., Ltd. | Naigai Flour Mills Co., Ltd. | Funabashi Plant | Kashima Plant | Kashima Animal Feeds Co., Ltd. | Kashima Silo Co., Ltd. | Kida Flour Mills Co., Ltd. |
|---------------------------------------|--|-------------------------|-------------------------------------|--|--|--------------------------------|-------------------------------------|---|------------------------|---|
| Flour Milling | | | | | | | | | | |
| Raw Materials Processing Ability | | | 14,500t/month | | 4,783t/month | 15,000t/month | 26,500t/month | | | 4,910t/month |
| Vegetable Oils | | | | | | | | | | |
| Raw Materials Processing Ability | | | 33,000t/month | | | | 47,100t/month | | | |
| Refining Ability | | | 5,400t/month | | | | 15,000t/month | | | |
| Cornstarch and Corn Sweeteners | | | | | | | | | | |
| Cornstarch | | | | 15,000t/month | | | 27,000t/month | | | |
| Corn Sweeteners | | | | 5,000t/month | | | 15,600t/month | | | |
| Animal Feed | | | | | | | | | | |
| Raw Materials Processing Ability | 25,000t/month | | 18,500t/month | | | | | 50,000t/month | | |
| Silo | | | | | | | | | | |
| Storage Capacity | | 104,610t | 135,000t | | | 22,600t | 186,000t | | 142,350t | |
| Outline | Manufacture and sale of mixed animal feed in the Kyushu area | | Manufacturing base in Western Japan | Manufacture and sale of cornstarch and corn sweeteners | Manufacture and sale of flour products | Manufacture of flour and pasta | Showa Sangyo Group's flagship plant | Manufacture and sale of mixed animal feed | | Manufacture and sale of flour products in Hokkaido area |

BOARD OF DIRECTORS

AS OF JUNE 29, 2000



President
Mutsuo Kanehara*



Senior Managing Director
Koukichi Hirasawa*



Senior Managing Director
Yoshifumi Tsubone



Managing Director
Hiroshi Usui



Managing Director
Akira Moriya



Managing Director
Shigeo Fukui



Managing Director
Toshio Watanabe



Managing Director
Hajime Takaku



Managing Director
Hideo Fujii

Statutory Auditors

Yoshiro Yamamoto
Isao Igita
Yasuzo Miyata
Katsuhiko Fukazawa

* **Representative Director**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise noted, the financial information contained in this section is all based on the consolidated financial statements included in the annual report of Showa Sangyo Co. Ltd.

OVERVIEW

The consolidated financial statement for the fiscal year ended March 31, 2000 is composed of figures for Showa Sangyo, 13 of its subsidiaries, and 2 affiliate companies.

The company's operations are divided into three business segments: Food Operations, which include flour milling, vegetable oils, cornstarch and corn sweeteners, household foods, and frozen foods; Animal Feed Operations, which deal with the production and marketing of animal feeds and eggs; and Other Operations, which include the warehousing division and business development. The percentages of sales for each segment this fiscal year were 73.2%, 22.8% and 4.0%, respectively.

OPERATIONS

Both operating income and income for this fiscal year significantly increased despite our accounts for this fiscal year showing a slight drop in income. We believe that these results are some of the fruits of our mid-term management plan, the ReBorn Plan, Phase II.

This is the final year of the three-year plan that we hammered out three years ago. In this plan, we aimed for development of high value-added product materials and more efficient utilization of assets, as well as setting specific goals for sales,

operating income, net income, and interest-bearing debt. With these goals in place, we have been moving forward with increasing sales and reducing costs. Despite being short of meeting the individual goals in the results for the past three years at the end of this fiscal year, we believe that the plan was very effective, in that we were able to improve overall profitability.

Net Sales

Net sales during this fiscal year were 188.25 billion yen, or 5.0% lower than the previous year.

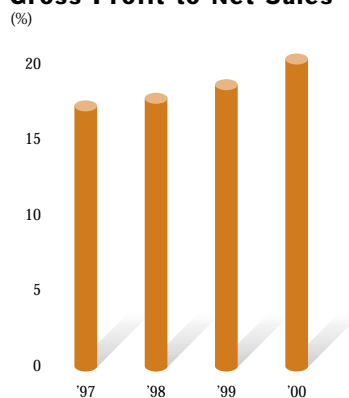
This fiscal year, we worked aggressively to increase sales. However, product prices fell mainly due to such factors as the strong yen, the falling Chicago Commodities Market and the ever intensifying competition. As a result, our sales figures decreased despite the sales volume increase.

Based on the ReBorn Plan, we also developed about 270 new products and put them on the market. These new products contributed about 6 billion-yen worth of sales this fiscal year. We plan to devote efforts to product development next year as well.

Cost of sales

This fiscal year, our cost of sales decreased 11.29 billion yen, or

Gross Profit to Net Sales



7.0%, to 150.01 billion yen. For this reason, our cost percentage improved from 81.4% to 79.7%.

The greatest contributing factor to this decline was an overall drop in prices, exemplified by the lowest prices in 25 years on the Chicago Commodities Exchange. Prices also fell for grains, the raw materials for our main products. Along with the effects of the appreciation of the yen, this led to a major drop in yen-based purchasing costs. The weighted average increase in the dollar-yen exchange rate between February 1999 and January 2000 increased by 18.14 yen over the previous fiscal year to 113.26 yen.

This fiscal year, the combined effects of our own cost reduction efforts and market factors led to a lower cost percentage.

Selling Expenses and General Administrative Expenses

Although selling expenses and general administrative expenses for this fiscal year decreased 2% to 32.56 billion yen, due to our aggressive cost-cutting program, the percentage of selling expenses rose from 16.8% to 17.3%. This is because the rate of decrease in sales was larger than the rate of decrease in selling expenses and general administrative expenses.

This fiscal year, we decreased overall selling expenses 21.5% to

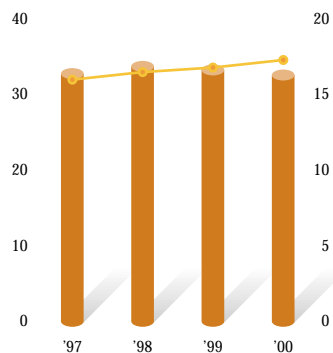
1.69 billion yen and personnel expenses 2.7% to 6.07 billion yen. Moreover, we also wrote off a total of 7.16 billion yen in depreciation. Of that amount, 1.77 billion yen were included in selling expenses and general administrative expenses, a decrease of 7.2% over the previous year.

Research expenses included in selling expenses and general administrative expenses were 1.73 billion yen this year. Realizing that Showa Sangyo's preeminence in the market is due to its ability to develop high value-added products, we initiated mid to long-term research programs for developing ingredients. This year, the best results emerged mainly from our biotechnology-related research at Tsukuba, and we plan to work hard to turn these results into commercially viable products. We the management want to maintain the research activities that allow us to gain the fullest advantage from each field and develop new products.

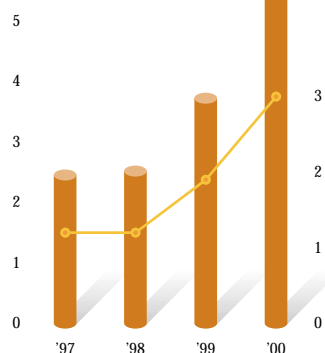
Operating Income

Although sales decreased, decreases in the cost of sales and selling expenses were a main factor in our operating income increasing 52.7% over last year to 5.68 billion yen. Because of this, our operating income to sales rate also improved from 1.9% to 3.0%.

SGA Expenses
(Billion ¥, %)



Operating Income
(Billion ¥, %)



Other Income and Expenses

The net amount of our other income and expenses for this fiscal year amounted to a loss of 2.72 billion yen, which is 7.3% larger than the loss incurred the previous year.

A look at the individual factors shows that a reduction in our interest-bearing debt caused a 25% drop in interest paid to 977 million yen. In addition, we concluded a contract to transfer ownership of our U.S. subsidiary, Granpac Foods Inc., which had been in the red for a long time and had been a source of anxiety, to another company. This involved a loss of 1.36 billion yen. Meanwhile, sale and disposal of machinery, equipment, and other tangible fixed assets yielded a loss for 328 million yen. In total, we posted a loss of 1.69 billion yen. This fiscal year, we have been proceeding with the sale of our stockholdings including revaluation and these have contributed an income of 736 million yen.

On the other hand, other net losses rose from last year's figure of 249 million yen to 1.11 billion yen.

The main factors included a 350 million-yen loss of value in golf club memberships, 100 million yen in executive retirement reserve funds, and 200 million-yen increase in other irrecoverable reserve funds.

Income before Income Taxes

Our income before income taxes this fiscal year increased 1.78 billion yen to 2.96 billion yen.

Income Taxes

Due to regular payments and the influence of tax effect accounting, our income tax burden was 1.58 billion yen at an effective tax rate of 53.4%.

As for the outstanding amount of current tax of 3.62 billion yen and deferred tax of 2.04 billion yen, these showed increases from previous year. These are the losses which associated with the transfer of the Granpac Foods' ownership, which did not qualify as a tax deductible item for this year. They will only qualify in the next fiscal year.

Net Income

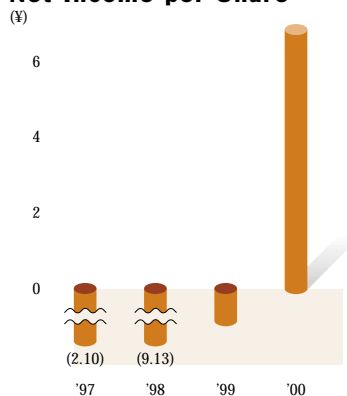
In contrast to the net loss of 164 million yen incurred in the previous fiscal year, this year's net income was 1.32 billion yen. Our basic net income per share was 6.85 yen, and ROE was 2.9%.

SEGMENT ANALYSIS

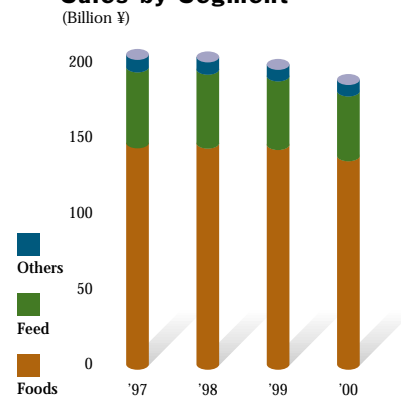
Food Operations Segment

Due to the composition of the Food Operations Segment, its

Net Income per Share



Sales by Segment



sales are always particularly susceptible to influences in the exchange markets for raw materials and grains, such as soybeans and corn. Furthermore, these raw materials are traded mainly on a dollar basis in international markets, so sales are exposed to the risk of fluctuations in the dollar-yen exchange rate. This is because trends in the yen-based purchasing price are usually passed on to the customer in the selling price.

This year's sales in the Food Operations Segment, which has Flour Milling, Vegetable Oils, Constarch and Corn Sweeteners, Household Foods, and Frozen Foods Divisions, were also subject to influences from a drop in the grain exchanges and the appreciation of the yen, so the drop in the unit prices for raw materials were passed on in the form of a drop in unit selling prices. For this reason, sales decreased 5.1% to 137.87 billion yen, despite their increase in volume.

On the other hand, operating expenses decreased 9.67 billion yen to 137.4 billion yen due to lower costs on the grain exchanges and the cost reduction activities under the ReBorn Plan. Because of this, operating income increased 122.3% over the previous fiscal year to 2.9 billion yen.

In the following, we will show the sales trends for each division on a non-consolidated basis for this segment.

• Flour Milling Division

This fiscal year, our product division invested actively in new products, especially premixes, and opened up new sales channels. This resulted in higher overall sales volume for such items as wheat flour and bran. However, the unit selling price drop, due to such factors as a drop in the price the government pays for wheat, the appreciation of the yen and intensified competition, lowered our income from sales from the previous year.

• Vegetable Oils Division

Sales for our vegetable oils division this fiscal year were below those of the previous year, due to a drop in the unit selling price caused by a drop in the current markets for raw material grains. Even though sales of vegetable oils increased by volume, income decreased. Due to a major drop in the price for defatted soybeans, income from defatted soybeans decreased sharply. However, sales of foods for commercial use were higher than the previous year, both by volume and by price, due to our efforts to develop new products and expand sales.

• Cornstarch and Corn Sweeteners Division

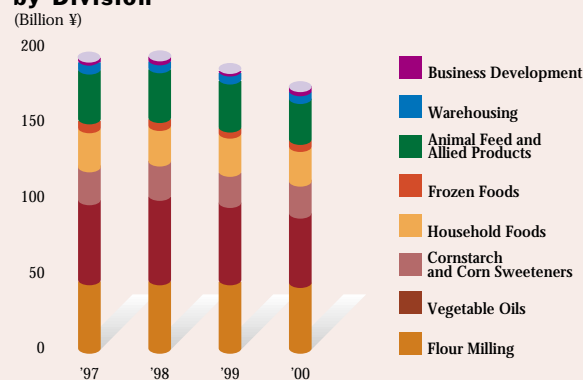
Due to favorable trends in shipments of starch sweeteners for

Non-consolidated Sales by Division

| | Net Sales (Million ¥) | | | Sales Volume (t) | | |
|---------------------------------|-----------------------|----------------|-------------|------------------|------------------|------------|
| | '99 | '00 | % change | '99 | '00 | % change |
| Flour Milling | 34,556 | 33,276 | -3.7 | 436,899 | 439,737 | 0.6 |
| Vegetable Oils | 38,780 | 34,849 | -10.1 | 558,453 | 575,029 | 3.0 |
| Cornstarch and Corn Sweeteners | 15,854 | 15,147 | -4.5 | 279,314 | 288,639 | 3.3 |
| Household Foods | 18,198 | 17,742 | -2.5 | 71,729 | 75,520 | 5.3 |
| Frozen Foods | 3,330 | 3,257 | -2.2 | 780* | 783* | 0.4 |
| Animal Feed and Allied Products | 22,525 | 20,049 | -11.0 | 523,596 | 516,956 | -1.3 |
| Warehousing | 4,249 | 4,199 | -1.2 | | | |
| Business Development | 1,745 | 1,674 | -4.1 | | | |
| Total | 139,242 | 130,197 | -6.5 | 1,869,991 | 1,895,881 | 1.4 |

(* thousand cases)

Non-consolidated Sales by Division





use in brewing low-malt beer, we were able to increase our sales volume for sweetening products. However, the sales volume for dried cornstarch remained the same as during the previous fiscal year. Since prices for our products fell due to influences from the grain exchanges, sales for our division as a whole were below those of the previous year.

• Household Foods Division

Household vegetable oils reaped the benefits of our efforts to expand sales of premium oils, especially canola oil, and the sales volume of these products increased over the previous year. In addition, the sales volumes for secondary processed wheat flour products were also above those for the previous year, as a result of our efforts to develop new products and expand sales. Even so, unit-selling prices fell due to a drop in the prices for raw materials.

The sales volume for gift sets decreased. As a result, sales for the Household Foods Division as a whole were lower than in the previous year.

• Frozen Foods Division

Our efforts to develop new products and expand sales in the Frozen Foods Division led to a slight increase in sales volume over the previous year. Selling prices, however, were below those of the previous year that sales figures also dropped from the previous year. The major factor in the decrease in

sales was sluggishness in the restaurant industry, due to the flat economy.

Animal Feed Operations Segment

Sales of mixed animal feeds in the Animal Feed Operations Segment are exposed to the risk of influences from the grain and currency exchanges, and eggs are subject to influences from the domestic egg market. Even though the domestic market for eggs rose, selling prices on mixed animal feeds were lowered three times in response to drops in the raw material grain exchanges. Overall sales for the Segment consequently decreased 5.5% to 42.86 billion yen. One of the indirect factors in the decrease in sales was a drop in the domestic production of livestock caused by an increase in imports.

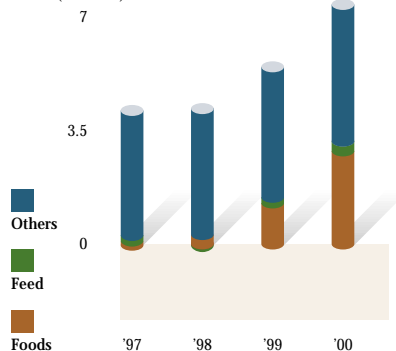
In addition, operating expenses decreased 6.5% to 42.72 billion yen, due to our promotion of production cost reduction measures and a decrease in contributions (reserve fund payments) to the mixed animal feed price stabilization fund. For this reason, operating profits rose 96.5% to 342 million yen.

Other Operations Segment

With respect to our other operations segments, the amount of cargo handled in Warehousing Division decreased from the previous year, as competition to obtain imported grains

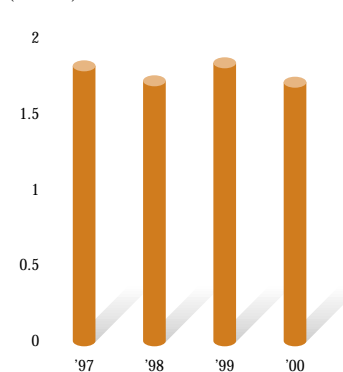
Operating Income by Segment

(Billion ¥)



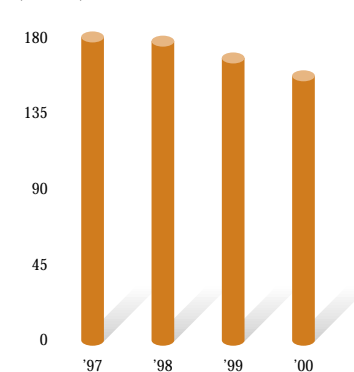
R&D Expenditure

(Billion ¥)



Total Assets

(Billion ¥)



continued to be fierce. Storage space, however, increased. As a result of these factors, sales were 7.52 billion yen, 0.5% below our previous consolidated statement fiscal year. Yet operating profits increased 4% to 4.14 billion yen, due to such factors as a decrease in depreciation expenses.

FINANCIAL POSITION

Based on the ReBorn Plan, we have spent this fiscal year emphasizing more efficient use of assets and striving to sell off non-performing assets and compressing our assets in general, as well as placing importance on the reduction of interest-bearing debts. Due to these measures, we decreased our total assets 6.3%, or 10.621 billion yen, from the end of the previous fiscal year to 157.34 billion yen at the end of this fiscal year.

Viewed by item, our current assets were compressed by 6.84 billion yen, or 11.1%, to 54.59 billion yen. This was brought about mainly by reducing cash and cash equivalents by 3.75 billion yen and short-term loans to subsidiaries by 1.27 billion yen, and allocating them to reduce interest-bearing debt. An additional factor was a reduction in our overall inventory assets by 1.61 billion yen.

Our total investments and advances remained nearly unchanged at 16.59 billion yen, being only 1% higher than the previous year.

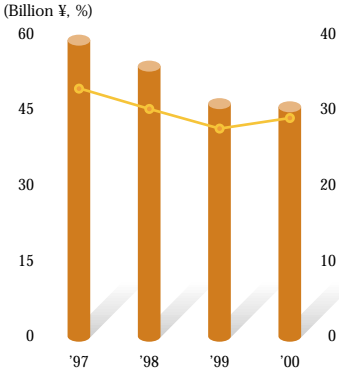
On the other hand, we reduced our tangible fixed assets by 4.6% to 85.36 billion yen. The reasons for this compression of tangible fixed assets include depreciation amounting to 6.97 billion yen. This is because we kept investment in facilities down to 5.1 billion yen and posted an extraordinary loss of 1.36 billion yen for the devaluation of tangible fixed assets after having completed the contract to sell our stock in the aforementioned Granpac Foods, Inc.

Meanwhile, a look at debt shows that the effects of our aggressive efforts to reduce interest-bearing debt were readily apparent. During this fiscal year, we reduced our interest-bearing debt a total of 9.9 billion yen, leaving a balance at the end of the year of 67 billion yen. First, as far as our current liabilities are concerned, we repaid 9.91 billion yen in short-term loans and redeemed 2 billion yen worth of commercial paper. This means that we no longer have any commercial paper outstanding at the end of the fiscal year. As a result of these measures, current liabilities decreased 7.27 billion yen, or 10.5%, to 62.26 billion yen.

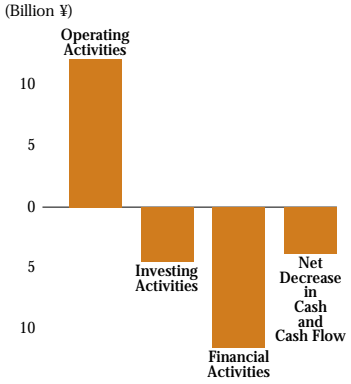
Also, since we redeemed in advance an outstanding balance of converted bonds of 582 million yen and repaid 429 million yen in long-term borrowing, and also reversed 1.19 billion yen of deferred tax liabilities, our total long-term liabilities were reduced 5.4% to 48.08 billion yen.

Finally, with respect to shareholders' equity, our retained

Shareholders' Equity and Equity Ratio



Cash Flow



earnings decreased by a net amount of 734 million yen to 17.93 billion yen, despite our net income of 1.32 billion yen. This decrease is mainly due to the loss of 1.37 billion yen in Swan Foods Oregon Inc., U.S. , a wholly owned subsidiary of Granpac Foods Inc., as well as to the 964-million-yen cash dividends paid out.

Liquidity and Sources of Funds

In order to promote flexible development of an operational strategy at Showa Sangyo and to respond to changes in the business environment, we on the management team always take care to maintain sufficient liquidity.

This fiscal year, we generated 7.68 billion yen of free cash flow, improving our ability to invest in areas for increasing long-term stock values, and contributing to enhance our balance sheet.

Our cash and cash equivalents at the end of this fiscal year decreased 3.75 billion yen over the figures for the end of the previous year to 7.34 billion yen.

Usually, our main source of funds is cash flow from operations. This fiscal year, our operations generated 12.15 billion yen of cash flow. The biggest factors were 2.96 billion yen of income before income taxes and 7.16 billion yen in depreciation expenses.

Our cash outflow from investment activities amounted to 4.46

billion yen. The main reason was 4.4 billion yen of expenditures related to investment in facilities this fiscal year.


We had a cash outflow of 11.48 billion yen this fiscal year due to financial activities. Of this amount, 9.9 billion yen was related to reductions of interest-bearing debt carried out this year.

RISK MANAGEMENT

Showa Sangyo is exposed to risks from fluctuations in exchange rates, interest rates, the markets for specific products and the stock market. In order to partially diminish or completely avoid these market risks, we have made use of a variety of derivative financial products. We, however, make no use whatsoever of these products for investment purposes or short-term trading purposes.

Moreover, we have set forth a strict administrative stance toward transactions in these products, requiring the approval of the managing director. In this way, our transactions in derivative financial products are all offset by assets on the balance sheet or by the risks inherent in the liabilities, and the details are laid out in Note 13 to the consolidated financial statement.

All the derivative financial products held by Showa Sangyo are non-listed, so they involve a credit risk to the partner financial



institutions, and theoretically, the company could possibly incur a loss if these financial institutions did not cover the debt. However, since the current holders of all these derivative financial products are highly rated financial institutions, the management team does not foresee any possibility of a loss arising from a credit risk.

Showa Sangyo may be subject to other non-financial or unquantifiable risks in the course of its normal business operations. These risks include country risks, credit risks and legal risks. However, since they are unpredictable, they are not noted in this annual report.

Exchange Rate Risks

Since we acquire raw materials from overseas mainly in dollar-based transactions, we are subject to exchange rate risks. In order to avoid these risks partly or entirely, we enter into foreign exchange forward contracts and currency option transactions as necessary.

Interest Rate Risk

Showa Sangyo is exposed to interest rate risk in the course of its investment and cash management activities. In order to avoid some of this risk, the company makes use of derivatives financial instruments.

Stock Price Risk

Showa Sangyo holds a variety of stocks, which are subject to the risk of price fluctuations in the stock market. At the end of this fiscal year, we had a total of 10.06 billion yen of listed stocks on our balance sheet, with a fair market price of 11.7 billion yen.

The Year 2000 Problem

In the interest of maintaining the day-to-day continuity of our operations, we instituted company-wide measures to minimize the possibility of any effects on our business from the so-called Year 2000 Problem.

From December 31, 1999 to January 1, 2000, we assigned specialists knowledgeable about the problem to every important system. As of March 31, 2000, we were able to determine that the Year 2000 Problem had not affected our company in any significant way.

Consolidated Balance Sheets

Showa Sangyo Co., Ltd. and Consolidated Subsidiaries

As of March 31, 1999 and 2000

| ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 1-a) |
|---|-----------------|------------------|--|
| | 1999 | 2000 | 2000 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 11,093 | ¥ 7,340 | \$ 69,147 |
| Marketable securities (Note 3 and 4) | 960 | 999 | 9,409 |
| Accounts and notes receivables: | | | |
| Trade | 29,824 | 28,890 | 272,157 |
| Non-consolidated subsidiaries and affiliates | 390 | 727 | 6,848 |
| Less: Allowance for doubtful receivables | (201) | (263) | (2,476) |
| Inventories : | | | |
| Merchandise and finished goods | 7,718 | 6,672 | 62,854 |
| Raw materials and supplies | 7,287 | 6,682 | 62,950 |
| Work-in-progress | 611 | 656 | 6,180 |
| Short-term loans | 1,928 | 659 | 6,210 |
| Deferred tax assets (Note 6) | 232 | 1,015 | 9,560 |
| Prepaid expenses and other current assets | 1,595 | 1,217 | 11,468 |
| Total current assets | 61,437 | 54,594 | 514,307 |
| Investments and advances: | | | |
| Investment securities (Note 3 and 4) | 9,437 | 10,584 | 99,707 |
| Investments in and advances to non-consolidated subsidiaries and affiliates | 4,351 | 5,201 | 48,995 |
| Other investments and advances | 4,502 | 3,369 | 31,740 |
| Less: Allowance for doubtful receivables | (1,524) | (2,569) | (24,204) |
| Total investments and advances | 16,766 | 16,585 | 156,238 |
| Property, plant and equipment (Note 4): | | | |
| Land | 20,708 | 20,679 | 194,807 |
| Buildings and structures | 87,666 | 86,704 | 816,810 |
| Machinery and equipment | 108,364 | 110,062 | 1,036,856 |
| Construction in progress | 392 | 27 | 253 |
| | 217,130 | 217,472 | 2,048,726 |
| Less : Accumulated depreciation | (127,686) | (132,109) | (1,244,555) |
| Total property, plant and equipment | 89,444 | 85,363 | 804,171 |
| Foreign exchange adjustment | 58 | 240 | 2,265 |
| Other assets (Note 4) | 254 | 556 | 5,243 |
| Total assets | ¥167,959 | ¥ 157,338 | \$ 1,482,224 |

The accompanying notes are integral parts of these statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen | | Thousands of U.S. dollars (Note 1-a) |
|--|-----------------|-----------------|--|
| | 1999 | 2000 | 2000 |
| Current liabilities: | | | |
| Short-term borrowing (Note 4) | ¥ 43,045 | ¥ 33,135 | \$ 312,153 |
| Current portion of long-term borrowing (Note 4) | 1,136 | 1,621 | 15,267 |
| Accounts payable and notes: (Note 4) | | | |
| Trade | 14,825 | 15,235 | 143,527 |
| Non-consolidated subsidiaries and affiliates | 480 | 383 | 3,608 |
| Accrued taxes on income | 901 | 2,923 | 27,542 |
| Accrued expenses and other current liabilities | 9,147 | 8,967 | 84,477 |
| Total current liabilities | 69,534 | 62,264 | 586,574 |
| Long-term liabilities: | | | |
| Bonds (Note 4) | 10,000 | 10,000 | 94,206 |
| Convertible Bonds | 582 | - | - |
| Long-term borrowing (Note 4) | 22,698 | 22,269 | 209,791 |
| Retirement and severance benefit for employees (Note 5) | 3,753 | 3,714 | 34,989 |
| Retirement and severance benefit for directors and statutory auditors (Note 5) | 1,025 | 1,100 | 10,357 |
| Deffered tax liabilities (Note 6) | 5,834 | 4,645 | 43,760 |
| Other liabilities (Note 4) | 6,932 | 6,356 | 59,878 |
| Total long-term liabilities | 50,824 | 48,084 | 452,981 |
| Consolidation adjustment | 22 | 15 | 137 |
| Minority interests | 1,455 | 1,480 | 13,941 |
| Contingent liabilities (Note 8) | | | |
| Shareholders' Equity: | | | |
| Common stock, par value ¥50 per share: | | | |
| Authorized - 749,500,000 shares for 1999 and 2000 | | | |
| Issued as at 31 March, 1999 - 192,858,898 shares (Note 7) | 12,778 | - | - |
| Issued as at 31 March, 2000 - 192,858,898 shares (Note 7) | - | 12,778 | 120,377 |
| Additional paid-in capital | 11,600 | 11,600 | 109,276 |
| Legal reserve (Note 7) | 3,080 | 3,185 | 30,002 |
| Retained earnings | 18,667 | 17,933 | 168,940 |
| Less: Treasury stock | (1) | (1) | (4) |
| Total shareholders' equity | 46,124 | 45,495 | 428,591 |
| Total liabilities and shareholders' equity | ¥167,959 | ¥157,338 | \$1,482,224 |

Consolidated Statements of Income

Showa Sangyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 1999 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1-a) |
|---|-----------------|-----------|--|
| | 1999 | 2000 | 2000 |
| Net sales | ¥198,250 | ¥ 188,251 | \$ 1,773,442 |
| Cost of sales | 161,300 | 150,014 | 1,413,224 |
| Gross profit | 36,950 | 38,237 | 360,218 |
| Selling, general and administrative expenses | 33,233 | 32,560 | 306,740 |
| Operating income | 3,717 | 5,677 | 53,478 |
| Other income (expenses): | | | |
| Interest expenses | (1,302) | (977) | (9,205) |
| Interest and dividend income | 288 | 233 | 2,199 |
| Net loss on sale, disposition and revaluation of property, plant and equipment | (436) | (1,685) | (15,874) |
| Net gain (loss) on sale and revaluation of marketable securities and investment | (817) | 736 | 6,937 |
| Foreign currency exchange gain (loss) | (19) | 85 | 805 |
| Other, net | (249) | (1,112) | (10,479) |
| Total | (2,535) | (2,720) | (25,618) |
| Income before income taxes and minority interests | 1,182 | 2,957 | 27,860 |
| Income taxes (Note 6): | | | |
| Current | 1,688 | 3,626 | 34,155 |
| Deferred | (381) | (2,048) | (19,291) |
| Total | 1,307 | 1,578 | 14,864 |
| Income (loss) before minority interests | (125) | 1,379 | 12,996 |
| Minority interests | (39) | (58) | (552) |
| Net income (loss) | ¥ (164) | ¥ 1,321 | \$ 12,444 |
| Per share data (Note 2-i): | | | |
| Net income (loss) | ¥ (0.85) | ¥ 6.85 | \$ 0.065 |
| Diluted net income | - | - | - |
| Cash dividends, applicable to the year | ¥ 5.00 | ¥ 6.00 | \$ 0.057 |

The accompanying notes are integral parts of these statements.

Consolidated Statements of Shareholders' Equity

Showa Sangyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 1998, 1999 and 2000

| | <i>Millions of yen</i> | | | |
|--|------------------------|----------------------------------|------------------|----------------------|
| | Common stock | Additional Paid-in Capital | Legal reserve | Retained earnings |
| Balance at March 31, 1998 | ¥ 12,778 | ¥ 11,600 | ¥ 2,963 | ¥26,227 |
| Net loss | | | | (164) |
| Cash dividends paid | | | | (1,160) |
| Bonuses to directors and statutory auditors | | | | (18) |
| Transfer from retained earnings (Note 7) | | | 117 | |
| Transfer to legal reserve (Note 7) | | | | (117) |
| Tax effect adjustment for the previous year | | | | (5,981) |
| Redemption of treasury stock (Note 7) | | | | (120) |
| Balance at March 31, 1999 | ¥ 12,778 | ¥ 11,600 | ¥ 3,080 | ¥18,667 |
| Net income | | | | 1,321 |
| Cash dividends paid | | | | (964) |
| Bonuses to directors and statutory auditors | | | | (18) |
| Transfer from retained earnings (Note 7) | | | 105 | |
| Transfer to legal reserve (Note 7) | | | | (105) |
| Decrease due to a newly consolidated subsidiary (Note 1-b) | | | | (1,371) |
| Increase due to companies newly accounted for by the equity method (Note 1-b) | | | | 403 |
| Balance at March 31, 2000 | ¥ 12,778 | ¥ 11,600 | ¥ 3,185 | ¥17,933 |

| | <i>Thousands of U.S. dollars (Note 1-a)</i> | | | |
|--|---|----------------------------------|------------------|----------------------|
| | Common stock | Additional Paid-in Capital | Legal reserve | Retained earnings |
| Balance at March 31, 1999 | \$120,377 | \$109,276 | \$ 29,015 | \$175,855 |
| Net income | | | | 12,444 |
| Cash dividends paid | | | | (9,084) |
| Bonuses to directors and statutory auditors | | | | (172) |
| Transfer from retained earnings (Note 7) | | | 987 | |
| Transfer to legal reserve (Note 7) | | | | (987) |
| Decrease due to newly consolidated subsidiaries (Note 1-b) | | | | (12,916) |
| Increase due to a company newly accounted for by the equity method (Note 1-b) | | | | 3,800 |
| Balance at March 31, 2000 | \$120,377 | \$109,276 | \$ 30,002 | \$168,940 |

The accompanying notes are integral parts of these statements.

Consolidated Statements of Cash Flows

Showa Sangyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 1999 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1-a) |
|--|-----------------|----------|--|
| | 1999 | 2000 | 2000 |
| Cash flows from operating activities: | | | |
| Income before income taxes | ¥ 1,182 | ¥ 2,957 | \$ 27,860 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | |
| Depreciation and amortization | 7,570 | 7,158 | 67,437 |
| Amortization arisen from consolidation adjustment | (14) | (8) | (72) |
| Provision for (reversal of) retirement and severance benefit for employees | 50 | (39) | (372) |
| Provision for (reversal of) retirement and severance benefit for directors and statutory auditors | 121 | 75 | 704 |
| Provision for (reversal of) allowance for doubtful receivables | 155 | 1,045 | 9,848 |
| Interest and dividend income | (289) | (233) | (2,199) |
| Interest charges | 1,303 | 977 | 9,205 |
| Foreign currency exchange loss (gain) | 19 | (85) | (805) |
| Equity in earning of affiliates | - | (73) | (689) |
| Net loss (gain) on sale, revaluation and disposition of property, plant and equipment | 436 | 1,685 | 15,874 |
| Net loss (gain) on sale and revaluation of marketable securities | 817 | (736) | (6,937) |
| Net loss on revaluation of subsidiary stocks | 12 | - | - |
| (Increase) decrease in receivables, trade | 999 | 585 | 5,515 |
| (Increase) decrease in inventories | 3,916 | 1,590 | 14,977 |
| Increase (decrease) in payables, trade | (3,530) | (328) | (3,088) |
| | 12,747 | 14,570 | 137,259 |
| Interest and dividends received | 288 | 240 | 2,258 |
| Interest paid | (1,244) | (1,056) | (9,944) |
| Income taxes paid | (1,213) | (1,656) | (15,604) |
| Bonuses paid for directors and statutory auditors | (25) | (25) | (236) |
| Other, net | (172) | 74 | 696 |
| Net cash provided by operating activities | 10,381 | 12,147 | 114,430 |
| Cash flows from investing activities: | | | |
| (Increase) decrease in time deposit | (66) | 17 | 160 |
| Purchases of marketable securities | (317) | (423) | (3,988) |
| Proceeds from sale of marketable securities | 394 | 464 | 4,372 |
| (Increase) decrease in other short-term investments | 1,468 | 1,268 | 11,949 |
| Purchases of investment securities | (612) | (979) | (9,220) |
| Proceeds from sale of investment securities | 652 | 376 | 3,542 |
| Purchases of property, plant and equipment | (4,792) | (4,406) | (41,511) |
| Proceeds from sales and disposition of property, plant and equipment | (70) | 289 | 2,724 |
| (Increase) decrease in other long-term investment and advances | (1,040) | (1,070) | (10,084) |
| Net cash used in investing activities | (4,383) | (4,464) | (42,056) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term borrowing | (3,464) | (9,910) | (93,358) |
| Payment for financing leases | (70) | (66) | (618) |
| Proceeds from long-term borrowing | 1,800 | 1,230 | 11,587 |
| Repayment of long-term borrowing | (2,176) | (1,174) | (11,060) |
| Redemption of convertible bonds | - | (582) | (5,483) |
| Dividends paid | (1,160) | (964) | (9,084) |
| Dividends paid to minority shareholders | (11) | (17) | (162) |
| Redemption of treasury stocks | (120) | - | - |
| Net cash used in financing activities | (5,202) | (11,483) | (108,178) |
| Effect of exchange rate changes on cash and cash equivalents | (5) | 5 | 48 |
| Net increase (decrease) in cash and cash equivalents | 791 | (3,796) | (35,756) |
| Cash and cash equivalents at beginning of year | 10,302 | 11,093 | 104,505 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | - | 42 | 399 |
| Cash and cash equivalents at end of year | ¥ 11,093 | ¥ 7,340 | \$ 69,147 |

The accompanying notes are integral parts of these statements.

Notes to Consolidated Financial Statements

Showa Sangyo Co., Ltd. and Consolidated Subsidiaries

Note 1:

Basis of Presenting Consolidated Financial Statements

(a) The accompanying consolidated financial statements have been prepared from the consolidated financial statements in accordance with the provisions set forth in the Japanese Securities and Exchange Law and conform with generally accepted accounting principles in Japan. For the convenience of readers, however, the presentation of the financial statements and the information contained therein have been modified in certain respects.

The translations of yen amounts into dollar amounts also have been made solely for the convenience of the readers outside Japan and have been made at the rate of ¥106.15=U.S.\$1, the rate of exchange prevailing on 31st March 2000.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 13 significant subsidiaries. Material inter company balances, transactions and profits have been eliminated in consolidation. Due to its growing significance, from the fiscal year ended 31st March 2000, Swan Foods Oregon Inc. was newly included into the consolidated subsidiaries.

Investments in few affiliates are accounted for by the equity method. Because of their growing significance,

the investments in Kashima Silo Co., Ltd., and Shibushi Silo Inc. are accounted for by the equity method from this period.

Investment in the remaining subsidiaries and affiliates are stated at cost. If the equity method of accounting had been applied to these investments, the effect of the accompanying consolidated financial statements would not be material. Earnings of these companies are recorded in the Company's books only to the extent that cash dividends are received.

The consolidated subsidiaries:

Shosan Shoji Co., Ltd.
Shikishima Starch Co., Ltd.
Kyushu Showa Sangyo Co., Ltd.
Kida Flour Milling Co., Ltd.
Naigai Flour Milling Co., Ltd.
Fukushima Elite Food Co., Ltd.
Niigata Elite Food Co., Ltd.
Shosan Kaihatsu Co., Ltd.
Shourei Co., Ltd.
Showa Keiran Co., Ltd.
Shosan Business Service Co., Ltd.
GranPac Foods Inc.
Swan Foods Oregon Inc.

Note 2:

Significant Accounting and Reporting Policies

(a) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

(b) Marketable Securities

Marketable securities quoted on stock exchanges are stated at the lower of cost or market, cost being determined using the moving-average method principally. All other marketable securities are stated at cost, cost being determined using the moving-average method.

(c) Inventories

Inventories such as finished goods, merchandise and work-in-progress are stated at cost, cost being determined using the first-in first-out cost method principally. Raw materials and supplies are stated at cost, cost being determined using the moving-average method principally.

(d) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is computed under the declining balance method except for buildings and part of rental equipment which depreciated by the straight-line

method, based on the estimated useful lives of the assets as prescribed principally by Japanese Income Tax Law.

(e) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided in amounts at the maximum amount which can be charged to income under the Japanese Income Tax Law plus an amount estimated by reference to the collectibility of specifically identifiable bad debt.

(f) Bonuses

Bonuses to Company's employees, which are paid semiannually, are accrued the amount applied to the current period among the amounts expected to be paid for the following period. Bonuses to directors and statutory auditors, which are subject to approval at the general meeting of shareholders, are accounted for as an appropriation of retained earnings.

(g) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(h) Foreign Currency Transactions

Foreign currency transactions relate principally to the importation of raw materials through Japanese trading companies, contracted for in U.S. dollars, for which the Company is obliged to bear any exchange risks involved in the transactions. Foreign currency transactions are translated into Japanese yen using the exchange rate in effect at the time of each transaction or at the applicable exchange rates under forward exchange contracts.

The current and non-current account balances

denominated in foreign currencies, excluding those under forward exchange contracts, are translated at the applicable historical rates in effect at the time of the transactions.

Gains or losses from foreign currency transactions are included in net income.

(i) Per Share Data

Per share amounts are computed by the weighted average number of shares of common stock during each year.

Note 3:**Marketable Securities and Investment Securities**

Marketable securities and investment securities consisted of:

| 31st March | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|------------------------|----------------------------|--------------------------------------|
| | 2000 | 2000 |
| Marketable securities: | | |
| Book Value | ¥ 999 | \$ 9,409 |
| Market Value | 1,120 | 10,552 |
| Investment securities: | | |
| Book Value | ¥ 10,584 | \$ 99,707 |
| Market Value | 12,097 | 113,965 |

Note 4:**Short-term and Long-term Debt**

Short-term debt at 31st March, 2000 was as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|----------------------------|----------------------------|--------------------------------------|
| Loans from banks and other | ¥ 33,135 | \$ 312,153 |

The principal range of interest rates applicable to short-term debt at 31st March, 1999 and 2000 were from 0.7 per cent to 1.6 per cent and from 0.6 per cent to 1.3 per cent, respectively.

Long-term debt at 31st March, 2000 was as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|---|----------------------------|--------------------------------------|
| Loans with and without collateral, principally from banks, due 2000 to 2015, with interest ranging from 0.3 per cent to 5.2 per cent. | ¥ 23,889 | \$ 225,058 |
| 2.125 per cent bonds due 2002 | 10,000 | 94,206 |
| | 33,889 | 319,264 |
| Less: Portion due within one year | 1,620 | 15,267 |
| | ¥ 32,269 | \$ 303,997 |

The aggregate annual maturities of long-term borrowing during each of the years ending 31st March, 2004 and thereafter are as follows:

| 31st March | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|---------------------|----------------------------|--------------------------------------|
| 2001 | ¥ 1,620 | \$ 15,267 |
| 2002 | 3,673 | 34,598 |
| 2003 | 6,496 | 61,192 |
| 2004 and thereafter | ¥ 12,101 | \$ 114,001 |

At 31st March, 2000, property, plant and equipment, net of accumulated depreciation, amounting to ¥51,558 million (\$485,709 thousand), marketable securities amounting to ¥42 million (\$396 thousand), investment securities amounting to ¥2,657 million (\$25,034 thousand) and other asset amounting to ¥23 million (\$220 thousand) were pledged as collateral for short-term debt, long-term debt, repayment obligations of deposits and trade account payable.

Note 5:

Retirement and Severance Indemnities

Employees whose service with the Company and its consolidated subsidiaries is terminated are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs.

The Company has contributory funded pension plan for employees. Under this plan, 50% of the total retirement and severance benefits is paid by the Company with the remaining covered by pension plans which was established pursuant to the Japanese Welfare Pension Insurance Law. The plan assets aggregated ¥8,842 million (\$83,296 thousand) at 31st March, 1999. At March 31, 2000, the Company and its consolidated subsidiaries have provisions for 40% of accumulated benefit obligation.

The Company and its subsidiaries with bonuses paid to directors upon retirement have adopted the policy of accruing lump-sum severance indemnities for directors and statutory auditors based on the payment rules.

Note 6:

Income Taxes

The Japanese statutory tax rates applicable to income before income taxes for the fiscal years ended March 31, 1999 and 2000 were 47.0% and 42.0%, respectively. The difference represents the enacted tax rate change for the years starting on or after April 1, 1999. The difference between the statutory tax rates and effective tax rates reflects future tax effects of temporary differences as shown below.

| | <i>1999</i> | <i>2000</i> |
|---|-------------|-------------|
| Statutory tax rate | 47.0% | 42.0% |
| Other non deductible expenses not qualifying for deduction | 14.4 | 7.3 |
| Dividends and other non taxable income | -4.1 | -2.3 |
| Effect from statutory tax rate change | 3.8 | - |
| Residents tax per capita basis | 4.3 | 1.8 |
| Effect from not appropriating refunded deferred tax assets | 45.7 | 3.5 |
| Others | -0.6 | 1.1 |
| Effective tax rate | 110.5 | 53.4 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2000 are presented below.

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|--------------------------|--|--------------------------------------|
| Current: | | |
| Deferred tax | 1,015 | 9,560 |
| | (Of which the major portion is due to tax adjustments related to fixed assets assessment.) | |
| Fixed: | | |
| Deferred tax assets | 76 | 717 |
| | (Of which the major portion is due to tax adjustments related to accrued severance indemnities.) | |
| Deferred tax liabilities | 4,645 | 43,760 |
| | (Of which the major portion is due to tax adjustments related to reserve for advanced depreciation.) | |

Note 7:

Shareholders' Equity

In accordance with the Japanese Commercial Code at least 50 per cent of the amount of converted bonds and the exercised stock purchase warrants must be credited to the common stock account.

The Japanese Commercial Code provides that an amount equivalent to at least 10% of any amount paid out as appropriation of retained earnings shall be appropriated to the legal reserve until this reserve equals 25% of the common stock account.

Legal reserve may be used to reduce or eliminate a deficit or may be transferred to stated capital through suitable shareholders and directors action, but is not available for the payment of dividends.

On October 26, 1998, the board of Directors of Showa Sangyo decided to redemption of treasury stock of 500,000 shares, resulting in 749,500,000 shares and 192,858,898 shares for numbers of registered authorizing stocks and issued stocks, respectively.

Note 8:

Contingent Liabilities

Contingent liabilities at 31st March, 1999 and 2000 for notes discounted and loans guaranteed in the ordinary course of business amounted to ¥2,120 million and ¥2,138 million (\$20,144 thousand), respectively.

Note 9:

Leases

Lessor

Shosan Shoji Co., Ltd. leases industrial machinery and equipment, vehicles and tools which are classified as direct financing leases.

Net investments in direct financing leases at March 31, 2000 included in "Property, plant and equipment" in the accompanying consolidated balance sheets, were as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|----------------------------|----------------------------|--------------------------------------|
| Gross investment | | |
| in direct financing leases | ¥ 799 | \$ 7,531 |
| Accumulated depreciation | (477) | (4,499) |
| Net investment | ¥ 322 | \$ 3,032 |

At March 31, 2000, the future lease payment to be received for each of the fiscal years were as follows: ¥135 million (US\$1,276 thousand) in 2001 and ¥85 million (US\$2,688 thousand) in 2002 and thereafter.

The income and accumulated depreciation of the leased property at March 31, 2000 were ¥146 million (US\$1,377 thousand) and ¥95 million (US\$892 thousand), respectively.

Lessee

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Leases qualifying as capital leases at March 31, 2000 were as follows:

Acquisition costs, accumulated depreciation and net book value of the major leased are as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|-------------------------------|----------------------------|--------------------------------------|
| Machinery, vehicles and tools | ¥ 1,771 | \$ 16,688 |
| Accumulated depreciation | (976) | (9,198) |
| | ¥ 795 | \$ 7,490 |

At March 31, 2000, the future minimum leases payments were as follows: ¥268 million (US\$2,525 thousand) in 2001 and ¥527 million (US\$4,965 thousand) in 2002 and thereafter.

Note 10:

Segment Information

Provided below is certain information in respect of the consolidated net sales and operating income of the Company segmented into three business categories "Foods," "Feed" and "Others." "Foods" includes flour, mixes, pasta, vegetable oil, defatted soybeans, cornstarch, cornstarch-based sweeteners and frozen foods. "Feed" includes formula and other animal feeds, eggs and livestock. "Others" includes warehousing, leasing of commercial buildings and insurance business.

Information by industry segment for the year ended 31st March 2000 is summarized as follows:

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> | | |
|-------------------------|------------------------|-------------|---------------|----------------------------------|--------------------|--------------|
| | <i>Foods</i> | <i>Feed</i> | <i>Others</i> | <i>Total</i> | <i>Elimination</i> | <i>Total</i> |
| Outside customers | ¥ 137,872 | ¥ 42,856 | ¥ 7,523 | ¥ 188,251 | ¥ - | ¥ 188,251 |
| Intersegment | 2,440 | 207 | 2,108 | 4,755 | (4,755) | - |
| Total | 140,311 | 43,064 | 9,631 | 193,006 | (4,755) | 188,251 |
| Operating expenses | 137,403 | 42,721 | 5,492 | 185,616 | (3,042) | 182,574 |
| Operating income (loss) | 2,909 | 342 | 4,139 | 7,390 | (1,713) | 5,677 |
| Assets | 99,269 | 16,613 | 25,428 | 141,310 | 16,028 | 157,338 |
| Depreciation | 4,912 | 494 | 1,598 | 7,004 | 153 | 7,157 |
| Capital expenditures | 3,307 | 817 | 908 | 5,032 | 165 | 5,197 |

| | <i>Millions of yen</i> | | | <i>Thousands of U.S. dollars</i> | | |
|-------------------------|------------------------|-------------|---------------|----------------------------------|--------------------|--------------|
| | <i>Foods</i> | <i>Feed</i> | <i>Others</i> | <i>Total</i> | <i>Elimination</i> | <i>Total</i> |
| Net sales: | | | | | | |
| Outside customers | \$ 1,298,837 | \$ 403,733 | \$ 70,872 | \$ 1,773,442 | \$ - | \$ 1,773,442 |
| Intersegment | 22,983 | 1,953 | 19,855 | 44,791 | (44,791) | - |
| Total | 1,321,820 | 405,686 | 90,727 | 1,818,233 | (44,791) | 1,773,442 |
| Operating expenses | 1,294,418 | 402,459 | 51,742 | 1,748,619 | (28,655) | 1,719,964 |
| Operating income (loss) | 27,402 | 3,227 | 38,985 | 69,614 | (16,136) | 53,478 |
| Assets | 935,179 | 156,506 | 239,548 | 1,331,233 | 150,991 | 1,482,224 |
| Depreciation | 46,279 | 4,658 | 15,058 | 65,995 | 1,442 | 67,437 |
| Capital expenditures | 31,151 | 7,692 | 8,558 | 47,401 | 1,551 | 48,952 |

Note 11:

Derivative Financial Instruments

The Companies enter into foreign currency forward, foreign currency options, interest rate swaps and interest rate floor agreements primarily to manage risks associated with the exposures of its assets and liabilities. The Companies do not use derivative financial instruments for trading purposes. Because of their hedging purposes and high correlation between the hedging instruments and the underlying exposure, all profits and losses of derivatives financial instruments are deferred to offset reciprocal changes in the value of underlying exposure.

The Companies' off-balance derivatives financial instruments positions are summarized as follows:

Foreign Currency Forward and Foreign Currency Options Agreement

Upon purchases of raw materials, the Companies use foreign currency forward or options agreements to reduce exposures against adverse fluctuations in foreign currency market. Most of these agreements have maturity of less than six months.

As of March 31, 2000, the aggregate principal amount in the foreign currency forward agreements was ¥2,426 million, and there was no outstanding currency options positions.

The fair values are based on quoted market prices.

Interest Rate Swaps and Interest Rate Floor Agreements

The Companies enter into interest rate swaps or interest rate floor agreements for the purposes of lowering its funding costs, accessing to a variety of fund resources and locking yields while investing in fixed income markets.

All the outstanding positions in such agreements have their maturity before the end of 2005. As of March 31, 2000, the aggregate notional amounts of interest rate swaps and interest rate floor agreements were ¥20,606 million and ¥1,200 million, respectively.

Note 12:

Subsequent Event

The following appropriations of retained earnings were approved at the general meeting of shareholders of the Company held in 29th June, 2000:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|---------------------------------|----------------------------|--------------------------------------|
| Appropriations: | | |
| Cash dividends (¥3.0 per share) | 579 | 5,450 |
| Transfer to legal reserve | 58 | 546 |

The Company's Board of Directors also decided to retire treasury stocks in the amount less than or equal to ¥6 billion or 20,000,000 shares by the capital surplus.

Report of Independent Public Accountants

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Certified Public Accountants
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TEL 03-3252-2728 FAX 03-3252-2726

To the Board of Directions of Showa Sangyo Co.,Ltd.

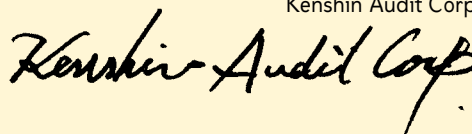
We have audited the consolidated balance sheets of Showa Sangyo Co.,Ltd. and its consolidated subsidiaries as of March 31, 1999 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. We conducted our audit in accordance with auditing standards generally accepted 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 consolidated financial statements mentioned above, expressed in Japanese yen, present fairly the financial position of Showa Sangyo Co.,Ltd. and its consolidated subsidiaries as of March 31, 1999 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

We have also recomputed the translation of the statements mentioned above at March 31, 2000 and for the year then ended into U.S. dollars on the basis described in Note 1 (a) of the Notes to Consolidated Financial Statements of the Company.

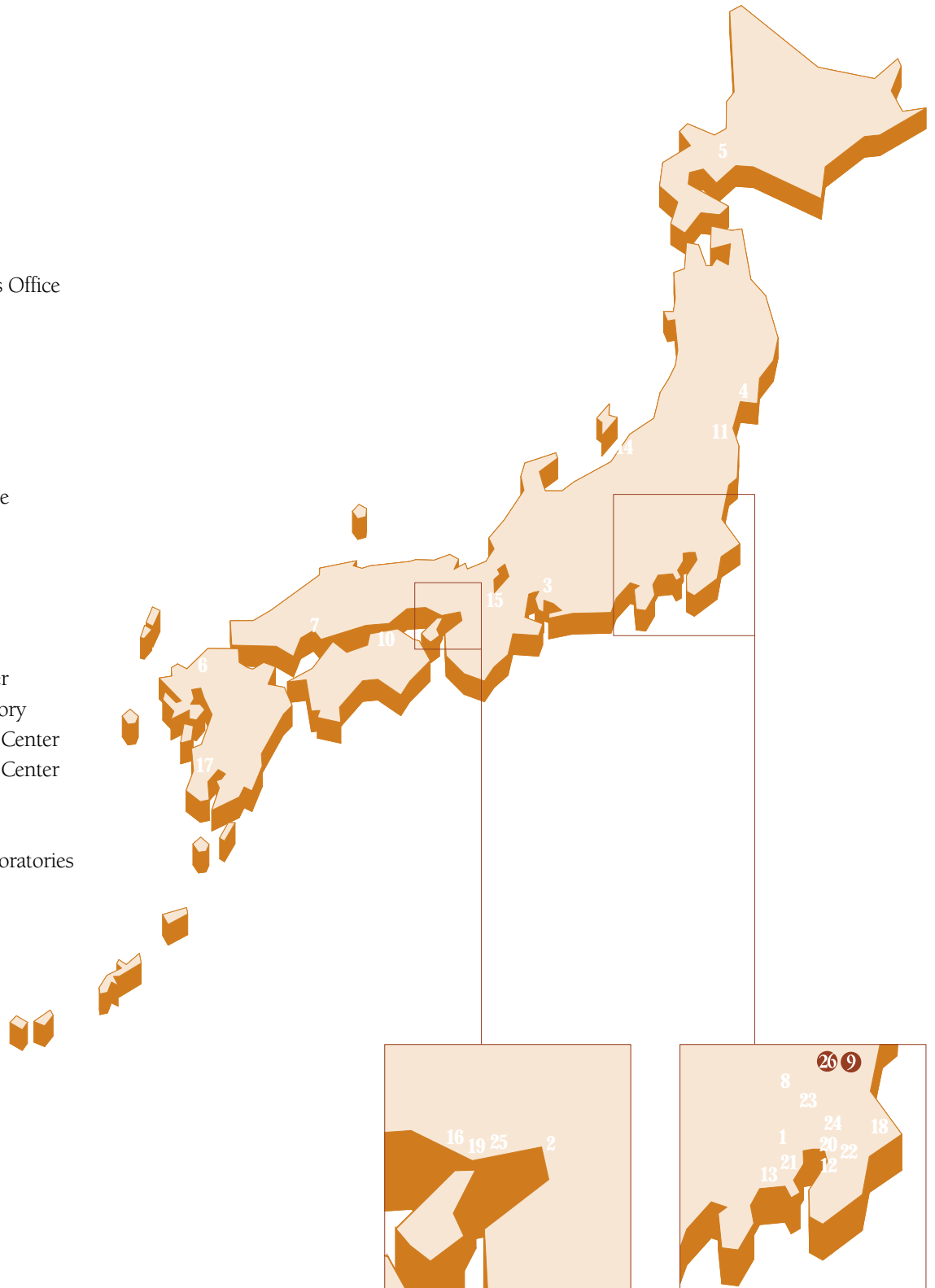
29th June, 2000
Tokyo, Japan

Kenshin Audit Corp.



DOMESTIC NETWORK

- Head Office
- Osaka Branch
- Nagoya Branch
- Sendai Branch
- Sapporo Branch
- Fukuoka Branch
- Hiroshima Branch
- Ohta Branch
- Mito Branch
- Takamatsu Business Office
- Fukushima Office
- Chiba Office
- Kanagawa Office
- Niigata Office
- Kyoto Office
- Kobe Office
- South Kyushu Office
- Kashima Plant
- Kobe Plant
- Funabashi Plant
- Tsurumi Plant
- Research and Development Center
- Bio Science Laboratory
- Food Development Center
- Food Development Center (Western Division)
- Animal Feed and Allied Products Laboratories



CORPORATE DATA

PRINCIPAL SHAREHOLDERS

The shares of common stock of the Company are listed on the Tokyo and Osaka Stock Exchanges. On 31st March, 2000, there were 14,401 shareholders listed on the Company's register of shareholders. The following table lists the ten largest shareholders appearing on the register at that date.

| Name | Number of Shares Held (Unit : Thousand shares) | Percentage of Total Shares Outstanding |
|--|---|--|
| Nissho Iwai Corporation | 17,545 | 9.1 |
| The Dai-ichi Kangyo Bank, Limited | 9,238 | 4.8 |
| Nippon Fire & Marine Insurance Co.,Ltd. | 8,711 | 4.5 |
| The Chiba Bank, Ltd. | 7,875 | 4.1 |
| The Industrial Bank of Japan Ltd. | 6,786 | 3.5 |
| The Norinchukin Bank | 5,515 | 2.9 |
| I TOCHU Corporation | 5,495 | 2.8 |
| The Yasuda Fire and Marine Insurance Co., Ltd. | 5,101 | 2.6 |
| Yuasa Funashoku Co., Ltd. | 5,049 | 2.6 |
| Nissho Iwai Foods Co., Ltd. | 4,070 | 2.1 |

GENERAL INFORMATION ON SHARES

Fiscal year End : March 31

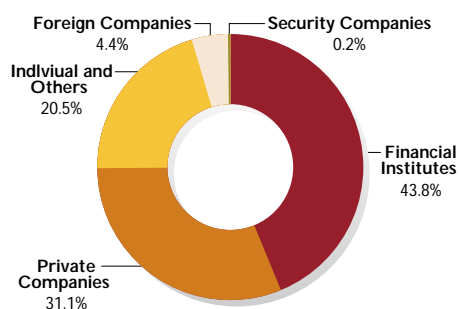
General Meeting of Shareholders : June

Stock Transfer Agent : The Toyo Trust & Banking Co., Ltd.

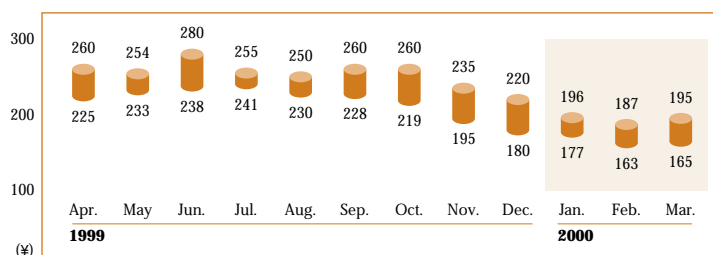
Share Handling Office : 4-3, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan

Newspaper for Public Notice : The Nihon Keizai Shimbun

STOCKS BY SHAREHOLDERS



MONTHLY STOCK PRICE



日本をおいしくする
SHOWA

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In the interest of protecting the environment, this annual report is printed on Eco-Mark certified recycled paper with soy ink.