

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

Mutsuo Kanehara
President